

**STATE OF ILLINOIS  
NORTHEASTERN ILLINOIS UNIVERSITY  
FINANCIAL AUDIT  
(IN ACCORDANCE WITH THE SINGLE AUDIT ACT  
AND OMB CIRCULAR A-133)**

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

For the Year Ended June 30, 2005

**State of Illinois  
Northeastern Illinois University**

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**State of Illinois  
Northeastern Illinois University**

**Agency Officials**

President	Dr. Salme Harju Steinberg
Vice President for Finance and Administration	Mr. Mark Wilcockson, CPA
Associate Vice President - Financial and Administrative Affairs	Mr. David Jonaitis
Director of Financial Affairs / Controller	Ms. Peggy Ho
Acting Director of Internal Audit	Mr. Ronald Cierny, CPA
Executive Director – Office of University Budgets	Ms. Helen Ang

Agency offices are located at:

5500 North St. Louis Avenue  
Chicago, Illinois 60625

**State of Illinois  
Northeastern Illinois University**

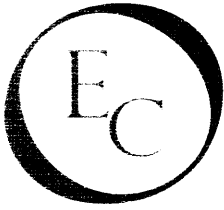
**Financial Statement Report**

**Summary**

The audit of the accompanying basic financial statements of the Northeastern Illinois University was performed by E.C. Ortiz and Co., L.L.P.

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

The auditors reported that the supplementary information presented in this section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and the auditors express no opinion on them.



## INDEPENDENT AUDITORS' REPORT

Honorable William G. Holland  
Auditor General  
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying basic financial statements of Northeastern Illinois University (University) and its aggregate discretely presented component unit, collectively a component unit of the State of Illinois, as of and for the year ended June 30, 2005, as listed in the Table of Contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year partial comparative information has been derived from the University's June 30, 2004 financial statements and, in our report dated November 4, 2004, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Northeastern Illinois University and of its aggregate discretely presented component unit as of June 30, 2005, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, the University implemented Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures*, an amendment to GASB Statement No. 3 as of July 1, 2004.

The *Management's Discussion and Analysis* on pages 6 to 17 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2005 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Northeastern Illinois University's basic financial statements. The accompanying supplementary information, as listed in the Table of Contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information, as listed in the Table of Contents, has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

*E. C. Prutz & Co. LLP*  
November 28, 2005

**STATE OF ILLINOIS  
NORTHEASTERN ILLINOIS UNIVERSITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section of Northeastern Illinois University's (University) Comprehensive Annual Report presents management's discussion and analysis of the University's financial position and activities during the fiscal year ended June 30, 2005 with comparative information for the year ended June 30, 2004. The discussion and analysis is designed to focus on current activities and currently known facts. Please read it in conjunction with the University's financial statements and related footnote disclosures. This discussion and analysis is focused on the University, a discussion and analysis of the University's Foundation can be found in the separately issued financial statements of the University's Foundation.

**USING THIS ANNUAL REPORT**

The University's annual report contains three financial statements: The Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. These financial statements are prepared in accordance with the Governmental Accounting Standards Board (GASB) Statements No. 34, *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements – and Management Discussion and Analysis – for Public Colleges and Universities*, as amended by GASB Statements No. 37 and 38. In fiscal year 2004, the University adopted GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. In fiscal year 2005, the University adopted GASB Statement No. 40, *Deposit and Risk Disclosures, an amendment to GASB Statement No. 3*, which addresses common deposit and investment risks related to credit risk (including custodial credit risk and concentration of credit risk), interest rate risk, and foreign currency risk, as applicable. These statements establish standards for external financial reporting and provide a consolidated perspective of the University's assets, liabilities, net assets, revenues, expenses, and cash flows.

The **Statement of Net Assets** presents the assets, liabilities, and net assets of the University as of the end of the fiscal year using the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided, and expenses and liabilities are recognized when a service is delivered to the University, regardless of when cash is exchanged. Net assets, the difference between total assets and total liabilities, is one indicator of the overall strength of the institution. Except for capital assets, all other assets and liabilities are measured at a point in time using current values. Capital assets are recorded at historical cost less an allowance for depreciation. For comparison purposes, comparative data are provided for the prior year.

The **Statement of Revenues, Expenses and Changes in Net Assets** presents the University's results of operations, as well as the non-operating revenues and expenses for the fiscal year. Operating revenues are generated by providing goods and services to various customers and constituencies of the institution. Operating expenses are incurred when goods and services are provided by vendors and employees for the overall operations of the University. Non-operating revenues and expenses include resources provided by the State and other non-operating transactions. For comparison purposes, comparative data are provided for the prior year.

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The **Statement of Cash Flows** presents the receipt and use of cash and cash equivalents in the University's operating, financing, and investing activities during the fiscal year and provides a view of the University's ability to meet financial obligations as they mature. For comparison purposes, comparative data are provided for the prior year.

The **Notes to Financial Statements** are a crucial component of the report because they include important background and financial information that may not be reflected on the face of the statements. Details on the University's accounting policies, long-term debt obligations, cash holdings, capital assets, and other important areas are presented in the footnotes.

### **FINANCIAL HIGHLIGHTS**

Highlights of the University's financial position for the fiscal year ended June 30, 2005 are presented below:

- The University's total net assets decreased over the prior year by \$0.1 million to \$88.0 million, of which \$89.8 million is either invested in capital or restricted assets.
- The University has total assets of \$129.4 million, including current assets of \$14.0 million and non-current assets of \$115.4 million.
- The University has total liabilities of \$41.4 million, including current liabilities of \$11.3 million and non-current liabilities of \$30.1 million.
- The total operating revenues of the University are \$77.3 million, including \$28.2 million in student tuition and fees, net of scholarship allowances, and \$26.5 million in grants and contracts.
- The total operating expenses of the University are \$118.9 million, including \$38.4 million in instruction and \$30.2 million in institutional support.
- The operating loss of \$41.6 million was 93% funded by non-operating revenues, including State appropriations, gifts and donations, investment income and other non-operating revenues. As a result, net loss before other revenues, expenses, gains and losses totaled \$2.9 million.

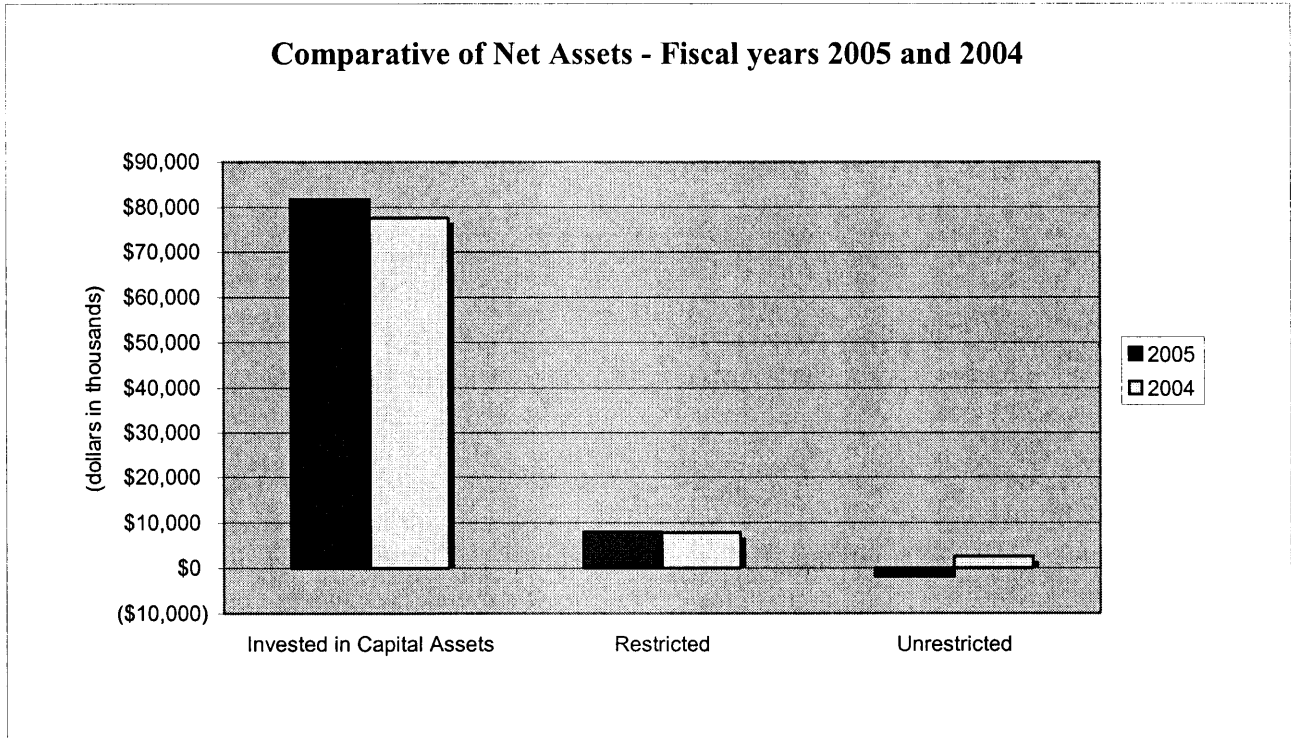


**STATE OF ILLINOIS  
NORTHEASTERN ILLINOIS UNIVERSITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FINANCIAL ANALYSIS**

Following are condensed financial statements. Certain significant items are discussed in further detail following each respective statement.

