

**STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY**

**FINANCIAL AUDIT
For the Year Ended June 30, 2008**

**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, 2008**

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**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
Sharon Downen	Director of Internal Audit
<u>Financial Staff</u>	
Robert Albanese	Associate Vice President, Finance and Facilities
Keith Jackson	Controller
Julie Weber	Director of Grants, Fiscal Administration
Tamara Farley	Director of Treasury Operations
Kinga Mauger	Bursar

NIU Office is located at:

300 Altgeld Hall
DeKalb, Illinois 60115

**STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY**

FINANCIAL STATEMENT REPORT SUMMARY

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

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

Independent Auditor's Report

Honorable William G. Holland
Auditor General
State of Illinois

and

Marc J. Strauss, 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 basic financial statements of Northern Illinois University (University) and its aggregate discretely presented component units, which collectively comprise a component unit of the State of Illinois, as of and for the year ended June 30, 2008. 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, 2007 financial statements and, in our report dated March 7, 2008, we expressed an unqualified opinion on those financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northern Illinois University and its aggregate discretely presented component units as of June 30, 2008, and the respective changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a separate report dated March 30, 2009 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
March 30, 2009

**STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008**

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, 2008 with comparative information for the year ended June 30, 2007. 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, 2008 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, 2008 and 2007 as follows:

(in thousands)

	2008	2007
Total revenues	\$ 465,295	\$ 443,988
Total expenses	463,145	433,016
Increase in net assets	\$ 2,150	\$ 10,972

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, 2008 and 2007 is as follows:

(in thousands)

	2008	2007
Current assets	\$ 59,963	\$ 66,864
Noncurrent assets:		
Investments	63,622	54,266
Capital assets, net	317,515	313,449
Other	15,643	15,780
Total assets	456,743	450,359
Current liabilities	44,645	42,665
Noncurrent liabilities	196,293	194,039
Total liabilities	240,938	236,704
Net assets	\$ 215,805	\$ 213,655

A review of the University's Statement of Net Assets at June 30, 2008 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 \$41.2 million at June 30, 2008. This amount represents approximately 1.3 months of total expenses (excluding depreciation and fringe benefit expense covered by supplemental state appropriations). Accounts receivable totaled \$15.4 million at June 30, 2008.

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

Current accounts payable and accrued liabilities, which total \$33.3 million at June 30, 2008, 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 \$44.7 million at June 30, 2008.

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 \$23.5 million in 2008. 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 are 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 \$20.5 million. Performance guarantees are in place for each contract. The projects include upgrading of lighting and heating/air conditioning affecting approximately 70 buildings on campus. The University expects to continue to use performance contracts in the future.

The University takes seriously its role of financial stewardship and works hard to manage its financial resources effectively, including the prudent use of debt to finance capital projects. In August 2001, the Moody's Investors Service upgraded the University credit rating to A2. Bonds payable, excluding the amount currently due, totaled \$99.2 million at June 30, 2008. These bonds have been issued to finance construction of new non-academic facilities and improvements.

Certificates of participation payable total \$4.9 million at June 30, 2008. They have been used to finance the acquisition of several academic and administrative facilities. Capitalized leases payable totaled \$36.5 million at June 30, 2008, 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, 2008 and 2007:

(in thousands)

	<u>2008</u>	<u>2007</u>
Revenue bonds payable	\$ 105,242	\$ 109,596
Leases payable	36,504	36,649
Notes payable	4,920	5,265

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, 2008 and 2007 are summarized as follows:

(in thousands)

	<u>2008</u>	<u>2007</u>
Invested in capital assets, net of related debt	\$ 150,388	\$ 148,648
Restricted:		
Expendable	7,186	7,694
Unrestricted	<u>58,231</u>	<u>57,313</u>
Total net assets	<u>\$ 215,805</u>	<u>\$ 213,655</u>

The University's net assets increased \$2.1 million during fiscal year 2008.

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.

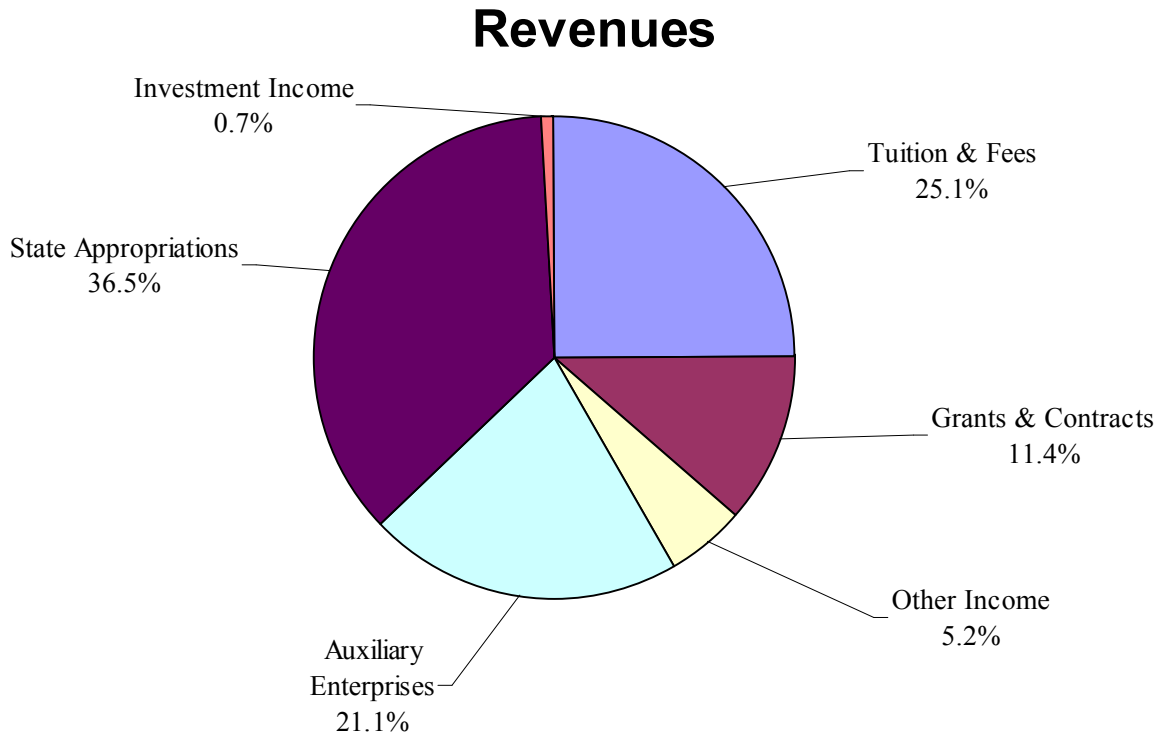
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

