STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY
FOUNDATION

FINANCIAL AUDIT
FOR THE YEAR ENDED JUNE 30, 2007

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 Foundation

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State of Illinois
Northern Illinois University Foundation

Agency Officials

Robert L. Bovinette	Chairman
Christina Valaitis	Vice Chairman
Jeffrey Eckmann	Treasurer
Mallory M. Simpson	President and Secretary
Jean Jagodzinski, CPA	Controller

NIU Foundation Office is located at:

Altgeld Hall 135

DeKalb, Illinois 60115-2882

State of Illinois
Northern Illinois University Foundation

Financial Statement Report Summary

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

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

Independent Auditor's Report

Honorable William G. Holland
Auditor General
State of Illinois
and
Honorable Chairman and
Members of the Board of Directors
Northern Illinois University Foundation

As Special Assistant Auditors for the Auditor General, we have audited the accompanying basic financial statements of Northern Illinois University Foundation (Foundation), 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, 2007. 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 June 30, 2006 financial statements and, in our report dated September 21, 2006, 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 Foundation as of June 30, 2007, and the changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a separate report dated March 10, 2008 on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 6 to 14 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 10, 2008

State of Illinois
Northern Illinois University Foundation

Management's Discussion and Analysis
For the Year Ended June 30, 2007

Introduction

The following Management's Discussion and Analysis (MD&A) provides an overview of the financial position and activities of the Northern Illinois University Foundation (Foundation) for the year ended June 30, 2007. The financial statements are prepared in accordance with *Governmental Accounting Standards Board* (GASB) principles.

The Foundation is the official fundraising arm of Northern Illinois University (University) and was established in 1949 as an independent nonprofit corporation. The Foundation raises and receives private gifts, administers funds, and manages assets on behalf of the University and its programs. The Foundation also evaluates, plans, and mounts long-term special fund drives or capital campaigns over and above the regular ongoing fundraising efforts.

Foundation support for development programs includes database and records management, electronic screening, information/data processing, communications, print, and telemarketing. Support also includes gift and estate planning; gift recording, receipting, and acknowledgement; gift administration; investment, distribution and stewardship of funds.

In addition, the Foundation provides support from private sources so the University may conduct donor cultivation and advancement functions that cannot be funded with tax dollars. The Foundation also assists the University by acquiring land for future use of the University under guidelines established by the Illinois Legislature.

Financial Highlights

General Comments
The Foundation's positive investment results contributed to the $9.1 million increase in net assets during the fiscal year. At June 30, 2007, total assets were $83.8 million and total liabilities were $19.5 million. The difference, net assets, was $64.3 million.

The Foundation's investment policy is designed to maximize total return over the long term while maintaining an appropriate level of risk. In 2007, investment return for the endowment portfolio was 16.9% compared to 10.2% in 2006. The intermediate portfolio also returned 9.4% in 2007 compared to 4.3% in 2006. Investment income totaled over $7.0 million for the year ended June 30, 2007, nearly doubling the previous year. Combined investment portfolios increased a total of $13 million to $62.3 million.

State of Illinois
Northern Illinois University Foundation

Management's Discussion and Analysis, continued
For the Year Ended June 30, 2007

Summary of Investment Holdings as of June 30, 2007:

Endowment Fund

33.5	Large Cap US Equity
25.2	Hedged Strategies
14.5	Fixed Income
14.3	International Equity
7.3	Small Cap US Equity
5.0	Private Equity
0 .2	Cash
100%	
16.9%	Total Return Net of Fees for year ended June 30, 2007
16.4%	Balanced Index

Intermediate Portfolio

49.5	Fixed Income
33.2	Hedged Strategies
9.8	Large Cap US Equity
3.8	International Equity
3.4	Small Cap US Equity
0.3	Cash
100%	
9.4%	Total Return Net of Fees for year ended June 30, 2007
7.8%	Balanced Index

The final phase of the Foundation's university-wide campaign was launched publicly in May 2007. The focus is building the endowment to enhance academic quality with specific focus on endowed scholarships, chairs, professorships and programs. Expenses of the campaign's launch comprised the majority of the increased fundraising costs for the year and the benefits are expected to be realized over the entire multi-year campaign period.

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

Condensed Statement of Net Assets

Assets:	2007	2006
Current assets	$ 2,346,795	$ 6,767,744
Non-current assets	76,547,363	52,108,817
Capital assets	4,937,552	4,259,237
Total assets	83,831,710	63,135,798
Liabilities:		
Current liabilities	4,217,826	1,101,290
Non-current liabilities	15,311,617	6,862,606
Total liabilities	19,529,443	7,963,896
Total net assets	$ 64,302,267	$ 55,171,902

Current Assets
Current assets decreased significantly in 2007 primarily as a result of a transition in an investment manager in the endowment portfolio at June 30, 2006 and also liquid funds in current assets at June 30, 2006 which were subsequently used to pay construction costs for the Yordon Center (mentioned below). Also, the current portion of the pledges receivable balance decreased while the noncurrent portion increased.

