STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY
FOUNDATION

FINANCIAL AUDIT
FOR THE 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 Foundation

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State of Illinois
Northern Illinois University Foundation

Agency Officials

Robert L. Bovinette	Chairman
Christina A. Valaitis	Vice Chairman
Jeffrey A. Eckmann	Treasurer (July 1, 2007 through November 8, 2007)
William E. Taylor	Treasurer (November 9, 2007 through June 30, 2008)
Mallory M. Simpson	President and Secretary
Jean M. 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 their 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, 2008. 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, 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 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.

As discussed more fully in Note 11, the Foundation experienced a significant decline in the fair market value of investments subsequent to June 30, 2008. The information presented in Note 11 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 31, 2009 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 13 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 31, 2009

State of Illinois

Northern Illinois University Foundation

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

Introduction

The following Management's Discussion and Analysis (MD&A) provides an overview of the financial position and activities of the Northern Illinois University Foundation (Foundation) for the year ended June 30, 2008. 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 not-for-profit corporation. The Foundation raises and receives private gifts, administers funds, and manages assets that promote the interests and welfare 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.

Financial Highlights

General Comments

Total gifts increased by $5.2 million to $15,585,711 during the year ended June 30, 2008. Increased fundraising activity and a large gift in kind were both factors leading to the increase.

Investment markets were challenging during the year leading to a net investment loss of $1.8 million for the year. The Foundation's investment policy is designed to maximize total return over the long term while maintaining an appropriate level of risk. In 2008, investment return for the endowment portfolio was (6.1%) compared to 16.9% in 2007. The intermediate portfolio returned 2.3% in 2008 compared to 9.4% in 2007. Combined investment portfolios decreased a total of $6.1 million to $56.2 million.

Summary of Investment Holdings as of June 30, 2008:

Endowment Fund

30.4%	Large Cap US Equity
28.9	Hedged Strategies
15.2	Fixed Income
13.0	International Equity
5.2	Small Cap US Equity
7.3	Private Equity
100.0%	
-6.1%	Total Return Net of Fees for year ended June 30, 2008
-7.4%	Balanced Index

Intermediate Portfolio

50.4%	Fixed Income
33.9	Hedged Strategies
9.2	Large Cap US Equity
4.9	International Equity
1.6	Small Cap US Equity
100.0%	
2.3%	Total Return Net of Fees for year ended June 30, 2008
3.8%	Balanced Index

The final phase of the Foundation's university-wide campaign was launched publicly in May 2007 and continues to be at the height of fundraising activity. 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 in 2007 comprised the majority of the decreased fundraising costs in comparison 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:	2008	2007
Current assets	$ 3,364,892	$ 2,346,795
Non-current assets	59,735,472	76,547,363
Capital assets	16,995,291	4,937,552
Total assets	80,095,655	83,831,710
Liabilities:		
Current liabilities	1,545,585	4,217,826
Non-current liabilities	12,643,406	15,311,617
Total liabilities	14,188,991	19,529,443
Total net assets	$ 65,906,664	$ 64,302,267

Current Assets
Current assets increased significantly in 2008 primarily as a result of holding an increased cash position. Each year the expendable allocation from endowments is funded and as the new fiscal year approached the anticipated need was held in a cash position, an active decision of the finance committee.

The Foundation and the University engage in various 'intercompany' transactions throughout the year. These transactions create funds due to and from the University. At June 30, 2008, there was a net receivable due from the University of $5 whereas at June 30, 2007, the amount was $253,564.

Noncurrent Assets
A major undertaking for the Foundation has been the fundraising and construction of the Jeffrey and Kimberly Yordon Center, which supports 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 $9,375,134 raised through June 30, 2008. Now completed, the building is reported as a capital asset valued at $11,724,125. 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 over $738,000 primarily due to the Yordon Center fundraising campaign. (Note: GASB revenue recognition rules call for pledges to endowments to be recognized at the time payments are received).

Current Liabilities
Current liabilities consist primarily of payments due on trade accounts payable, and the current portion of long term capital project debt. The significant decrease in 2008 resulted from the conclusion of the construction project, payments due on which accounted for $650,000 at June 30, 2007.

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.

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, 2008 and 2007 are summarized as follows:

Summary of Net Assets:	2008	2007
Invested in capital assets	$10,385,102	$ 7,225,767
Restricted:		
Non-expendable donor restricted	36,751,976	35,048,337
Expendable donor restricted	13,921,368	16,657,446
Unrestricted	4,848,218	5,370,717
Total Net Assets	$65,906,664	$64,302,267

The major component invested in capital assets is land and the new Yordon Center.

