

# **Northern Illinois University Foundation**

Independent Auditor's Report and Financial Statements

June 30, 2019 and 2018



**Northern Illinois University Foundation**  
**June 30, 2019 and 2018**

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## Independent Auditor's Report

Board of Directors  
Northern Illinois University Foundation  
DeKalb, Illinois

### Report on the Financial Statements

We have audited the accompanying financial statements of Northern Illinois University Foundation, which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparations and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As described in Note 17 to the financial statements, in 2019, the Foundation adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

**BKD, LLP**

Oakbrook Terrace, Illinois  
October 24, 2019

**Northern Illinois University Foundation**  
**Statements of Financial Position**  
**June 30, 2019 and 2018**

**Assets**

	<b>2019</b>	<b>2018</b>
Cash and cash equivalents	\$ 2,699,932	\$ 4,085,648
Prepaid expenses	134,391	206,262
Promises to give, net	1,656,531	1,483,485
Endowments - promises to give, net	1,219,402	816,958
Investments	110,323,514	106,179,497
Student managed portfolio	603,471	546,413
Funds held in trust by others	2,007,924	2,172,815
Property and equipment, net	23,152,937	23,773,009
Total assets	\$ 141,798,102	\$ 139,264,087

**Liabilities and Net Assets**

**Liabilities**

Accounts payable and accrued liabilities	\$ 516,139	\$ 405,989
Due to NIU	941,822	678,308
Bonds payable	758,540	1,098,423
Remainder interest due to others	586,000	798,995
Agency		
Accounts administered for NIU Alumni Association	2,836,207	3,162,603
Endowment and gift accounts administered for NIU	8,100,555	7,961,075
Total liabilities	13,739,263	14,105,393

**Net Assets**

Without donor restrictions		
Undesignated	10,064,650	8,481,480
Designated by the Board for grants	36,184	56,760
Designated by the Board for endowment	699,561	747,535
Invested in property and equipment, net of related debt	22,394,397	22,674,586
	33,194,792	31,960,361
With donor restrictions		
Perpetual in nature	54,808,924	52,396,791
Purpose restrictions	40,055,123	40,801,542
	94,864,047	93,198,333
Total net assets	128,058,839	125,158,694
Total liabilities and net assets	\$ 141,798,102	\$ 139,264,087

**Northern Illinois University Foundation**  
**Statement of Activities and Changes in Net Assets**  
**Year Ended June 30, 2019**

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>Revenues, Gains and Other Support</b>			
Contributions	\$ 1,542,527	\$ 7,159,951	\$ 8,702,478
Investment income	796,938	3,227,455	4,024,393
Services contract revenue	798,600	-	798,600
Rental income	332,597	-	332,597
Other	-	403,112	403,112
Net assets released from restrictions	9,124,804	(9,124,804)	-
	<u>12,595,466</u>	<u>1,665,714</u>	<u>14,261,180</u>
<b>Expenses</b>			
Program services			
University programs	5,485,592	-	5,485,592
Scholarships	3,308,710	-	3,308,710
	<u>8,794,302</u>	<u>-</u>	<u>8,794,302</u>
Supporting services			
Management and general expenses	1,025,522	-	1,025,522
Fundraising and development expenses	1,541,211	-	1,541,211
	<u>2,566,733</u>	<u>-</u>	<u>2,566,733</u>
	<u>11,361,035</u>	<u>-</u>	<u>11,361,035</u>
<b>Change in Net Assets</b>	1,234,431	1,665,714	2,900,145
<b>Net Assets, Beginning of Year</b>	<u>31,960,361</u>	<u>93,198,333</u>	<u>125,158,694</u>
<b>Net Assets, End of Year</b>	<u>\$ 33,194,792</u>	<u>\$ 94,864,047</u>	<u>\$ 128,058,839</u>

**Northern Illinois University Foundation**  
**Statement of Activities and Changes in Net Assets**  
**Year Ended June 30, 2018**

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>Revenues, Gains and Other Support</b>			
Contributions	\$ 530,705	\$ 7,668,371	\$ 8,199,076
Investment income	772,799	5,544,089	6,316,888
Services contract revenue	685,052	-	685,052
Rental income	320,861	-	320,861
Other	-	428,661	428,661
Net assets released from restrictions	<u>6,975,157</u>	<u>(6,975,157)</u>	<u>-</u>
Total revenue, gains and other support	<u>9,284,574</u>	<u>6,665,964</u>	<u>15,950,538</u>
<b>Expenses</b>			
Program services			
University programs	5,219,900	-	5,219,900
Scholarships	<u>3,413,796</u>	<u>-</u>	<u>3,413,796</u>
Total program services	<u>8,633,696</u>	<u>-</u>	<u>8,633,696</u>
Supporting services			
Management and general expenses	809,328	-	809,328
Fundraising and development expenses	<u>1,067,998</u>	<u>-</u>	<u>1,067,998</u>
Total supporting services	<u>1,877,326</u>	<u>-</u>	<u>1,877,326</u>
Total expenses	<u>10,511,022</u>	<u>-</u>	<u>10,511,022</u>
<b>Change in Net Assets</b>	<u>(1,226,448)</u>	<u>6,665,964</u>	<u>5,439,516</u>
<b>Net Assets, Beginning of Year, As Previously Reported</b>	33,186,809	87,574,491	120,761,300
<b>Revision - See Note 16</b>	<u>-</u>	<u>(1,042,122)</u>	<u>(1,042,122)</u>
<b>Net Assets, Beginning of Year, As Revised</b>	<u>33,186,809</u>	<u>86,532,369</u>	<u>119,719,178</u>
<b>Net Assets, End of Year</b>	<u>\$ 31,960,361</u>	<u>\$ 93,198,333</u>	<u>\$ 125,158,694</u>