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, gifts, and investment income. A summary of the University's revenues, expenses and changes in net assets for the year ended June 30, 2008 and 2007 is as follows:

(in thousands)

	2008	2007
Operating revenues:		
Student tuition and fees	\$ 143,844	\$ 135,750
Less: scholarship allowances	(27,044)	(25,485)
Net student tuition and fees	116,800	110,265
Sponsored programs	53,150	51,890
Auxiliary enterprises	97,946	93,746
Other	24,033	22,258
	291,929	278,159
Operating expenses	(454,389)	(424,309)
Operating loss	(162,460)	(146,150)
Nonoperating revenues (expenses):		
State appropriations:		
General	105,878	103,939
Supplemental	63,521	55,122
Capital	625	2,119
Net investment income	3,342	4,649
Interest expense and other, net	(8,756)	(8,707)
Net nonoperating revenues	164,610	157,122
Increase in net assets	2,150	10,972
Net assets, beginning of year	213,655	202,683
Net assets, end of year	\$ 215,805	\$ 213,655

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, 2008. Significant recurring sources of the University's revenues are considered nonoperating, as defined by GASB Statement No. 35.



Dollars in millions

\$ 116.8	Revenue from charges for tuition and fees, net of scholarship allowance of \$27.0.
\$ 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.
\$ 53.2	Revenue from federal, state, and private grants and contracts covering research, public service, educational services, financial aid.
<u>\$ 24.0</u>	Miscellaneous revenue consists primarily of income from sales and services of educational activities that include conferences and seminars.
<u>\$ 291.9</u>	Total operating
\$ 170.0	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.
<u>\$ 3.3</u>	Investment income, and change in fair value of investments.
<u>\$ 173.3</u>	Total non-operating
<u>\$ 465.2</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 \$116.8 million in 2008, an increase of \$6.5 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 \$105.9 million in 2008, an increase of \$1.9 million from 2007, but still below the FY 2002 level of \$116.8 million.

Revenues for sponsored programs were \$53.2 million in 2008, an increase of \$1.3 million from 2007. 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, 2008 and 2007 consisted of the following components:

(in thousands)

	<u>2008</u>	<u>2007</u>
Income, net	\$ 2,993	\$ 4,373
Net change in the fair value of investments	349	276
	<u>\$ 3,342</u>	<u>\$ 4,649</u>

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

Capital appropriations received from the State in 2008 totaling \$.6 million, a decrease of \$1.5 million from 2007, funded a portion of projects including the laboratory space in the Engineering Building.

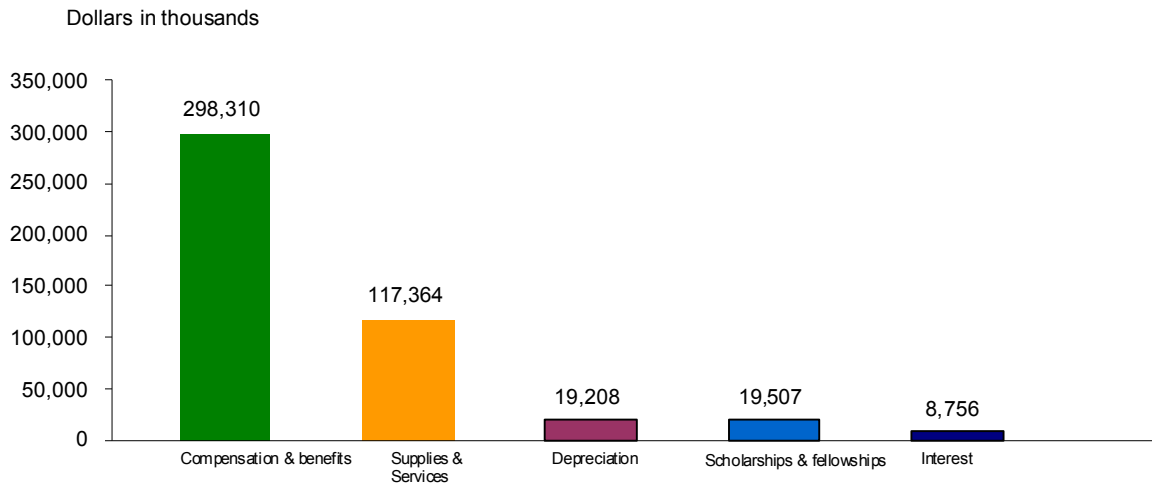
A summary of the University's expenses for the year ended June 30, 2008 and 2007 is:

(in thousands)

	<u>2008</u>	<u>2007</u>
Operating:		
Compensation and benefits	\$ 298,310	\$ 277,263
Supplies and services	117,364	106,750
Depreciation	19,208	23,224
Scholarships and fellowships	19,507	17,072
	<u>454,389</u>	<u>424,309</u>
Nonoperating:		
Interest and other	8,756	8,707
Total expenses	<u>\$ 463,145</u>	<u>\$ 433,016</u>

Included in the operating expenses are on-behalf payments of \$63.5 million 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 2008 by object:



