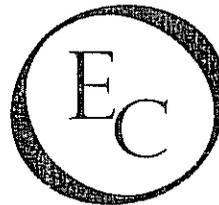


**STATE OF ILLINOIS  
NORTHEASTERN ILLINOIS UNIVERSITY  
FOUNDATION**

**FINANCIAL AUDIT  
YEAR ENDED JUNE 30, 2008**

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



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

**State of Illinois  
Northeastern Illinois University Foundation  
Financial Audit  
For the Year Ended June 30, 2008**

| <b>Table of Contents</b>  | <b><u>Page(s)</u></b> |
|---|-----------------------|
| Agency Officials  | 1                     |
| Financial Statement Report  |                       |
| Summary   | 2                     |
| Independent Auditors' Report  | 3-4                   |
| Management's Discussion and Analysis  | 5-9                   |
| Basic Financial Statements  |                       |
| Statement of Net Assets   | 10                    |
| Statement of Revenues, Expenses and Changes in Net Assets   | 11                    |
| Statement of Cash Flows   | 12                    |
| Notes to Basic Financial Statements   | 13-21                 |
| Independent Auditors' Report on Internal Control Over Financial Reporting<br>and on Compliance and Other Matters Based on an Audit of Financial<br>Statements Performed in Accordance with <i>Government Auditing<br/>Standards</i> | 22-23                 |
| Schedule of Finding   | 24-26                 |
| Prior Finding Not Repeated  | 27                    |

**State of Illinois  
Northeastern Illinois University Foundation**

*Agency Officials*

|  |  |
|--|--|
| President  | John Gingell                               |
| Vice- President  | Jack Butler                                |
| Treasurer  | Thomas Gramins, CPA                        |
| Secretary  | Jonathan Stein                             |
| Executive Director, Vice-President Institutional Advancement | Dr. Carla Knowroski<br>(1/16/08 - 6/30/08) |
| Executive Director, Marketing and Communications             | Terry Bush<br>(7/01/07 - 7/31/07)          |
| Director of Development                                      | T. Sonia Arvanitis<br>(7/01/07 - 1/15/08)  |

*Agency Office is located at:*

5500 North St. Louis Avenue  
Chicago, IL 60625

**State of Illinois  
Northeastern Illinois University Foundation**

**Financial Statement Report**

**Summary**

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

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

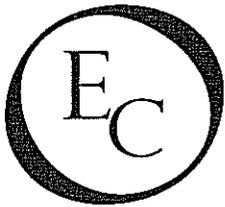
**Summary of Finding**

The auditors identified a matter involving the Foundation's internal control over financial reporting that they considered to be a significant deficiency. The significant deficiency is described in the accompanying Schedule of Finding on pages 24-26 of this report, as finding 08-01, Financial Statement Preparation.

**Exit Conference**

The exit conference was waived by Ms. Carla Knorowski, NEIU Foundation, Executive Director and NEIU Vice President for Institutional Advancement, in a letter dated November 21, 2008.

The response to the recommendation was provided by Ms. Carla Knorowski, in a letter dated December 4, 2008.



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

## Independent Auditors' Report

Honorable William G. Holland  
Auditor General  
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the business-type activities of Northeastern Illinois University Foundation (Foundation), a component unit of Northeastern Illinois University and the State of Illinois, as of and for the year ended June 30, 2008, which comprise the Foundation's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative information has been derived from the Foundation's 2007 financial statements and, in our report dated October 26, 2007 we expressed an unqualified opinion on those statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Northeastern Illinois University Foundation as of June 30, 2008 and the changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2008 on our consideration of the Foundation's internal control over financial reporting and on our tests of the Foundation's compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The *Management's Discussion and Analysis* on pages 5 to 9 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.

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

December 19, 2008

**State of Illinois  
 Northeastern Illinois University Foundation  
 Management's Discussion and Analysis  
 For the Year Ended June 30, 2008**

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

This report presents management's discussion and analysis of the Foundation's financial performance during the fiscal year ended June 30, 2008.