The Foundation and the University engage in various 'intercompany' transactions throughout the year. These transactions create funds due and from the University. At June 30, 2007, there was a receivable due from the University of $253,564 whereas at June 30, 2006, the amount due to the University (as a liability) was $37,732.

Noncurrent Assets
A major undertaking for the Foundation has been the fundraising and construction of the Jeffrey and Kimberly Yordon Center, which will support approximately 500 student athletes competing in 17 sports. The Foundation again served as developer and financed the project through tax-exempt bonds issued in August 2006. The initial fundraising goal of $7 million was exceeded in November 2005. In light of fundraising momentum and the increased vision for the facility, the goal was increased and again exceeded with a total of $9.3 million raised through June 30, 2007. The resulting construction in progress included in Noncurrent Assets at June 30, 2007 approximates $11.1 million. In August 2007 athletes and athletics staff began utilizing the new facility with enthusiasm and a surge in spirit in NIU Huskie athletics. The building was dedicated September 8, 2007.

Total pledges receivable increased by $400,000, primarily due to the Yordon Center fundraising campaign in 2007. Current pledges receivable decreased by $400,000 but long term receivables increased by $800,000 from Yordon Center and other significant operating pledges signed in 2007. (Note: GASB revenue recognition rules call for pledges to endowments to be recognized at the time payments are received).

Debt issuance costs for the Yordon Center financing were incurred in 2007 and are being amortized over the life of the bonds.

Additions to the investment portfolios partially as a result of the strong positive investment returns also impacted total noncurrent assets by over $13 million.

Current Liabilities
Current liabilities consist primarily of payments due on the construction project, trade accounts payable, and the current portion of long term capital project debt.

Noncurrent Liabilities
The major components of non-current liabilities are bonds and notes payable for the capital projects and accounts administered on behalf of the University as well as investments held for the Northern Illinois University Alumni Association. Through a services contract, the Foundation provides fund administration and investment services to the NIU Alumni Association providing an efficient and effective means for both organizations to accomplish their fundamental missions. Assets of the Alumni Association are reflected in both assets and non-current liabilities of the Foundation.

Management's Discussion and Analysis, continued
For the Year Ended June 30, 2007

Net Assets
Net assets represent the residual interest in the Foundation's assets after liabilities are deducted. The Foundation's net assets at June 30, 2007 and 2006 are summarized as follows:

Summary of Net Assets:	2007	2006
Invested in capital assets	$ 4,937,552	$ 4,259,237
Restricted:		
Non-expendable donor restricted	35,048,337	29,900,664
Expendable donor restricted	18,945,661	15,644,881
Unrestricted: Expendable	5,370,717	5,367,120
Total Net Assets	$64,302,267	$55,171,902

The major component invested in capital assets is land held for use or potential future use by the University.

The Foundation's permanent endowment funds are restricted for nonexpendable endowment. Restricted expendable is subject to restrictions made by the donor directing their use. Unrestricted net assets are not subject to externally imposed stipulations and include funds that function as endowments.

Statements of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets presents the operating results of the Foundation, as well as non-operating revenue and expenses. Fiscal year 2007 activity resulted in adding $9.1 million to net assets.

Management's Discussion and Analysis, continued
For the Year Ended June 30, 2007

A summarized comparison of this statement follows:

Condensed Statement of Revenues, Expenses and Changes in Net Assets

	2007	2006
Operating revenues	$ 17,480,516	$16,933,197
Operating expenses	9,610,669	15,642,959
Operating income	7,869,847	1,290,238
Additions to permanent endowment	1,260,518	1,469,727
Increase in net assets	9,130,365	2,759,965
Net assets-beginning of year	55,171,902	52,411,937
Net assets-end of year	$ 64,302,267	$ 55,171,902

Operating Revenues
Operating revenues consist mainly of gifts and pledges that reflect the purpose of the Foundation, support for the University.

Gifts are summarized as follows:

Gift Detail by Source

	Total	Unrestricted	Barsema Alumni & Visitors Center	Academic & Athletic Performance Center	Other Restricted Expendable Purposes	Endowment
Cash gifts received this year	$ 8,134,288	$ 329,637	$ 555,753	$ 1,421,914	$ 4,566,466	$ 1,260,518
Gifts in kind	1,846,543	1,051	-	-	1,845,492	-
New pledges signed	1,440,575	-	10,825	514,000	915,750	* -
Payments on pledges	(1,041,188)	-	(233,526)	(602,902)	(204,760)	* -
Total Gifts Reported	$ 10,380,218	$ 330,688	$ 333,052	$ 1,333,012	$ 7,122,948	$ 1,260,518

* Pledges to Endowment funds are not recognized under GASB accounting standards until the gift is received.

