

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

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

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



**Clifton
Gunderson LLP**

Certified Public Accountants & Consultants

**State of Illinois
Northern Illinois University Alumni Association**

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**State of Illinois
Northern Illinois University Alumni Association**

Agency Officials

John F. Tierney	President
Anthony Iosco	Vice President
Mariann Guyon Olivier	Vice President
Robert Kugel	Treasurer
Joseph Matty	Executive Director

Agency Office is located at:

Barsema Alumni & Visitors Center
DeKalb, Illinois 60115

**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 (Association) was performed by Clifton Gunderson LLP.

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

Independent Auditor's Report

Honorable William G. Holland
Auditor General
State of Illinois

and

Honorable President and
Members of the Board of Directors
Northern Illinois University Alumni Association

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 year ended June 30, 2008. 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, 2007 financial statements and in our report dated March 10, 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 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, 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.

As discussed more fully in Note 7, the Alumni Association experienced a significant decline in the fair market value of investments subsequent to June 30, 2008. The information presented in Note 7 has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a separate report dated March 13, 2009 on our consideration of the Association'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 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 6 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.

Clifton Gunderson LLP

Peoria, Illinois
March 13, 2009

**State of Illinois
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**Management’s Discussion and Analysis
For the Year Ended June 30, 2008**

Introduction

The following discussion and analysis provides an overview of the financial position and activities of the Northern Illinois University Alumni Association (the “Association”) for the year ended June 30, 2008. 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>2008</u>	<u>2007</u>
Assets		
Current Assets	\$ 42,213	\$ 43,290
Non-current Assets	<u>2,223,897</u>	<u>2,579,917</u>
	<u>\$ 2,266,110</u>	<u>\$ 2,623,207</u>
Liabilities		
Current Liabilities	<u>\$ 156,720</u>	<u>\$ 110,556</u>
Net Assets		
Non-expendable donor		
Restricted	\$ 123,585	\$ 136,466
Expendable donor		
Restricted	279,578	291,224
Unrestricted	<u>1,706,227</u>	<u>2,084,961</u>
	<u>\$ 2,109,390</u>	<u>\$ 2,512,651</u>

Current assets consist of cash and cash equivalents and prepaid expenses. Non-current assets consist of investments held by Northern Illinois University Foundation reported at fair value.

Current liabilities consist primarily of trade accounts with vendors and deposits from the travel program.

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**Management's Discussion and Analysis, Continued
For the Year Ended June 30, 2008**

Net assets represent the residual interest in the Association's assets after liabilities are deducted. During the year ended June 30, 2008, there was a decrease in net assets of \$403,261. The decrease is primarily the result of the decline in investment results for the fiscal year and also increased administrative expenses such as legal and professional fees.

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.

A summarized comparison of this statement follows:

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

	<u>2008</u>	<u>2007</u>
Operating expenses	\$ (401,525)	\$ (246,542)
Net nonoperating revenues	<u>(1,736)</u>	<u>473,453</u>
Increase (decrease) in net assets	(403,261)	226,911
Net assets - beginning of year	<u>2,512,651</u>	<u>2,285,740</u>
Net assets - end of year	<u>\$ 2,109,390</u>	<u>\$ 2,512,651</u>

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, a financial institution and an insurance provider. 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. The Association also received royalties from a graduation photographer during 2008.

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Management's Discussion and Analysis, Continued For the Year Ended June 30, 2008

Investment losses were \$104,421 in 2008. This is the result of investment market decline during the fiscal year. In return for a fee for services, the NIU Foundation provides investment management oversight and administration for 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.

Scholarship support decreased from \$53,000 in the year ended June 30, 2007 to \$43,000 in fiscal year 2008 due to students who did not matriculate in fiscal year 2008.

Statement of Cash Flows

The Statement of Cash Flows reports \$42,205 Cash and Cash Equivalents at June 30, 2008 and \$351,941 net cash used in 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.

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**Management's Discussion and Analysis, Continued
For the Year Ended June 30, 2008**

Economic Factors That Will Affect the Future

The Association has launched a new dues paying membership program offering membership rewards for various levels of dues. This new program, along with the other programs and services, management, while looking toward the future 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.

Northern Illinois University Alumni Association
Statement of Net Assets
June 30, 2008
With Comparative Totals for June 30, 2007

	June 30,	
	2008	2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 42,205	\$ 39,862
Other receivable	8	-
Prepaid expenses	-	3,428
	42,213	43,290
Noncurrent assets:		
Investments administered by NIU Foundation	2,223,897	2,579,917
	2,266,110	2,623,207
TOTAL ASSETS	2,266,110	2,623,207
 LIABILITIES		
Current liabilities:		
Accounts payable	23,050	10,398
Deposits	133,670	100,158
	156,720	110,556
TOTAL LIABILITIES	156,720	110,556
 NET ASSETS		
Restricted:		
Non-expendable donor restricted (Note 1B)	123,585	136,466
Expendable donor restricted (Note 1B)	279,578	291,224
Unrestricted (Note 1B)	1,706,227	2,084,961
TOTAL NET ASSETS	\$ 2,109,390	\$ 2,512,651

See accompanying notes to financial statements.