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.

State of Illinois

Northern Illinois University Foundation

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

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 2008 activity resulted in adding $1.6 million to net assets.

A summarized comparison of this statement follows:

	2008	2007
Operating revenues	$13,111,418	$17,480,516
Operating expenses	14,200,211	9,610,669
Operating (loss) income	(1,088,793)	7,869,847
Additions to permanent endowment	2,693,190	1,260,518
Increase in net assets	1,604,397	9,130,365
Net assets-beginning of year	64,302,267	55,171,902
Net assets-end of year	$65,906,664	$64,302,267

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	$9,483,425	$ 248,872	$518,382	$ 892,389	$ 5,130,592	$ 2,693,190
Gifts in kind	4,707,229	50	-	-	4,707,179	-
New pledges signed	3,264,270	-	-	2,233,020	1,031,250	* -
Payments on pledges	(1,869,214)	-	(431,936)	(1,055,278)	(382,000)	* -
Total Gifts	$15,585,710	$ 248,922	$ 86,446	$ 2,070,131	$ 10,487,021	$ 2,693,190

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

Gift Detail by Type:	2008	2007	Increase (Decrease)
Expendable Gifts	$6,028,715	$ 6,007,982	$ 20,733
Gifts for Capital Projects	2,156,577	1,265,175	891,402
Gifts of property, equipment, goods and services	4,707,229	1,846,543	2,860,686
Gifts to permanent endowments (non-operating revenues)	2,693,190	1,260,518	1,432,672
Total Gifts	$15,585,711	$10,380,218	$5,205,493

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, 2008, the investment portfolio earned a negative investment return of $1.8 million.

Operating Expenses
Total operating expenses increased $4.6 million from 2007 to 2008, primarily due to a $2.8 million increase in gifts in kind, which are expensed as they are passed through to the university and also purchases of athletic equipment for the Yordon Center. Fundraising expenses were substantially higher in 2007 than in 2008 due to the public launch of the final phase of True North, NIU's first comprehensive campaign, costs which did not recur in 2008.

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.

State of Illinois

Northern Illinois University Foundation

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

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 2008, the endowment spending-rate policy provided for a distribution of 4% of the three-year moving average of the endowment fair value, to the extent that fair 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 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, 2008
With Comparative Totals for June 30, 2007

	June 30, 2008	June 30, 2007
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	$ 1,427,266	$ 455,540
Receivables:		
Pledges receivable, net of $197,952 allowance for pledges that may become uncollectible (Note 1B)	1,899,377	1,632,612
Due from Northern Illinois University (Note 6)	5	253,564
Accounts receivable	4,260	4,979
Prepaid expenses	33,984	100
Total current assets	3,364,892	2,346,795
Noncurrent assets:		
Pledges receivable, net of $344,243 allowance for pledges that may become uncollectible (Note 1B)	3,379,489	2,908,155
Unamortized debt issuance costs (Note 4)	195,934	216,210
Investments (Note 2)	56,160,049	62,343,683
Building construction in progress (Note 4)	-	11,079,315
Capital assets (Note 3)	16,995,291	4,937,552
Total non-current assets	76,730,763	81,484,915
TOTAL ASSETS	80,095,655	83,831,710
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	741,731	2,760,118
Notes payable (Note 4)	395,765	85,208
Bond payable (Note 4)	408,089	1,372,500
Total current liabilities	1,545,585	4,217,826
Noncurrent liabilities:		
Notes payable (Note 4)	230,087	974,907
Bond payable (Note 4)	6,202,100	7,418,600
Contractual payments to income beneficiaries-trusts and annuities (Note 1C)	755,101	735,296
Endowment and gift accounts administered for NIU (Note 1D)	3,232,221	3,602,897
Deposits held for NIU Alumni Association (Note 7)	2,223,897	2,579,917
Total noncurrent liabilities:	12,643,406	15,311,617
TOTAL LIABILITIES	14,188,991	19,529,443
NET ASSETS (Note 1C)		
Invested in capital assets	10,385,102	7,225,767
Restricted:		
Non-expendable donor restricted	36,751,976	35,048,337
Expendable donor restricted	13,921,368	16,657,446
Unrestricted	4,848,218	5,370,717
TOTAL NET ASSETS	$ 65,906,664	$ 64,302,267

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, 2008
With Comparative Totals for the Year Ended June 30, 2007