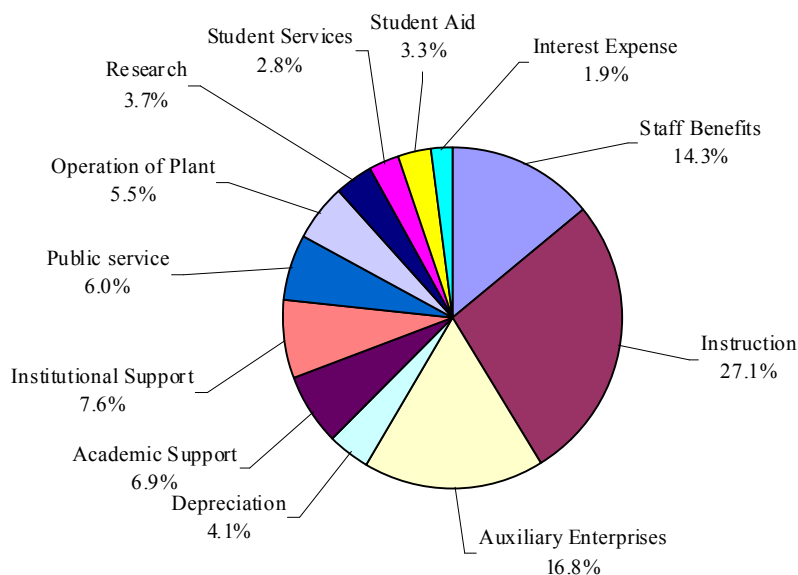
In addition to their natural (object) classification, it is also informative to review operating expenses by function. A summary of the University's expenses by functional classification for the year ended June 30, 2008 and 2007 is as follows:

(in thousands)

	2008	2007
Operating:		
Instruction	\$ 125,392	\$ 119,477
Research	17,263	16,054
Public service	27,864	25,101
Academic support	31,966	28,606
Student services	12,828	12,692
Auxiliary enterprises	77,777	74,961
Operations and maintenance of plant	25,628	22,247
Depreciation	19,208	23,224
Institutional support	35,075	30,674
Staff benefits	66,331	57,672
Student aid	15,057	13,601
Total operating expenses	<u>454,389</u>	<u>424,309</u>
Nonoperating:		
Interest expense	8,756	8,707
Total expenses	<u>\$ 463,145</u>	<u>\$ 433,016</u>

The following graphic illustrations present total expenses for fiscal year 2008 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, 2008 and 2007 is as follows:

(in thousands)

	2008	2007
Cash received from operations	\$ 292,965	\$ 281,290
Cash expended for operations	(371,046)	(345,432)
Net cash used in operating activities	(78,081)	(64,142)
Net cash used in investing activities	(3,509)	(7,591)
Net cash used in capital and related financing activities	(29,396)	(28,705)
Net cash provided by noncapital financing activities	105,806	104,562
Net increase (decrease) in cash and cash equivalents	(5,180)	4,124
Cash and cash equivalents, beginning of year	16,197	12,073
Cash and cash equivalents, end of year	<u>\$ 11,017</u>	<u>\$ 16,197</u>

The University's cash and cash equivalents decreased \$5.2 million. 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 \$105.8 million in fiscal 2008.

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 2008, 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 2008 budgeted state support is below the fiscal year 2002 level, and modestly above the fiscal year 2007 level.

To mitigate the impact of the decrease in state support, the University raised tuition rates 9.5% 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 2008 to fiscal year 2009 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, 2008 (in thousands)
(with Comparative Totals for 2007)**

	University		Component Units	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
ASSETS				
Current assets				
Cash and cash equivalents	\$ 11,017	\$ 16,197	\$ 1,469	\$ 495
Investments and marketable securities	29,424	31,879	-	-
Accrued interest receivable	710	760	-	-
Accounts receivable - net	15,448	14,596	1,904	1,638
Appropriations receivable from state	146	74	-	-
Inventories	3,209	3,219	-	-
Other assets	9	139	34	3
Total current assets	<u>59,963</u>	<u>66,864</u>	<u>3,407</u>	<u>2,136</u>
Noncurrent assets				
Investments and marketable securities	63,622	54,266	56,160	62,344
Student loans receivable - net	10,223	9,693	-	-
Due from component units	3,232	3,733	-	-
Unamortized debt discount	2,188	2,354	196	216
Other	-	-	3,379	2,908
Capital assets, net of accumulated depreciation	317,515	313,449	17,751	16,017
Total noncurrent assets	<u>396,780</u>	<u>383,495</u>	<u>77,486</u>	<u>81,485</u>
TOTAL ASSETS	<u>456,743</u>	<u>450,359</u>	<u>80,893</u>	<u>83,621</u>
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	33,255	31,242	2,719	3,944
Accrued compensated absences	1,934	2,660	-	-
Students' deposits	360	15	-	-
Deferred tuition and fees	8,161	8,110	-	-
Agency	935	638	-	-
Total current liabilities	<u>44,645</u>	<u>42,665</u>	<u>2,719</u>	<u>3,944</u>
Noncurrent liabilities				
Accounts payable and accrued liabilities	-	-	755	735
Due to NIU	-	-	3,232	3,733
Performance contracts payable	18,598	11,872	-	-
Accrued compensated absences	22,086	20,810	-	-
Deferred revenue and grants	7,606	8,347	-	-
Government loan fund advances	8,765	8,657	-	-
Revenue bonds payable	99,182	103,651	6,202	7,419
Leases payable	35,501	35,782	-	-
Notes payable	4,555	4,920	230	975
Total noncurrent liabilities	<u>196,293</u>	<u>194,039</u>	<u>10,419</u>	<u>12,862</u>
TOTAL LIABILITIES	<u>240,938</u>	<u>236,704</u>	<u>13,138</u>	<u>16,806</u>
NET ASSETS				
Invested in capital assets, net of related debt	150,388	148,648	11,141	7,226
Restricted:				
Nonexpendable	-	-	36,876	35,185
Expendable	7,186	7,694	14,200	16,948
Unrestricted	58,231	57,313	5,538	7,456
TOTAL NET ASSETS	<u>\$ 215,805</u>	<u>\$ 213,655</u>	<u>\$ 67,755</u>	<u>\$ 66,815</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, 2008 (in thousands)
(with Comparative Totals for 2007)

