Northern Illinois University Foundation

Independent Auditor's Reports and Financial Statements

June 30, 2018

BKD LLP
CPAs & Advisors

Northern Illinois University Foundation
June 30, 2018

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BKD LLP
CPAs & Advisors

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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 statement of financial position as of June 30, 2018, and the related statements of activities and cash flows for the year 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 audit. We conducted our audit 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, 2018, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 15 to the financial statements, the Foundation's financial statement presentation and net assets as of July 1, 2017, were corrected to conform to the accounting standards as promulgated by the Financial Accounting Standards Board. Our opinion is not modified with respect to this matter.

BKD, LLP

Oakbrook Terrace, Illinois
January 25, 2019

Northern Illinois University Foundation

Statement of Financial Position

June 30, 2018

Assets

Cash and cash equivalents	$ 4,085,648
Prepaid expenses	206,262
Pledges receivables, net	2,300,443
Investments	106,725,910
Funds held in trust by others	2,172,815
Property and equipment, net	23,773,009
Total assets	$ 139,264,087

Liabilities and Net Assets

Liabilities	
Accounts payable and accrued liabilities	$ 405,989
Due to NIU	678,308
Bonds payable	1,098,423
Remainder interest due to others	798,995
Agency	
Accounts administered for NIU Alumni Association	3,162,603
Endowment and gift accounts administered for NIU	6,541,765
Total liabilities	12,686,083
Net Assets	
Unrestricted	31,964,015
Temporarily restricted	42,244,279
Permanently restricted	52,369,710
Total net assets	126,578,004
Total liabilities and net assets	$ 139,264,087

Northern Illinois University Foundation

Statement of Activities

Year Ended June 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains and Other Support				
Contributions	$ 530,705	$ 6,643,509	$ 2,204,545	$ 9,378,759
Investment income	889,460	5,484,325	59,764	6,433,549
Services contract revenue	685,052	-	-	685,052
Rental income	320,861	-	-	320,861
Other	127,970	541,232	-	669,202
Net assets released from restrictions	7,893,877	(7,893,877)	-	-
Total revenue, gains and other support	10,447,925	4,775,189	2,264,309	17,487,423
Expenses				
Program services				
Scholarships	3,291,901	-	-	3,291,901
University departments and programs	5,925,981	-	-	5,925,981
Total program services	9,217,882	-	-	9,217,882
Foundation operations				
Grants for scholarships and University	130,680	-	-	130,680
Management and general expenses	1,016,617	-	-	1,016,617
Fundraising expenses	1,305,540	-	-	1,305,540
Total foundation operations	2,452,837	-	-	2,452,837
Total expenses	11,670,719	-	-	11,670,719
Change in Net Assets	(1,222,794)	4,775,189	2,264,309	5,816,704
Net Assets, Beginning of Year, as Restated	33,186,809	37,469,090	50,105,401	120,761,300
Net Assets, End of Year	$ 31,964,015	$ 42,244,279	$ 52,369,710	$ 126,578,004

Northern Illinois University Foundation

Statement of Cash Flows

Year Ended June 30, 2018

Operating Activities	
Expendable gifts received	$ 8,543,725
Payments from services contract with NIU	630,052
Payments from service contract with NIUAA	55,000
Rental income	320,861
Foundation operations and fundraising expense	(2,452,837)
Scholarships and other expense on behalf of NIU	(9,539,516)
Equipment and software transferred to NIU	(752,563)
Other operating revenue	2,060,087
Net cash used in operating activities	(1,135,191)
Investing Activities	
Proceeds from sale and maturities of investments	14,190,972
Purchase of investments	(14,089,876)
Interest and dividend income reinvested	(2,431,705)
Payment of investment fees	(312,219)
Net cash used in investing activities	(2,642,828)
Financing Activities	
Gifts received for endowment purposes	2,470,689
Interest payments on long-term debt	(22,085)
Principal payments on long-term debt	(598,660)
Net cash provided by financing activities	1,849,944
Decrease in Cash and Cash Equivalents	(1,928,075)
Cash and Cash Equivalents, Beginning of Year	6,013,724
Cash and Cash Equivalents, End of Year	$ 4,085,649

(Cont.)