Gift Detail by Type	2007	2006	Increase (Decrease)
Expendable Gifts	$ 6,007,982	$ 4,608,666	$ 1,399,316
Gifts for Capital Projects	1,265,175	3,857,167	(2,591,992)
Gifts of property, equipment, goods and services	1,846,543	3,983,678	(2,137,135)
Gifts to permanent endowments (non-operating revenues)	1,260,518	1,469,727	(209,209)
	$10,380,218	$13,919,238	$(3,539,020)

The Foundation pays for its operations through a combination of investment income on expendable invested balances, an internal administrative fee of 1.5% of the endowment fund, a cost recovery fee on annual fund gifts raised, and service fee revenue from a contract with the university to provide fundraising services.

During the year ended June 30, 2007, the investment portfolio earned a positive investment return of $7.0 million. Prudent investment policies, including diversification within the portfolio into several asset classes, resulted in actual performance better than the benchmarks against which the Foundation regularly evaluates its strategies and performance.

Operating Expenses
Total operating expenses decreased $6.0 million from 2006 to 2007, primarily due to the $5.5 million gift portion of the Barsema Alumni & Visitor Center transferred to the university in 2006. Fundraising expenses were substantially higher in 2007 due to the public launch of the final phase of True North, NIU's first comprehensive campaign.

Scholarship support and student services increased significantly during the fiscal year. The Provost Office and the Development Team developed a coalition of campus personnel which now closely monitors available funds helping to ensure that gift funds are fully utilized. Gifts in kind tend to be non-recurrent in nature. In the year ended June 30, 2006, a software bundle valued at $3.8 million was received, which accounts for the majority of the change in the 'Gifts of property and equipment, goods and services' revenue and also, the expensing of this gift as it is passed through to the university accounting for much of the change in instruction expenses.

Management's Discussion and Analysis, continued
For the Year Ended June 30, 2007

Endowments
The Foundation's endowment funds consist of both permanent endowments and funds functioning as endowments. Permanent endowments are funds received from donors with the stipulation that the principal be invested in perpetuity to produce income to be expended for the purposes specified by the donor. Funds functioning as endowment consist of amounts (restricted gifts or unrestricted funds) that have been designated by the Foundation Board of Directors or beneficiary units for long-term investment purposes. The majority of endowments are restricted for scholarships, professorships, research efforts and other important programs and activities.

The Foundation uses its endowment to support excellence in University programs and scholarships in a way that balances its need to generate a predictable stream of annual support for current needs while preserving the purchasing power of the endowment funds for the future. In fiscal year 2007, the endowment spending-rate policy provided for a distribution of 4% of the three-year moving average of the endowment market value, to the extent that market value exceeded historic gift value.

The goal of this averaging technique is to create a more predictable spending level from year to year for University departments and colleges. Additionally, it protects the long-term purchasing power of the endowment by keeping investment returns in excess of the spending rate within the portfolio. This policy is designed to offset losses from occasional market declines.

Statement of Cash Flows

The Statement of Cash Flows provides information about the Foundation's sources and uses of cash.

Factors Affecting the Future

We believe the Foundation is well-positioned to continue its mission of supporting Northern Illinois University by building the financial resources to advance excellence and enhance the university's capacity to transform lives.

The Foundation has increased its operating budget to build the development programs in order to generate more private gift support for NIU. Through our long-term investment strategy of maximizing total returns at an appropriate level of risk and managing the spending rate, endowment support policies are designed to help insulate endowed funds from market volatility. Having multiple revenue sources helps stabilize revenues to pay for the Foundation's development activities. Finally, the Foundation has accumulated unrestricted net assets to have capacity to handle unexpected situations.

Increased emphasis has been placed on best practices in all areas of governance and operations. Preservation of trust among all of the Foundation's constituencies is of paramount importance. Within the past four years, we have established a comprehensive code of conduct, an audit committee, a board self-assessment program, and a leadership succession plan. We also have enhanced board recruiting procedures, our methods of reporting to the board and our ability to protect the privacy of donor records.

The successful conclusion of the final phase of True North in June, 2010, will result in a significant jump in the size of the endowment, providing increased support for scholarships, faculty and programs throughout the University. Additionally, the campaign will help build the University's and Foundation's capacity to achieve higher and sustainable levels of private gift support.