	University		Component Units	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
REVENUES				
Operating revenues				
Tuition and fees, net	\$ 116,800	\$ 110,265	\$ -	\$ -
Federal and state grants and other contracts	50,327	48,836	-	-
Private gifts, grants, and contracts	2,823	3,054	10,736	7,855
Capital gifts	-	-	2,157	1,265
Sales and service of educational activities	20,759	19,048	-	-
Other sources	3,274	3,210	219	8,361
Auxiliary enterprises	97,946	93,746	-	-
Total operating revenues	<u>291,929</u>	<u>278,159</u>	<u>13,112</u>	<u>17,481</u>
EXPENSES				
Operating expenses				
Instruction	125,392	119,477	6,554	3,029
Research	17,263	16,054	55	82
Public service	27,864	25,101	944	625
Academic support	31,966	28,606	152	105
Student services	12,828	12,692	1,147	1,013
Operation and maintenance of plant	25,628	22,247	1,151	62
Depreciation	19,208	23,224	-	-
Institutional support	35,075	30,674	3,756	3,768
Staff benefits	66,331	57,672	-	-
Student aid	15,057	13,601	1,104	1,174
Auxiliary enterprises	77,777	74,961	-	-
Total operating expenses	<u>454,389</u>	<u>424,309</u>	<u>14,863</u>	<u>9,858</u>
Net operating income (loss)	<u>(162,460)</u>	<u>(146,150)</u>	<u>(1,751)</u>	<u>7,623</u>
NONOPERATING REVENUES (EXPENSES)				
State appropriations - general	105,878	103,939	-	-
State appropriations - on-behalf payments	63,521	55,122	-	-
Investment income	2,993	4,373	(105)	340
Expendable gifts and other	-	-	103	134
Net increase in fair value of investments	349	276	-	-
Interest expense	(8,756)	(8,707)	-	-
Net nonoperating revenues	<u>163,985</u>	<u>155,003</u>	<u>(2)</u>	<u>474</u>
Income (loss) before other revenues, expenses, gains, or losses	1,525	8,853	(1,753)	8,097
Capital appropriations	625	2,119	-	1,260
Gifts to permanent endowments	-	-	2,693	-
INCREASE IN NET ASSETS	<u>2,150</u>	<u>10,972</u>	<u>940</u>	<u>9,357</u>
NET ASSETS, BEGINNING OF YEAR	<u>213,655</u>	<u>202,683</u>	<u>66,815</u>	<u>57,458</u>
NET ASSETS, END OF YEAR	<u>\$ 215,805</u>	<u>\$ 213,655</u>	<u>\$ 67,755</u>	<u>\$ 66,815</u>

See accompanying notes to financial statements.

STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY
STATEMENT OF CASH FLOWS
For the year ended June 30, 2008 (in thousands)
(with Comparative Totals for 2007)

	University		Component Units	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Cash flows from operating activities				
Student tuition and fees	\$ 117,278	\$ 110,171	\$ -	\$ -
Federal and state grants and other contracts	49,586	48,274	-	-
Private gifts, grants, and contracts	2,823	3,054	5,864	5,297
Gifts received for capital projects	-	-	1,411	1,577
Sales and service of educational activities	19,773	20,113	-	-
Auxiliary enterprises	97,999	93,675	-	-
Payment to suppliers	(115,742)	(101,506)	(2,754)	(3,454)
Payment to employees	(233,475)	(224,185)	-	-
Payments for scholarships	(19,472)	(17,072)	(5,357)	(4,190)
Loans to students and employees	(2,357)	(2,669)	-	-
Collection of loans to students and employees	1,935	2,647	-	-
Other receipts, net	3,571	3,356	1,127	1,387
Net cash (used in) provided by operating activities	<u>(78,081)</u>	<u>(64,142)</u>	<u>291</u>	<u>617</u>
Cash flows from noncapital financing activities				
State appropriations	105,806	104,562	-	-
Private gifts for endowments	-	-	2,751	1,326
Principal paid on noncapital debt	-	-	(434)	(350)
Interest paid on noncapital debt	-	-	(53)	(73)
Other	-	-	7	597
Net cash provided by noncapital financing activities	<u>105,806</u>	<u>104,562</u>	<u>2,271</u>	<u>1,500</u>
Cash flows from capital and related financing activities				
Proceeds from issuance of debt	9,399	23,278	-	8,968
State appropriations	370	1,504	-	-
Purchase of capital assets	(23,503)	(38,581)	(747)	(725)
Principal paid on capital debt	(7,073)	(6,369)	(2,181)	(415)
Interest paid on capital debt	(8,589)	(8,537)	(389)	(215)
Payments for construction of building for NIU	-	-	(2,374)	(8,780)
Net cash used in capital and related financing activities	<u>(29,396)</u>	<u>(28,705)</u>	<u>(5,691)</u>	<u>(1,167)</u>
Cash flows from investing activities				
Interest income on investments, net	3,392	4,544	231	394
Proceeds from sales and maturities of investments	526,802	385,253	25,840	30,748
Purchase of investments	(533,703)	(397,388)	(21,968)	(36,324)
Net cash (used in) provided by investing activities	<u>(3,509)</u>	<u>(7,591)</u>	<u>4,103</u>	<u>(5,182)</u>
Net increase (decrease) in cash and cash equivalents	<u>(5,180)</u>	<u>4,124</u>	<u>974</u>	<u>(4,232)</u>
Cash and cash equivalents, beginning of the year	<u>16,197</u>	<u>12,073</u>	<u>495</u>	<u>4,727</u>
Cash and cash equivalents, end of the year	<u>\$ 11,017</u>	<u>\$ 16,197</u>	<u>\$ 1,469</u>	<u>\$ 495</u>

**STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY
STATEMENT OF CASH FLOWS, CONTINUED
For the year ended June 30, 2008 (in thousands)
(with Comparative Totals for 2007)**