	Year Ended June 30,	
	2008	**2007**
REVENUES		
Operating revenues:		
Expendable gifts, for all purposes other than capital assets	$ 6,028,715	$ 6,007,982
Gifts for capital projects	2,156,577	1,265,175
Gifts of property and equipment, goods and services	4,707,229	1,846,543
Investment income (loss)	(1,846,404)	7,039,198
Rental Income (Note 5)	966,846	5,660
Services contract revenue from NIU (Note 6)	538,690	538,690
Special events, merchandise sales and miscellaneous income	559,765	777,268
Total operating revenues	13,111,418	17,480,516
EXPENSES		
Operating expenses:		
Expenses on behalf of NIU:		
Scholarships and fellowships	1,060,259	1,120,160
Instruction	6,553,921	3,028,885
Research	54,616	81,984
Public service	943,512	624,827
Academic support	151,872	105,135
Student services	1,147,106	1,012,966
Operations and maintenance of plant	1,151,172	61,799
Institutional support	278,958	175,162
	11,341,416	6,210,918
NIU Foundation fundraising	1,468,481	2,059,719
NIU Foundation operations and administration	1,390,314	1,340,032
Total operating expenses	14,200,211	9,610,669
Operating income (loss)	(1,088,793)	7,869,847
OTHER REVENUE		
Gifts to permanent endowments	2,693,190	1,260,518
Increase in net assets	1,604,397	9,130,365
NET ASSETS		
Net assets, beginning of year	64,302,267	55,171,902
Net assets, end of year	$ 65,906,664	$ 64,302,267

See accompanying notes to financial statements.

State of Illinois
Northern Illinois University Foundation
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:		
Gifts received for operating purposes	$ 5,863,465	$ 5,296,991
Gifts received for capital projects	1,410,770	1,576,779
Payments from services contract with NIU	304,346	304,346
Rental Income	263,075	-
Foundation operations and fundraising expenses	(2,445,042)	(3,304,464)
Scholarships and other expenses on behalf of NIU	(5,313,751)	(4,136,908)
Other operating revenues	559,765	1,082,928
Net cash provided by operating activities	642,628	819,672
Cash flows from noncapital financing activities:		
Principal paid on note payable	(434,263)	(350,204)
Interest paid on note payable	(52,548)	(73,370)
Gifts received for endowment purposes	2,693,190	1,260,518
Payments from (to) annuitants	(37,960)	529,271
Net cash provided by noncapital financing activities	2,168,419	1,366,215
Cash flows from capital and related financing activities:		
Payments for construction of building for NIU	(2,374,131)	(8,780,580)
Purchase of capital assets	(747,367)	(724,623)
Proceeds from bond payable	-	9,206,100
Principal paid on bond payable	(2,180,911)	(415,000)
Bond issuance costs	-	(238,029)
Interest paid on bond payable	(388,772)	(214,502)
Net cash used in capital and related financing activities	(5,691,181)	(1,166,634)
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	25,746,228	30,747,822
Payment of investment fees	(18,781)	(68,710)
Purchase of investments	(21,967,931)	(36,092,760)
Interest and dividend income	92,344	122,818
Net cash provided by (used in) investing activities	3,851,860	(5,290,830)
Net increase (decrease) in cash and cash equivalents	971,726	(4,271,577)
Cash and cash equivalents, beginning of year	455,540	4,727,117
Cash and cash equivalents, end of year	$ 1,427,266	$ 455,540

See accompanying notes to financial statements.

State of Illinois
Northern Illinois University Foundation
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**
Reconciliation of net operating income to net cash provided by (used in) operating activities:		
Operating income (loss)	$ (1,088,793)	$ 7,869,847
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	413,753	11,924
Interest expense	429,083	84,138
Capital assets gifted	-	34,384
Gifts and expenses for gift accounts administered for NIU	(202,424)	74,411
Life insurance expense	18,862	6,895
Investment income	1,846,404	(7,039,198)
Changes in assets and liabilities:		
Receivables	(483,821)	(655,540)
Prepaid expenses	(33,884)	14,900
Accounts payable and accrued liabilities	(256,552)	417,911
Net cash provided by operating activities	$ 642,628	$ 819,672
Significant Non-Cash Transactions:		
Transfer of gifts of equipment and software goods and services to NIU	$ 4,707,229	$ 1,846,543
Building construction in accounts payable	$ -	$ 1,727,844
Construction period interest capitalized	$ 26,525	$ 389,945

See accompanying notes to financial statements.

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

1. Significant Accounting Policies

Northern Illinois University Foundation ("Foundation") is an Illinois not for profit 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, 2007 from which the summary information was derived. Certain items on the cash flows statement included as prior year comparative information have been reclassified to conform to the June 30, 2008 presentation.