The Foundation remains committed to building gift support by continually investing in development programs and monitoring costs and effectiveness to help provide additional resources to further the University's tradition of excellence.

State of Illinois
Northern Illinois University Foundation
Statement of Net Assets
June 30, 2007
With Comparative Totals for June 30, 2006

	June 30, 2007	June 30, 2006
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	$ 455,540	$ 4,727,117
Receivables:		
Pledges receivable, net of $130,934 allowance for pledges that may become uncollectible (Note 1B)	1,632,612	2,023,237
Due from Northern Illinois University (Note 6)	253,564	-
Accounts receivable	4,979	2,390
Prepaid expenses	100	15,000
Total current assets	2,346,795	6,767,744
Noncurrent assets:		
Pledges receivable, net of $238,304 allowance for pledges that may become uncollectible (Note 1B)	2,908,155	2,118,143
Unamortized debt issuance costs (Note 4)	216,210	-
Investments (Note 2)	62,343,683	49,158,409
Building construction in progress (Note 4)	11,079,315	832,265
Capital assets (Note 3)	4,937,552	4,259,237
Total non-current assets	81,484,915	56,368,054
TOTAL ASSETS	83,831,710	63,135,798
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	2,760,118	1,063,558
Accounts payable due to Northern Illinois University (Note 6)	-	37,732
Notes payable (Note 4)	85,208	-
Bond payable (Note 4)	1,372,500	-
Total current liabilities	4,217,826	1,101,290
Noncurrent liabilities:		
Notes payable (Note 4)	974,907	1,410,319
Bond payable (Note 4)	7,418,600	-
Contractual payments to income beneficiaries-trusts and annuities (Note 1C)	735,296	206,025
Endowment and gift accounts administered for NIU (Note 1D)	3,602,897	2,913,882
Deposits held for NIU Alumni Association (Note 7)	2,579,917	2,332,380
Total noncurrent liabilities:	15,311,617	6,862,606
TOTAL LIABILITIES	19,529,443	7,963,896
NET ASSETS (Note 1C)		
Invested in capital assets	4,937,552	4,259,237
Restricted:		
Non-expendable donor restricted	35,048,337	29,900,664
Expendable donor restricted	18,945,661	15,644,881
Unrestricted: Expendable	5,370,717	5,367,120
TOTAL NET ASSETS	$ 64,302,267	$ 55,171,902

See accompanying notes to financial statements.

State of Illinois
Northern Illinois University Foundation
Statement of Revenues, Expenses, and Changes in Net Assets
Year Ended June 30, 2007
With Comparative Totals for the Year Ended June 30, 2006

	Year Ended June 30, 2007	Year Ended June 30, 2006
REVENUES		
Operating revenues:		
Expendable gifts, for all purposes other than capital assets	$ 6,007,982	$ 4,608,666
Gifts for capital projects	1,265,175	3,857,167
Gifts of property and equipment, goods and services	1,846,543	3,983,678
Investment income	7,039,198	3,565,157
Services contract revenue from NIU (Note 6)	538,690	523,074
Special events, merchandise sales and miscellaneous income	782,928	395,455
Total operating revenues	17,480,516	16,933,197
EXPENSES		
Operating expenses:		
Expenses on behalf of NIU:		
Scholarships and fellowships	1,120,160	736,494
Instruction	3,028,885	5,152,881
Research	81,984	40,862
Public service	624,827	582,663
Academic support	105,135	42,343
Student services	1,012,966	893,572
Operations and maintenance of plant	61,799	131,799
Institutional support	175,162	329,735
	6,210,918	7,910,349
Building and land transferred to University (Note 3)	-	5,549,024
NIU Foundation fundraising	2,059,719	1,056,756
NIU Foundation operations and administration	1,340,032	1,126,830
Total operating expenses	9,610,669	15,642,959
Operating income	7,869,847	1,290,238
OTHER REVENUE		
Gifts to permanent endowments	1,260,518	1,469,727
Increase in net assets	9,130,365	2,759,965
NET ASSETS		
Net assets, beginning of year	55,171,902	52,411,937
Net assets, end of year	$ 64,302,267	$ 55,171,902

See accompanying notes to financial statements.