	University		Component Units	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Reconciliation of operating income (loss) to net cash (used in) provided by operating activities:				
Operating income (loss)	\$ (162,460)	\$ (146,150)	\$ (1,751)	\$ 7,623
Adjustments to reconcile operating income (loss) to net cash (used in) provided by operating activities:				
Depreciation expense	19,208	23,224	414	12
(Gain) loss on disposal of capital assets	229	58	-	-
On behalf payments for fringe benefits	63,521	55,122	-	-
State expenses for noncapitalized CDB projects	254	615	-	-
NIU gift income and life insurance expenses	-	-	(183)	81
Investment income	-	-	1,846	(7,039)
Interest expense	-	-	429	84
Noncash gifts	-	-	-	34
Changes in assets and liabilities				
Accounts receivable	(853)	1,027	(484)	(656)
Inventories	10	410	-	-
Prepaid expenses	-	-	(30)	14
Student loans receivable	(530)	(20)	-	-
Investments and other assets	632	(770)	-	-
Accounts payable and accrued liabilities	1,298	3,064	16	400
Accrued compensated absences	550	(176)	-	-
Students' deposits	345	(20)	34	64
Deferred revenue and grants	(690)	(670)	-	-
Government loan fund advances	108	(2)	-	-
Agency	297	146	-	-
Net cash (used in) provided by operating activities	<u>\$ (78,081)</u>	<u>\$ (64,142)</u>	<u>\$ 291</u>	<u>\$ 617</u>
Noncash investing, capital, and financing activities				
Construction period interest capitalized	\$ -	\$ -	\$ 27	\$ 390
On-behalf payments for fringe benefits	63,521	55,122	-	-
Accretion	1,591	1,712	-	-
Transfer of gifts of equipment and software goods and services from Foundation to NIU	4,707	1,847	(4,707)	(1,847)
State expenses for noncapitalized CDB projects	255	615	-	-
Construction in progress included in accounts payable	-	-	756	1,728
Total noncash activities	<u>\$ 70,074</u>	<u>\$ 59,296</u>	<u>\$ (3,924)</u>	<u>\$ 271</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.

The University uses the economic resources measurement focus and the accrual basis of accounting. 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

1. Summary of Significant Accounting Policies, 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 \$27,044,000 for fiscal year 2008, 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 reported a contribution of \$63,521,000 made by the State of Illinois in fiscal year 2008 to the State Universities Retirement System ("SURS") and Central Management Services Group Insurance ("CMS") on behalf of the University's 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 \$17,620,000 and \$45,901,000 for fiscal year 2008, respectively.

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

1. Summary of Significant Accounting Policies, 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 2007 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, 2007.

Certain items in the June 30, 2007 financial statements have been reclassified to correspond to the June 30, 2008 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 generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amount of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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.

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

1. Summary of Significant Accounting Policies, Continued

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.

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, 2008 the accrued liability for this benefit was \$13,868,000, 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, 2008, the accrued liability of this benefit was \$10,152,000, 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, 2008, cash deposits of \$11,017,000 held by the University were insured or collateralized with securities held by the University or its custodian in the name of the University.

State of Illinois

Northern Illinois University

Notes to the Basic Financial Statements, Continued

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.

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

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

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

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 6.4% of the total investments and is held in a debt service reserve fund. The commercial paper is \$6,634,000 in CentreStar Cptl. The University has no formal policy in regard to custodial credit risk exposure.

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):

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

3. Investments, Continued

Quality rating	Money Market	Commercial Paper	U.S. Agency	U.S. Government	Total
AAA	\$ -	\$ -	\$ 75,647	\$ -	\$ 75,647
A1P1	-	6,634	-	-	6,634
AAAm	10,765	-	-	-	10,765
Total	\$ 10,765	\$ 6,634	\$ 75,647	\$ -	\$ 93,046

Interest rate risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University has no formal policy in regard to interest rate risk. The following table shows the University's investments categorized by maturity:

Segmented Time Distribution	Money Market	Commercial Paper	U.S. Agency	U.S. Government	Total
0 - 1 year	\$ 10,765	\$ 6,634	\$ 12,025	\$ -	\$ 29,424
1 - 3 years	-	-	18,927	-	18,927
3 - 5 years	-	-	39,634	-	39,634
5 - 10 years	-	-	5,061	-	5,061
Total	\$ 10,765	\$ 6,634	\$ 75,647	\$ -	\$ 93,046

Component Units (\$000's)

Quality rating	Mutual Funds	Stock	Limited Partnerships	Other	Total
AA+	\$ 5,931	\$ -	\$ -	\$ -	\$ 5,931
AA	7,662	-	-	-	7,662
Not rated	32,258	1,320	7,811	1,178	42,567
Total	\$ 45,851	\$ 1,320	\$ 7,811	\$ 1,178	\$ 56,160

Weighted Average Duration	Mutual Funds
1.9 years	\$ 4,209
4.5 years	3,453
4.6 years	5,931
Total	\$ 13,593

The Component Units' investment categories permissible under its investment policies 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 14 investment management firms to execute the strategy it has established.

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

3. Investments, Continued

Subsequent to the end of the fiscal year, the credit and liquidity crisis in the United States and throughout the global financial systems has resulted in substantial volatility in financial markets and the banking system. As a result, certain investments have incurred a significant decline in fair value since June 30, 2008. As of January 31, 2009, unaudited interim financial statements of the NIU Foundation report unrealized net losses of approximately \$11.5 million and realized gains of approximately \$30,000.

4. Receivables

Accounts receivable are reported net of an allowance for uncollectible accounts of \$5,329,000 at June 30, 2008. The composition of accounts receivable at June 30, 2008 is summarized as follows (\$000's):

	<u>University</u>	<u>Component Units</u>
Student accounts	\$ 11,780	\$ -
Customer accounts	2,033	-
Grants receivable	6,838	-
Others	126	2,102
Gross receivables	<u>20,777</u>	<u>2,102</u>
Less: allowance for Uncollectible accounts	(5,329)	(198)
Net accounts receivable	<u>\$ 15,448</u>	<u>\$ 1,904</u>

Student loans made through the Federal Perkins Loan Program comprise substantially all of student loans receivable at June 30, 2008 totaling \$10,223,000 and are reported net of an allowance for uncollectible accounts of \$174,000.