**Northern Illinois University Foundation**  
**Statement of Functional Expenses**  
**Year Ended June 30, 2019**

	Program Services			Supporting Services			
	University Programs	Scholarships	Total	Management and General	Fundraising and Development	Total	Total
University programs	\$ 4,328,725	\$ 30,050	\$ 4,358,775	\$ -	\$ -	\$ -	\$ 4,358,775
Scholarships	-	3,278,660	3,278,660	-	-	-	3,278,660
Foundation support for							
personnel services	189,968	-	189,968	613,453	606,813	1,220,266	1,410,234
Professional services	246,999	-	246,999	52,632	378,755	431,387	678,386
Accounting fees	-	-	-	44,600	-	44,600	44,600
Legal fees	-	-	-	55,060	-	55,060	55,060
Advertising and promotion	333	-	333	13,054	9,672	22,726	23,059
Office supplies	2,210	-	2,210	7,792	13,828	21,620	23,830
Office expenses	28,987	-	28,987	31,258	189,766	221,024	250,011
Equipment repair and maintenance	41,463	-	41,463	85,947	73,332	159,279	200,742
Lease	-	-	-	-	-	-	-
Travel	20,040	-	20,040	11,991	76,159	88,150	108,190
Conferences, conventions and meetings	2,095	-	2,095	67,142	190,932	258,074	260,169
Interest	4,700	-	4,700	-	-	-	4,700
Insurance	-	-	-	36,630	-	36,630	36,630
Depreciation and amortization	620,072	-	620,072	-	-	-	620,072
Other	-	-	-	5,963	1,954	7,917	7,917
Total functional expenses	<u>\$ 5,485,592</u>	<u>\$ 3,308,710</u>	<u>\$ 8,794,302</u>	<u>\$ 1,025,522</u>	<u>\$ 1,541,211</u>	<u>\$ 2,566,733</u>	<u>\$ 11,361,035</u>



**Northern Illinois University Foundation**  
**Statement of Functional Expenses**  
**Year Ended June 30, 2018**

	Program Services			Supporting Services			
	University Programs	Scholarships	Total	Management and General	Fundraising and Development	Total	Total
University programs	\$ 4,079,911	\$ 21,507	\$ 4,101,418	\$ -	\$ -	\$ -	\$ 4,101,418
Scholarships	-	3,392,289	3,392,289	-	-	-	3,392,289
Foundation support for							
personnel services	183,445	-	183,445	494,474	578,762	1,073,236	1,256,681
Professional services	163,811	-	163,811	27,800	161,663	189,463	353,274
Accounting fees	-	-	-	28,075	-	28,075	28,075
Legal fees	-	-	-	80,872	-	80,872	80,872
Advertising and promotion	278	-	278	9,854	5,314	15,168	15,446
Office supplies	5,494	-	5,494	6,018	24,974	30,992	36,486
Office expenses	21,347	-	21,347	27,699	90,877	118,576	139,923
Equipment repair and maintenance	41,852	-	41,852	75,708	53,939	129,647	171,499
Lease	-	-	-	-	4,291	4,291	4,291
Travel	11,057	-	11,057	2,224	65,090	67,314	78,371
Conferences, conventions and meetings	70,548	-	70,548	10,299	81,765	92,064	162,612
Interest	22,085	-	22,085	-	-	-	22,085
Insurance	-	-	-	45,407	-	45,407	45,407
Depreciation and amortization	620,072	-	620,072	-	-	-	620,072
Other	-	-	-	898	1,323	2,221	2,221
<b>Total functional expenses</b>	<b>\$ 5,219,900</b>	<b>\$ 3,413,796</b>	<b>\$ 8,633,696</b>	<b>\$ 809,328</b>	<b>\$ 1,067,998</b>	<b>\$ 1,877,326</b>	<b>\$ 10,511,022</b>

**Northern Illinois University Foundation**  
**Statements of Cash Flows**  
**Years Ended June 30, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<b>Operating Activities</b>		
Expendable gifts received	\$ 8,975,035	\$ 7,741,230
Payments from services contract with NIU	743,600	630,052
Payments from service contract with NIUAA	55,000	55,000
Rental income	332,597	320,861
Foundation operations and fundraising expense	(2,566,733)	(1,877,326)
Scholarships and other expense on behalf of NIU	(10,783,093)	(9,071,992)
Purchase of NIU equipment and software	(280,690)	(752,563)
Other operating revenue	1,737,106	1,819,546
	<u>(1,787,178)</u>	<u>(1,135,192)</u>
<b>Investing Activities</b>		
Proceeds from sale and maturities of investments	25,780,644	14,190,972
Purchase of investments	(22,609,917)	(14,089,876)
Interest and dividend income reinvested	(2,644,092)	(2,431,705)
Payment of investment fees	(375,709)	(312,219)
	<u>150,926</u>	<u>(2,642,828)</u>
<b>Financing Activities</b>		
Gifts received for endowment purposes	595,119	2,470,689
Interest payments on long-term debt	(4,700)	(22,085)
Principal payments on long-term debt	(339,883)	(598,660)
	<u>250,536</u>	<u>1,849,944</u>
<b>Decrease in Cash and Cash Equivalents</b>	(1,385,716)	(1,928,076)
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>4,085,648</u>	<u>6,013,724</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 2,699,932</u>	<u>\$ 4,085,648</u>

**Northern Illinois University Foundation**  
**Statements of Cash Flows**  
**Years Ended June 30, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
<b>Reconciliation of Changes in Net Assets to Net Cash</b>		
<b>Used in Operating Activities</b>		
Change in net assets	\$ 2,900,145	\$ 5,439,516
Items not requiring (providing) operating activities cash flows		
Depreciation	620,072	620,072
Investment income	(4,400,105)	(6,433,549)
Gifts received for endowment purposes	(997,563)	(2,204,545)
Bond interest paid	4,700	22,085
Changes in		
Receivables	-	4,214
Prepaid expenses	71,871	(123,755)
Pledges receivables	(173,046)	994,169
Accounts payable and accrued liabilities	110,150	43,043
Due to/from NIU	263,514	(604,344)
Agency - NIU Alumni Association	(326,396)	382,977
Agency - NIU	139,480	724,925
Net cash used in operating activities	\$ (1,787,178)	\$ (1,135,192)

# Northern Illinois University Foundation

## Notes to Financial Statements

June 30, 2019 and 2018

### Note 1: Nature of Operations and Summary of Significant Accounting Policies

#### *Nature of Operations*

The Northern Illinois University Foundation (Foundation) was established in 1949 as an independent, privately governed not-for-profit corporation chartered under the laws of the State of Illinois.