State of Illinois
Northern Illinois University Foundation
Statement of Cash Flows
Year Ended June 30, 2007
With Comparative Totals for the Year Ended June 30, 2006

	Year Ended June 30,	
	2007	2006
Cash flows from operating activities:		
Gifts received for operating purposes	$ 5,296,991	$ 4,662,934
Gifts received for capital projects	1,576,779	3,410,633
Payments from services contract with NIU	304,346	296,574
Foundation operations and fundraising expenses	(3,304,464)	(2,012,679)
Scholarships and other expenses on behalf of NIU	(3,918,214)	(3,800,518)
Other operating revenues	782,928	395,455
Net cash provided by operating activities	738,366	2,952,399
Cash flows from noncapital financing activities:		
Payments for construction of building for NIU	(8,780,580)	(5,393,773)
Proceeds received for building transferred to NIU	-	2,545,000
Proceeds from note payable	-	5,326,315
Principal paid on note payable	(350,204)	(4,848,176)
Proceeds from bond payable	9,206,100	-
Principal paid on bond payable	(415,000)	-
Interest paid on note and bond payable	(287,872)	-
Bond issuance costs	(238,029)	-
Gifts received for endowment purposes	1,260,518	1,469,727
Payments from (to) annuitants	529,271	(9,602)
Net cash provided by (used in) noncapital financing activities	924,204	(910,509)
Cash flows from capital and related financing activities:		
Purchase of capital assets	(724,623)	(38,385)
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	30,636,858	8,995,416
Payment of investment fees	(68,710)	(93,479)
Purchase of investments	(35,604,137)	(7,868,209)
Interest and dividend income	(173,535)	(199,163)
Net cash provided by (used in) investing activities	(5,209,524)	834,565
Net increase (decrease) in cash and cash equivalents	(4,271,577)	2,838,070
Cash and cash equivalents, beginning of year	4,727,117	1,889,047
Cash and cash equivalents, end of year	$ 455,540	$ 4,727,117

See accompanying notes to financial statements.

State of Illinois
Northern Illinois University Foundation
Statement of Cash Flows
Year Ended June 30, 2007
With Comparative Totals for the Year Ended June 30, 2006

	Year Ended June 30, 2007	Year Ended June 30, 2006
Reconciliation of net operating income to net cash provided by operating activities:		
Operating income	$ 7,869,847	$ 1,290,238
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	11,924	11,421
Interest expense	84,138	159,486
Building and land transferred to University	-	5,549,024
Capital assets gifted	34,384	
Investment income	(7,039,198)	(3,565,157)
Changes in assets and liabilities:		
Receivables	(655,540)	(394,156)
Prepaid expenses	14,900	(15,000)
Accounts payable and accrued liabilities	417,911	(83,457)
Net cash provided by operating activities	$ 738,366	$ 2,952,399
Significant Non-Cash Transactions:		
Transfer of gifts of equipment and software goods and services to NIU	$ 1,846,543	$ 3,983,678
Transfer of building and land to NIU (Note 3)	$ -	$ 5,549,024
Building construction in accounts payable	$ 1,727,844	$ 651,319
Construction period interest capitalized	$ 389,945	$ -

See accompanying notes to financial statements.

1. Significant Accounting Policies

Northern Illinois University Foundation ("Foundation") is an Illinois nonprofit corporation established to secure and manage private support to benefit Northern Illinois University ("University").

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 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 Foundation are locally administered and are neither subject to the State of Illinois appropriation process nor held in the State treasury and are not owned by the state.

The Foundation 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.

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 Foundation's financial statements for the year ended June 30, 2006 from which the summary information was derived.

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

While the NIU Foundation is a non-profit corporation, the State of Illinois requires reporting under the Governmental Accounting Standards Board (GASB) model for university related organizations. Under GASB, the Foundation is considered a special-purpose government engaged only in business-type activities. In addition, the Foundation applies all applicable Financial Accounting Standard 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 has elected not to apply FASB pronouncements issued after November 30, 1989. 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 an obligation has been incurred. All significant intra-agency transactions have been eliminated.

A. Gifts of securities are recorded at fair value on the date of the gift. In accordance with the requirements of 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. Investments in limited partnerships are reported at net asset value.

B. Gifts of land, property and equipment, and software 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.

Land, property and equipment, and software are stated at cost for purchased items.

Gift pledges are recorded in accordance with GASB Statement No. 33, *Nonexchange Transactions.* Gift income and pledges receivable are recognized when a pledge representing an unconditional promise to pay is received and all applicable eligibility requirements, including time requirements, have been met. Current pledges are reported as those receivable within one year. Noncurrent pledges are those balances due beyond one year. Pledges for general operations or typically, capital purposes, are recognized when pledged and all conditions have been met. Unlike pledges for operations or capital purposes, endowment pledges are recognized when the gift is received and the endowment is established.

Revenues are classified as operating revenues if they have the characteristics of exchange transactions, such as contract revenue with the University. Typically, nonoperating revenues include revenues that have the characteristics of nonexchange 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, *Basic Financial Statements – and Management's Discussion and Analysis-for State and Local Governments* which would include gifts and investment income. Because securing gifts and investing funds constitute the Foundation's primary operations, gift revenues, other than to endowments, and investment income have been classified as operating revenues.