**Financial Highlights**

**Statement of Net Assets**

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

**Condensed Statement of Net Assets**

|                          | <b>2008</b>               | <b>2007</b>               |
|--------------------------|---------------------------|---------------------------|
| Total current assets     | \$2,035,170               | \$2,149,636               |
| Total non-current assets | 2,555,972                 | 2,685,195                 |
| Total assets             | <u>4,591,142</u>          | <u>4,834,831</u>          |
| Current liabilities      | 773,160                   | 758,930                   |
| Total net assets         | <u><u>\$3,817,982</u></u> | <u><u>\$4,075,901</u></u> |

**State of Illinois  
 Northeastern Illinois University Foundation  
 Management's Discussion and Analysis, continued  
 For the Year Ended June 30, 2008**

Total assets of the Northeastern Illinois University Foundation decreased 5% in fiscal year 2008. This is attributable to the effects of market fluctuations of the current economy.

The Foundation uses its assets to support excellence in Northeastern Illinois University (NEIU) programs and scholarships in accordance with the wishes of the donors. Net assets represent the residual interest in the Foundation's assets after liabilities are deducted. The Foundation's net assets at June 30, 2008 and 2007 are summarized below. They are grouped by those net assets available for unrestricted uses, those restricted by the donor for particular purpose expenditures (expendable), and assets that are to be held in perpetuity (nonexpendable).

**Summary of Net Assets**

|                  | <b>2008</b>        | <b>2007</b>        |
|------------------|--------------------|--------------------|
| Restricted       |                    |                    |
| Nonexpendable    | \$2,537,686        | \$2,663,481        |
| Expendable       | 848,717            | 874,004            |
| Unrestricted     | 431,579            | 538,416            |
| Total net assets | <u>\$3,817,982</u> | <u>\$4,075,901</u> |

During the year ending June 30, 2008, the Foundation's net assets decreased by \$257,919 or 6.3%. In comparing fiscal years 2008 and 2007, the decrease in net assets is attributable to decrease in earned investment income and in market valuations resulting from fluctuations in the overall economy. Still, there was an increase in private contributions. The Foundation received a number of large gifts in support of various programs and scholarships in 2008.

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

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

**State of Illinois  
 Northeastern Illinois University Foundation  
 Management's Discussion and Analysis, continued  
 For the Year Ended June 30, 2008**

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

|                                   | <b>2008</b>               | <b>2007</b>               |
|-----------------------------------|---------------------------|---------------------------|
| Operating revenues                | \$112,206                 | \$924,285                 |
| Operating expenses                | <u>635,269</u>            | <u>540,571</u>            |
| Operating income (loss)           | (523,063)                 | 383,714                   |
| Additions to permanent endowments | <u>265,144</u>            | <u>110,553</u>            |
| Increase (decrease) in net assets | (257,919)                 | 494,267                   |
| Net assets, beginning of year     | <u>4,075,901</u>          | <u>3,581,634</u>          |
| Net assets, end of year           | <u><u>\$3,817,982</u></u> | <u><u>\$4,075,901</u></u> |

Many sources make up the Foundation's operating revenues.

|  | <b>2008</b>             | <b>2007</b>             |
|--|-------------------------|-------------------------|
| Operating revenues   |                         |                         |
| Contributions  | \$390,530               | \$297,352               |
| Investment income (loss)   | (456,111)               | 525,923                 |
| Personal service costs, facility use and<br>other costs provided by NEIU | 110,567                 | 91,296                  |
| Other revenues   | <u>67,220</u>           | <u>9,714</u>            |
| Total operating revenues   | <u><u>\$112,206</u></u> | <u><u>\$924,285</u></u> |

Funds provided by Northeastern Illinois University represent personnel costs, facility use and other miscellaneous costs. Investment loss was caused by fluctuations in the market value of investments resulting in unrealized loss on change in market value of investments.

**Statement of Cash Flows**

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

**State of Illinois  
 Northeastern Illinois University Foundation  
 Management's Discussion and Analysis, continued  
 For the Year Ended June 30, 2008**

**Cash Flows From Operating Activities:**

Investment income has been discussed elsewhere in this report. Decrease in cash flows from operating activities is attributable to a decrease in market returns and increased operating expenses related to inaugural activities and Presidential transition.