While the NIU Foundation is a not for profit corporation, the State of Illinois requires reporting under the Governmental Accounting Standards Board (GASB) model for university related organizations. In order to report a not for profit corporation 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.

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 which is considered fair value.

B. Gifts of land, property and equipment, and software are stated at fair values as of the date of the gift.

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 net of accumulated depreciation and reduced by the outstanding balances of bonds attributable to the construction of those assets.

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 $8,314,782 at June 30, 2008. At June 30, 2008, 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 $1,097,940 as of June 30, 2008, less an actuarial liability due to the life income beneficiaries of the trust amounting to $434,785. 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 $320,316 at June 30, 2008.

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 $3,232,221. This amount is shown as a liability to the University at June 30, 2008.

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.

F. Certain items in the fiscal year 2007 comparative statement of revenues, expenses, and changes in net assets and statement of cash flows have been reclassified to conform with the fiscal year 2008 presentation.

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, 2008 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 2008 of four percent of the three year moving average of the funds' fair 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, 2008 are as follows:

	Cost	Market
Mutual funds	$45,132,709	$45,850,643
Stock	1,172,290	1,320,646
Limited partnerships	6,077,611	7,810,687
Charitable remainder trusts	1,224,203	1,097,940
	$53,606,813	56,079,916
Cash surrender value of life insurance		80,133
Total		$56,160,049

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 outstanding voting shares of the Company.

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 Equivalent		Currency
$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
2,051,483	3.5	Other currencies, individually less than .5% of deposits and investments
$57,587,315	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	$ 7,662,689
AA+	5,930,637
Total	$ 13,593,326

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	5,930,637
Total	$ 13,593,326

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.

3. Capital Assets

The Foundation's capital assets are as follows:

	Balance June 30, 2007	Additions	Transfers	Retirements	Balance June 30, 2008
Capital assets not being depreciated:					
Land	$ 3,829,350	$ 0	$ 0	$ 0	$ 3,829,350
Construction in progress	11,079,315	644,810	(11,724,125)	0	0
Collections	302,266	26,627	0	0	328,893
Total capital assets not being depreciated	15,210,931	671,437	(11,724,125)	0	4,158,243
Capital assets being depreciated:					
Building	146,802	0	11,724,125	0	11,870,927
Furniture and equipment	691,152	720,740	0	0	1,411,892
Total capital assets being depreciated	837,954	720,740	11,724,125	0	13,282,819
Less accumulated depreciation	(32,018)	(413,753)	0	0	(445,771)
Capital assets being depreciated, net	805,936	306,987	11,724,125	0	12,837,048
Capital Assets, net	$16,016,867	$ 978,424	$ 0	$ 0	$ 16,995,291

The Jeffrey & Kimberly Yordon Center (see below in Note 4) was capitalized in 2008 and based on a straight line depreciation method, $268,678 of depreciation expense was recorded. Athletic training equipment for the new Yordon Center in the amount of $720,740 was purchased in fiscal year 2008, and in addition to equipment purchased in 2007, was placed in service on August 1, 2007. Depreciation for this equipment, as well as furniture and equipment placed in service in prior years amounted to $145,075 using a straight line method. The Foundation does not have a formal capitalization policy. The other 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, 2008, 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 raised funds and built 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, 2008, the building cost totals $11,724,125 including capitalized interest of $418,520, and the accumulated depreciation totals $268,678.

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 $360,555 for the year ended June 30, 2008. 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 2008 amortization, which is included with interest expense, was $23,803.

A ten-year lease with the University provides for the 19 semi-annual lease installments at actual costs incurred 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,	
2009	$699,240
2010	699,200
2011	698,564
2012	698,986
2013	698,996
Thereafter	2,795,422
Total	$6,290,408

Following are the changes in the bonds payable for the year ended June 30, 2008:

Balance, July 1, 2007	$8,791,100
Bonds issued	0
Payments	2,180,911
Balance, June 30, 2008	$6,610,189

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

Year ending June 30,	Total	Principal	Interest
2009	$ 729,832	$ 408,089	$ 321,743
2010	1,424,200	1,149,500	274,700
2011	1,158,563	937,500	221,063
2012	943,986	764,800	179,186
2013	936,996	799,500	137,496
2014-2017	2,795,423	2,550,800	244,623
	$ 7,989,000	$ 6,610,189	$ 1,378,811

Following is a summary of the results for the Yordon Center campaign through June 30, 2008:

Pledges Outstanding June 30, 2008:

Recognized for financial reporting purposes:	
Signed pledge agreements with pledge payment schedule	$3,803,577
Not Recognized for financial reporting purposes:	
Verbal commitments, the majority of which have payments or other indications of donor intention	190,874
Total pledges outstanding at June 30, 2008	3,994,451
Cash gifts and pledge payments received to date	5,380,683
Total raised	$9,375,134

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, 2008 the note payable outstanding amounted to $625,852. The note calls for interest at prime rate less 0.75% (4.25% at June 30, 2008) 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 $68,528 for the year ended June 30, 2008.