5. Capital Assets

Capital assets activity for the year ended June 30, 2008 is summarized as follows:

University (\$000's)	Balance				Balance June 30, 2008
	June 30, 2007	Additions	Retirements	Transfers	
Land	\$ 19,281	\$ -	\$ -	\$ -	\$ 19,281
Land improvements	55,200	-	-	2,665	57,865
Buildings	417,693	-	(256)	25,873	443,310
Equipment	158,031	7,627	(1,497)	-	164,161
Construction in-progress	33,805	15,876	-	(28,538)	21,143
Total	<u>684,010</u>	<u>23,503</u>	<u>(1,753)</u>	<u>-</u>	<u>705,760</u>
Less: accumulated Depreciation	(370,561)	(19,208)	1,524	-	(388,245)
Capital assets, net	<u>\$ 313,449</u>	<u>\$ 4,295</u>	<u>\$ (229)</u>	<u>\$ -</u>	<u>\$ 317,515</u>

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

5. Capital Assets, Continued

Component Units (\$000's)	Balance				Balance
	June 30, 2007	Additions	Retirements	Transfers	June 30, 2008
Land	\$ 3,829	\$ -	\$ -	\$ -	\$ 3,829
Buildings	147	-	-	11,724	11,871
Collections	303	26	-	-	329
Furniture	691	721	-	-	1,412
Construction in-progress	11,079	1,401	-	(11,724)	756
Total	16,049	2,148	-	-	18,197
Less: accumulated depreciation	(32)	(414)	-	-	(446)
Capital assets, net	\$ 16,017	\$ 1,734	\$ -	\$ -	\$ 17,751

6. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities as of June 30, 2008 are as follows (\$000's):

	University	Component Units
Payable to vendors/suppliers	\$ 17,005	\$ 1,914
Accrued payroll	6,945	-
Current portion of noncurrent liabilities:		
Performance contracts payable	1,862	-
Revenue bonds payable	6,060	408
Leases payable	1,003	-
Notes payable	365	396
Unapplied awards	15	-
Total	\$ 33,255	\$ 2,718

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**

7. Performance Contracts Payable, Continued

Outstanding balances at June 30, 2008 are as follows (\$000's):

Performance Contract	Beginning Balance	Issued	Retired	Ending Balance	Current Portion
DuSable Hall	\$ 102	\$ -	\$ 50	\$ 52	\$ 52
Phase I Lighting	737	-	172	565	180
Convocation Center	1,161	-	213	948	222
Phase II Lighting	1,393	-	257	1,136	268
West Plant	2,818	-	421	2,397	439
West Campus Control Valve Retrofit	659	-	82	577	86
Energy Infrastructure Improvements	2,522	-	170	2,352	265
Energy Infrastructure Improvements – Phase 7	3,898	-	52	3,846	199
Energy Infrastructure Improvements – Phase 8	-	8,587	-	8,587	151
	<u>\$ 13,290</u>	<u>\$ 8,587</u>	<u>\$ 1,417</u>	<u>\$ 20,460</u>	<u>\$ 1,862</u>

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

Year Ending June 30	Principal	Interest	Total
2009	\$ 1,862	\$ 723	\$ 2,585
2010	2,161	763	2,924
2011	2,243	670	2,913
2012	2,134	577	2,711
2013	1,648	490	2,138
2014-2018	5,153	1,676	6,829
2019-2023	4,875	647	5,522
2024	384	8	392
Total	<u>\$ 20,460</u>	<u>\$ 5,554</u>	<u>\$ 26,014</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	\$ 23,470
Additions/(deductions)	550
Balance, end of year	<u>24,020</u>
Less current portion	1,934
Balance, end of year, noncurrent portion	<u>\$ 22,086</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	\$ 8,347
Additions/(deductions)	(741)
Balance, end of year	<u>\$ 7,606</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	\$ 8,657
Additions/(deductions)	108
Balance, end of year	<u>\$ 8,765</u>

11. Revenue Bonds Payable

Revenue bonds outstanding as of June 30, 2008 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)	\$ 25,896	\$ 1,591	\$ 3,730	\$ 23,757	\$ 3,730	\$ 30,558	23%
Series 1996	1,895	-	600	1,295	630	1,405	1%
Series 1999	11,200	-	835	10,365	880	13,709	1%
Series 2001	70,605	-	780	69,825	820	115,075	4%
	<u>\$ 109,596</u>	<u>\$ 1,591</u>	<u>\$ 5,945</u>	<u>\$ 105,242</u>	<u>\$ 6,060</u>	<u>\$ 160,747</u>	
Component Unit	\$ 8,791	\$ -	\$ 2,181	\$ 6,610	\$ 408	\$ -	

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

11. Revenue Bonds Payable, Continued

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%.

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%.

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

Advanced Refunded Bonds

	(\$000's)
Series	Outstanding at June 30, 2008
1983 B	\$ 2,180
1999	22,335
Total	<u>\$ 24,515</u>

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

11. Revenue Bonds Payable, Continued

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
2009	\$ 5,945	\$ 115	\$ 4,090	\$ 10,150
2010	5,836	339	3,977	10,152
2011	5,750	550	3,857	10,157
2012	5,013	747	3,738	9,498
2013	4,924	935	3,638	9,497
2014-2018	27,134	4,115	16,244	47,493
2019-2023	31,800	-	9,010	40,810
2024-2028	10,345	-	3,725	14,070
2029	8,495	-	425	8,920
Total	<u>\$ 105,242</u>	<u>\$ 6,801</u>	<u>\$ 48,704</u>	<u>\$ 160,747</u>

Component Units (\$000)

Year Ending June 30	Principal	Accretion	Interest	Total
2009	\$ 408	\$ -	\$ 322	\$ 730
2010	1,149	-	275	1,424
2011	937	-	221	1,158
2012	765	-	179	944
2013	800	-	137	937
2014-2017	2,551	-	245	2,796
Total	<u>\$ 6,610</u>	<u>\$ -</u>	<u>\$ 1,379</u>	<u>\$ 7,989</u>

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 \$37,579,000, net of accumulated depreciation of \$3,605,000 at June 30, 2008.