**Statements of Net Assets**



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**Condensed Statement of Net Assets  
as of June 30, 2005 and 2004  
(dollars in thousands)**

	<u>2005</u>	<u>2004</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
<b>ASSETS</b>				
Current Assets	\$ 14,020	\$ 13,712	\$ 308	2.2%
Noncurrent Assets				
Long-Term Investments	8,798	9,902	(1,104)	-11.1%
Noncurrent Receivables	2,335	2,244	91	4.1%
Capital Assets	100,919	87,361	13,558	15.5%
Restricted Assets	2,767	13,870	(11,103)	-80.1%
Other	546	584	(38)	-6.5%
<b>Total Assets</b>	<u>129,385</u>	<u>127,673</u>	<u>1,712</u>	<u>1.3%</u>
<b>LIABILITIES</b>				
Current Liabilities	11,341	9,586	1,755	18.3%
Noncurrent Liabilities				
Compensated Absences	8,658	8,298	360	4.3%
Revenue Bonds Payable	21,420	21,730	(310)	-1.4%
<b>Total Liabilities</b>	<u>41,419</u>	<u>39,614</u>	<u>1,805</u>	<u>4.6%</u>
<b>NET ASSETS</b>				
Invested in Capital Assets	81,785	77,633	4,152	5.3%
Restricted	8,039	7,846	193	2.5%
Unrestricted	(1,858)	2,580	(4,438)	-172.0%
<b>Total Net Assets</b>	<u>\$ 87,966</u>	<u>\$ 88,059</u>	<u>\$ (93)</u>	<u>-0.1%</u>

**Current Assets** - The majority of the Current Assets of the University consist of cash and cash equivalents of \$6.0 million and net receivables of \$6.8 million, including \$3.5 million in grants receivable, \$.1 million in student loans receivable, \$2.0 million in tuition and fees receivable and \$1.2 million in other receivables. Total current assets increased by \$.3 million from the prior year. This is the net result of the \$4.4 million decrease in cash and cash equivalents primarily due to the 4.7 percent average increase in employee salaries, the \$1.0 million increase in short-term investment, and \$3.8 million increase in receivables due to the slower payment of grant funds.

**Noncurrent Assets** - As of June 30, 2005, the University had total non-current assets of \$115.4 million compared with \$114.0 million at June 30, 2004. This net increase of \$1.4 million is primarily due to the decrease in restricted cash and cash equivalents of \$11.1 million, the

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decrease in long-term investment of \$1.1 million, and increase in capital assets of \$13.6 million. The decrease in restricted cash and cash equivalents reflects expenditures on capital projects. The increase in capital assets is primarily due to the construction projects; the remodeling of Building C and the construction of a multi-level parking structure, which is substantially complete.

**Capital Assets, Net  
as of June 30, 2005 and 2004  
(dollars in thousands)**

	<u>2005</u>	<u>2004</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Capital Assets				
Land and Land Improvements	\$ 7,508	\$ 6,894	\$ 614	8.9%
Site Improvements	5,931	5,780	151	2.6%
Building	95,464	93,644	1,820	1.9%
Equipment	30,449	28,963	1,486	5.1%
Construction in Progress	19,016	6,505	12,511	192.3%
Total	<u>158,368</u>	<u>141,786</u>	<u>16,582</u>	<u>11.7%</u>
Less: Accumulated Depreciation	<u>57,449</u>	<u>54,425</u>	<u>3,024</u>	<u>5.6%</u>
Net Capital Assets	<u>\$ 100,919</u>	<u>\$ 87,361</u>	<u>\$ 13,558</u>	<u>15.5%</u>

**Current Liabilities** - Current liabilities consist primarily of accounts payable and accrued liabilities of \$5.5 million, deferred revenues for summer tuition of \$2.5 million, and the current portion of the liability for compensated absences of \$2.9 million. Total current liabilities increased by \$1.7 million. This increase is primarily due to the \$1.4 million increase in accounts payable and accrued liabilities, the \$.2 million increase in the deferred revenue, and the \$.1 million increase in the current portion of compensated absences, which is estimated based on the current year's usage.

**Non-current Liabilities** – Non-current liabilities consist of long-term debt and other obligations for which the principal is due more than one year from the statement of net assets date. Long-term debt totaled \$30.1 million at June 30, 2005 as compared to \$30.0 million at June 30, 2004. The increase of the \$.1 million is due to the \$.4 million increase in the compensated absences, and \$.3 million decrease in the revenue bonds payable. The University's current Revenue Bonds payable consists of University Facilities Revenue Bonds Series 1973, University Facilities System Revenue Bonds Series 1997 and University Facilities System Revenue Bonds Series 2004. Fiscal year 2005 principal repayments for the three revenue bonds are as follows:

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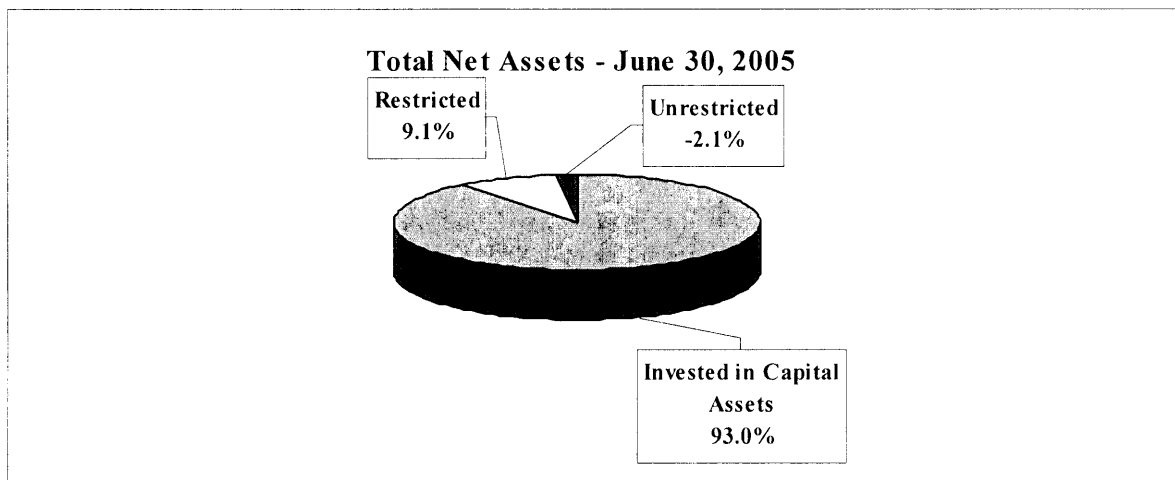
Debt Type	Principal Paid in FY 2005
Revenue Bonds Series 1973	\$115,000
Revenue Bonds Series 1997	\$175,000
Revenue Bonds Series 2004*	\$0
<b>Total Principal Paid</b>	<b>\$290,000</b>

\* No principal repayment until year 2014

**Total Net Assets** - Net assets are divided into three major categories. The first category, invested in capital assets, net of related debt, reports the University net equity in property, plant and equipment. The second category, restricted net assets, reports net assets that are owned by the University, but the use or purpose of the funds is restricted by an external source or entity. The third category is unrestricted net assets, which are available to be used for any lawful purpose of the University. The total net assets decreased by \$.1 million over the prior year. This decrease is a net result of 3 items; a \$4.1 million increase in invested capital assets, net of related debts, a \$.2 million increase in restricted net assets, and a \$4.4 million decrease in unrestricted net assets, which is primarily due to the increase in employee salaries and the cost of supplies. The following is a breakdown of the \$8.0 million restricted net assets:

**Restricted Net Assets  
as of June 30, 2005 and 2004  
(dollars in thousands)**

	<u>2005</u>	<u>2004</u>
Grants and Contracts	\$ 1,269	\$ 1,193
Student loans	2,921	2,745
Debt Service	1,611	1,712
Other	2,238	2,196
<b>Total Restricted Net Assets</b>	<b><u>\$ 8,039</u></b>	<b><u>\$ 7,846</u></b>



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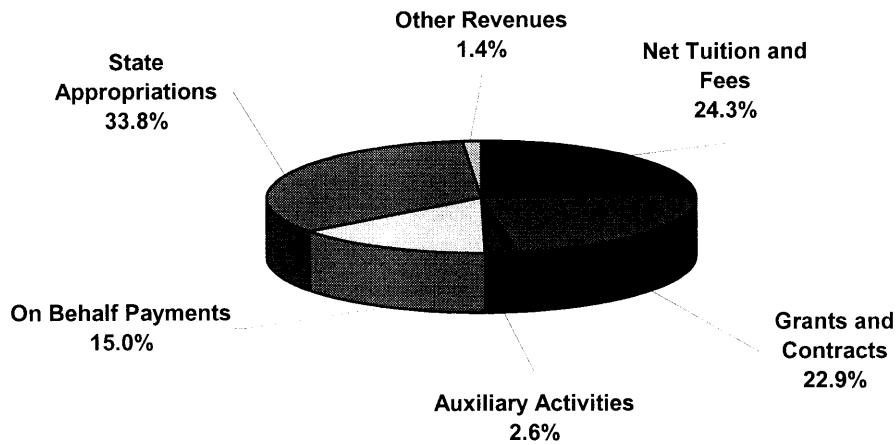
**Statements of Revenues, Expenses, and Changes in Net assets**

**Condensed Statement of Revenues, Expenses, and Changes in Net Assets  
For the Years Ended June 30, 2005 and 2004  
(dollars in thousands)**