Northern Illinois University Alumni Association
Statement of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2008
With Comparative Totals for the Year Ended June 30, 2007

	Year Ended June 30,	
	2008	2007
EXPENSES		
Operating expenses:		
Expenses on behalf of NIU		
Scholarships and fellowships	\$ 43,000	\$ 53,000
Alumni relations, outreach, events and travel	358,525	193,542
Total operating expenses	401,525	246,542
Net operating loss	(401,525)	(246,542)
 NONOPERATING REVENUES		
Expendable gifts	57,314	55,050
Investment income (loss)	(104,421)	340,147
Program support from Northern Illinois University		
President allocation	-	10,000
Royalties (Note 4)	45,371	68,256
Net nonoperating revenues	(1,736)	473,453
Increase (decrease) in net assets	(403,261)	226,911
 NET ASSETS		
Net assets, beginning of year	2,512,651	2,285,740
Net assets, end of year	\$ 2,109,390	\$ 2,512,651

See accompanying notes to financial statements.

Northern Illinois University Alumni Association
Statement of Cash Flows
Year Ended June 30, 2008
With Comparative Totals for the Year Ended June 30, 2007

	Year Ended June 30,	
	2008	2007
Cash flows from operating activities		
Scholarships and fellowships on behalf of NIU	\$ (43,000)	\$ (53,000)
Payments for alumni relations, outreach, events and travel program	(308,941)	(149,235)
Net cash used in operating activities	<u>(351,941)</u>	<u>(202,235)</u>
Cash flows from noncapital financing activities		
Expendable gifts received	57,314	55,050
Program support from NIU President Allocation	-	10,000
Royalties received	45,371	68,256
Net cash provided by noncapital financing activities	<u>102,685</u>	<u>133,306</u>
Cash flows from investing activities		
Sale (purchase) of investments administered by NIU Foundation	93,828	(231,356)
Investment income on investments administered by NIU Foundation	157,771	340,147
Net cash provided by investing activities	<u>251,599</u>	<u>108,791</u>
Net increase in cash and cash equivalents	2,343	39,862
Cash and cash equivalents, beginning of year	<u>39,862</u>	<u>-</u>
Cash and cash equivalents, end of year	<u>\$ 42,205</u>	<u>\$ 39,862</u>
Reconciliation of net operating loss to cash flow used in operating activities		
Net operating loss	\$ (401,525)	\$ (246,542)
Adjustments to reconcile operating loss to cash flow used in operating activities:		
Changes in assets and liabilities:		
Increase in other receivables	(8)	-
(Increase) decrease in prepaid expenses	3,428	(1,428)
Increase (decrease) in accounts payable	12,652	(17,983)
Increase in deposits	33,512	63,718
Net cash flow used in operating activities	<u>\$ (351,941)</u>	<u>\$ (202,235)</u>

See accompanying notes to financial statements.

State of Illinois Northern Illinois University Alumni Association

Notes to Basic Financial Statements June 30, 2008

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").

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, 2007, from which the summarized information was derived.

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.

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Notes to Basic Financial Statements
June 30, 2008

- 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.
- B. Net assets of the Alumni Association are classified as follows:
- Restricted net assets-non-expendable* - 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 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 expenditures during the reporting period. Actual results could differ from those estimates.

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**Notes to Basic Financial Statements
June 30, 2008**

- E. Revenues are classified as operating revenues if they have the characteristics of exchange transactions. 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.
- F. The Alumni Association is exposed to various risks of loss related to torts, theft of, damages to, and destruction of assets. The Alumni Association purchases commercial insurance for these risks of loss. During the year ended June 30, 2008, there were no significant reductions in coverage. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

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 \$55,000 annually.

NOTE 3 - FUNDS HELD BY OTHERS

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

The investment policy statement indicates the intended use of 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 endowed are invested with a long-term horizon. Based upon historical patterns of usage, expendable gift funds are invested with an intermediate strategy.

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Notes to Basic Financial Statements

June 30, 2008

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 2008 of four percent of the three year moving average fair 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 \$93,531 at June 30, 2008. The amounts are included in the net assets section of the Statement of Net Assets as restricted for expendable purposes.

All of the Alumni Association's funds are managed by the Foundation in commingled accounts. The Alumni Association considers all liquid investments with original maturities of three months or less to be cash equivalents. Below is a summary of the Foundation's investment policies and holding as of June 30, 2008.

The Board of Directors of the Foundation is responsible for the management of the Foundation's investments. The Board has approved authority to the Finance Committee to formulate an investment policy for funds and assets of the Foundation. The Finance Committee shall submit that policy to the Board for approval, periodically recommend changes in policy as appropriate, interpret the policy to the Foundation's investment managers, and oversee implementation of that policy. Investment performance is reviewed quarterly by the Finance Committee and reported to the Board of Directors.