**Cash Flows From Investing Activities:**

|                                       | <b>2008</b>               | <b>2007</b>               |
|---------------------------------------|---------------------------|---------------------------|
| Proceeds from sales of investments    | \$75,000                  | \$197,588                 |
| Purchases of investments              | <u>(442,527)</u>          | <u>(1,057,834)</u>        |
| Net cash used in investing activities | <u><u>(\$367,527)</u></u> | <u><u>(\$860,246)</u></u> |

**Factors Affecting the Future**

In spite of the downturn in the market, the future continues to hold tremendous growth opportunities for the NEIU Foundation. Four key factors: (1) the role of the NEIU Foundation Board; (2) the NEIU President's commitment to Institutional Advancement, specifically fundraising; (3) the hiring of the new NEIU Foundation Executive Director and Vice President for Institutional Advancement with a given charge of leading fundraising efforts; and (4) putting into place of infrastructure to increase fundraising, specifically the impending hiring of an Assistant Vice President for Development and Alumni Relations, a Director of Development and a Director of Corporate and Foundation Relations are all likely to have the greatest impact upon the Foundation's immediate future, in spite of a fluctuating economy.

During fiscal year 2008, NEIU embarked on a strategic planning process to better position itself and the Foundation for success in the area of fundraising as one of the primary goals of "Fiscal Strength" with six key action steps to reach that goal. Action steps specifically related to the Foundation are:

- 6.4 Develop and implement the infrastructure for fundraising programs and alumni relations;
- 6.5 Increase corporate, foundation and other philanthropic support to the University; and
- 6.7 Increase private support from individuals (including faculty, staff, alumni and others).

**State of Illinois  
Northeastern Illinois University Foundation  
Management's Discussion and Analysis, continued  
For the Year Ended June 30, 2008**

The NEIU Foundation is hosting a strategic planning retreat to specifically link its strategic goals with that of the University's to increase fundraising. The Foundation Board will continue to strengthen policies and procedures as related to general operating procedures, best practices and wise investment and expenditure of funds entrusted to the Foundation. The Board has renewed its commitment to its vital role in supporting the educational mission of Northeastern Illinois University.

After a thorough search, NEIU welcomed its first Vice President for Institutional Advancement, Carla Knorowski, Ph.D. who assumed the vice presidency on January 16, 2008. She also assumed the position of Executive Director of the NEIU Foundation. Dr. Knorowski will put into place needed infrastructure for increased fundraising and she, herself, will also fundraise. She has initiated three searches designed to increase fundraising at NEIU and the NEIU Foundation. As mentioned earlier in this report, the positions are: Assistant Vice President for Development and Alumni Relations, Director of Corporate and Foundation Relations and Director of Development. The first two aforementioned positions are new, the third is a vacancy which will be filled.

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

|                                       | <b>June 30,</b> |                                      |
|---------------------------------------|-----------------|--------------------------------------|
|                                       |                 | <b>(Comparative<br/>Totals Only)</b> |
| <b>ASSETS</b>                         | <b>2008</b>     | <b>2007</b>                          |
| <b>Current assets</b>                 |                 |                                      |
| Cash and cash equivalents (Note 2)    | \$ 146,924      | \$ 166,389                           |
| Short term investments (Note 2)       | 1,669,330       | 1,981,695                            |
| Receivables (Note 3)                  | 215,831         | 227                                  |
| Prepaid expenses                      | 3,085           | 1,325                                |
| Total current assets                  | 2,035,170       | 2,149,636                            |
| <b>Noncurrent assets</b>              |                 |                                      |
| Endowment investments (Note 2)        | 2,537,686       | 2,663,481                            |
| Other assets (Note 4)                 | 18,286          | 21,714                               |
| Total non-current assets              | 2,555,972       | 2,685,195                            |
| <b>TOTAL ASSETS</b>                   | 4,591,142       | 4,834,831                            |
| <b>LIABILITIES</b>                    |                 |                                      |
| <b>Current liabilities</b>            |                 |                                      |
| Accounts payable and accrued expenses | 20,407          | 6,042                                |
| Deferred revenues (Note 5)            | 752,753         | 752,888                              |
| <b>TOTAL LIABILITIES</b>              | 773,160         | 758,930                              |
| <b>NET ASSETS</b>                     |                 |                                      |
| Restricted                            |                 |                                      |
| Nonexpendable                         |                 |                                      |
| Scholarship and memorials             | 2,537,686       | 2,663,481                            |
| Expendable                            |                 |                                      |
| Academics                             | 227,839         | 240,527                              |
| Intercollegiate athletics             | 5,431           | 4,843                                |
| Scholarship and memorials             | 187,836         | 223,480                              |
| Other                                 | 427,611         | 405,154                              |
| Unrestricted                          | 431,579         | 538,416                              |
| <b>TOTAL NET ASSETS</b>               | \$ 3,817,982    | \$ 4,075,901                         |