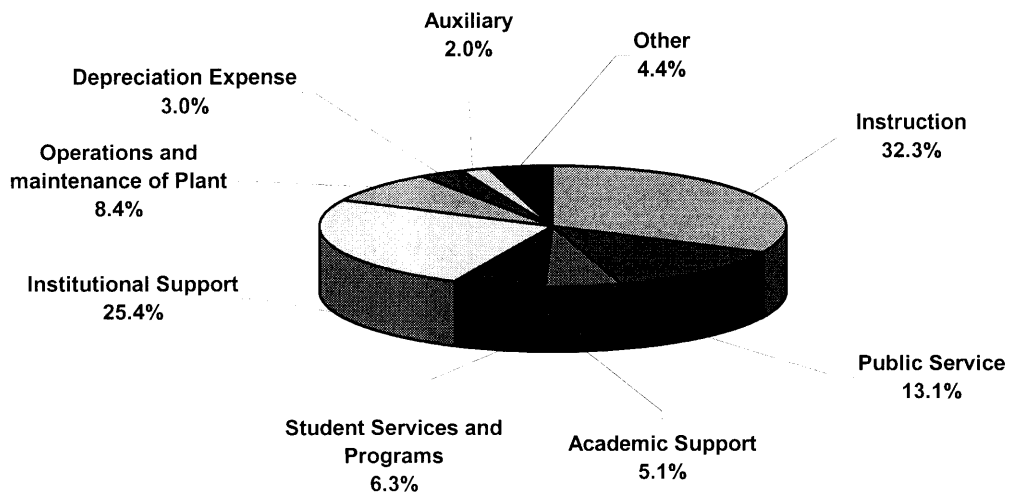
	<u>2005</u>	<u>2004</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
<b>OPERATING REVENUES</b>				
Net Tuition and Fees	\$ 28,186	\$ 25,452	\$ 2,734	10.7%
Grants and Contracts	26,540	23,514	3,026	12.9%
Auxilliary Enterprises	3,090	2,733	357	13.1%
On Behalf Payments	17,438	41,691	(24,253)	-58.2%
Other	2,054	2,082	(28)	-1.3%
Total Operating Revenues	<u>77,308</u>	<u>95,472</u>	<u>(18,164)</u>	<u>-19.0%</u>
<b>OPERATING EXPENSES</b>				
Instruction	38,388	36,277	2,111	5.8%
Public Service	15,605	12,643	2,962	23.4%
Academic Support	6,080	6,490	(410)	-6.3%
Student Services and Programs	7,535	7,161	374	5.2%
Institutional Support - Operations	12,733	9,966	2,767	27.8%
Institutional Support - On Behalf Payments	17,438	41,691	(24,253)	-58.2%
Operations and Maintenance of Plant	9,997	9,924	73	0.7%
Depreciation Expense	3,563	4,394	(831)	-18.9%
Auxiliary	2,378	2,228	150	6.7%
Other	5,214	5,411	(197)	-3.6%
Total Operating Expenses	<u>118,931</u>	<u>136,185</u>	<u>(17,254)</u>	<u>-12.7%</u>
Operating Loss	<u>(41,623)</u>	<u>(40,713)</u>	<u>(910)</u>	<u>2.2%</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
State Appropriations	39,204	38,362	842	2.2%
Other Nonoperating Revenues	555	93	462	496.8%
Other Nonoperating Expenses	(996)	(466)	(530)	113.7%
Total Nonoperating Revenues	<u>38,763</u>	<u>37,989</u>	<u>774</u>	<u>2.0%</u>
<b>NET LOSS</b>	<u>(2,860)</u>	<u>(2,724)</u>	<u>(136)</u>	<u>5.0%</u>
Loss on Disposal of Capital Assets	(142)	(180)	38	-21.1%
Capital Additions Provided by State of Illinois	2,910	5,526	(2,616)	-47.3%
<b>CHANGES IN NET ASSETS</b>	<u>(92)</u>	<u>2,622</u>	<u>(2,714)</u>	<u>-103.5%</u>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>88,059</u>	<u>85,437</u>	<u>2,622</u>	<u>3.1%</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 87,967</u>	<u>\$ 88,059</u>	<u>\$ (92)</u>	<u>-0.1%</u>

**STATE OF ILLINOIS  
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MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Total Revenue by Source - June 30, 2005**



**Operating Expenses - June 30, 2005**



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**Operating Revenue** – Total operating revenues decreased by \$18.2 million. This is the result of the increase in tuition and fees of \$2.7 million due to a 4.5% increase in the undergraduate tuition and fee rates and a modest increase in student enrollment, the increase in the Federal grants of \$2.8 million and the decrease in the On Behalf Payments of \$24.3 million, which is a result of an extraordinary payment allocation of \$30.7 million received in fiscal year 2004 by the State Universities Retirement System on behalf of Northeastern, primarily from the State of Illinois Pension Bonds.

**Operating Expenses** – Instruction accounted for the largest portion of operating expenses at \$38.4 million. Institutional Support is the next largest at \$30.2 million. These two sources, plus Public Service at \$15.6 million, Student Services at \$7.5 million and Academic Support at \$6.1 million, account for approximately 82% of the operating expenses of the University. Operating expenses decreased by \$17.3 million. This decrease is a net result of 3 items; employee salaries, which represents 56% of total operating expenses, increased by \$3.7 million due to a 4.7% average salary increases throughout every functional category, Public Service increased by \$3.0 million, which is in line with the increase of Federal awards, and On Behalf Payments under Institutional Support decreased by \$24.3 million as a result of the payment allocation for the retirement contribution in fiscal year 2004.

**Nonoperating Revenues (Expenses)** – Consist of State appropriations, gifts and donations, investment income, and other nonoperating revenues, less interest on capital assets related debt. Total nonoperating revenues increased by \$.8 million from the prior year. This increase is primarily due to the increase of \$.9 million in State appropriations.

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**Statements of Cash Flows**

**Condensed Statement of Cash Flows  
For the Years Ended June 30, 2005 and 2004  
(dollars in thousands)**

	<u>2005</u>	<u>2004</u>	<u>Increase (decrease)</u>	<u>Percent Change</u>
Cash provided by operating activities	\$ 59,990	\$ 58,142	\$ 1,848	3.2%
Cash used in operating activities	(100,341)	(94,471)	(5,870)	6.2%
<b>Net cash used in operating activities</b>	<b>(40,351)</b>	<b>(36,329)</b>	<b>(4,022)</b>	<b>11.1%</b>
Net cash provided by noncapital financing activities	39,447	38,402	1,045	2.7%
Net cash provided by (used in) capital financing activities	(15,125)	8,288	(23,413)	-282.5%
Net cash provided by (used in) investing activities	488	(6,255)	6,743	-107.8%
<b>Net increase (decrease) in cash</b>	<b>(15,541)</b>	<b>4,106</b>	<b>(19,647)</b>	<b>-478.5%</b>
<b>Cash - beginning of the year</b>	<b>24,269</b>	<b>20,163</b>	<b>4,106</b>	<b>20.4%</b>
<b>Cash - end of the year</b>	<b>\$ 8,728</b>	<b>\$ 24,269</b>	<b>\$(15,541)</b>	<b>-64.0%</b>

The primary cash receipts from operating activities consist of tuition and fees of \$27.8 million and grants and contracts of \$24.4 million. Cash outlays included payments to employees of \$66.0 million, payments for fringe benefits of \$2.1 million and payments to suppliers of \$26.7 million.

The State appropriation of \$39.2 million is the primary source of noncapital financing. The accounting standards require the University to reflect this source of revenue as nonoperating even though the University's budget depends on this to continue the current level of operations.

The main capital financing activities included the purchases of capital assets and construction of \$14.0 million, and debt service payment of \$1.1 million.

Investing activities reflect purchases, sales and interest income earned on investments. The rise in interest rate and unrealized market fluctuation resulted in an increase of \$.4 million in investment income.

The total net cash decreased by \$19.6 million compared to the fiscal year 2004. The decrease is primarily due to the expenditures on capital projects.



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**SIGNIFICANT FINANCIAL EVENTS IMPACTING FUTURE PERIODS**

The discussion of significant financial events that could impact future periods must be set in the context of two important themes – first, that the University's highest priority is our continuing commitment to furthering our mission and second, financial events and trends that continue to emerge, both internally and externally, that affect the University are dealt with based on our commitment to our mission.

Regarding our mission, the University is focused and committed to the four principles contained in our mission statement: excellence, access, diversity and community. Our fall 2005 enrollments are at an all-time high of 12,227 students and demonstrate the demands from students for our courses and programs, and our success in providing an accessible and affordable education. In what can be described as challenging financial times, the University has continued to improve our educational programs by increasing the number of full-time, tenure-track faculty and increasing the number of course sections available to students. The University also established a committee to make recommendations that will lead to improvements in student retention and ways to shorten time-to-degree. We continue to be the most diverse university in the Midwest, according to *US News and World Report*, and our partnerships with local schools, community colleges, government agencies and private foundations reinforce and extend our educational mission beyond our campus.

These successes also present challenges. Most significantly, the State of Illinois continues to provide state funding to Illinois higher education and Northeastern at levels significantly below previous years. In fiscal year 2002, the University's state General Funds appropriation was \$45.4 million. In fiscal year 2006, our General Funds appropriation is \$39.2 million. The Governor and Illinois General Assembly have not included appropriations increases in the University's operating budget for salary enhancements, deferred maintenance, instructional staffing and academic program enhancements for several years. Due to the State of Illinois budget situation, no new funds were appropriated to NEIU for these or other services in fiscal year 2006. However, the decline in state funding appears to have slowed as the University received level state funding in fiscal years 2005 and 2006; appropriations continued to be at the fiscal year 2004 appropriation level.