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

12. Capitalized Leases, Continued

Capital leases outstanding principal balances as of June 30, 2008 are as follows (\$000's):

	Beginning Balance	Additions	Payments	Ending Balance	Current Portion
Naperville Project	\$ 16,480	\$ -	\$ 605	\$ 15,875	\$ 635
IASBO Building	789	-	30	759	32
Northern View	19,380	-	232	19,148	245
Motor Coaches	-	812	90	722	91
Net Present Value	<u>\$ 36,649</u>	<u>\$ 812</u>	<u>\$ 957</u>	<u>\$ 36,504</u>	<u>\$ 1,003</u>

Future minimum lease payments for the above assets under capital leases at June 30, 2008 on originally scheduled minimum payments and estimated interest are (\$000's):

Year Ending June 30	Principal	Interest	Total
2009	\$ 1,003	\$ 1,913	\$ 2,916
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
2014-2018	6,618	7,569	14,187
2019-2023	8,247	5,678	13,925
2024-2028	5,938	3,572	9,510
2029-2033	4,367	2,348	6,715
2034-2038	5,822	893	6,715
Total	<u>\$ 36,504</u>	<u>\$ 29,117</u>	<u>\$ 65,621</u>

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	\$ 5,265	\$ -	\$ 345	\$ 4,920	\$ 365
Total	<u>\$ 5,265</u>	<u>\$ -</u>	<u>\$ 345</u>	<u>\$ 4,920</u>	<u>\$ 365</u>
Notes Payable:					
Component Unit	\$ 1,060	\$ -	\$ 434	\$ 626	\$ 396

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

13. Notes and Certificates of Participation Payable, Continued

In August 1993, the University issued \$8,485,000 of certificates of participation to refinance an educational center occupied by Northern Illinois University in Hoffman Estates, Illinois, 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
2009	\$ 365	\$ 256	\$ 621
2010	390	235	625
2011	410	214	624
2012	435	191	626
2013	465	167	632
2014-2017	2,855	376	3,231
Total	<u>\$ 4,920</u>	<u>\$ 1,439</u>	<u>\$ 6,359</u>

Component Units (\$000)

Year Ending June 30	Principal	Interest	Total
2009	\$ 396	\$ 16	\$ 412
2010	124	10	134
2011	72	5	77
2012	34	1	35
Total	<u>\$ 626</u>	<u>\$ 32</u>	<u>\$ 658</u>

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	\$ 150,388
Restricted:	
Nonexpendable	-
Expendable	7,186
Unrestricted	58,231
Total	<u>\$ 215,805</u>

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

14. Net Assets, Continued

Component Units Net Assets (\$000)

Invested in capital assets, net of related debt	\$	11,141
Restricted:		
Nonexpendable		36,876
Expendable		14,200
Unrestricted		5,538
Total	\$	<u>67,755</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 2008, the University engaged the Foundation, under contract, to provide fundraising services. As provided by the contract agreement, the University paid \$538,690 for fundraising services. Additionally, the University provided services to the Foundation valued at \$1,390,314. As required by the contract, the Foundation fully repaid the University for the services provided, using funds considered unrestricted.

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

	<u>Foundation</u>	<u>Alumni Association</u>
Funds considered unrestricted:		
Totally unrestricted administrative services	\$ 1,390	\$ -
Support for University programs and departments	2,712	359
Administrative and office expense	1,580	-
Provided for library books, equipment and property improvements	4,865	-
Total fund considered unrestricted	<u>10,547</u>	<u>359</u>
Funds considered restricted:		
Provided for scholarships and awards	1,021	43
Provided for library books, equipment and property improvements	323	-
Other restricted fund provided to the University:		
Restricted fund	2,038	-
Endowment fund	272	-
Total funds considered restricted	<u>3,654</u>	<u>43</u>
Total funds provided to the University	<u>\$ 14,201</u>	<u>\$ 402</u>

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

16. Operating Leases

The University leases various buildings under operating lease agreements. Total rental expense for the year ended June 30, 2008, under these agreements was \$1,395,000.

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

Year Ending June 30	Amount
2009	\$ 1,088
2010	1,138
2011	982
2012	828
2013	821
2014-2017	2,846
Total	<u>\$ 7,703</u>

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.

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

17. Retirement Plan, Continued

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 12.88% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the Illinois General Assembly. The employer contributions to SURS for the years ended June 30, 2008, 2007, and 2006 were \$17,620,000, \$12,959,000, and \$8,670,000, respectively, equal to the required contributions for each year.

SURS also provides a defined contribution plan option. Plan members are required to contribute 8.0% of their annual covered salary, with the State contributing 7.6%. SURS provides retirement, disability, and death benefits. Members are eligible for normal retirement at any age after 30 years of service, at age 60 after 8 years of service, or at age 62 after 5 years of service. There are also provisions for early retirement. Retirement benefits are based on certain formulas that generally are a function of years of service and the average salary based on the highest earnings of any 4 consecutive years. Disability benefits are paid to disabled members with two years of covered service generally at 50 percent of basic compensation until the total benefits paid equal 50 percent of the total earnings in covered service. Death benefits are payable to survivors of an active member with one and one-half years of covered service or of a former member with 10 years of covered service. These benefits are payable until all children attain the age of 18 or 24 if a full time student, to a spouse after age 50 and to a dependent parent after the age of 55. Benefits are equal to the retirement contributions and interest, a lump sum payment of \$1,000, and monthly annuity equal to a portion of the accrued normal retirement benefit based on specified formulas.