Northern Illinois University Foundation
Statement of Cash Flows
Year Ended June 30, 2018

Reconciliation of Operating Income to Net Cash Used in Operating Activities		
Change in net assets	$	5,816,704
Items not requiring (providing) operating activities cash flows		
Depreciation		620,072
Investment income		(6,433,549)
Gifts received for endowment purposes		(2,204,545)
Bond interest paid		22,085
Changes in		
Receivables		4,215
Prepaid expenses		(123,755)
Pledges receivables		994,169
Accounts payable and accrued liabilities		43,043
Due to/from NIU		(604,344)
Agency - NIU Alumni Association		382,977
Agency - NIU		347,737
Net cash used in operating activities	$	(1,135,191)

Northern Illinois University Foundation
Notes to Financial Statements
June 30, 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 NIU 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.

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 year ended June 30, 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:

Unrestricted Net Assets

Unrestricted net assets are not subject to donor restrictions for timing of use or purpose of use. The unrestricted net assets include unrestricted gifts, investment earnings generated on unrestricted and temporarily restricted unspent funds and assets functioning as endowment.

Temporarily Restricted Net Assets

Temporarily restricted net assets are those whose use by the Foundation has been limited by donors to a specific time period or purpose. Temporarily restricted net assets are subject to donor-imposed purposes or use restrictions to benefit a specific department or program of the University that has not yet been met through the disbursement of such assets for the restricted purposes. Such assets and activity primarily include restricted, non-endowed gifts, and total net unexpended investment return generated from permanently restricted gifts to endowment.

Permanently Restricted Net Assets

Permanently restricted net assets are subject to donor-imposed restrictions to be maintained in perpetuity by the Foundation. Generally, such assets represent the historic dollar value of restricted endowment gifts. Additional information on net assets relative to endowment returns is included in Note 8.

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 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 $312,219 are netted against total investment return for the year.

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 temporarily restricted net assets 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 unrestricted net assets if the terms of the underlying individual endowment funds and gifts are Board-designated;
>
> As increases or decreases in permanently restricted net assets if there is a change in the present value of a trust due to the passage of time or changes in actuarial life expectancies.

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 the year ended June 30, 2018, 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. Costs directly related to software development and acquisition are capitalized until the asset is placed in service.

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 it fair value.

No asset impairment was recognized during the year ended June 30, 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 consisted of accounting and other services and totaled $92,231 for year ended June 30, 2018.

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. Certain costs have been allocated among the program, management and general and fund raising 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 estimated fair value on the date of the gift.

Gifts are reported as restricted contributions if received 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), temporarily restricted net assets 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 2.38% (US 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 unrestricted, temporarily or permanently restricted net assets, depending on donor restrictions, if any.

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

Conditional promises to give are not recorded as revenue until they become unconditional, which is when the conditions on which they depend are substantially met.

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 $2,405,522 for the year.

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. Spending can occur from an endowment fund whose fair value is below its historic value, as long as the governing body has determined that its policies will continue the perpetual nature of the endowment over time.

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. The new fund will participate in the pool on the first day of the quarter after meeting the minimum amount.

The funds allocated for expenditure for the purposes for which an endowed fund was established ("spending allocation") will annually equal 4% of the rolling prior 3-year average market value. The corresponding calculated spending allocations are distributed on the first day of the following year from the accumulated net total investment return for individual endowment funds where available, and from principal when the donor gift agreement directs.

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. The rate is 1.5%. The calculated fee is charged in equal quarterly installments on the first day of each quarter from the accumulated net total investment return for individual endowment funds where available, otherwise from principal.

Over the long term, the Foundation 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.