The Foundation's mission is to energize and connect the private sector with the Northern Illinois University (NIU or University) community to secure and steward resources that support the future and growth of NIU. The Foundation fulfills this mission primarily through fundraising and asset management functions. The Foundation solicits and accepts donations of property, money and securities, and invests and administers such assets. The Foundation disburses funds in accordance with the terms under which they were given, to aid, supplement, improve, and enlarge the educational, cultural, recreational, and research activities and facilities of the University. More detailed information regarding the Foundation and its charitable activities can be obtained from the Foundation's website at [www.niufoundation.org](http://www.niufoundation.org).

#### *Basis of Presentation*

The financial statements of the Foundation have been prepared on the accrual basis of accounting and include the Foundation's assets, liabilities, net assets, revenues and expenses for the years ended June 30, 2019 and 2018.

Net assets, revenues and expenses are classified based on the terms of donor-imposed restrictions. Accordingly, the net assets, revenues and expenses of the Foundation are classified and reported as follows:

#### *Net Assets Without Donor Restrictions*

Net assets without donor restrictions are those assets that are not subject to donor-imposed stipulations for timing of use or purpose of use. Net assets without donor restrictions include unrestricted gifts, investment earnings generated on unrestricted and restricted unspent funds and assets functioning as endowment.

#### *Net Assets With Donor Restrictions*

Net assets with donor restrictions are subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

#### *Use of Estimates*

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the reporting

# Northern Illinois University Foundation

## Notes to Financial Statements

### June 30, 2019 and 2018

period. Actual results could differ from those estimates. The Foundation's significant estimates include the valuation of its investments, the collectability of receivables, and the present value of the liability for future payments related to trust and annuity agreements.

#### ***Cash and Cash Equivalents***

The Foundation generally considers short-term, highly liquid financial instruments to be cash equivalents. Cash equivalents consist of time deposits and short-term investments with maturities of 90 days or less at the date of purchase. Cash equivalents are stated at cost, which approximates fair value.

#### ***Investments and Investment Return***

Investments are reported at fair value (see Note 14). Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The valuation of marketable securities is based upon quoted market prices and exchange rates, if applicable. Fair values for private equity, real estate and other investments held through limited partnerships or commingled funds are estimated by the respective external investment managers if market values are not ascertainable. The Foundation uses the Net Asset Value (NAV) to determine the fair value of all the underlying investments which (a) do not have a readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles of an investment company, or have the attributes of an investment company. Because they are not readily determinable, the fair values may differ from the values that would have been used had a ready market for these investments existed. Unrealized gains and losses that result from market fluctuations are recognized in the period in which the fluctuations occur. External investment management fees of \$375,709 and \$312,219 are netted against total investment return for the years ended June 30, 2019 and 2018, respectively.

Net investment return (defined as dividends, interest, and net realized and unrealized gains and losses on investments, net of investment management fees) is reported as follows:

As increases or decreases in net assets with donor restrictions if the terms of the underlying endowment funds designate the purpose for scholarships, departments, programs or are otherwise stipulated by the donor;

As increases or decreases in net assets without donor restrictions if the terms of the underlying individual endowment funds and gifts are Board-designated;

As increases or decreases in net assets with donor restrictions if there is a change in the present value of a trust due to the passage of time or changes in actuarial life expectancies.

#### ***Student Managed Portfolio***

The Foundation sponsors the Student Managed Portfolio, an academic program in the College of Business. The Student Managed Portfolio program is a competitive-entry class where, under the

# Northern Illinois University Foundation

## Notes to Financial Statements

### June 30, 2019 and 2018

oversight of a faculty advisor, students act as fiduciaries and manage a portfolio. Through this program, the Foundation provides real life experiences to further student's educations.

#### ***Property and Equipment***

Property and equipment are recorded at cost, or if gifted, at fair market value on the date of the gift. Depreciation of property and equipment in the amount of \$620,072 for each of the years ended June 30, 2019 and 2018, respectively, is charged to expense on a straight-line basis over the property or equipment's estimated useful life, which ranges from 5 to 40 years. Expenditures for repairs and maintenance are expensed as incurred.

#### ***Long-Lived Asset Impairment***

The Foundation evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended June 30, 2019 and 2018.

#### ***Contributed Services***

Contributions of services are recognized as revenue at their estimated fair value only when the services received create or enhance nonfinancial assets or require specialized skills possessed by the individuals providing the service and the service would typically need to be purchased if not donated. Contributions of services also include services received from personnel of an affiliate. Contribution revenue recognized from contributed services totaled \$157,207 and \$92,231 for the years ended June 30, 2019 and 2018, respectively.

#### ***Income Taxes***

The Foundation is exempt from income taxes under Section 501(c) (3) of the Internal Revenue Code and a similar provision of state law. However, the Foundation is subject to federal income tax on any unrelated business taxable income. Due to certain investments, the Foundation does have unrelated business income, however the federal tax liability has been immaterial. The Foundation believes it does not have any uncertain tax positions that are material to the financial statements.

The Foundation files tax returns in the U.S. federal jurisdiction.

#### ***Functional Allocation of Expenses***

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Certain costs have been allocated among the

# Northern Illinois University Foundation

## Notes to Financial Statements

### June 30, 2019 and 2018

program, management and general and fundraising categories based on purpose and relative time involved.

#### ***Contribution Revenue Recognition***

Philanthropic commitments are recognized as revenues when unconditionally pledged, or when a condition on a gift or pledge is met. Outright contributions are recognized as revenue when received. Gifts of real estate, buildings and equipment, marketable securities, and other donated property are recorded at their fair value on the date of the gift.

