

**STATE OF ILLINOIS  
NORTHERN ILLINOIS UNIVERSITY  
ALUMNI ASSOCIATION**

**FINANCIAL AUDIT  
Year Ended June 30, 2005**

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

**STATE OF ILLINOIS  
NORTHERN ILLINOIS UNIVERSITY ALUMNI ASSOCIATION**

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**STATE OF ILLINOIS  
NORTHERN ILLINOIS UNIVERSITY ALUMNI ASSOCIATION**

**AGENCY OFFICIALS**

Robert Fioretti	President
Rene Hernandez	Vice President
Tracy Monko Scholle	Vice President
Howard Blietz	Treasurer
Lee McCauley	Assistant Vice President/ Executive Director, through June 30, 2005
Michael Malone	Interim Executive Director, Effective July 1, 2005

***Agency Office is located at:***

Pottenger House  
College View Court  
Dekalb, Illinois 60113-2882

**STATE OF ILLINOIS  
NORTHERN ILLINOIS UNIVERSITY ALUMNI ASSOCIATION**

**FINANCIAL STATEMENT REPORT SUMMARY**

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

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

## Independent Auditor's Report

Honorable William G. Holland  
Auditor General  
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying basic financial statements of Northern Illinois University Alumni Association (Association), a component unit of Northern Illinois University and a component unit of the State of Illinois, as listed in the table of contents, as of and for the years ended June 30, 2005. These financial statements are the responsibility of the Association'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 Association's June 30, 2004 financial statements, which were audited by other auditors whose report dated September 24, 2004 expressed an unqualified opinion on those financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northern Illinois University Alumni Association as of June 30, 2005, and the changes in net assets and cash flows for the years 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 September 22, 2005 on our consideration of the Association's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and on 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 7 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 Henderson LLP*

Peoria, Illinois  
September 22, 2005

**STATE OF ILLINOIS  
NORTHERN ILLINOIS UNIVERSITY ALUMNI ASSOCIATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2005**

Introduction

The following discussion and analysis provides an overview of the financial position and activities of the Northern Illinois University Alumni Association (Association) for the year ended June 30, 2005. The financial statements are prepared in accordance with *Governmental Accounting Standards Board* (GASB) principles.

Statement of Net Assets

The Statement of Net Assets includes all assets and liabilities. A summarized comparison follows:

**Condensed Statement of Net Assets**

	<u>2005</u>	<u>2004</u>
<b>Assets</b>		
Noncurrent assets	\$ <u>2,441,270</u>	\$ <u>2,873,070</u>
<b>Liabilities</b>		
Current liabilities	\$ <u>97,524</u>	\$ <u>74,112</u>
<b>Net Assets</b>		
Nonexpendable donor:		
Restricted	\$ 113,970	\$ 106,789
Expendable donor:		
Restricted	225,710	207,152
Unrestricted	<u>2,004,066</u>	<u>2,485,017</u>
	<u>\$ 2,343,746</u>	<u>\$ 2,798,958</u>

Noncurrent assets consist of investments reported at market value.

Current liabilities consist primarily of trade accounts with vendors and deposits from members.

Net assets represent the residual interest in the Association's assets after liabilities are deducted. During the year ended June 30, 2005, there was a decrease in net assets of \$455,212. The decrease is the result of the Association's continuing programming expenses. A portion of the large \$1,500,000 multi-year contract income in the year ended June 30, 2002 has been utilized to support these programs.

**STATE OF ILLINOIS  
NORTHERN ILLINOIS UNIVERSITY ALUMNI ASSOCIATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2005**

Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets presents the operating results of the Association, as well as nonoperating revenues. Fiscal year 2005 activity resulted in subtracting \$455,212 to net assets.

A summarized comparison of this statement follows:

	<u>2005</u>	<u>2004</u>
Operating expenses	\$ (685,305)	\$ (356,447)
Net nonoperating revenues	<u>230,093</u>	<u>267,848</u>
Decrease in net assets	(455,212)	(88,599)
Net assets - beginning of year	<u>2,798,958</u>	<u>2,887,557</u>
<b>Net assets - end of year</b>	<b><u>\$ 2,343,746</u></b>	<b><u>\$ 2,798,958</u></b>

Changes in total net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets.