Note 2: Investments and Investment Return

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

U.S. Treasury securities	$ 941,672
Equity	
Domestic equity - lrg/mid-cap	17,258,440
Domestic equity - small-cap	5,184,704
International developed	20,157,265
Private equity	5,289,812
Hedged strategies	8,112,816
Public fixed income	26,037,227
Private debt	496,168
Real assets	6,234,094
Private natural resources	4,062,873
Private real estate	1,638,310
Diversifying strategy mutual funds	11,292,810
Cash surrender value of life insurance	19,719
Total	106,725,910
Funds held in trust by others	2,172,815
	$ 108,898,725

Total investment return for fiscal year 2018 is comprised of the following:

Interest and dividend income	$ 2,371,942
Net realized and unrealized gains (losses) on investments reported at fair value	4,061,607
Net realized gains (losses) on other investments	
Investment fees	(312,219)
	$ 6,433,549

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
6) Hedge funds
7) Real assets

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)			
	Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
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, 2018.

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

Note 3: Pledges Receivable, Net

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Due within one year	$ 127,930	$ 447,127	$ 283,188	$ 858,245
Due in one to five years	129,501	1,050,316	569,880	1,749,697
Due in more than five years	-	99,000	50,000	149,000
	257,431	1,596,443	903,068	2,756,942
Less				
Allowance	(217,869)	(77,640)	(49,321)	(344,830)
Unamortized discount (2.38%)	(1,206)	(73,674)	(36,789)	(111,669)
	$ 38,356	$ 1,445,129	$ 816,958	$ 2,300,443

Note 4: Property and Equipment

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

Land	$ 3,861,333
Building and improvements	24,597,826
Furniture and equipment	92,541
	28,551,700
Less accumulated depreciation	(4,778,691)
Property and equipment, net	$ 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, 2018, is $1,098,423. Interest amounted to $22,085 for the year. 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 unrestricted net assets.

Aggregate annual maturities of long-term debt at June 30, 2018 are:

2019	$ 360,295
2020	366,082
2021	372,046
	$ 1,098,423

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 $2,172,815 as of June 30, 2018, 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, 2018, of $798,995, which represents the present value of the future obligations to make 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 temporarily restricted contributions in the period the trust was established.

Note 7: Net Assets

Temporarily restricted net assets at June 30, 2018, are available for the following purpose – scholarships. Permanently restricted net assets at June 30, 2018, are held in perpetuity and the income of which are expendable to support scholarships. At June 30, 2018, net assets included unrestricted, temporarily and permanently restricted funds by donors for the following purposes:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Unrestricted - undesignated	$ 30,129,370	$ -	$ -	$ 30,129,370
Board designated for grants to scholarships and university departments and programs	54,466	-	-	54,466
Board designated - acting as endowments	1,780,179	-	-	1,780,179
Total unrestricted	31,964,015	-	-	31,964,015
Scholarships	-	19,725,374	29,399,741	49,125,115
University departments and programs	-	22,518,905	22,969,969	45,488,874
Total	$ 31,964,015	$ 42,244,279	$ 52,369,710	$ 126,578,004

Net Assets Released From Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events.

Purpose restrictions accomplished		
Scholarships	$	4,051,573
University departments and programs		3,842,304
	$	7,893,877

Note 8: Endowment

The Foundation’s endowment consists of approximately 535 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). As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

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 absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets 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 that is not classified in permanently restricted net assets is classified as temporarily restricted net assets 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, 2018, was:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 21,280,734	$ 52,369,710	$ 73,650,444
Board-designated endowment funds	747,535	-	-	747,535
Total endowment funds	$ 747,535	$ 21,280,734	$ 52,369,710	$ 74,397,979

Changes in endowment net assets for the year ended June 30, 2018 was:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 702,978	$ 19,243,739	$ 50,105,401	$ 70,052,118
Investment return				
Investment income	35,607	1,408,128	59,764	1,503,499
Net appreciation	101,062	4,028,710	-	4,129,772
Total investment return	136,669	5,436,838	59,764	5,633,271
Contributions	-	3,302	2,204,545	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)
Endowment net assets, end of year	$ 747,535	$ 21,280,734	$ 52,369,710	$ 74,397,979