Even with level state funding, our budget challenges continue. Over the past several years, as state funding declined, pressure built to address faculty and staff compensation levels and recruiting and retaining the best faculty and staff. While progress was made with salaries in fiscal years 2005 and 2006, salary competitiveness continues to be an issue. Our students need and demand the latest technology and the University is progressing with a multi-year plan to consolidate our currently disparate information systems into a fully integrated information system. Our projections for utility costs, primarily natural gas, show continuing budgetary pressures. Additional resources are needed to meet basic cost increases in equipment and supplies. And finally, with increased enrollments comes increased teaching and support needs, all of which have resource implications.

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NORTHEASTERN ILLINOIS UNIVERSITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The University also will continue to pay a \$1.1 million required contribution to the State of Illinois Health Insurance Reserve Fund. This mandate started in fiscal year 2002. In addition, beginning in fiscal year 2006, the University will be required to make a new contribution to the State Universities Retirement System for certain requirement benefits. The trend in shifting state costs to the public universities results in fewer state resources available for ongoing operations, even with level appropriations.

For fiscal year 2006, the University implemented tuition increases of 9.6% for undergraduate students and 9.7% for graduate students. The University is subject to the state-mandated Tuition Guarantee Program which holds tuition level for four years for new undergraduate students first enrolling in the University in fall 2004 and thereafter. Students newly enrolling in fall 2005 are the second cohort at Northeastern under this legislation. The combination of level state funding and growth in tuition revenue results in an overall increase in the unrestricted operating budget of \$3.0 million, or 4.3%, in fiscal year 2006. While the budget increase is better news than in previous years, the University continues to encounter expenditure needs that exceed available resources. In addition, the tuition increases we are asking our students to pay, while not out of line with other Illinois public universities, are larger than we would like. Ideally, the University seeks a better balance between increasing state and student contributions.

Overall, because of high student demand and the University's continuing efforts to focus limited resources on our core missions – excellence, access, diversity and partnerships - the operating budget for fiscal year 2006 will minimally support the academic and support needs of our students, avoid layoffs to faculty and staff, and maintain the highest level of quality instruction. However, the continued lack of new funding from the State of Illinois continues to not only affect the financial contributions we are asking of our students but also impacts the University's ability to attract and retain faculty and staff, address student technology needs and deferred maintenance, and enhance academic quality and student support systems.

### **CONTACTING NEIU'S FINANCIAL MANAGEMENT**

This financial report is designed to provide taxpayers, our bondholders, and other interested parties with a general overview of NEIU's finances and to show the University's stewardship and accountability for the money it receives. If you have questions about this report or need additional financial information, contact Mark Wilcockson, Vice President for Finance and Administration, or Peggy Ho, Director of Financial Affairs/Controller, at 5500 N. St. Louis Avenue, Chicago, IL 60625.

STATE OF ILLINOIS  
NORTHEASTERN ILLINOIS UNIVERSITY  
STATEMENT OF NET ASSETS

	JUNE 30,			
	2005		(Comparative totals only) 2004	
	University	Foundation	University	Foundation
<b>ASSETS</b>				
<b>Current assets:</b>				
Cash and cash equivalents	\$ 5,960,370	\$ 302,068	\$ 10,399,132	\$ 345,221
Short-term investments	1,001,560	910,731	-	810,209
Receivables				
Grants	3,566,901	-	1,391,366	-
Student loans, net of allowance for doubtful accounts of \$324,360 in 2005 and \$407,920 in 2004	69,101	-	71,418	-
Tuition and fees, net of allowance for doubtful accounts of \$501,482 in 2005 and \$406,115 in 2004	1,961,913	-	1,360,546	-
Other receivables, net of allowance for doubtful accounts of \$868,924 in 2005 and \$852,694 in 2004	1,238,767	-	259,884	-
Inventories	90,375	-	83,003	-
Deferred charges	112,643	-	147,026	-
Other assets	18,823	3,326	-	2,967
<b>Total current assets</b>	<b>\$ 14,020,453</b>	<b>1,216,125</b>	<b>13,712,375</b>	<b>1,158,397</b>
<b>Noncurrent assets:</b>				
Restricted cash and cash equivalents	2,767,284	2,276,770	13,869,697	-
Investments	8,797,555	-	9,902,077	1,181,658
Receivables				
Student loans, net of allowance for doubtful accounts of \$404,344 in 2005 and \$390,923 in 2004	2,276,794	-	2,202,441	-
Tuition and fees, net of allowance for doubtful accounts of \$363,948 in 2005 and \$283,223 in 2004	57,651	-	42,151	-
Unamortized bond issue costs	545,878	-	583,524	-
Capital assets				
Land and land improvements	7,508,237	-	6,893,876	-
Site improvements, net of accumulated depreciation of \$2,593,894 in 2005 and \$2,348,955 in 2004	3,337,433	-	3,431,040	-
Buildings and building improvements, net of accumulated depreciation of \$31,939,401 in 2005 and \$30,183,183 in 2004	63,524,580	-	63,460,590	-
Equipment, net of accumulated depreciation of \$22,915,785 in 2005 and \$21,892,327 in 2004	7,532,656	-	7,070,872	-
Construction in progress	19,016,361	-	6,504,746	-
Other assets	-	21,714	-	396,714
<b>Total noncurrent assets</b>	<b>115,364,429</b>	<b>2,298,484</b>	<b>113,961,014</b>	<b>1,578,372</b>
<b>Total assets</b>	<b>\$ 129,384,882</b>	<b>\$ 3,514,609</b>	<b>\$ 127,673,389</b>	<b>\$ 2,736,769</b>

STATE OF ILLINOIS  
NORTHEASTERN ILLINOIS UNIVERSITY  
STATEMENT OF NET ASSETS

	JUNE 30,			
	2005		(Comparative totals only) 2004	
	University	Foundation	University	Foundation
<b>LIABILITIES</b>				
<i>Current liabilities:</i>				
Accounts payable and accrued liabilities	\$ 5,510,670	\$ 5,880	\$ 4,128,270	\$ 3,417
Deferred revenues	2,479,588	-	2,265,979	-
Liability for compensated absences	2,895,285	-	2,832,494	-
Revenue bonds payable	310,000	-	290,000	-
Funds held in custody for others	145,028	-	69,321	-
<b>Total current liabilities</b>	<u>11,340,571</u>	<u>5,880</u>	<u>9,586,064</u>	<u>3,417</u>
<i>Noncurrent liabilities:</i>				
Liability for compensated absences	8,657,750	-	8,298,550	-
Revenue bonds payable	21,420,000	-	21,730,000	-
<b>Total noncurrent liabilities</b>	<u>30,077,750</u>	<u>-</u>	<u>30,028,550</u>	<u>-</u>
<b>Total liabilities</b>	<u>41,418,321</u>	<u>5,880</u>	<u>39,614,614</u>	<u>3,417</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debts	81,785,295	-	77,633,224	-
Restricted for:				
Nonexpendable				
Scholarships and charitable trust	-	2,276,770	-	1,556,658
Expendable				
Grants and contracts	1,268,782	-	1,193,268	-
Student loans	2,921,167	-	2,744,423	-
Debt service	1,610,810	-	1,711,943	-
Other	2,238,164	633,904	2,196,391	562,705
Unrestricted	(1,857,657)	598,055	2,579,526	613,989
<b>Total net assets</b>	<u>\$ 87,966,561</u>	<u>\$ 3,508,729</u>	<u>\$ 88,058,775</u>	<u>\$ 2,733,352</u>

See accompanying notes to basic financial statements

**STATE OF ILLINOIS  
NORTHEASTERN ILLINOIS UNIVERSITY  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**

	<b>FOR THE YEAR ENDED JUNE 30,</b>			
			<b>(Comparative Totals Only)</b>	
	<b>2005</b>		<b>2004</b>	
	<b>University</b>	<b>Foundation</b>	<b>University</b>	<b>Foundation</b>
<b>OPERATING REVENUES</b>				
Student tuition and fees (net of scholarship allowances of \$5,939,311 in 2005 and \$5,760,120 in 2004)	\$ 28,186,112	\$ -	\$ 25,451,906	\$ -
Federal grants and contracts	21,087,782	-	18,256,130	-
State and local grants	3,836,300	-	3,657,331	-
Nongovernmental grants and contracts	1,615,346	-	1,599,912	-
Auxiliary enterprises	3,090,323	-	2,732,849	-
Payments on behalf of the University	17,437,422	-	41,691,093	-
Other operating revenues	2,054,402	743,979	2,082,350	581,511
<b>Total operating revenues</b>	<b>77,307,687</b>	<b>743,979</b>	<b>95,471,571</b>	<b>581,511</b>
<b>OPERATING EXPENSES</b>				
Instruction	38,387,677	-	36,277,496	-
Research	178,153	-	148,649	-
Public service	15,604,667	-	12,642,553	-
Academic support	6,080,010	-	6,489,656	-
Student services and programs	7,534,838	-	7,161,374	-
Institutional support	30,171,195	-	51,657,053	-
Operation and maintenance of plant	9,997,060	-	9,923,853	-
Scholarships and fellowships	4,824,937	-	4,943,364	-
Auxiliary enterprises	2,378,313	-	2,228,268	-
Depreciation expense	3,563,528	-	4,394,294	-
Other operating expenses	210,638	421,867	318,270	366,575
<b>Total operating expenses</b>	<b>118,931,016</b>	<b>421,867</b>	<b>136,184,830</b>	<b>366,575</b>
<b>Operating income (loss)</b>	<b>(41,623,329)</b>	<b>322,112</b>	<b>(40,713,259)</b>	<b>214,936</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
State Appropriations				
General revenue fund	39,203,830	-	38,299,915	-
Capital development fund	-	-	62,404	-
Gifts and donations	100,000	-	3,000	-
Investment income	385,046	-	20,117	-
Interest on indebtedness	(995,779)	-	(466,101)	-
Other nonoperating revenue	70,000	-	70,000	-
<b>Net nonoperating revenues</b>	<b>38,763,097</b>	<b>-</b>	<b>37,989,335</b>	<b>-</b>
<b>Income (loss) before other revenues, expenses, gains and losses</b>	<b>(2,860,232)</b>	<b>322,112</b>	<b>(2,723,924)</b>	<b>214,936</b>
Additions to permanent endowments	-	453,265	-	21,216
Loss on disposal of capital assets	(142,313)	-	(179,993)	-
Capital additions provided by State of Illinois	2,910,331	-	5,525,577	-
<b>Increase (decrease) in Net Assets</b>	<b>(92,214)</b>	<b>775,377</b>	<b>2,621,660</b>	<b>236,152</b>
<b>NET ASSETS</b>				
Net assets - beginning of year	88,058,775	2,733,352	85,437,115	2,497,200
<b>Net assets - end of year</b>	<b>\$ 87,966,561</b>	<b>\$ 3,508,729</b>	<b>\$ 88,058,775</b>	<b>\$ 2,733,352</b>