C. Net assets of the Foundation are classified as follows:

Invested in Capital Assets - represents the Foundation total investment in capital assets. There is no outstanding debt related to these assets at this time.

Restricted net assets-expendable - represents the resources for which the Foundation is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties. This includes funds that are restricted as to use, that are being treated as endowment, but that do not have an external requirement to be held as non-expendable. The Foundation first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

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

The net appreciation on investments of donor-restricted endowments available for authorization for expenditure was $12,697,533 at June 30, 2007. At June 30, 2007, the fair value of the assets of all donor-restricted endowments exceeded the original principal amount of those funds. These amounts are included in the net assets section of the Statement of Net Assets as restricted for nonexpendable purposes.

As beneficiary of three charitable remainder trust funds, the Foundation reports the assets within the investments as *restricted net assets-non-expendable.* The investment is measured at fair value of $1,236,427 as of June 30, 2007, less an actuarial liability due to the life income beneficiaries of the trust amounting to $494,268. The net amount represents the present value of the ultimate remainder interest that will eventually fund an endowed scholarship fund.

In December 1999, the Foundation established a charitable gift annuity program. Under the terms of an annuity agreement, a donor transfers ownership of assets to the Foundation in exchange for a contractual periodic income payment that continues for the lifetime of the designated income recipient or recipients. At the death of the income recipients, the remaining assets are used for the charitable purpose indicated by the donor. The actuarial present value of payments required by these contracts was $241,028 at June 30, 2007.

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

D. The Foundation administers certain gifts and bequests for which the legal gifting document named the University directly. The Foundation administers the original amount of the gifts and bequests, and related net income which amounted to $3,602,897. This amount is shown as a liability to the University at June 30, 2007.

E. The preparation of financial statements 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 expenses during the reporting period. Actual results could differ from those estimates.

2. Cash and Cash Equivalents and Investments

The Foundation considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2007 cash equivalents consisted primarily of demand deposit bank accounts and money market and similar funds.

Although the NIU Foundation is a separate independent non-profit corporation, and not a government entity, these statements are issued under the GASB reporting format.

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 policy indicates the intended use for funds shall determine how they will be invested. There are two primary investment strategies that are 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 expense the net appreciation, both realized and unrealized, of the investments of endowment funds.

The Finance Committee adopted a spending policy for fiscal year 2007 of four percent of the three year moving average of the funds' market value of the endowment investments of the three preceding years to be expendable.

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.

Details of investment balances at June 30, 2007 are as follows:

	Cost	Market
Mutual funds	$ 42,768,890	$ 49,382,576
Stock	1,600,944	2,218,730
Limited partnerships	4,665,357	5,753,947
Guaranteed Investment Contract & Certificates of Deposit	3,653,008	3,653,008
Charitable remainder trusts	1,239,874	1,236,427
	$ 53,928,073	62,244,688
Cash surrender value of life insurance		98,995
		$ 62,343,683

In fulfilling its responsibilities, the Board has contracted with an independent investment advisory firm as well as 16 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.

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, 2007 were distributed among the following currencies:

United States Dollar Equivalent		Currency
$ 55,281,433	88.2%	United States Dollar
2,637,269	4.2	Euro Current Unit
733,851	1.2	Japanese Yen
889,918	1.4	British Pound
443,072	0.7	Swiss Franc
2,714,685	4.3%	Other currencies, individually less than 0.5% of deposits and investments
$62,700,228	100.0%	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:

Credit Risk Quality Rating	Fixed Income Mutual Fund Balance
AA	$5,177,466
AA^{+}	8,509,362

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
3.0	$ 4,526,686
3.9	5,177,466
5.1	3,115,696
7.2	866,980
Total	$ 13,686,828

Commitments
The Foundation has four limited partnership agreements which are not fully funded. Of the $4,917,874 committed, $2,805,575 was not funded at June 30, 2007.

3. Capital Assets

The Foundation's capital assets are as follows:

	Balance July 1, 2006	Additions	Retirements	Balance June 30, 2007
Land	$ 3,829,350	$ -	$ -	$ 3,829,350
Building	146,802	-	-	146,802
Furniture and equipment	108,752	616,784	(34,384)	691,152
Collections	194,427	107,839	-	302,266
	4,279,331	724,623	(34,384)	4,969,570
Less accumulated depreciation for furniture and equipment	(20,094)	(11,924)	-	(32,018)
Capital Assets, net	$ 4,259,237	$ 712,699	$ (34,384)	$ 4,937,552

At June 30, 2007, furniture and equipment is depreciated on the straight-line basis and depreciation expense amounted to $11,924. The estimated useful lives range from 5-10 years. The Foundation does not have a formal capitalization policy. Equipment in the amount of $611,753 was purchased prior to June 30, 2007, but was not placed in service until August 1, 2007. The building and collections are held by the Foundation for public exhibition, education or research rather than financial gain. Collections include musical instruments and works of art. In accordance with GASB Statement No. 34, depreciation for capitalized works of arts, historical treasures and similar items is not required.