See accompanying notes to basic financial statements

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

|   | <b>Year Ended June 30,</b> |   |
|---|----------------------------|---|
|   | <b>2008</b>                | <b>(Comparative<br/>Totals Only)<br/>2007</b> |
| <b>REVENUES</b>   |                            |   |
| Operating revenues  |                            |   |
| Contributions   | \$ 390,530                 | \$ 297,352                                    |
| Investment income (loss)  | (456,111)                  | 525,923                                       |
| Personal service costs, facility use and<br>other costs provided by NEIU (Note 5) | 110,567                    | 91,296  |
| Other revenues  | 67,220                     | 9,714   |
| Total operating revenues  | 112,206                    | 924,285                                       |
| <b>EXPENSES</b>   |                            |   |
| Operating expenses  |                            |   |
| Institutional support   | 294,215                    | 203,323                                       |
| Scholarship and fellowship  | 124,530                    | 111,205                                       |
| Personal service costs, facility use and<br>other costs provided by NEIU (Note 5) | 110,567                    | 91,296  |
| Fundraising   | 49,250                     | 81,292  |
| Grants and awards   | 56,707                     | 53,455  |
| Total operating expenses  | 635,269                    | 540,571                                       |
| <b>OPERATING INCOME (LOSS)</b>  | <b>(523,063)</b>           | <b>383,714</b>                                |
| Additions to Permanent Endowments   | 265,144                    | 110,553                                       |
| <b>INCREASE (DECREASE) IN NET ASSETS</b>  | <b>(257,919)</b>           | <b>494,267</b>                                |
| <b>NET ASSETS, BEGINNING OF YEAR</b>  | <b>4,075,901</b>           | <b>3,581,634</b>                              |
| <b>NET ASSETS, END OF YEAR</b>  | <b>\$ 3,817,982</b>        | <b>\$ 4,075,901</b>                           |

See accompanying notes to basic financial statements

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

|   | <b>Year Ended June 30,</b> |                                      |
|---|----------------------------|--------------------------------------|
|   |                            | <b>(Comparative<br/>Totals Only)</b> |
|   | <b>2008</b>                | <b>2007</b>                          |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |                            |                                      |
| Contributions received for operating purposes   | \$ 390,530                 | \$ 297,352                           |
| Investment income   | 136,405                    | 131,812                              |
| Payments to suppliers and students  | (462,907)                  | (458,118)                            |
| Receipt for GEAR UP scholarships  | -                          | 752,888                              |
| Other operating receipts  | 18,890                     | 9,714                                |
| Net cash provided by operating activities   | 82,918                     | 733,648                              |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITY:</b>   |                            |                                      |
| Contributions for endowment purposes  | 265,144                    | 110,553                              |
| Net cash provided by noncapital financing activity  | 265,144                    | 110,553                              |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |                            |                                      |
| Proceeds from sale of investments   | 75,000                     | 197,588                              |
| Purchase of investments   | (442,527)                  | (1,057,834)                          |
| Net cash used in investing activities   | (367,527)                  | (860,246)                            |
| <b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>  | (19,465)                   | (16,045)                             |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>   | 166,389                    | 182,434                              |
| <b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>   | \$ 146,924                 | \$ 166,389                           |
| <b>Reconciliation of net operating income<br/>to net cash provided by operating activities:</b> |                            |                                      |
| Operating income (loss)   | \$ (523,063)               | \$ 383,714                           |
| Adjustments to reconcile operating income to net cash<br>provided by operating activities:      |                            |                                      |
| Unrealized loss (gain) on changes in market value of investments                                | 592,516                    | (394,111)                            |
| Changes in assets and liabilities:  |                            |                                      |
| Receivables   | (2,433)                    | 227                                  |
| Prepaid expenses  | (1,760)                    | 1,346                                |
| Other assets  | 3,428                      | -                                    |
| Accounts payable and accrued expenses   | 14,365                     | (10,416)                             |
| Deferred revenues   | (135)                      | 752,888                              |
| Net cash provided by operating activities   | \$ 82,918                  | \$ 733,648                           |
| <b>Noncash investing activity:</b>  |                            |                                      |
| Receivable arising from sale of investments   | \$ 213,171                 | \$ -                                 |

See accompanying notes to basic financial statements

**State of Illinois  
Northeastern Illinois University Foundation  
June 30, 2008  
Notes to Basic Financial Statements**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Financial Reporting Entity**

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

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

**Basis of Presentation**

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

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

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

**State of Illinois  
Northeastern Illinois University Foundation  
June 30, 2008  
Notes to Basic Financial Statements, Continued**

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

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 20, the Foundation is required to follow all applicable GASB pronouncements. In addition, the Foundation applies all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The Foundation elected not to apply FASB pronouncements issued after November 30, 1989.