See accompanying notes to basic financial statements

**STATE OF ILLINOIS  
NORTHEASTERN ILLINOIS UNIVERSITY  
STATEMENT OF CASH FLOWS**

**FOR THE YEAR ENDED JUNE, 30**

	(Comparative Totals Only)			
	2005		2004	
	University	Foundation	University	Foundation
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Tuition and fees	\$ 27,757,735	\$ -	\$ 25,549,677	\$ -
Grants and contracts	24,363,894	-	24,311,079	-
Payments to employees	(66,045,288)	-	(62,624,024)	-
Payments for fringe benefits	(2,073,379)	-	(2,887,583)	-
Payments to suppliers	(26,660,295)	(353,861)	(23,210,148)	(303,573)
Payments for scholarships and fellowships	(4,790,553)	-	(4,915,858)	-
Loans issued to students	(771,663)	-	(833,293)	-
Collections of loans to students	664,858	-	666,996	-
Auxiliary enterprises	3,129,713	-	2,768,468	-
Other receipts	4,073,197	1,053,077	4,845,619	506,004
Net cash provided by (used in) operating activities	<u>(40,351,781)</u>	<u>699,216</u>	<u>(36,329,067)</u>	<u>202,431</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
State appropriations	39,203,830	-	38,299,915	-
Gifts	100,000	-	3,000	-
Agency transactions	73,279	-	29,402	-
Other noncapital financing activities	70,000	453,265	70,000	21,216
Net cash provided by noncapital financing activities	<u>39,447,109</u>	<u>453,265</u>	<u>38,402,317</u>	<u>21,216</u>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>				
Purchases of capital assets and construction	(14,012,722)	-	(8,003,138)	-
Principal paid on capital debt and leases	(290,000)	-	(275,000)	-
Interest paid on capital debt and leases	(821,789)	-	(466,101)	-
Proceeds from capital debt	-	-	16,970,000	-
Capital appropriations	-	-	62,404	-
Net cash provided by (used in) capital financing activities	<u>(15,124,511)</u>	<u>-</u>	<u>8,288,165</u>	<u>-</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Proceeds from sales and maturities of investments	1,004,210	321,859	1,462,689	406,936
Interest on investments	385,046	-	20,117	-
Purchases of investments	(901,248)	(1,517,493)	(7,738,377)	(953,747)
Net cash provided by (used in) investing activities	<u>488,008</u>	<u>(1,195,634)</u>	<u>(6,255,571)</u>	<u>(546,811)</u>
Net decrease in cash and cash equivalents	(15,541,175)	(43,153)	4,105,844	(323,164)
Cash and cash equivalents - beginning of year	24,268,829	345,221	20,162,985	668,385
Cash and cash equivalents - end of year	<u>\$ 8,727,654</u>	<u>\$ 302,068</u>	<u>\$ 24,268,829</u>	<u>\$ 345,221</u>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:</b>				
Operating income (loss)	\$ (41,623,329)	\$ 322,112	\$ (40,713,259)	\$ 214,936
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation expense	3,563,528	-	4,394,294	-
Changes in assets and liabilities:				
Receivables, net	(3,843,320)	-	550,491	-
Deferred charges and other assets	53,207	374,641	(556,018)	(9,415)
Inventories	(7,372)	-	46,356	-
Accounts payable and accrued liabilities	639,672	2,463	(479,135)	(3,090)
Accrued salaries and wages	230,233	-	(46,552)	-
Liability for compensated absences	421,991	-	144,189	-
Deferred revenue	213,609	-	330,567	-
Net cash provided by (used in) operating activities	<u>\$ (40,351,781)</u>	<u>\$ 699,216</u>	<u>\$ (36,329,067)</u>	<u>\$ 202,431</u>
<b>Noncash operating, investing capital financing activities:</b>				
On-behalf payments for fringe benefits	\$ 17,437,422		\$ 41,691,093	
Capital asset acquisition via capital appropriations	2,910,331		5,525,577	
	<u>\$ 20,347,753</u>		<u>\$ 47,216,670</u>	

See accompanying notes to basic financial statements

# State of Illinois

## Northeastern Illinois University

### Notes to Basic Financial Statements

#### 1. Summary of Significant Accounting Policies

The significant accounting policies followed by Northeastern Illinois University (the “University” or “NEIU”) are presented below to assist the reader in evaluating the financial statements and accompanying notes.

#### Reporting Entity

Northeastern Illinois University (the University), an agency of the State of Illinois, with a primary focus on postsecondary instruction, research and public service, is located in Chicago, Illinois. The governing body of the University is the Board of Trustees of Northeastern Illinois University created in January, 1996, as a result of legislation to reorganize governance of state public universities. Northeastern Illinois University is the oversight unit, which includes all applicable funds, departments and entities for which the University is considered financially accountable and over which the University exercises oversight responsibility. Oversight responsibility is defined to include, but is not limited to, the following considerations: financial interdependency, designation of management, ability to significantly influence operations, accountability for fiscal matters, the scope of an organization's public service, and/or special financing relationships. As required by generally accepted accounting principles, these financial statements present the financial position and financial activities of the University and its component unit, Northeastern Illinois University Foundation (the Foundation). The Foundation is included in the University's reporting entity because of the significance of its financial relationship with the University.

The Foundation is a University Related Organization as defined under University Guidelines adopted by the State of Illinois Legislative Audit Commission in 1982 and amended September, 1997. The Foundation was formed for the purpose of providing fund raising and other assistance to the University in order to attract private gifts to support the University's instructional, research, and public service activities. In this capacity, the Foundation solicits, receives, holds, and administers gifts for the benefit of the University.

The University is a component unit of the State of Illinois for financial reporting purposes. The financial balances and activities included in these financial statements are, therefore, also included in the State's comprehensive annual financial report.

Complete financial statements for the Foundation may be obtained by writing to the NEIU Foundation Executive Director, Northeastern Illinois University, 5500 North St. Louis Ave., Chicago, Illinois 60625.

# State of Illinois

## Northeastern Illinois University

### Notes to Basic Financial Statements, continued

#### *Basis of Accounting*

The financial statements of the University are prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when incurred. All significant intra-agency transactions have been eliminated. The University adopted GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, an amendment of GASB Statement No. 3 on July 1, 2004. This new standard enhances the deposit and investment risk disclosures by updating the custodial credit risk disclosure requirements of GASB Statement No. 3 and addressing other common risks, including concentration of credit risk, interest rate risk, and foreign currency risk.

The University follows all applicable Financial Accounting Standards Board (FASB) statements issued prior to December 1, 1989, to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). The University has elected not to apply FASB pronouncements issued after November 30, 1989.

The financial statements are prepared in accordance with GASB Statement No. 35, *Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities* and follow the special purpose governments engaged only in “business-type” activities requirements, which requires the following components of the University’s financial statements:

#### **Management’s Discussion and Analysis**

Provides an objective analysis of the University’s financial activities based on facts, decisions and conditions.

#### **Basic Financial Statements including a Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets and Statement of Cash Flows**

- The Statement of Net Assets details current assets/liabilities and noncurrent assets/liabilities. In general, current assets are those that are available to satisfy current liabilities. Current liabilities are those that will be paid within one year of the date of the Statement of Net Assets. Other assets and liabilities due beyond one year are noncurrent. Net Assets are divided into three major categories; 1) Invested in capital assets, net of related debt, 2) Restricted net assets, and 3) Unrestricted net assets.



**State of Illinois**  
**Northeastern Illinois University**  
**Notes to Basic Financial Statements, continued**

- The Statement of Revenues, Expenses and Changes in Net Assets provides operating and nonoperating revenues and expenses, and displays the net income or loss from operations and total changes in net assets.
- The Statement of Cash Flows details the change in the cash and cash equivalents balance for the fiscal year and is prepared using the direct method. Cash and cash equivalents include bank accounts and investments with original maturities of ninety days or less at the time of purchase. Such investments consist primarily of U.S. Treasury bills, commercial paper, and money market funds. This statement provides information related to cash receipts and cash payments during the year. The statement also helps users to evaluate the University's ability to meet financial obligations as they mature.

**Notes to Basic Financial Statements**

Provides additional analysis of the University's Basic Financial Statements.

**Operating and Nonoperating Revenues**

Operating revenues of the University consist of student tuition and fees, grants and contracts, student union sales and services, parking revenues and other operating revenues. Transactions relating to capital or financing activities, noncapital financing activities, investing activities and State appropriations are components of nonoperating income. Restricted and unrestricted resources are used at the discretion of the University, within the proper guidelines. The University first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

**Auxiliary Enterprises**

The auxiliary enterprises are primarily composed of the student union and parking facilities operations.