Royalties are affinity program revenues received by the Association in exchange for the Association's official sponsorship of the financial and insurance products that are offered to alumni. Currently, the Association has agreements with a credit card provider and a provider of insurance. The Association also contracts with independent tour operators that market travel opportunities to our members. During the year ended June 30, 2002, the Association entered into a multi-year contract resulting in a guaranteed royalty of \$1,500,000 received at the beginning of the contract, as noted above.

Net investment income totaled \$195,339 in 2005. This is the result of favorable market conditions that existed during 2005. In return for a fee for services, the NIU Foundation provides investment management oversight and administration for a portion of the Association's funds, including endowment funds and funds acting as endowment. This structure allows for a very efficient and cost effective investment management function. The majority of the investment income results from unrestricted funds that the Alumni Association has chosen to treat as endowment to create a lasting stream of income to fund both the scholarship and general programs each year.



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NORTHERN ILLINOIS UNIVERSITY ALUMNI ASSOCIATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2005**

Scholarship support decreased to \$45,000 in the year ended June 30, 2005 as compared to \$53,000 provided for the previous year. The Association contributed \$400,000 to the Alumni & Visitors Center Building Fund in the year ended June 30, 2005. The new Alumni & Visitors Center, which has been constructed by the NIU Foundation will house the Association's administrative offices and will serve the NIU campus as a central gathering place where alumni can reconnect with the University.

Statement of Cash Flows

The Statement of Cash Flows reports \$0 Cash and Cash Equivalents at June 30, 2005 and does not report cash flow from operating activities.

Other Association Attributes

The NIU Alumni Association is dedicated to supporting the growth and development of Northern Illinois University and to serving as a communication link between alumni and the university community by offering programs and services which foster pride in the university, support its goals, and meet alumni needs.

Along with a pool of committed alumni volunteers, the Association is active in developing alumni clubs and other constituency groups which further alumni affiliation with the university and sponsors programs for students designed to develop university loyalty and to encourage a life long relationship with the university as active alumni.

In developing and sponsoring programs which foster financial support for the University, the Association strives to represent alumni interests on university policy-making committees.

Economic Factors That Will Affect The Future

Looking toward the future, management believes that the Association is well positioned to continue providing its outstanding level of service to alumni, students and the entire Northern Illinois University community. A major focus for the Association in the coming year will be increasing the number of alumni served through its events and programs along with the construction of the new Alumni & Visitors Center.

**STATE OF ILLINOIS  
NORTHERN ILLINOIS UNIVERSITY ALUMNI ASSOCIATION  
STATEMENT OF NET ASSETS  
June 30, 2005  
With Comparative Totals for June 30, 2004**

	<u>2005</u>	<u>2004</u>
<b>ASSETS</b>		
Noncurrent assets:		
Cash and investments administered by NIU		
Foundation	\$ 2,441,270	\$ 2,873,070
	<u>2,441,270</u>	<u>2,873,070</u>
<b>TOTAL ASSETS</b>	<u>2,441,270</u>	<u>2,873,070</u>
 <b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	3,086	10,735
Deposits	94,438	63,377
	<u>97,524</u>	<u>74,112</u>
<b>TOTAL LIABILITIES</b>	<u>97,524</u>	<u>74,112</u>
 <b>NET ASSETS</b>		
Restricted:		
Nonexpendable donor restricted	113,970	106,789
Expendable donor restricted	225,710	207,152
Unrestricted - expendable	2,004,066	2,485,017
	<u>2,343,746</u>	<u>2,798,958</u>
<b>TOTAL NET ASSETS</b>	<u>\$ 2,343,746</u>	<u>\$ 2,798,958</u>

See accompanying notes to basic financial statements.