Gifts are reported as restricted contributions if accepted with donor restrictions that designate the use of donated assets as to purpose or time. When a donor restriction is met (usually by the disbursement of the asset to benefit the University in accordance with the donor restriction), net assets with donor restrictions are reported as released from restrictions in the statement of activities and changes in net assets.

Pledges receivable represent outstanding unconditional promises by donors to make contributions to the Foundation. Unconditional promises to give that are expected to be collected within one year of the statement of financial position date are recorded at face value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated realizable future contribution amounts. The discount rate of 2.16% (U.S. Treasury bill rate) is used to determine present values that reflect the fair value applicable to the year in which the promises to give were received; the amortization of the related discount is subsequently included in contribution revenues. Contribution revenue recorded from pledges (see Note 3) is reflected in net assets without or net assets with donor restrictions, depending on donor stipulations, if any.

The Foundation uses a combination of specific reserve and estimate of remaining uncollectible accounts to determine the total allowance for uncollectible pledges.

#### ***Endowment Spending Allocation and Fee***

The endowment spending policy adopted by the Foundation's Board of Directors (Board), in conjunction with the strategic asset allocation policy for the long-term pooled investment portfolio, is designed to provide reliable growth in annual spending allocation levels and to preserve or increase the real value of the endowment principal, over time. To meet these objectives, the Foundation utilizes a total return investment approach, with total return consisting of interest and dividends, and realized and unrealized gains and losses, net of investment management fees.

The spending allocation distributed in support of designated purposes was \$2,622,936 and \$2,405,522 for the years ended June 30, 2019 and 2018, respectively.

The Foundation's endowment spending allocation policy was enacted in accordance with the *Illinois Uniform Prudent Management of Institutional Funds Act* (UPMIFA). UPMIFA considers prudence in maintaining an endowment fund in perpetuity.

Endowed funds will participate in the investment pool when the principal amount is equal to or greater than the minimum needed to establish an endowment. Over the long term, the Foundation

**Northern Illinois University Foundation**  
**Notes to Financial Statements**  
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expects the current spending allocation and endowment fee policies to allow endowments to grow at least at the annualized rate of inflation on average. This is consistent with the organization's objective of providing resources for the underlying purposes of endowment assets over the life of the endowments as well as to provide additional growth through new gifts and investment return.

In addition, an endowment fee is assessed to fund expenses incurred in meeting the Foundation's fiduciary and fundraising responsibilities to donors and the University. This ongoing fee is also assessed based on market value at a rate of 1.5%.

**Reclassifications**

Certain reclassifications have been made to the 2018 financial statements to conform to the 2019 financial statement presentation. These reclassifications had no effect on the change in net assets.

**Change in Accounting Principle**

In 2019, the Foundation adopted ASU 2016-14, *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities*. See Note 17 for more information on this change.

**Note 2: Investments and Investment Return**

Investments at June 30, 2019 and 2018, consisted of the following:

	<b>2019</b>	<b>2018</b>
U.S. Treasury securities	\$ 977,303	\$ 941,672
Equity		
Domestic equity - large/mid-cap	17,733,259	17,258,440
Domestic equity - small-cap	4,669,747	5,184,704
International developed	18,810,893	20,157,265
Private equity	5,537,388	5,289,812
Hedged strategies	8,320,581	8,112,816
Public fixed income	29,506,765	26,037,227
Private debt	328,951	496,168
Real assets	8,062,691	6,234,094
Private natural resources	4,189,807	4,062,873
Private real estate	2,033,382	1,638,310



**Northern Illinois University Foundation**  
**Notes to Financial Statements**  
**June 30, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
Diversifying strategy mutual funds	\$ 10,736,235	\$ 11,292,810
Cash surrender value of life insurance	19,983	19,719
Total	110,926,985	106,725,910
Funds held in trust by others	2,007,924	2,172,815
	<b>\$ 112,934,909</b>	<b>\$ 108,898,725</b>

Total investment return for fiscal years 2019 and 2018 is comprised of the following:

	<b>2019</b>	<b>2018</b>
Interest and dividend income	\$ 2,595,988	\$ 2,371,942
Net realized and unrealized gains (losses) on investments reported at fair value	1,804,114	4,373,826
Investment fees	(375,709)	(428,880)
	<b>\$ 4,024,393</b>	<b>\$ 6,316,888</b>

The Foundation's Board is responsible for the management of the Foundation's investments. The Investment Committee formulates an investment policy for funds and assets of the Foundation, provides that policy to the Board for approval, periodically recommends changes in policy as appropriate, interprets the policy to the Foundation's investment managers, and oversees implementation of that policy. Investment performance is reviewed regularly by the Investment Committee.

The policy indicates the intended use for funds determines 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-term strategy.

In fulfilling its responsibilities, the Board has contracted with an independent investment advisory firm and a number of investment management firms to execute the strategy it has established.

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

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- 6) Hedge funds
- 7) Real assets

**Note 3: Promises to Give, Net**

Promises to give included unconditional promises to give, and consisted of the following at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Due within one year	\$ 934,844	\$ 858,245
Due in one to five years	2,563,800	1,749,697
Due in more than five years	<u>107,000</u>	<u>149,000</u>
	3,605,644	2,756,942
Less		
Allowance	(376,892)	(344,830)
Unamortized discount (2.38%)	<u>(352,819)</u>	<u>(111,669)</u>
	<u>\$ 2,875,933</u>	<u>\$ 2,300,443</u>

Promises to give appear as follows in the statements of financial position at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Promises to give, net	\$ 1,656,531	\$ 1,483,485
Endowment promises to give, net	<u>1,219,402</u>	<u>816,958</u>
	<u>\$ 2,875,933</u>	<u>\$ 2,300,443</u>

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**Note 4: Property and Equipment**

Property and equipment at June 30, 2019 and 2018, consist of:

	<b>2019</b>	<b>2018</b>
Land	\$ 3,861,333	\$ 3,861,333
Building and improvements	24,597,826	24,597,826
Furniture and equipment	92,541	92,541
	28,551,700	28,551,700
Less accumulated depreciation	(5,398,763)	(4,778,691)
Property and equipment, net	\$ 23,152,937	\$ 23,773,009

**Note 5: Long-Term Debt**

In March 2013, tax-exempt bonds were issued at 1.62% for eight years. The balance outstanding as of June 30, 2019 and 2018, is \$758,540 and \$1,098,423, respectively. Interest amounted to \$4,700 and \$22,085 for the years ended June 30, 2019 and 2018, respectively. Bonds are secured by an assignment of a lease for the Chessick Practice Center and a general obligation of the Foundation. Covenants require a minimum of \$3,000,000 of net assets without donor restrictions.