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

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

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

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, 2008 are summarized as follows:

University (<i>\$000's</i>)	Compensation & Benefits	Supplies and Services	Scholarships and Fellowships	Depreciation	Total
Instruction	\$ 105,422	\$ 17,613	\$ 2,357	\$ -	\$ 125,392
Research	10,345	6,779	139	-	17,263
Public Service	15,398	11,879	587	-	27,864
Academic					
Support	18,554	13,055	357	-	31,966
Student Services	9,522	3,288	18	-	12,828
O&M	12,736	12,892	-	-	25,628
Depreciation	-	-	-	19,208	19,208
Inst. Support	26,986	8,089	-	-	35,075
Staff Benefits	66,331	-	-	-	66,331
Student Aid	682	1,254	13,121	-	15,057
Auxiliary	32,334	42,515	2,928	-	77,777
Total	\$ 298,310	\$ 117,364	\$ 19,507	\$ 19,208	\$ 454,389

Component Units

(<i>\$000's</i>)	Compensation & Benefits	Supplies and Services	Scholarships and Fellowships	Depreciation	Total
Instruction	\$ -	\$ 6,352	\$ 202	\$ -	\$ 6,554
Research	-	52	3	-	55
Public Service	-	944	-	-	944
Academic					
Support	-	151	1	-	152
Student Services	-	1,072	75	-	1,147
O&M	-	749	-	402	1,151
Inst. Support	404	3,339	1	12	3,756
Staff Benefits	-	-	-	-	-
Student Aid	-	170	934	-	1,104
Total	\$ 404	\$ 12,829	\$ 1,216	\$ 414	\$ 14,863

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, 2008, are not recorded in the accompanying financial statements. Encumbrances were \$12,620,000 at June 30, 2008.

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	Foundation	Alumni Association	Northern IL Research Foundation	Total
ASSETS:				
Current assets	\$ 3,365	\$ 42	\$ -	\$ 3,407
Noncurrent assets				
Capital assets, net of accumulated depreciation	16,995	-	756	17,751
Investments administered by NIU Foundation	56,160	2,224	-	58,384
Other noncurrent assets	3,575	-	-	3,575
TOTAL ASSETS	\$ 80,095	\$ 2,266	\$ 756	\$ 83,117
LIABILITIES:				
Current liabilities	\$ 1,546	\$ 157	\$ 1,016	\$ 2,719
Noncurrent liabilities				
Deposits held for NIU Alumni Association	2,224	-	-	2,224
Deposits held for NIU	3,232	-	-	3,232
Endowments and life income trusts	755	-	-	755
Bonds and Notes Payable	6,432	-	-	6,432
TOTAL LIABILITIES	14,189	157	1,016	15,362
NET ASSETS:				
Invested in capital assets	10,385	-	756	11,141
Restricted				
Nonexpendable	36,752	124	-	36,876
Expendable	13,921	279	-	14,200
Unrestricted	4,848	1,706	(1,016)	5,538
Total net assets	65,906	2,109	(260)	67,755
TOTAL LIABILITIES AND NET ASSETS	\$ 80,095	\$ 2,266	\$ 756	\$ 83,117
Condensed Statement of Revenues, Expenses and Changes in Net Assets				
Operating revenues	\$ 13,112	\$ -	\$ -	\$ 13,112
Operating expenses	14,201	402	260	14,863
Operating income (loss)	(1,089)	(402)	(260)	(1,751)
Other revenue (expenses)	2,693	(2)	-	2,691
Increase (decrease) in net assets	1,604	(404)	(260)	940
Net assets, beginning of year	64,302	2,513	-	66,815
Net assets, end of year	\$ 65,906	\$ 2,109	\$ (260)	\$ 67,755

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Notes to the Basic Financial Statements, Continued**

22. University Related Organizations, Continued

	<u>Foundation</u>	<u>Alumni Association</u>	<u>Northern IL Research Foundation</u>	<u>Total</u>
Condensed Statement of Cash Flows				
Net cash flows provided by (used in) operating activities	\$ 643	\$ (352)	\$ -	\$ 291
Net cash flows provided by noncapital financing activities	2,168	103	-	2,271
Net cash flows used in capital and related financing activities	(5,691)	-	-	(5,691)
Net cash flows provided by investing activities	3,852	251	-	4,103
Net increase in cash and cash equivalents	972	2	-	974
Cash and cash equivalents, beginning of year	455	40	-	495
Cash and cash equivalents, end of year	<u>\$ 1,427</u>	<u>\$ 42</u>	<u>\$ -</u>	<u>\$ 1,469</u>
Reconciliation of operating loss to net cash used in operating activities:				
Operating loss	\$ (1,089)	\$ (402)	\$ (260)	\$ (1,751)
Adjustments to reconcile operating loss to net cash used in operating activities:				
Adjustments and changes in assets and liabilities	1,732	50	260	2,042
Net cash used in operating activities	<u>\$ 643</u>	<u>\$ (352)</u>	<u>\$ -</u>	<u>\$ 291</u>

Northern Illinois Proton Treatment established a credit agreement with JPMorgan Chase Bank, N.A. for an amount not to exceed \$15,000,000. The purpose of the credit agreement is to provide NIPTRC with short-term financing as NIPTRC prepares to issue long-term debt for the project. The long-term debt is not expected to be issued until the bond market and economic conditions have stabilized.

NIPTRC has drawn against the credit agreement three times for a total of \$7,250,000 between December 19 , 2008 and March 10, 2009. Interest rates are variable and based upon LIBOR, and are currently between 2.37% and 2.59%.

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 statements:

- Statement No. 49 - *Accounting and Financial Reporting for Pollution Remediation Obligations*, which establishes standards on the measurement and reporting of pollution remediation- related obligations. This statement is effective for the period beginning July 1, 2008.
- 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.
- Statement No. 52 - *Land and Other Real Estate Held as Investments by Endowments*, which establishes standards for reporting the value of real estate held as investments by endowments. This statement is effective for the period beginning July 1, 2008.
- Statement No. 53 - *Accounting for Derivative Instruments*, which establishes the standards for accounting and disclosure of derivative instruments. This statement is effective for the period beginning July 1, 2009.

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

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