**STATE OF ILLINOIS  
NORTHERN ILLINOIS UNIVERSITY ALUMNI ASSOCIATION  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
Year Ended June 30, 2005  
With Comparative Totals for the Year Ended June 30, 2004**

	<u>2005</u>	<u>2004</u>
<b>EXPENSES</b>		
Operating expenses:		
Expenses on behalf of NIU:		
Scholarships and fellowships	\$ 45,000	\$ 53,000
Contribution to Alumni & Visitors Center		
Building Project Fund	400,000	100,000
Alumni relations, outreach, events, and travel	<u>240,305</u>	<u>203,447</u>
Total operating expenses	<u>685,305</u>	<u>356,447</u>
Net operating loss	<u>(685,305)</u>	<u>(356,447)</u>
 <b>NONOPERATING REVENUES</b>		
Expendable gifts	24,754	21,384
Investment income	195,339	246,252
Program support from NIU President allocation	10,000	-
Royalties	<u>-</u>	<u>212</u>
Net nonoperating revenues	<u>230,093</u>	<u>267,848</u>
 <b>DECREASE IN NET ASSETS</b>	 (455,212)	 (88,599)
 <b>NET ASSETS, BEGINNING OF YEAR</b>	 <u>2,798,958</u>	 <u>2,887,557</u>
 <b>NET ASSETS, END OF YEAR</b>	 <u>\$ 2,343,746</u>	 <u>\$ 2,798,958</u>

See accompanying notes to basic financial statements.

**STATE OF ILLINOIS  
NORTHERN ILLINOIS UNIVERSITY ALUMNI ASSOCIATION  
STATEMENT OF CASH FLOWS  
Year Ended June 30, 2005  
With Comparative Totals for the Year Ended June 30, 2004**

	<u>2005</u>	<u>2004</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Decrease in cash owned by NIUAA, reclassified to investments administered by NIU Foundation	\$ -	\$ (1,532,137)
Interest and dividend income	-	5,087
	<hr/>	<hr/>
Net cash used in investing activities	-	(1,527,050)
	<hr/>	<hr/>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	-	(1,527,050)
	<hr/>	<hr/>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	-	1,527,050
	<hr/>	<hr/>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	\$ -	\$ -
	<hr/> <hr/>	<hr/> <hr/>
<b>RECONCILIATION OF NET OPERATING LOSS TO CASH FLOW FROM OPERATING ACTIVITIES</b>		
Net operating loss	\$ (685,305)	\$ (356,447)
Adjustments to reconcile operating loss to cash flow from operating activities:		
Changes in assets and liabilities:		
Decrease in prepaid expenses	-	13,304
Decrease in cash and investments administered by NIU Foundation	661,893	309,424
Decrease in accounts payable	(7,649)	(29,658)
Increase in deposits	31,061	63,377
	<hr/>	<hr/>
<b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>	\$ -	\$ -
	<hr/> <hr/>	<hr/> <hr/>

See accompanying notes to basic financial statements.

**STATE OF ILLINOIS**  
**NORTHERN ILLINOIS UNIVERSITY ALUMNI ASSOCIATION**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2005**

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

Northern Illinois Alumni Association (the "Association") is an Illinois nonprofit corporation established to build relationships between alumni and Northern Illinois University (the "University"), a State agency.

The Alumni Association 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 Alumni Association is 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 in the University's comprehensive annual financial report. All funds of the Alumni Association are locally administered and are neither subject to the State of Illinois appropriation process nor held in the State treasury.

The basic financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended June 30, 2004, from which the summarized information was derived. In addition, certain reclassifications have been made to the 2004 financial statements to conform to the 2005 presentation.

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

For financial reporting purposes, the Alumni Association is considered a special-purpose government engaged only in business-type activities. In addition, the Association 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 Association has elected not to apply FASB pronouncements issued after November 30, 1989. Accordingly, the accompanying financial statements of the Alumni Association 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 an obligation has been incurred. All significant intra-agency transactions have been eliminated.

A. 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, except limited partnerships, 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. Investments in limited partnerships are reported at net asset value.