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 year ended June 30, 2018 was:

Endowment in agency, beginning of year	$ 6,836,949
Investment return	
Investment income	140,100
Net appreciation	396,049
Total investment return	536,149
Contributions	30,118
Endowment spending allocation	(207,663)
Endowment administrative fee	(58,324)
Endowment in agency, end of year	$ 7,137,229

Note 9: University Support

The Foundation, at the direction of its donors, 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 unrestricted funds. Total expenses by the Foundation in support of the University in accordance with the donated purpose were $9,398,058 for the year. 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 Northern Illinois University was $590,539 for the year ended June 30, 2018. In addition to salaries, the Foundation conducts development programs and activities. Income for services rendered to the University was $630,052 for the year ended June 30, 2018. 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 $6,541,765 as of June 30, 2018.

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 $320,861 is reported in the revenues section of the statement of activities. 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. Each of the remaining leases are renewed through June 30, 2019.

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:

Year Ending June 30	Fund
2019	$ 319,000
2020	319,000
2021	319,000

Note 11: 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 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 $1,488,869 of gift support for the year ended June 30, 2018, and are responsible for $555,000 of the outstanding pledge balance.

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

Note 13: Retirement Plan

The Foundation contributes to the State Universities Retirement System of Illinois, 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.*

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

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, 2018:

		Fair Value Measurements Using			
	Total	Quoted Prices in Active Markets for Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs Level 3	Investments Measured at NAV(A)
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	-	-
Total	106,725,910	77,046,019	961,391	-	28,718,500
Funds held in trust by others	2,172,815	2,172,815	-	-	-
	$ 108,898,725	$ 79,218,834	$ 961,391	$ -	$ 28,718,500

(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, 2018.

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, 2018, there were no securities classified as Level 3.

Note 15: Restatement of Prior Year Financial Statements

In prior years, the Foundation reported its financial statements under the standards for governmental entities promulgated by the Governmental Accounting Standards Board. During 2018, the Foundation determined that it did not meet the criteria to report as a governmental entity and instead should have been reporting on the basis of the Financial Accounting Standards Board's (FASB) financial accounting standards. As a result, the July 1, 2017 net assets were converted to the FASB financial accounting standards from the Government Accounting Standards. During this process, the Foundation also identified certain funding that was improperly recorded and should be classified as donor funds being managed on behalf of Northern Illinois University.

This conversion included the following adjustments to total net assets:

Net position previously reported, June 30, 2017	$ 122,898,510
Pledges receivable	955,341
Reclassification of donor funds managed for NIU	(3,092,551)
Net assets, as restated, July 1, 2017	$ 120,761,300

The impact as a result of this restatement on the change in net assets for the year ended June 30, 2017, is a decrease of $761,974, reducing the previously reported increase in net assets of $9,775,316 to $9,013,342.

Additionally, the conversion resulted in a reclassification of the components of net assets previously reported to those amounts as reflected in net assets, beginning of the year within the statement of activities.

Note 16: Future Change in Accounting Principle

Not-for-Profit Accounting Standard for Financial Reporting

The FASB issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities.* The standard distinguishes between two new classes of net assets, requires presentation of expenses by both nature and function, permits use of the indirect or direct method of reporting cash flows, requires certain information about liquidity and requires additional disclosures. The Foundation expects to first apply the ASU during its fiscal year ending June 30, 2019, through retrospective application to previous years' statements for comparative purposes. The impact of applying the ASU has not yet been determined.

Revenue Recognition

The 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, 2019, and any interim periods within annual reporting periods that begin after December 15, 2020. The Foundation expects to first apply the ASU during its fiscal year ending June 30, 2021. The impact of applying the ASU has not yet been determined.

Northern Illinois University Foundation

Notes to Financial Statements

June 30, 2018

Note 17: Subsequent Events

Subsequent events have been evaluated through January 25, 2019, which is the date the financial statements were available to be issued