**Use of Estimates**

The preparation of 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 and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses. Actual results could differ from those estimates.

**State of Illinois**  
**Northeastern Illinois University**  
**Notes to Basic Financial Statements, continued**

**Cash and Cash Equivalents**

The University considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. Cash equivalents consist principally of certificates of deposit and U.S. government securities, and are stated at cost.

**Investments and Marketable Securities**

The University accounts for its investments and marketable securities at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

For the joint investing activity of the Foundation, interest and dividends on investments are allocated to funds, which participated in the investment purchase according to the fund's appropriate share of the total investment.

**Inventories**

Inventories are carried at the lower of cost (determined by the first-in and first-out or average cost method depending on the nature of the inventory item) or market.

**Unamortized Bond Issue Costs**

Amortization of unamortized bond issue costs is calculated on a straight-line basis over the term of the related debt.

**Capital Assets**

Capital assets reported in the Statement of Net Assets are recorded at actual cost at the time of acquisition or fair value at the date of donation. The University follows the capitalization policy established by the Comptroller of the State of Illinois as follows:

<u>Classification</u>	<u>Capitalized Threshold</u>	<u>Estimated Useful Life (in years)</u>
Land	100,000	Indefinite
Land Improvements	25,000	Indefinite
Site Improvements	25,000	5-50
Buildings	100,000	50
Building Improvements	25,000	10-45
Equipment	5,000	3-25

Assets are depreciated using the straight-line method over the estimated useful life.

**State of Illinois**  
**Northeastern Illinois University**  
**Notes to Basic Financial Statements, continued**

**Revenue Recognition**

Appropriations made from the State of Illinois General Revenue and Capital Development Funds for the benefit of the University are recognized as non-operating revenues to the extent expended, limited to available appropriations.

Tuition and fees, except for the Summer Session, are recognized as revenues as they are assessed. Tuition and fees are reduced by scholarship discounts and allowances of \$5,939,311 for fiscal year 2005. The Summer Session tuition and fees are allocated between fiscal years based on when the revenue is earned. The portion of Summer Session tuition and fees applicable to the following fiscal year is deferred. The value of tuition and fee exemptions awarded to graduate assistants, staff members and others is calculated at the applicable tuition rates. These exemptions amounted to \$2,102,979 in 2005.

Restricted funds which are received or receivable from external sources are recognized as revenues to the extent of related expenses or satisfaction of eligibility requirements on the accrual basis. This is based on the terms of the agreement. Advances are classified as deferred revenue.

Certain revenue sources that the University relies on to provide funding for operations including State appropriations, gifts, and investment income are defined by GASB Statement No. 35 as nonoperating. In addition, transactions related to capital and financing activities are components of nonoperating revenues.

In accordance with GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, the University reported on behalf payments totaling \$17,437,422 representing \$12,653,859 and \$4,783,563, respectively, for health care and retirement costs. These on-behalf payments are reflected in Payments Made on Behalf of the University and offsetting amount reported as Institutional Support expenses.

**2. Cash and Short-term Investments**

The University uses the “pooled cash” method of accounting for substantially all of its operating cash and investments. The following is a reconciliation of deposits and investments as shown on the Statement of Net Assets as of June 30, 2005:

**State of Illinois**  
**Northeastern Illinois University**  
**Notes to Basic Financial Statements, continued**

Carrying amounts of deposits	\$ 933,457
Carrying amounts of investments	17,593,312
	<u>\$ 18,526,769</u>
Cash and cash equivalents	\$ 5,960,370
Restricted cash equivalents	2,767,284
Short-term investments	1,001,560
Long-term investments	8,797,555
	<u>\$ 18,526,769</u>

**Deposits**

The University utilizes several different bank accounts for the various activities of the University. The book balance of such accounts is \$933,457 at June 30, 2005, while the bank balance was \$2,997,183. The difference between the above amounts primarily represents checks that have been issued but have not yet cleared the bank as of June 30, 2005.

Custodial credit risk for deposits exists when, in the event of the failure of a depository financial institution, the University’s deposits may not be recovered. Originally, GASB Statement No. 3 discussed three categories of custodial credit risk as follows:

- Category 1: Insured or collateralized with securities held in the University’s name.
- Category 2: Collateralized with securities held by the financial institution in the University’s name.
- Category 3: Uninsured and uncollateralized

The University’s deposits are covered by the Federal Deposit Insurance Corporation (FDIC) and by collateral held by the financial institution in the University’s name. Although deposit balances classified under the traditional risk categories of 1 and 2 have been determined under GASB Statement No. 40 to be exposed to only minimal risk, and, based on this conclusion, the GASB chose to limit disclosure of custodial credit risk to deposits that meet the definition of “Category 3”, the University has decided to include categories 1 and 2 in the discussion. The University does not have a formal deposit policy for custodial credit risk. The following table reflects the University’s and University Foundation’s level of risk as of June 30, 2005:

**State of Illinois**  
**Northeastern Illinois University**  
**Notes to Basic Financial Statements, continued**

	Carrying Amount	Bank/Agency Balance	Category		
			1	2	3
<b><u>UNIVERSITY</u></b>					
Cash in Bank	\$ 920,597	\$ 2,996,703	\$ 268,522	\$ 2,728,181	\$ -
Petty Cash	12,860	480	480		-
	<u>\$ 933,457</u>	<u>\$ 2,997,183</u>	<u>\$ 269,002</u>	<u>\$ 2,728,181</u>	<u>\$ -</u>
<b><u>FOUNDATION</u></b>					
Cash in Bank	\$ 141,223	\$ 169,360	\$ 169,360	\$ -	\$ -
Money Market	160,845	160,845	-	-	-
	<u>\$ 302,068</u>	<u>\$ 330,205</u>	<u>\$ 169,360</u>	<u>\$ -</u>	<u>\$ -</u>

Money market mutual funds are not categorized because they are not evidenced by securities that exist in physical or book entry form.

**Investments**

The University's established investment policy follows the State of Illinois Public Funds Investment Act and the covenants provided from the University's bond issuance activities, which authorize the University to purchase certain obligations of the U. S. Treasury, federal agencies and instrumentalities; certificates of deposit and time deposits covered by Federal depository insurance; commercial paper of U.S. corporations with assets exceeding \$500,000,000, if such paper is rated at the highest classification established by at least two standard rating services; money market funds and the Illinois Funds.

The University has pooled its investments, except for certain funds that are required by bond resolution to be in separate accounts. Investments are stated at fair value. Net income from investments of pooled funds is allocated and credited to the original sources of the funds or is remitted to the University's Income Fund. The following table presents the fair value of investments held by the University and University's Foundation at June 30, 2005:

<u>Investment Type</u>	<u>University</u>	<u>Foundation</u>
Money Market Funds	\$ 4,669,176	\$ -
Illinois Funds	3,125,021	-
U. S. Treasury Notes	1,529,791	78,917
U. S. Agency Obligations	8,269,324	-
Mutual Fund	-	3,108,584
Total	<u>\$ 17,593,312</u>	<u>\$ 3,187,501</u>

**State of Illinois**  
**Northeastern Illinois University**  
**Notes to Basic Financial Statements, continued**

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensibility of its fair value to changes in market interest rates. The University's policy for reducing its exposure to the risk is to structure the University's portfolio so that securities mature to meet the University's cash requirements for ongoing operations. Also, the investment returns are evaluated and tracked monthly against appropriate performance benchmarks and reported quarterly to the Vice President for Finance and Administration/Board Treasurer. As of June 30, 2005, the University had the following investments subject to Interest Rate Risk based on the assumption that the callable investments will not be called.

Investment Type	Fair Value	Maturity		Weighted Average Maturity (years)
		Less Than 1 year	1 - 5 years	
U. S. Treasury Notes	\$ 1,529,791	\$ -	\$1,529,791	4.07
U. S. Agency Obligations	8,269,324	1,001,560	7,267,764	1.49
Total	<u>\$ 9,799,115</u>	<u>\$ 1,001,560</u>	<u>\$8,797,555</u>	

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The University's policy for managing its exposure to the risk is to limit investments to those allowable by the Illinois Public Funds Investment Act. As of June 30, 2005, the University's investment in U.S. Agency Obligations was rated AAA by Standard & Poor's, and Aaa by Moody's Investors Service. The investment in the State investment pool (Illinois Funds) was rated AAAM by Standard & Poor's. The investment in Money Market Funds was rated AAA by Standard & Poor's, and Aaa by Moody's Investors Service.

Concentration of Credit Risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The University's policy for mitigating the risk is to diversify the investment portfolio so that the failure of any one issue will not place an undue financial burden on the University. As of June 30, 2005, the University had the following investments subject to Concentration of Credit Risk

Issuer	Fair Value	% of Total Investments
Federal Home Loan Bank	\$ 4,934,077	28.0%
Federal Home Loan Mortgage Company	1,446,259	8.2%
Fannie Mae	1,888,988	10.7%
	<u>\$ 8,269,324</u>	

**State of Illinois**  
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**Notes to Basic Financial Statements, continued**

Custodial Credit Risk for investments is the risk that, in the event of a failure of the counterparty, the University will not be able to recover the value of the investments that are in the possession of an outside party. Originally, GASB Statement No. 3 discussed three categories of custodial credit risk as follows:

- Category 1: Insured or registered, with securities held in the University’s name.
- Category 2: Uninsured and unregistered, with securities held by the broker’s or dealer’s trust department or agent in the University’s name.
- Category 3: Uninsured and unregistered, with securities held by the broker or dealer or by its trust department or agent but not in the University’s name.