**STATE OF ILLINOIS  
NORTHERN ILLINOIS UNIVERSITY ALUMNI ASSOCIATION  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2005**

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

B. Net assets of the Alumni Association are classified as follows:

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

*Restricted net assets-expendable* - represents the resources for which the Alumni Association is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties. The Association first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

*Unrestricted net assets* - represent resources used for transactions relating to the general operations of the Alumni Association and may be used at the discretion of the board to meet expenses for any purpose.

- C. The Alumni Association is a not-for-profit entity as described in Section 501(c)(3) of the Internal Revenue Code (IRC) and is exempt from federal income taxes on related income pursuant to Section 501(a) of the IRC.
- D. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.
- E. Revenues are classified as operating revenues if they have the characteristics of exchange transactions. Nonoperating revenues include revenues that have the characteristics of nonexchange transactions as defined in GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and by GASB Statement No. 34.

**NOTE 2 - NORTHERN ILLINOIS UNIVERSITY FOUNDATION AGREEMENT**

The Association works collaboratively with the NIU Foundation to aid Northern Illinois University in achieving its mission and in adding excellence. In order to avail itself to a broader array of investment opportunities and to realize inherent administrative efficiencies, the Association has contracted with the NIU Foundation to provide accounting and financial services for funds of the Association. On February 27, 2004, the Association entered into an agreement, renewable annually, with the Northern Illinois University Foundation for these services. The agreement designates the Foundation as the investment and accounting agent for the assets of the Association. The Foundation receives compensation for services rendered in the amount of \$62,500 annually, which is included in the Association's expenses as alumni relations, outreach, events, and travel.

**STATE OF ILLINOIS  
NORTHERN ILLINOIS UNIVERSITY ALUMNI ASSOCIATION  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2005**

**NOTE 3 - FUNDS HELD BY OTHERS**

The Association reports no cash or cash equivalents due to the agreement with the Foundation as described below.

According to the services agreement, Association funds are invested in accordance with NIU Foundation investment management policies.

The NIU Foundation Finance Committee submits a policy to its Board for approval, periodically recommends changes in policy as appropriate, interprets the policy to the investment managers, and oversees implementation of that policy. Investment performance is reviewed quarterly.

The investment policy statement indicates the intended use for funds shall determine how they will be invested. The funds of the NIU Alumni Association are invested in two primary investment strategies executed in different investment pools. Endowed funds and funds initially received as expendable but acting as endowment are invested with a long-term horizon. Based upon historical patterns of usage, expendable gift funds are invested with an intermediate strategy.

If a donor has not provided specific instructions, state law directs the Board of Directors to authorize for expenditure the net appreciation, both realized and unrealized, of the investments of endowment funds.

The Finance Committee adopted a spending policy for fiscal year 2005 of 4 percent of the three year moving average market value of the endowment investments of the three preceding years to be expendable.

The net appreciation on investments of donor-restricted endowments available for authorization for expenditure approximates \$49,460 at June 30, 2005. These amounts are included in the net assets section of the Statement of Net Assets as restricted for nonexpendable purposes.

**NOTE 4 - ROYALTIES**

The Alumni Association entered into a royalty agreement with a bank in December 2001. The agreement provides for the bank to pay the Alumni Association royalties for collaborating in the offering of services to alumni. The agreement guarantees a minimum of \$1,500,000 over the seven-year term of the agreement.

**STATE OF ILLINOIS  
NORTHERN ILLINOIS UNIVERSITY ALUMNI ASSOCIATION  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2005**

**NOTE 5 - LEASE**

Following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining noncancellable terms in excess of one year as of June 30, 2005. Total rental expense for the year ended June 30, 2005 under this lease was \$15,682, which is included in alumni relations, outreach, events, and travel. Minimum lease payments are:

	<u><b>Amount</b></u>
Year ending June 30:	
2006	\$ 20,316
2007	20,801
2008	<u>32,114</u>
<b>Total</b>	<u><b>\$ 73,231</b></u>

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



**Independent Auditor's 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 as listed in the table of contents of Northern Illinois University Alumni Association (Association) as of June 30, 2005 and for the year then ended, and have issued our report thereon dated September 22, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the 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 Association'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 to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Association'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*.

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

*Clifton Henderson LLP*

Peoria, Illinois  
September 22, 2005