Aggregate annual maturities of long-term debt at June 30, 2019, are:

	<b>Long-Term Debt</b>
2020	\$ 366,082
2021	392,458
	\$ 758,540

**Note 6: Funds Held in Trust and Remainder Interest Due to Others**

The Foundation administers various charitable remainder trusts. A charitable remainder trust provides for the payment of distributions to the grantor or other designated beneficiaries over the trust's term (usually the designated beneficiary's lifetime). At the end of the trust's term, the remaining assets are available for the Foundation's use. Assets held in the charitable remainder trusts are recorded at fair value of \$2,007,924 and \$2,172,815 as of June 30, 2019 and 2018, respectively, and included in 'Funds Held In Trust by Others' in the Foundation's statement of financial position. The Foundation has recorded a liability at June 30, 2019 and 2018, of \$586,000 and \$798,995, respectively, which represents the present value of the future obligations to make

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distributions to the designated beneficiaries. On an annual basis, the Foundation revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions. The present value of the estimated future payments is calculated using a discount rate of 3.4% and applicable mortality tables. The portion of the trust attributable to the future interest of the Foundation was recorded in the statement of activities as contributions with donor restrictions in the period the trust was established.

**Note 7: Net Assets**

***Net Assets With Donor Restrictions***

Net assets with donor restrictions at June 30, 2019 and 2018, are available for scholarships or are held in perpetuity and the income of which are expendable to support scholarships. Net assets with donor restrictions at June 30, 2019 and 2018, are restricted for the following purposes:

	<b>2019</b>	<b>2018</b>
Subject to expenditure for specified purpose		
University departments and programs	\$ 13,315,364	\$ 13,087,661
Scholarships	6,622,452	6,460,228
	19,937,816	19,547,889
Endowments		
Endowment gifts, plus earnings, subject to expendable spending allocation		
Restricted by donors for		
University departments and program	30,586,107	30,076,844
Scholarships	44,340,124	43,573,600
	74,926,231	73,650,444
	\$ 94,864,047	\$ 93,198,333

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events for the years ended June 30, 2019 and 2018, as follows.

	<b>2019</b>	<b>2018</b>
Satisfaction or purpose restrictions		
Scholarships	\$ 3,207,421	\$ 3,132,853
University departments and programs	5,917,383	3,842,304
	\$ 9,124,804	\$ 6,975,157

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**Note 8: Endowment**

The Foundation's endowment consists of approximately 561 individual funds established for a variety of purposes plus endowment pledges receivable and split interest agreements. The endowment includes both donor-restricted endowment funds and funds designated by the governing body to function as endowments (board-designated endowment funds). Generally accepted accounting principles in the United States of America (GAAP) calls for net assets to be reported strictly based on if external donor restrictions exist or not. Accordingly, any broad designated funds treated as endowment are reported as net assets without donor restriction.

The Foundation's Board has interpreted Illinois UPMIFA as requiring prudent management of the fair value of original gifts as of the gift date of the donor-restricted endowment funds unless there are donor stipulations to the contrary. The Foundation classifies as net assets with donor restrictions a) the original value of gifts donated to the permanent endowment, b) the original value of subsequent gifts to the permanent endowment, and c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Foundation. In accordance with Illinois UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. Duration and preservation of the fund
2. Purposes of the Foundation and the donor-restricted endowment fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of the Foundation
7. Investment policies of the Foundation

The composition of net assets by type of endowment fund at June 30, 2019 and 2018, was:

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
June 30, 2019			
Donor-restricted endowment funds	\$ -	\$ 74,926,231	\$ 74,926,231
Board-designated endowment funds	699,561	-	699,561
Total endowment funds	<u>\$ 699,561</u>	<u>\$ 74,926,231</u>	<u>\$ 75,625,792</u>

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	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
June 30, 2018			
Donor-restricted endowment funds	\$ -	\$ 73,650,444	\$ 73,650,444
Board-designated endowment funds	747,535	-	747,535
Total endowment funds	<u>\$ 747,535</u>	<u>\$ 73,650,444</u>	<u>\$ 74,397,979</u>

Changes in endowment net assets for the years ended June 30, 2019 and 2018, were:

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
July 1, 2017	\$ 702,978	\$ 69,349,140	\$ 70,052,118
Investment return			
Investment income	35,607	1,467,892	1,503,499
Net appreciation	101,062	4,028,710	4,129,772
Total investment return	<u>136,669</u>	<u>5,496,602</u>	<u>5,633,271</u>
Contributions	-	2,207,847	2,207,847
Endowment spending allocation	(65,677)	(2,339,845)	(2,405,522)
Endowment administrative fee	(26,435)	(1,063,300)	(1,089,735)
June 30, 2018	<u>747,535</u>	<u>73,650,444</u>	<u>74,397,979</u>
Investment return			
Investment income	13,814	1,445,805	1,459,619
Net appreciation	12,529	1,396,628	1,409,157
Total investment return	<u>26,343</u>	<u>2,842,433</u>	<u>2,868,776</u>
Contributions	-	1,923,887	1,923,887
Endowment spending allocation	(59,933)	(2,399,488)	(2,459,421)
Endowment administrative fee	(14,384)	(1,091,045)	(1,105,429)
June 30, 2019	<u>\$ 699,561</u>	<u>\$ 74,926,231</u>	<u>\$ 75,625,792</u>

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Endowment assets are long-term in nature and managed as such on a total return basis. There are certain short-term considerations in constructing the endowment investment portfolio, such as spending allocations and annual operating support. However, the assets can tolerate a reasonable level of short-term volatility in the interest of maximizing long-term performance. In order to attain the varied investment objectives, a proper balance must be achieved between return and risk. With a proper risk/return profile, the Foundation believes maintaining real purchasing power of the spending allocation and meeting annual funding needs can be achieved over time through the asset allocation and spending policies adopted by its Board.