Although investments classified under the traditional risk categories of 1 and 2 have been determined under GASB Statement No. 40 to be exposed to only minimal risk, and, based on this conclusion, the GASB chose to limit disclosure of custodial credit risk to investments that meet the definition of “Category 3”, the University has decided to include categories 1 and 2 in the discussion. The University does not have a policy for custodial credit risk that further limits custodial arrangements from what is required by the State of Illinois Public Funds Investment Act. The following table reflects the University’s and University Foundation’s level of risk as of June 30, 2005

	Carrying Amount	Market Value	Category		
			1	2	3
<b><u>UNIVERSITY</u></b>					
U.S. Treasury Obligations	\$ 1,529,791	\$ 1,529,791	\$ 1,529,791	\$ -	\$ -
Illinois Funds	3,125,021	3,125,021	-	-	-
U.S. Federal Agency Securities	8,269,324	8,269,324	8,269,324	-	-
Money Market Mutual Funds	4,669,176	4,669,176	-	-	-
	<u>\$17,593,312</u>	<u>\$17,593,312</u>	<u>\$ 9,799,115</u>	<u>\$ -</u>	<u>\$ -</u>
<b><u>FOUNDATION</u></b>					
U.S. Treasury Obligations	\$ 78,917	\$ 78,917	\$ 78,917	\$ -	\$ -
Mutual Funds	3,108,584	3,108,584	-	-	-
	<u>\$ 3,187,501</u>	<u>\$ 3,187,501</u>	<u>\$ 78,917</u>	<u>\$ -</u>	<u>\$ -</u>

Money market mutual funds and Illinois Funds are not categorized because they are not evidenced by securities that exist in physical or book entry form.

**State of Illinois**  
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**Notes to Basic Financial Statements, continued**

**3. Investment in Capital Assets**

Details of the University's investment in capital assets at June 30, 2005 are as follows:

	<u>July 1, 2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2005</u>
Land and land improvements	\$ 6,893,876	\$ 614,361	\$ -	\$ 7,508,237
Site improvements	5,779,995	315,294	163,962	5,931,327
Building and building improvements	93,643,773	1,820,208	-	95,463,981
Equipment	28,963,199	2,004,007	518,765	30,448,441
Construction in progress	6,504,746	12,511,615	-	19,016,361
Total	<u>\$141,785,589</u>	<u>\$17,265,485</u>	<u>\$682,727</u>	<u>\$158,368,347</u>
Less accumulated depreciation				
Site improvements	2,348,955	310,055	65,116	2,593,894
Building and building improvements	30,183,183	1,756,218	-	31,939,401
Equipment	21,892,327	1,497,256	473,798	22,915,785
Total	<u>54,424,465</u>	<u>3,563,529</u>	<u>538,914</u>	<u>57,449,080</u>
Capital assets net	<u>\$ 87,361,124</u>	<u>\$13,701,956</u>	<u>\$ 143,813</u>	<u>\$ 100,919,267</u>

Included in the additions to Site Improvements, Building and Building Improvements, and Construction in Progress at June 30, 2005 are expenditures totaling \$2,910,331 incurred by the Illinois Capital Development Board for construction projects on behalf of the University.

**4. Long Term Debt and Other Liabilities**

Long term debt and other liabilities consist of the following as of June 30, 2005:

	<u>July 1, 2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2005</u>
Compensated Absences	\$ 11,131,044	\$ 2,858,762	\$ 2,436,771	\$ 11,553,035
Revenue Bonds, Series 1973	1,440,000	-	115,000	1,325,000
Revenue Bonds, Series 1997	3,610,000	-	175,000	3,435,000
Revenue Bonds, Series 2004	16,970,000	-	-	16,970,000
Subtotal	<u>33,151,044</u>	<u>\$ 2,858,762</u>	<u>\$ 2,726,771</u>	<u>33,283,035</u>
Less current portion	<u>3,122,494</u>			<u>3,205,285</u>
Total Noncurrent Liabilities	<u>\$ 30,028,550</u>			<u>\$ 30,077,750</u>



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**Notes to Basic Financial Statements, continued**

**5. University Facilities System Revenue Bond**

**Revenue Bonds Payable and Interest Subsidy**

At June 30, 2005, bonds payable consist of University Facilities Revenue Bond Series 1973, University Facilities System Revenue Bond Series 1997 and University Facilities System Revenue Bond Series 2004.

**Series 1973**

The University Facilities Revenue Bonds Series 1973 were sold during 1974 in the amount of \$3,075,000, (\$1,325,000 of which are outstanding at June 30, 2005) and were used to finance the construction of the University's Student Union Building. The bonds and related interest are not general obligations of the University since they are payable from and secured by a first lien on and the pledge of net revenues to be derived from certain student fees and operations of the University's Student Union, pledged fees, tuition and funds held in the Bond Reserve Account. The restricted fund balances are legally restricted under the University Facilities Revenue Bonds indenture.

The bonds mature in increasing principal amounts ranging from \$45,000 due on July 1, 2005 to \$195,000 due on July 1, 2013. Interest is payable semi-annually, on January 1 and July 1, at rates between 6.1 percent and 6.2 percent, with an average effective rate of approximately 6.23 percent. Future aggregate annual payments applicable to revenue bonds at June 30, 2005 are:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 45,000	\$ 80,733
2007	130,000	75,330
2008	135,000	67,115
2009	145,000	58,435
2010	155,000	49,135
2011-2014	715,000	91,915
Total	<u>\$ 1,325,000</u>	<u>\$ 422,663</u>

The Board of Trustees has the right, after providing proper notice to bondholders, to call the bonds for redemption prior to their maturity, in whole or in part, on July 1, 2005, or on any interest payment date thereafter, at the principal amount redeemed, together with the unpaid interest accrued thereon, plus a premium applied to the principal amounts redeemed of:

1/2 percent if redeemed July 1, 2005 through January 1, 2006; and,  
at par after January 1, 2006.

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**Notes to Basic Financial Statements, continued**

The U.S. Department of Housing and Urban Development has made a grant under which it has guaranteed to pay an annual debt service subsidy on the bonds subject to its audit and approval. During the year ended June 30, 2005, \$70,000 of such subsidy was received or receivable under this grant.

**Series 1997**

The University Facilities System Revenue Bonds Series 1997, dated March 1, were sold in April, 1997, in the amount of \$4,505,000 (\$3,435,000 of which were outstanding at June 30, 2005). The proceeds of the bond issue were used to finance the costs of constructing improvements to the University's Student Union, prepay outstanding lease obligations of the Board related to System renovation (parking lots), fund a deposit to the Bond Reserve Account, provide capitalized interest on the bonds through July 1, 1997 and pay certain expenses incurred in connection with the issuance of the bonds. The bonds are obligations of the Board payable only in accordance with the terms of the indenture and are not obligations of the State of Illinois. The 1997 Bonds are issued as Parity Bonds to the 1973 Bonds, and are secured by a pledge of and lien on the Net Revenues of the System, the pledged fees, tuition and the funds held in the Bond Reserve Account.

The Bonds mature in increasing principal amounts ranging from \$265,000 due on July 1, 2005, to \$350,000 due on July 1, 2017. Interest is payable semi-annually, on January 1 and July 1, at rates between 4.85 percent and 5.625 percent, with an average effective rate of approximately 5.429 percent. Future aggregate annual payments applicable to the Series 1997 Bonds at June 30, 2005 are:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 265,000	\$ 180,458
2007	195,000	169,156
2008	205,000	159,105
2009	215,000	148,177
2010	230,000	136,274
2011-2015	1,330,000	474,420
2016-2018	995,000	85,922
Total	<u>\$ 3,435,000</u>	<u>\$ 1,353,512</u>

The bonds maturing on or after July 1, 2008 are subject to redemption at the option of the Board on or after July 1, 2007 as a whole or in part at any time, if in part, in the maturities designated by the Board and within any maturity in integral multiples of \$5,000 at the respective premium redemption prices set forth below, plus accrued interest to the date fixed for redemption:

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2 percent if redeemed July 1, 2007 through June 30, 2008;  
 1 percent if redeemed July 1, 2008 through June 30, 2009; and  
 at par after June 30, 2009

**Series 2004**

The University Facilities System Revenue Bonds Series 2004, dated April 1, 2004, were sold in April, 2004, in the amount of \$16,970,000, all of which were outstanding at June 30, 2005. The proceeds from the sale of the bonds are to be used to finance the construction of a multi-level parking structure on the University's campus, fund a deposit to the Bond Reserve Account, provide capitalized interest on the bonds through January 1, 2005 and pay certain expenses incurred in connection with the issuance of the bonds. The bonds are obligations of the Board payable only in accordance with the term of the indenture and are not obligations of the State of Illinois. The 2004 Bonds are issued as Parity Bonds to the 1973 Bonds and 1997 Bonds, and are secured by a pledge of lien on the Net Revenues of the System, the pledged fees, tuition and the funds held in the Bond Reserve Account.

The Bonds mature in increasing principal amounts ranging from \$215,000 due on July 1, 2014, to \$1,255,000 due on July 1, 2035. Interest is payable semi-annually, on January 1 and July 1, at rates between 3.45 percent and 4.50 percent, with an average effective rate of approximately 4.075 percent. Future aggregate annual payments applicable to the Series 2004 Bonds at June 30, 2005 are:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ -	\$ 726,790
2007	-	726,790
2008	-	726,790
2009	-	726,790
2010	-	726,790
2011-2015	215,000	3,630,241
2016-2020	1,940,000	3,460,335
2021-2025	3,605,000	2,863,401
2026-2030	4,440,000	2,008,430
2031-2035	5,515,000	918,712
2036	1,255,000	28,238
Total	<u>\$16,970,000</u>	<u>\$16,543,307</u>

The Series 2004 Bonds are subject to redemption on or after January 1, 2014, at the option of the Board, from moneys available therefore, in whole or in part at any time, and, if in part, in the maturities designated by the Board and within a single maturity in integral multiples of \$5,000 in such manner as the Bond Registrar may deem fair and appropriate, at a redemption price of par (100%), plus accrued interest to the date fixed for redemption.