The basic financial statements include prior year comparative information, which has been derived from the Foundation's 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 Foundation's financial statements for the year ended June 30, 2007.

**Use of Estimates**

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

**Reclassification**

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

**State of Illinois  
Northeastern Illinois University Foundation  
June 30, 2008  
Notes to Basic Financial Statements, Continued**

**Gift Revenues**

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

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

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

**Operating Revenues**

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

**Cash and Cash Equivalents**

The Foundation considers highly liquid investments with original maturities of ninety days or less when purchased to be cash equivalents. At June 30, 2008, cash equivalents consisted primarily of money market and similar funds.

**State of Illinois  
Northeastern Illinois University Foundation  
June 30, 2008  
Notes to Basic Financial Statements, Continued**

**Investments**

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

**Tax-Exempt Status**

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

**Net Assets of the Foundation are Classified as Follows:**

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

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

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

**State of Illinois  
 Northeastern Illinois University Foundation  
 June 30, 2008  
 Notes to Basic Financial Statements, Continued**

**1. CASH AND CASH EQUIVALENTS AND INVESTMENTS**

A reconciliation of cash and investments as shown on the June 30, 2008 Statement of Net Assets is as follows:

|                                |                    |                          |                    |
|--------------------------------|--------------------|--------------------------|--------------------|
| Carrying amount of deposits    | \$146,924          | Cash and cash equivalent | \$146,924          |
| Carrying amount of investments | 4,207,016          | Short term investments   | 1,669,330          |
|                                |                    | Endowment investments    | 2,537,686          |
|                                | <u>\$4,353,940</u> |                          | <u>\$4,353,940</u> |

Included in the investments are funds restricted for GEAR UP scholarships totaling \$749,289.

*Custodial Credit Risk*

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

As of June 30, 2008, bank balances of \$160,709 held by the Foundation were insured or collateralized with securities held in the Foundation's name.

*Credit Risk*

Credit risk is the risk that an issuer or counterparty to a debt investment will not fulfill its obligations. The Foundation's investment policy limits investments in corporate securities rated "Baa" or higher.

At June 30, 2008, the Foundation's investments in bond mutual funds are not rated, however, the average credit ratings of the underlying securities are as follows:

**State of Illinois  
 Northeastern Illinois University Foundation  
 June 30, 2008  
 Notes to Basic Financial Statements, Continued**

|   | Carrying<br>Amount | AAA1/<br>AAA2      | AA-              | A2               | B-              |
|---|--------------------|--------------------|------------------|------------------|-----------------|
| Vanguard Balanced Index Fund                        | \$1,352,916        | \$1,352,916        | \$ -             | \$ -             | \$ -            |
| Vanguard Intermediate-Term<br>Investment-Grade Fund | 241,192            | -                  | -                | 241,192          | -               |
| Vanguard Total Bond Market Index                    | 105,145            | 105,145            | -                | -                | -               |
| John Hancock High Yield Bond Fund                   | 87,403             | -                  | -                | -                | 87,403          |
| Oppenheimer International Bond Fund                 | 176,306            | -                  | 176,306          | -                | -               |
|   | <u>1,962,962</u>   | <u>\$1,458,061</u> | <u>\$176,306</u> | <u>\$241,192</u> | <u>\$87,403</u> |
| <br>  |                    |                    |                  |                  |                 |
| Vanguard Global Equity Fund                         | 566,610            |                    |                  |                  |                 |
| Vanguard Mid-Cap Index Fund                         | 259,696            |                    |                  |                  |                 |
| Vanguard 500 Index Fund                             | 702,446            |                    |                  |                  |                 |
| Vanguard Equity Income Fund                         | 555,267            |                    |                  |                  |                 |
| Vanguard Small-Cap Value Index Fund                 | 160,035            |                    |                  |                  |                 |
| Total Investments                                   | <u>\$4,207,016</u> |                    |                  |                  |                 |

*Interest Rate Risk*

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses arising from rising interest rates, the Foundation's investment policy recommends a guideline of 20% for investments in fixed-income securities. Interest rate risk is managed according to the purpose of the investments and the projected timeframe for the use of these assets. The Foundation's investments in bond mutual funds as of June 30, 2008 in the amount of \$1,962,962 have an average maturity of 6.9 years.