The Foundation utilizes a diversified asset allocation consisting of: growth strategies (primarily equity-based investments); inflation hedging strategies to protect against inflation and provide purchasing power (strategies with significant correlations to inflation); and risk minimizing strategies to reduce volatility and preserve capital (fixed income and other strategies with low correlations to equities). Investment returns are achieved through capital appreciation (realized and unrealized) and current yield (interest and dividends).

Endowment in agency are assets received and held on behalf of Northern Illinois University and Northern Illinois University Alumni Association. The Foundation manages and comingles as part of the overall investment portfolio. Changes in endowment in agency funds for the years ended June 30, 2019 and 2018, were:

Endowment in agency, July 1, 2017	<u>\$ 6,836,949</u>
Investment return	
Investment income	140,100
Net appreciation	<u>396,049</u>
Total investment return	<u>536,149</u>
Contributions	30,118
Endowment spending allocation	(207,663)
Endowment administrative fee	<u>(58,324)</u>
Endowment in agency, June 30, 2018	<u>7,137,229</u>
Investment return	
Investment income	456,412
Net depreciation	<u>(175,424)</u>
Total investment return	<u>280,988</u>
Contributions	5,729
Endowment spending allocation	(483,203)
Endowment administrative fee	<u>(66,185)</u>
Endowment in agency, June 30, 2019	<u><u>\$ 6,874,558</u></u>

# Northern Illinois University Foundation

## Notes to Financial Statements

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### Note 9: University Support

The Foundation makes payments on behalf of, or directly to, the University in support of the University's mission. Such amounts are classified as Program Support on the statement of activities. There are two primary sources of Foundation funds available to the University: charitable gifts contributed to the Foundation that are immediately available for expenditure, and spending allocation from the accumulated investment earnings of individual endowment funds (Note 8). Additionally, the Foundation makes grants from funds without donor restrictions. Total expenses by the Foundation in support of the University in accordance with the donated purpose were \$8,794,302 and \$8,633,696 for the years ended June 30, 2019 and 2018, respectively. Fluctuations in spending are driven by the current needs of the University and availability of support from the Foundation.

### Note 10: 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, grants, and other supporting programs. In turn, the University furnishes certain services necessary to the operation of the Foundation.

The cost to the Foundation for direct salary support provided by the University was \$676,658 and \$590,539 for the years ended June 30, 2019 and 2018, respectively. In addition to salaries, the Foundation conducts development programs and activities. Income for services rendered to the University was \$743,600 and \$630,052 for the years ended June 30, 2019 and 2018, respectively. The contract may be canceled upon ninety days written notice by either party.

The contract calls for the Foundation to act as the University's agent in managing its endowed assets as well as certain other expendable gifts made directly to the University. The endowments are invested in a manner consistent with the Foundation's endowments. The Foundation has elected to include these amounts in the related investment portfolio on the balance sheet with an offsetting liability. Funds managed for the University had a fair value of \$8,100,555 and \$7,961,075 as of June 30, 2019 and 2018, respectively.

Transactions between NIU and the Foundation throughout the fiscal year create an intercompany receivable or liability, reported in assets and liabilities, respectively.

The Foundation leases several properties to the University. The properties are used for biological research observation, as a site for a radio station transmitter tower, a multi-use building, an early school house museum, the Jeffrey and Kimberly Yordon Center and the Kenneth and Ellen Chessick Practice Center. Rental income of \$332,597 and \$320,861 is reported in the revenues section of the statement of activities for the years ended June 30, 2019 and 2018, respectively. The University is responsible for all operating expenses and maintenance. The Yordon Center lease extends through March 2023. The Chessick Center lease extends through February 2021.



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An 89-month lease with the University provides for the 19 semi-annual lease installments at a rate of \$26,584 per month and calls for the University to be responsible for insurance and maintenance of the Chessick Practice Center building. Total future minimum lease payments are as follows:

<b>Year Ending June 30,</b>	<b>Amount</b>
2020	\$ 319,000
2021	<u>319,000</u>
	<u><u>\$ 638,000</u></u>

**Note 11: Northern Illinois University Alumni Association (Association) Agreement**

In February 2004, the Foundation entered into an agreement with the Association calling for the Foundation to provide investment and funds administration services for the Association. Funds of the Association are reported as Agency Funds, Accounts Held for Northern Illinois University Alumni Association on the statement of financial position. The contract was revised with updates in June 2009 and has been renewed through June 30, 2020, and calls for an annual fee of \$55,000.

**Note 12: 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 \$756,959 and \$1,488,869 of gift support for the years ended June 30, 2019 and 2018, respectively, and are responsible for \$1,379,384 and \$555,000 of the outstanding pledge balance at June 30, 2019 and 2018, respectively.

In addition to direct support, board members have provided other valuable services and support to the Foundation.

# Northern Illinois University Foundation

## Notes to Financial Statements

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### Note 13: Retirement Plan

The Foundation contributes to the State Universities Retirement System of Illinois (SURS), a cost-sharing multiple-employer defined benefit plan with a special funding situation whereby the State of Illinois (State) 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](http://www.SURS.org).