Following are the changes in the note payable balance for the year ended June 30, 2008:

Balance July 1, 2007	$ 1,060,115
Payments	434,263
Balance, June 30, 2008	$ 625,852

Total minimum cumulative payment schedule including principal and interest at 4.25%, is as follows:

Year ending June 30,	Total	Principal	Interest
2009	$ 411,650	$395,765	$ 15,885
2010	134,074	124,159	9,915
2011	76,790	72,226	4,564
2012	35,154	33,702	1,452
	$657,668	$625,852	$31,816

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

Pledges Outstanding June 30, 2008:	
Recognized for financial reporting purposes:	
Signed pledge agreements with pledge payment schedule	$ 710,984
Not Recognized for financial reporting purposes:	
Signed bequest	500,000
Verbal commitments, the majority of which have payments or other indications of donor intention	108,198
Total pledges outstanding at June 30, 2008	1,319,182
Northern Illinois University Alumni Association	500,000
Cash gifts and pledge payments received to date	5,071,308
Total raised	$6,890,490

5. Rental Income

The Foundation leases four properties to the University. The properties are used for biological research observation, as a site for the campus's radio station transmitter tower, a multi-use building and early school house museum and the new Jeffrey & Kimberly Yordon Center (mentioned above in Note 4). Fiscal Year 2008 rental income of $966,846 is reported in the Revenues section of the Statement of Revenues, Expenses and Changes in Net Assets. The University is responsible for all operating expenses and maintenance. The Yordon Center lease extends through August 2016 and each of the other leases were renewed through June 30, 2009.

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 $403,872 for the year ended June 30, 2008. 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, 2008. 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 $1,289,966 of gift support for the year ended June 30, 2008 and are responsible for $2,163,352 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. The financing packages the Foundation entered into with the Board members' organizations are more fully described in preceding Note 4 to the basic financial statements. Additionally, routine banking services are provided by one of these banks and the cost has been compared favorably to market rates. The amount of fees associated with the routine banking services is not readily determinable.

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 considered a component unit of the State of Illinois' financial reporting entity and is included in the State's financial reports as a pension trust fund. SURS is governed by Section 5/15, Chapter 40 of the *Illinois Compiled Statutes*. SURS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by accessing the website at www.surs.org or calling 1-800-275-7877.

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 rates are 12.88%, 10.61%, and 10.18% of annual covered payroll for the years ended June 30, 2008, 2007, and 2006, respectively. 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 years ending June 30, 2008, 2007, and 2006 were $36,201, $33,074, and $31,181, respectively, equal to the required contribution for the years.

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

10. Post-employment Benefits

The State provides health, dental, vision, and life insurance benefits for retirees and their dependents in a program administered by the Department of Healthcare and Family Services along with the Department of Central Management Services. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State sponsored pension plans. Health, dental, and vision benefits include basic benefits for annuitants and dependents under the State's self-insurance plan and insurance contracts currently in force. Annuitants may be required to contribute towards health, dental, and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants who retired prior to January 1, 1998 and who are vested in the State Employee's Retirement System do not contribute towards health, dental, and vision benefits. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced five percent for each year of credited service with the State allowing those annuitants with twenty or more years of credited service to not have to contribute towards health, dental, and vision benefits. Annuitants also receive life insurance coverage equal to the annual salary of the last day of employment until age 60, at which time the benefit becomes $5,000.

The total cost of the State's portion of health, dental, vision, and life insurance benefits of all members, including post-employment health, dental, vision, and life insurance benefits, is recognized as an expenditure by the State in the Illinois Comprehensive Annual Financial Report. The State finances the costs on a pay-as-you-go basis. The total costs incurred for health, dental, vision, and life insurance benefits are not separated by department or component unit for annuitants and their dependents, nor active employees and their dependents.

A summary of post-employment benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the financial statements of the Department of Healthcare and Family Services. A copy of the financial statements of the Department of Healthcare and Family Services may be obtained by writing to the Department of Healthcare and Family Services, 201 South Grand Avenue, Springfield, Illinois, 62763-3838.

11. 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.