The Foundation's permissible investment categories include:

- 1) Equities;
- 2) Fixed income securities;
- 3) Cash equivalents;
- 4) Venture capital/private equity;
- 5) Equity real estate;
- 6) Hedge funds.

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**Notes to Basic Financial Statements
June 30, 2008**

Details of investment balances at June 30, 2008 are as follows:

	<u>Cost</u>	<u>Market</u>
Mutual funds	\$ 45,132,709	\$ 45,850,641
Stock	1,172,290	1,320,646
Limited partnerships	6,077,611	7,810,687
Charitable remainder trusts	<u>1,224,203</u>	<u>1,097,940</u>
	<u>\$ 53,606,813</u>	56,079,914
Cash surrender value of life insurance		<u>80,135</u>
		<u>\$ 56,160,049</u>

In fulfilling its responsibilities, the Board has contracted with an independent investment advisory firm as well as 14 investment management firms to execute the strategy it has established.

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. All of the Foundation's deposits and investments are insured or collateralized with securities held in the Foundation's name.

Concentration Risk

The Foundation's policy calls for no investment purchases that would cause a position in the portfolio to exceed five percent of the outstanding voting shares of the company or invest with the intent of controlling management. The Foundation does not have any investments in any single issuer representing five percent or more of the Foundation's assets.

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**Notes to Basic Financial Statements
June 30, 2008**

Currency Risk

Currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Foundation's investment policy calls for individual international managers to maintain an appropriate diversification with respect to currency and country. The Foundation's investments at June 30, 2008 were distributed among the following currencies:

United States Dollar		
<u>Equivalent</u>		<u>Currency</u>
\$ 51,721,343	89.9%	United States Dollar
2,163,327	3.8	Euro Current Unit
557,441	.9	Japanese Yen
696,660	1.2	British Pound
397,061	.7	Swiss Franc
<u>2,051,483</u>	<u>3.5</u>	Other currencies, individually less than 0.5% of deposits and investments
<u>\$ 57,587,315</u>	<u>100.0%</u>	Total Currencies

Credit Risk

Credit risk is the risk that an issuer or other counterparty to a debt investment will not fulfill its obligations. The Foundation's policy calls for managers to maintain an overall credit rating of AA or better by Moody's or AA or better by Standard & Poor's and to hold no more than 15% of the portfolio in below investment grade issues (below Baa/BBB).

Fixed income securities are held through mutual funds. Foundation assets subject to credit risk are shown with a current credit rating below:

<u>Credit Risk</u> <u>Quality Rating</u>	<u>Fixed Income</u> <u>Mutual Fund</u> <u>Balance</u>
AA	\$ 7,662,689
AA ⁺	5,930,637

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**Notes to Basic Financial Statements
June 30, 2008**

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The investment policy statement indicates that each manager shall maintain a duration +/- 20% of the effective duration of its benchmark index. The same assets as detailed with respect to credit risk above are subject to interest rate risk as detailed below:

Weighted Average Duration (years)	Fixed Income Mutual Fund Balance
1.9	\$ 4,209,404
4.5	3,453,285
4.6	<u>5,930,637</u>
Total	<u>\$ 13,593,326</u>

Commitments

The Foundation has five limited partnership agreements which are not fully funded. Of the \$5,100,000 committed, \$2,018,695 was not funded at June 30, 2008. In July and September, 2008, an additional \$3,000,000 was committed to limited partnerships.

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, 2008

The Association entered into a licensing agreement with a bank in March 2005 to receive an affinity fee of \$20,000 per year for the three year initial term of the agreement also for collaborating in the offering of financial services to alumni.

The Association and an insurance company entered into an agreement effective July 1, 2005 which promotes the company's insurance program to alumni. The company agrees to pay an annual \$20,000 sponsorship as well as a fee on each inquiry from a NIU member. This agreement is in effect for a minimum of five years.

NOTE 5 - LEASE

The Association has an operating lease agreement for a vehicle for use by the executive director. Total lease expense for fiscal year 2008 was \$5,568. The future minimum lease payments for the 48 month lease effective June 17, 2007 are as follows:

Fiscal Year Ending <u>June 30,</u>	
2009	\$ 5,568
2010	5,568
2011	5,568

NOTE 6 - NORTHERN ILLINOIS UNIVERSITY AGREEMENT

The Alumni Association and Northern Illinois University, operating under an agreement dated June 30, 1983, work cooperatively to enhance and expand the educational, research and service goals of the University. The Association provides counsel and advice to the University through the Association's Board of Directors relating to University graduates. In exchange, the University provides the Association with University services, facilities, and resources.

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**Notes to Basic Financial Statements
June 30, 2008**

NOTE 7 - DECLINES IN INVESTMENT VALUES (UNAUDITED)

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.

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