### Note 14: Fair Value Measurements and Disclosures

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

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**Recurring Measurements**

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying statement of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2019 and 2018:

	<b>Fair Value Measurements Using</b>				<b>Investments Measured at NAV(A)</b>
	<b>Total</b>	<b>Quoted Prices in Active Markets for Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs Level 3</b>	
June 30, 2019					
U. S. Treasuries securities	\$ 977,303	\$ -	\$ 977,303	\$ -	\$ -
Equity securities					
Domestic equity - lrg/mid-cap	17,733,259	17,733,259	-	-	-
Domestic equity - small-cap	4,669,747	4,669,747	-	-	-
International developed	18,810,893	18,810,893	-	-	-
Private equity	5,537,388	-	-	-	5,537,388
Hedged strategies	8,320,581	1,205,485	-	-	7,115,096
Public fixed income	29,506,765	25,864,440	-	-	3,642,325
Private debt	328,951	-	-	-	328,951
Real assets	8,062,690	4,292,161	-	-	3,770,529
Private natural resources	4,189,807	-	-	-	4,189,807
Private real estate	2,033,382	-	-	-	2,033,382
Diversifying strategy mutual funds	10,736,236	8,628,942	-	-	2,107,294
Cash surrender value of life insurance	19,983	-	19,983	-	-
	<u>110,926,985</u>	<u>81,204,927</u>	<u>997,286</u>	<u>-</u>	<u>28,724,772</u>
Total	110,926,985	81,204,927	997,286	-	28,724,772
Funds held in trust by others	<u>2,007,924</u>	<u>2,007,924</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 112,934,909</u>	<u>\$ 83,212,851</u>	<u>\$ 997,286</u>	<u>\$ -</u>	<u>\$ 28,724,772</u>

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	<u>Fair Value Measurements Using</u>				
	<u>Total</u>	<u>Quoted Prices in Active Markets for Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs Level 3</u>	<u>Investments Measured at NAV (A)</u>
June 30, 2018					
U. S. Treasuries securities	\$ 941,672	\$ -	\$ 941,672	\$ -	\$ -
Equity securities					
Domestic equity - lrg/mid-cap	17,258,440	17,258,440	-	-	-
Domestic equity - small-cap	5,184,704	5,184,704	-	-	-
International developed	20,157,265	20,157,265	-	-	-
Private equity	5,289,812	-	-	-	5,289,812
Hedged strategies	8,112,816	1,186,143	-	-	6,926,673
Public fixed income	26,037,227	23,111,623	-	-	2,925,604
Private debt	496,168	-	-	-	496,168
Real assets	6,234,094	2,532,770	-	-	3,701,324
Private natural resources	4,062,873	-	-	-	4,062,873
Private real estate	1,638,310	-	-	-	1,638,310
Diversifying strategy mutual funds	11,292,810	7,615,074	-	-	3,677,736
Cash surrender value of life insurance	19,719	-	19,719	-	-
	<u>106,725,910</u>	<u>77,046,019</u>	<u>961,391</u>	<u>-</u>	<u>28,718,500</u>
Funds held in trust by others	<u>2,172,815</u>	<u>2,172,815</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 108,898,725</u>	<u>\$ 79,218,834</u>	<u>\$ 961,391</u>	<u>\$ -</u>	<u>\$ 28,718,500</u>

(A) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The amounts included above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying statement of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended June 30, 2019.

#### Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. As of June 30, 2019 and 2018, there were no securities classified as Level 3.

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**Alternative Investments**

Investments in certain entities measured at fair value using the net asset value per share as a practical expedient consist of the following:

	Fair Value Estimated Using NAV (or its Equivalent)			Redemption Notice Period
	Fair Value	Unfunded Commitment	Redemption Frequency	
June 30, 2019				
Hedged/alternative investments (A)	\$ 15,752,834	\$ -	(A)	(A)
Private equity (B)	12,971,938	5,919,618	(B)	(B)
	\$ 28,724,772	\$ 5,919,618		
June 30, 2018				
Hedged/alternative investments (A)	\$ 16,584,432	\$ -	(A)	(A)
Private equity (B)	12,134,068	5,120,783	(B)	(B)
	\$ 28,718,500	\$ 5,120,783		

- (A) The partnerships in this category consist of funds that invest in multiple limited partnerships with various investment strategies and long and short positions in equity securities of companies within the United States of America (USA) and outside of the USA. These funds can be redeemed daily, monthly, quarterly, annually or bi-annually depending on the partnership agreement within redemption notice periods of one to four months.
- (B) The partnerships in this category consist of funds that invest in the following types of investments in the USA and outside of the USA: venture capital partnerships, buyout partnerships, mezzanine/subordinated debt partnerships, restructuring/distressed debt partnerships and special situation partnerships and real estate. These investments cannot be redeemed during the life of the partnership, which can be up to 12 years; however, they can be transferred to another eligible investor. Distributions will be received as the underlying investments of the funds are liquidated over time. The fair value of this investment has been estimated using the NAV provided by the fund manager and an adjustment determined by management for the time period between the date of the last available NAV from the investment manager and June 30, 2019 and 2018, respectively.

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**Note 15: Liquidity and Availability**

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of June 30, 2019, comprise the following:

	<b>Financial Assets for General Expenditure</b>	<b>Financial Assets Liquid Within One Year</b>
Cash and cash equivalents	\$ 2,699,932	\$ 2,625,863
Promises to give, net	1,656,531	1,418,435
Endowments - promises to give, net	1,219,402	-
Investments	106,196,705	28,060,624
Endowment management fee	1,175,000	1,175,000
Endowment spending allocation	2,951,809	2,951,809
Student managed portfolio	603,471	603,471
Funds held in trust by others	2,007,924	-
Total financial assets	<u>\$ 118,510,774</u>	
Financial assets available for general expenditures within one year		<u>\$ 36,835,202</u>

The Foundation regularly monitors liquidity to support spending for operations, grants and other mission related activities, as well as to meet the distribution requirements of net assets with donor restrictions. Significant unrestricted donor contributions and expendable gifts with purpose restrictions for current spending are received annually. These are available to meet cash needs for general expenditures. For the year ended June 30, 2019, operating contributions of \$7,063,196 were added to financial assets available to meet cash needs for general and purpose restricted expenditures within one year.

The Foundation's endowment funds consist of donor-restricted endowments and funds designated by the Board as unrestricted endowments. Annual spending from donor-restricted endowments is restricted for specific purposes. Actual gift amounts of donor-restricted endowment funds are not available for general expenditure as they are permanently restricted with only annual allocations of income becoming expendable.