The Foundation is exposed to various risks of loss related to torts, theft of, damages to, and destruction of assets. The Foundation purchases commercial insurance for these risks of loss, except for certain collections which are not insured and certain leased properties which are insured by the lessees. During the year ended June 30, 2007, there were no significant reductions in coverage. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

4. Building Projects

Jeffrey and Kimberly Yordon Center

Working closely with the University, the Foundation has raised funds and is building the Jeffrey & Kimberly Yordon Center. Construction of the approximately 60,000 square foot facility began in July 2006 and the athletes began training in it in August 2007. At June 30, 2007, construction in progress totaling $11,079,315 including capitalized interest of $389,945 represented the work completed to date on the facility with a $1,503,567 remaining commitment to complete the project.

The building houses state of the art strength and conditioning facilities, academic and tutoring support, coaches' offices and locker rooms, and medical treatment and rehabilitation services. It is located in the north end zone of the football stadium.

Financing has allowed the building to be built while donors are fulfilling their gift pledges. In August 2006, tax-exempt bonds with a par of $9,206,100 were issued at an effective interest rate of 4.66% for a ten year period. These bonds are secured by an assignment of a lease for the facility and are a general obligation of the Foundation. Covenants require a minimum of $3,000,000 of unrestricted net assets. Interest amounted to $368,126 for the year ended June 30, 2007. Bond issuance costs of $238,029 were incurred to secure the bond financing. These costs are amortized over ten years in conjunction with the life of the bond using the straight line method. Fiscal year 2007 amortization, which is included with interest expense, was $21,819.

A ten-year lease with the University provides for the 19 semi-annual lease installments at a rate of $64,123 per month and calls for the University to be responsible for insurance and maintenance of the building. Future lease payments due from the University are summarized below:

Year ending June 30,	
2008	$ 769,473
2009	769,473
2010	769,473
2011	769,473
2012	769,473
Thereafter	3,462,628
Total	$7,309,993

Following are the changes in the bonds payable for the year ended June 30, 2007:

Balance, July 1, 2006	$ -
Bonds issued	9,206,100
Payments	415,000
Balance, June 30, 2007	$8,791,100

Total minimum cumulative payment schedule for the bonds, including principal and interest, is as follows:

Year ending June 30,	Total	Principal	Interest
2008	$ 1,764,917	$ 1,372,500	$ 392,417
2009	1,549,240	1,216,500	332,740
2010	1,424,200	1,149,500	274,700
2011	1,158,564	937,500	221,064
2012	943,986	764,800	179,186
2013-2017	3,732,418	3,350,300	382,118
	$10,573,325	$ 8,791,100	$1,782,225

Following is a summary of the results for the Yordon Center campaign through June 30, 2007:

Pledges Outstanding June 30, 2007:

Recognized for financial reporting purposes:	
Signed pledge agreements with pledge payment schedule	$2,625,836
Not Recognized for financial reporting purposes:	
Verbal commitments, the majority of which have payments or other indications of donor intention	2,255,596
Total pledges outstanding at June 30, 2007	4,881,432
Cash gifts and pledge payments received to date	4,491,794
Total raised	$9,373,226

Barsema Alumni & Visitors Center

Working closely with the University, the Foundation has successfully raised funds and constructed the approximately 37,000 square foot Barsema Alumni & Visitors Center. The building opened for use in October 2005.

In March 2006, the foundation transferred the building which cost $8,094,024 to the University under the terms of an agreement calling for a payment from the University of $2,545,000, resulting in the Foundation recognizing a gift to the University of $5,549,024. The transfer amount was established through an agreement with the University with the stated intention of providing no profit to the Foundation above the amount of donor gifts to the project less actual costs incurred. The agreement includes a provision for adjustment to actual costs, when known, including cost of financing not determinable at the time of the transfer.

In addition to the building, during the year ended June 30, 2005, the foundation gifted a parcel valued at $350,000 to the university to complete the land needed for the construction for the facility.

Financing allowed the building to be built while donors are fulfilling their gift pledges. At June 30, 2007 the note payable outstanding amounted to $1,060,115. The note calls for interest at prime rate less 0.75% (7.5% at June 30, 2007) and is due January 2012. Payments on donor pledges will be used to retire the debt and are pledged to the bank as security for the note. Total interest incurred was $84,138 for the year ended June 30, 2007.