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

**State of Illinois  
 Northeastern Illinois University Foundation  
 June 30, 2008  
 Notes to Basic Financial Statements, Continued**

*Country/Regional Risk and Foreign Currency Risk*

Country/Regional risk is the risk that domestic events – such as political upheaval, financial troubles, or natural disasters – will weaken a country’s or region’s securities markets. Foreign Currency risk is the risk that the value of a foreign investment, measured in U.S. dollars, will decrease because of unfavorable changes in currency exchange rates. The Foundation’s investment policy recommends a guideline of 25% for investments in an international portfolio. An international portfolio may contain equities issued by companies operating in emerging markets which should not represent more than 5% of all Foundation assets invested in equities.

The Foundation’s investments in foreign countries represent 18% of the total Foundation investments and were distributed among the following currencies as of June 30, 2008:

| <u>Currency</u>  | <u>US Dollar<br/>Equivalent</u> |
|--|---------------------------------|
| US Dollar  | \$250,955                       |
| Euro Current Unit  | 131,011                         |
| United Kingdom British Pound                                     | 52,985                          |
| Japanese Yen   | 74,898                          |
| Other currencies, individually<br>less than 5% of fund portfolio | 233,066                         |
|  | <u>\$742,915</u>                |

**3. RECEIVABLES**

Receivables represent proceeds from sale of investments on June 30, 2008 which were not received by the Foundation as of year-end.

**4. NONCURRENT OTHER ASSETS**

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

**State of Illinois  
Northeastern Illinois University Foundation  
June 30, 2008  
Notes to Basic Financial Statements, Continued**

**5. NORTHEASTERN ILLINOIS UNIVERSITY AGREEMENT**

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

During fiscal year 2008, certain personal services and facilities of the University with an estimated value of \$110,567 were provided to the Foundation without charge. In turn, the Foundation provided the University with support in the amount of \$524,702.

During fiscal year 2007, the Foundation received \$752,888 from the University to set-up a Gaining Early Awareness and Readiness for Undergraduate Program (GEAR UP) scholarship fund recorded as deferred revenue. The funds were invested and restricted for use by the GEAR UP program. As of June 30, 2008, no scholarships have been awarded.

**6. ENDOWMENT FUNDS**

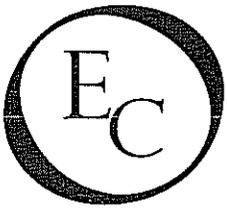
If a donor has not provided specific instructions, state law permits the Northeastern Illinois University Foundation Board (the Board) to authorize for expenditure the net appreciation (realized and unrealized) of the investments of endowment funds. When administering its power to spend net appreciation,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

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

**State of Illinois  
Northeastern Illinois University Foundation  
June 30, 2008  
Notes to Basic Financial Statements, Continued**

**7. SUBSEQUENT EVENT**

Due to the fluctuations in the overall economy, the fair market value of the Foundation's investments has declined from \$4,207,016 as of June 30, 2008 to \$3,130,778 as of November 30, 2008. This resulted in a decline of \$1,076,238 or 26%.



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

Honorable William G. Holland  
Auditor General  
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the basic financial statements of the business-type activities of Northeastern Illinois University Foundation (Foundation), as of and for the year ended June 30, 2008, and have issued our report thereon dated December 19, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Foundation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying schedule of finding to be a significant deficiency in internal control over financial reporting (08-1).

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

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

### Compliance and Other Matters

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

We also noted certain matters which we have reported to management of the Foundation in a separate letter dated December 19, 2008.

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

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

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

December 19, 2008

**State of Illinois  
Northeastern Illinois University Foundation  
June 30, 2008**

**Current Finding – *Government Auditing Standards*  
For the Year Ended June 30, 2008**

08-1 *Financial Statement Preparation*

The Foundation did not properly prepare the financial statements and did not have complete and accurate disclosures in accordance with accounting principles generally accepted in the United States of America and their new investment policy.