The Board-designated, unrestricted endowment of \$699,561 is subject to an annual spending rate, currently -4% percent of the three year average fund balances, as described in Note 2 – Investments and Investment Return. Although the Foundation does not intend to spend from this Board-designated endowment (other than amounts appropriated for general expenditure as part of the Board's annual budget approval process), these amounts could be made available if necessary.

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The Foundation manages its liquidity by operating within a prudent range of financial soundness and stability. The Foundation maintains adequate cash and short term investments to provide reasonable assurance that longer-term obligations will be discharged.

**Note 16: Revision of Prior Year Financial Statements**

The Foundation identified certain funding that was improperly recorded and should be classified as donor funds being managed on behalf of Northern Illinois University.

The impact as a result of this revision on the change in net assets for the year ended June 30, 2018, is a decrease of \$377,188, reducing the previously reported increase in net assets of \$5,816,704 to \$5,439,516. The Foundation also identified certain other expense and revenue revisions that had no affect on net assets or the change in net assets. The following 2018 financial statement line items were affected by these revisions:

	<u>As Revised</u>	<u>As Previously Reported</u>	<u>Effect of Change</u>
Statement of financial position			
Endowment and gift accounts administered for NIU	\$ 7,961,075	\$ 6,541,765	\$ 1,419,310
Total liabilities	14,105,393	12,686,083	1,419,310
Total net assets	125,158,694	126,578,004	(1,419,310)
Statement of activities and changes in net assets			
Revenues, gains and other support			
Contributions	8,199,076	9,378,759	(1,179,683)
Investment income	6,316,888	6,433,549	(116,661)
Other	428,661	669,202	(240,541)
Total revenue, gains, and other support	15,950,538	17,487,423	(1,536,885)
Expenses			
Program services			
University programs	5,219,900	5,925,981	(706,081)
Scholarships	3,413,796	3,291,901	121,895
Total program services	8,633,696	9,217,882	(584,186)
Supporting services			
Grants for scholarships and University	-	130,680	(130,680)
Management and general expenses	809,328	1,016,617	(207,289)
Fundraising and development expenses	1,067,998	1,305,540	(237,542)
Total supporting services	1,877,326	2,452,837	(575,511)
Total expenses	10,511,022	11,670,719	(1,159,697)
Change in net assets	5,439,516	5,816,704	(377,188)
Net assets, beginning of year	119,719,178	120,761,300	(1,042,122)
Net assets, end of year	125,158,694	126,578,004	(1,419,310)

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**Notes to Financial Statements**  
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	<u>As Revised</u>	<u>As Previously Reported</u>	<u>Effect of Change</u>
Statement of cash flows			
Operating activities			
Expendable gifts received	\$ 7,741,230	\$ 8,543,725	\$ (802,495)
Foundation operations and fundraising expense	(1,877,326)	(2,452,837)	575,511
Scholarships and other expenses			
expense on behalf of NIU	(9,071,992)	(9,539,516)	467,524
Other operating revenue	1,819,546	2,060,087	(240,541)
Reconciliation of change in net assets to net cash used in operating activities			
Change in net assets	5,439,516	5,816,704	(377,188)
Changes in Agency - NIU	724,925	347,737	377,188

**Note 17: Change in Accounting Principle**

In 2019, the Foundation adopted ASU 2016-14, *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities*. A summary of the changes is as follows:

***Statement of Financial Position***

- The statement of financial position distinguishes between two new classes of net assets – those with donor-imposed restrictions and those without. This is a change from the previously required three classes of net assets – unrestricted, temporarily restricted and permanently restricted.

***Statement of Activities***

- Expenses are presented by function in the statement of activities and in the statement of functional expenses which presents expenses by both natural and functional amounts.
- Investment return is shown net of external and direct internal investment expenses. Disclosure of the expenses netted against investment income is no longer required.

***Notes to the Financial Statements***

- Enhanced quantitative and qualitative disclosures provide additional information useful in assessing liquidity and cash flows available to meet operating expenses for one-year from the date of the Statement of Financial Position.

This change had no impact on previously reported total change in net assets.



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**Note 18: Future Change in Accounting Principle**

***Revenue Recognition***

The Financial Accounting Standards Board (FASB) issued ASU No. 2014-09, *Revenue from Contracts with Customers*, amending its standards related to revenue recognition. This amendment replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendment also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments and assets recognized from costs incurred to fulfill a contract. The standard allows either full or modified retrospective adoption effective for nonpublic entities for annual periods beginning after December 15, 2018, and any interim periods within annual reporting periods that begin after December 15, 2019. The Foundation expects to first apply the ASU during its fiscal year ending June 30, 2020. The impact of applying the ASU has not yet been determined.

***Contributions Received and Contributions Made***

The FASB recently issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new guidance applies to all entities that receive or make contributions. The new guidance clarifies the definition of an exchange transaction. The criteria for evaluating whether contributions are unconditional (and thus recognized immediately as revenue) or conditional (for which revenue recognition is deferred) have been clarified. The focus is whether a gift or grant agreement both (1) specifies a “barrier or hurdle” that the recipient must overcome to be entitled to the resources and (2) releases the donor from its obligation to transfer resources if the barrier or hurdle is not achieved. An agreement that includes both is a conditional contribution. The Foundation expects to first apply the ASU during its fiscal year ending June 30, 2020. The impact of applying the ASU has not yet been determined.

***Accounting for Leases***

The FASB issued ASU No. 2016-02, *Leases*, the long-awaited standard on lease accounting. Under the new standard, lessees will now be required to recognize substantially all leases on the statement of financial position as both a right-of-use asset and a liability. The standard has two types of leases for statement of activities recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard is effective for annual periods beginning after December 15, 2020, and any interim periods within annual reporting periods that begin after

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December 15, 2021. The Foundation expects to first apply the ASU during its fiscal year ending June 30, 2022. The impact of applying the ASU has not yet been determined.

**Note 19: Subsequent Events**

Subsequent events have been evaluated through October 24, 2019, which is the date the financial statements were available to be issued