Following are the changes in the note payable balance for the year ended June 30, 2007:

Balance July 1, 2006	$ 1,410,319
Payments	350,204
Balance, June 30, 2007	$ 1,060,115

Total minimum cumulative payment schedule including principal and interest at 7.5%, is as follows:

Year ending June 30,	Total	Principal	Interest
2008	$ 132,692	$ 85,208	$ 47,484
2009	792,297	717,960	74,337
2010	134,074	114,535	19,539
2011	76,790	65,961	10,829
2012	82,265	76,451	5,814
	$1,218,118	$1,060,115	$158,003

Following is a summary of the results of the campaign for the Barsema Alumni & Visitors Center Campaign:

Pledges Outstanding June 30, 2007:

Recognized for financial reporting purposes:	
Signed pledge agreements with pledge payment schedule,	$1,142,919
Not Recognized for financial reporting purposes:	
Signed bequest	500,000
Verbal commitments, the majority of which have payments or other indications of donor intention	168,342
Total pledges outstanding at June 30, 2007	1,811,261
Northern Illinois University Alumni Association	500,000
Cash gifts and pledge payments received to date	4,484,926
Total raised	$6,796,187

5. Rental Income

The Foundation leases three properties to the University. The properties are used for biological research observation, as a site for the campus's radio station transmitter tower and a multi-use building and early school house museum. Annual rentals are $5,660 with the University being responsible for all operating expenses and maintenance. The leases were renewed through June 30, 2008. Rental income is included in the miscellaneous income in the Statement of Revenues, Expenses and Changes in Net Assets.

6. Northern Illinois University Agreement

Under the terms of the contract, the Foundation aids and assists the University in achieving its educational, research and service goals by securing and administering gifts made to the University for scholarships, loans, grants, and other supporting programs. In turn, the University will furnish certain services necessary to the operation of the Foundation.

The cost to the Foundation for direct salary support provided by Northern Illinois University was $525,668 for the year ended June 30, 2007. In addition to salaries, the Foundation conducts development programs and activities. Income for services rendered to the University was $538,690 for the year ended June 30, 2007. The contract may be canceled upon ninety days written notice by either party.

7. Northern Illinois University Alumni Association (Association) Agreement

In February 2004, the Foundation entered into an agreement with the NIU Alumni Association calling for the Foundation to provide investment and funds administration services for the NIU Alumni Association. Funds of the Alumni Association are disclosed as the Deposits held for the Northern Illinois University Alumni Association on the face of the financial statements. A fee of $55,000 was paid to the Foundation and is included in miscellaneous income in the Statement of Revenues, Expenses and Changes in Net Assets.

8. Related Party Transactions

Members of the Board of Directors of the Foundation and Board of Trustees of the University enthusiastically support the Foundation's efforts through their valuable service, generous gift support and other means. Board members provided a total of $1,629,917 of gift support for the year ended June 30, 2007 and are responsible for $1,682,597 of the outstanding pledge balance.

In addition to direct support, Board members have provided other valuable services and support to the Foundation. Based upon a blind competitive process, it became evident that board member's organizations, working together provided the most attractive financing package for the Barsema Alumni & Visitors Center of a broad group of alternatives evaluated. A second blind competitive process managed by an external advisor for the Yordon Center financing identified the most attractive package offered by a board member's organization. Additionally, routine banking services are provided by one of these banks and the cost has been compared favorably to market rates.

9. Retirement Plan

Through the contract with the University, the Foundation contributes to the State Universities Retirement System of Illinois (SURS), a cost sharing multiple employer defined benefit pension plan with a special funding situation whereby the State of Illinois makes substantially all actuarially determined required contributions on behalf of the participating employers. SURS was established July 21, 1941 to provide retirement annuities and other benefits for staff members and employees of state universities, certain affiliated organizations and certain other state educational and scientific agencies and for survivors, dependents, and other beneficiaries of such employees. SURS is governed by Section 5/15, Chapter 40 of the *Illinois Compiled Statutes*. SURS issues a publicly available financial report that includes financial statements and required supplementary information.

Plan members are required to contribute 8.0% of their annual covered salary and substantially all employer contributions are made by the State of Illinois on behalf of the individual employers at an actuarially determined rate. The current rate is 10.61% of annual covered payroll. The contribution requirement of plan members and employers are established and may be amended by the Illinois General Assembly. The employer contributions to SURS for the year ending June 30, 2007 was $33,074 equal to the required contribution for the year.

Payments are included in the amount shown as operations and administration expenses in the Statement of Revenues, Expenses and Changes in Net Assets.