We noted the following during our review of the financial statements provided by Foundation personnel:

- Unremitted proceeds from sale of investments at yearend totaling \$215,831 were presented as prepaid expenses in the Statement of Net Assets instead of receivables. Accordingly, this amount decreased Cash Flows from Operating Activities in the financial statements instead of being disclosed as a noncash investing activity.
- Unrealized loss on changes in market value of investments totaling \$592,516 was presented in the Statement of Cash Flows as net investment income and accordingly affected the purchase of investment amount in the Cash Flows from Investing Activities. The unrealized loss should have been presented as a reconciling item in the Cash Flows from Operating Activities.
- Disclosures in the notes to financial statements were not updated to reflect the changes in the Foundation's new investment policy effective July 23, 2007 as follows:
  1. As a long-term guideline, the Foundation's investments will normally constitute 80% equity investments and 20% fixed-income securities. The notes to the financial statements still reflected the target allocation of 40% in fixed-income securities based on their old investment policy.
  2. The notes to the financial statements indicated the old target allocation for international portfolio which was 10%. The new investment policy indicates a target allocation of 25% in international portfolio.

**State of Illinois  
Northeastern Illinois University Foundation  
June 30, 2008**

**Current Finding – *Government Auditing Standards (Continued)*  
For the Year Ended June 30, 2008**

The Foundation's Board of Directors and management share the ultimate responsibility for the Foundation's internal control over financial reporting. This responsibility should include an adequate system of review in the completeness and accuracy of the Foundation's financial statements and disclosures to ensure that the financial statements are presented in accordance with accounting principles generally accepted in the United States of America.

Foundation management indicated that the noted deficiencies were brought about by the Foundation experiencing a dramatic increase in fundraising activity resulting in new gifts, grants and the establishment of funds. This activity increase has strained the capabilities of the current accounting staff and is viewed as a short term issue during a period in which the new NEIU Foundation Executive Director is carrying out staff assessment, potential staff increases dependent on budgetary constraints, and staff realignment and increased systems efficiency.

Failure to apply the applicable accounting principles generally accepted in the United States of America could result in misstatements in the financial statements. (Finding Code No. 08-1)

***Recommendation***

We recommend that the Foundation review its current process for preparation and review of the annual financial statements and allocate the technical resources necessary to ensure a thorough review of the financial statements and disclosures.

***Foundation Response***

The NEIU Foundation accepts the finding and acknowledges the classification of the proceeds from the sale of investments as receivables versus prepaid expenses in the Statement of Net Assets. The NEIU Foundation also acknowledges that the unrealized loss is a non-cash item, and will exercise extra vigilance in proper financial statement presentation. The misclassification occurred in the midst of a significant work overload on the NEIU Foundation accounting staff owing to increased fundraising activity resulting in a number of new gifts and the establishment of new funds. This is a short term issue and the NEIU Foundation Executive Director is carrying out staff assessment, potential staff increases dependent upon budgetary constraints, and staff realignment to increase system efficiency.

**State of Illinois  
Northeastern Illinois University Foundation  
June 30, 2008**

**Current Finding – *Government Auditing Standards (Continued)*  
For the Year Ended June 30, 2008**

The NEIU Foundation also accepts and agrees that the Foundation's investments will "normally" constitute 80% equity investments and 20% fixed-income securities and acknowledges the concern expressed in the finding. The NEIU Foundation respectfully points out that its investment policy states that these are only "guidelines" and as such may be changed to mitigate risk or loss particularly during periods of extreme uncertainty in the economy. The Foundation's investments will "normally" constitute the 80-20 guideline, but given the abnormal state of the economy, in order to mitigate potential losses, the Foundation chose a more conservative asset allocation in consideration of the uncertainty in the financial markets vis a vis strict adherence to the 80-20 policy. Thus, it followed the ratios provided in the old investment policy as this was viewed as more prudent for investing in the current economy and resulted in less of a loss than it would have realized had it stringently followed the 80-20 guideline.

**State of Illinois  
Northeastern Illinois University Foundation  
June 30, 2008**

**Prior Finding Not Repeated – *Government Auditing Standards*  
For the Year Ended June 30, 2008**

A *Failure to Apply Appropriate Accounting Principles*

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

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

Status: Implemented.

During the current year, our testing disclosed no instances in which the Foundation failed to properly interpret GASB Statement No. 33. (Finding Code No. 07-1)