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**Notes to Basic Financial Statements, continued**

**Operation of the Project**

The resolutions by which the University Facilities Revenue Bonds were authorized provides that bond proceeds and gross revenues from the Student Union and parking facilities operations, including student fees, are to be deposited to the University accounts and used only in the manner and order as follows:

**Revenue Fund Account**

Gross revenues received from the operations of the University's Student Union and parking facilities, student fees, interest income and any interest subsidy received from the U.S. Department of Housing and Urban Development may be used to make required deposits to accounts shown below or may be used for any lawful purpose as the Board of Trustees directs after all yearly required deposits have been met.

**Operation and Maintenance Account**

The operation and maintenance account receives monthly from the revenue fund account such amounts as are necessary to pay for the operation and maintenance of the University's Student Union and parking facilities.

**Bond Accounts**

The bond accounts receive monthly one-sixth of the interest and one-twelfth of the principal next coming due on the bonds, to be used solely for the purpose of paying bond principal and interest.

**Bond Reserve Accounts**

The bond reserve accounts are to be used solely to pay bond principal and interest when there would otherwise be a default. At June 30, 2005, the maximum funding requirements have been met.

**Renewal and Replacement Reserve Account**

Commencing on July 1, 1975, the renewal and replacement reserve account is to receive semi-annually not less than \$25,000 until \$500,000 has been accumulated in the account. These deposits are to be used solely for the purpose of paying the cost of extraordinary repairs, upkeep and replacements in, on, or about the facilities used by the University's Student Union operation, including the furnishings and equipment therein, except that the funds in the account may be used to the extent necessary to prevent or remedy a default in payment of bond interest or principal. During 2005, \$32,293 was credited to the renewal

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**Notes to Basic Financial Statements, continued**

and replacement reserve account. At June 30, 2005, the cash balance in this account was \$500,000.

Non-Instructional Facilities (Development) Reserve Account

On or before the close of each fiscal year, the Treasurer will, from the funds remaining in the revenue fund, credit to the non-instructional facilities reserve account such funds, or such portion thereof as is available for transfer, as have been approved by the Board for expenditure or planned for expenditure for new space or construction in, or in addition to, a facility constituting a part of the system, and contiguous real estate thereto, consistent with the purpose and mission of that facility. Monies or investments to the credit of such accounts are not pledged as security for the payment of the bonds or parity bonds. At June 30, 2005, the cash balance in this account was \$1,032,161.

Equipment Reserve Account

On or before the close of each fiscal year, the Treasurer will, from the funds remaining in the revenue fund, credit to the equipment reserve account such funds as have been approved by the Board for expenditures in connection with the acquisition of movable equipment to be installed in the facilities constituting the system. Monies or investments to the credit of the equipment reserve account are not pledged as security for the payment of the bonds or parity bonds. At June 30, 2005, the cash balance in this account was \$162,586.

The following are financial statements for the University Facilities Revenue Bond Funds:

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**Northeastern Illinois University**  
**Notes to Basic Financial Statements, continued**

*University Facilities Revenue Bond Funds*  
*Statement of Net Assets*  
*June 30, 2005*

**ASSETS**

**Current Assets**

Cash and cash equivalents	\$2,398,515
Receivables	
Tuition and fees - net	92,759
Parking fines - net	94,069
Other receivables - net	120,450
Other assets	4,305
<b>Total current assets</b>	<u>2,710,098</u>

**Noncurrent assets**

Restricted cash and cash equivalents	2,767,284
Investments	2,821,677
Receivables	
Tuition and fees-net	2,726
Unamortized bond issue costs	564,701
Capital assets	
Site improvements - net	2,211,484
Buildings - net	3,174,898
Equipment - net	157,704
Construction in progress	13,966,990
<b>Total noncurrent assets</b>	<u>25,667,464</u>
<b>Total assets</b>	<u>28,377,562</u>

**LIABILITIES**

**Current Liabilities**

Accounts payable and accrued liabilities	1,119,247
Deferred revenue	199,864
Liability for compensated absences	68,928
Revenue bonds payable	310,000
<b>Total current liabilities</b>	<u>1,698,039</u>

**Noncurrent liabilities**

Liability for compensated absences	48,991
Revenue bonds payable	21,420,000
<b>Total noncurrent liabilities</b>	<u>21,468,991</u>
<b>Total liabilities</b>	<u>23,167,030</u>

**NET ASSETS**

Invested in capital assets - net of related debt	377,103
Restricted for:	
Expendable	
Capital projects	1,845,049
Debt service	1,610,810
Unrestricted	1,377,570
<b>Total net assets</b>	<u>\$ 5,210,532</u>

**State of Illinois**  
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**Notes to Basic Financial Statements, continued**

*University Facilities Revenue Bond Funds*  
*Statement of Revenues, Expenses and Changes in Net Assets*  
*For the year ended June 30, 2005*

<b>OPERATING REVENUES</b>	
Student fees	\$ 1,481,128
Federal grants - HUD	70,000
Vending services	234,557
Rental and use fees	33,452
Bookstore commission	391,814
Parking revenue	1,894,937
Other operating revenues	53,263
<b>Total operating revenues</b>	<u>4,159,151</u>
<b>OPERATING EXPENSES</b>	
Personal services	1,197,254
Contractual services	513,589
Commodities and supplies	72,053
Vending cost of sales	64,596
Telecommunications	43,828
Depreciation	348,961
Other operating expenses	706,715
<b>Total operating expenses</b>	<u>2,946,996</u>
<b>Operating income</b>	<u>1,212,155</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Investment income	165,638
Interest on indebtedness	( 995,779)
Other nonoperating income	1,500
<b>Net nonoperating expenses</b>	<u>( 828,641)</u>
<b>Income before other revenues, expenses, gains and losses</b>	383,514
<b>Other expenses</b>	<u>( 98,846)</u>
<b>Total increase in net assets</b>	284,668
<b>NET ASSETS</b>	
Net assets at beginning of year	<u>4,925,864</u>
Net assets at end of year	<u><u>\$ 5,210,532</u></u>

**State of Illinois**  
**Northeastern Illinois University**  
**Notes to Basic Financial Statements, continued**

*University Facilities Revenue Bond Funds*  
*Statement of Cash Flows*  
*For the year ended June 30, 2005*

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Student fees	\$ 1,454,778
Federal grants - HUD	70,000
Payment for salaries	(1,199,776)
Payment for suppliers	( 770,123)
Vending services	234,557
Rental and use fees	33,452
Bookstore commission	391,814
Parking revenue	1,934,327
Other payments	( 690,151)
<b>Net cash provided by operating activities</b>	<u>1,458,878</u>
<b>CASH FLOWS FROM CAPITAL ACTIVITIES</b>	
Purchases of capital assets and construction	(10,202,873)
Principal paid on capital debt	( 290,000)
Interest paid on capital debt	( 821,789)
Other nonoperating income	1,500
<b>Net cash used in capital financing activities</b>	<u>(11,313,162)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Proceeds from sales and maturities of investments	1,004,210
Interest on investments	165,638
Purchases of investments	(1,025,260)
<b>Net cash provided by investing activities</b>	<u>144,588</u>
Net decrease in cash and cash equivalents	(9,709,696)
Cash and cash equivalents - beginning of the year	14,875,495
Cash and cash equivalents - end of year	<u>\$ 5,165,799</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>	
Operating income	\$ 1,212,155
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	348,961
Changes in asset and liabilities:	
Receivables - net	( 104,304)
Other assets	16,796
Accounts payable and accrued liabilities	( 45,514)
Accrued liability for compensated absences	( 1,110)
Deferred revenue	31,894
<b>Net cash provided by operating activities</b>	<u>\$ 1,458,878</u>



**State of Illinois**  
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**Notes to Basic Financial Statements, continued**

**6. Transactions Between the University and the Foundation**

The Foundation is a separate non-profit organization incorporated in the State of Illinois and a University related organization under University Guidelines, 1982 (amended 1997). During fiscal year 2005, certain funds and in-kind services of the University with an estimated value of \$65,902 were provided to the Foundation without charge. In turn, during 2005, the Foundation gave the University \$222,205 in funds considered unrestricted for purposes of the University Guidelines computation. In addition, the Foundation gave the University non-qualifying restricted funds of approximately \$133,760 in fiscal year 2005 for scholarships and equipment.

**7. Pension, Compensated Absences and Postemployment Benefits**

**State Universities Retirement System**

Plan Description

The University contributes to the State Universities Retirement System of Illinois (SURS), a cost-sharing, multiple-employer defined-benefit pension plan with a special funding situation whereby the State of Illinois makes substantially all actuarially determined required contributions on behalf of the participating employers. SURS was established on July 21, 1941, to provide retirement annuities and other benefits for staff members and employees of the 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 writing to SURS, 1901 Fox Drive, Champaign, IL 61820 or by calling 1-800-275-7877.

Funding Policy

Plan members are required to contribute 8.0 percent of their annual covered salary and substantially all employer contributions are made by the State of Illinois on behalf of the individual employers at an actuarially determined rate. The rate for the fiscal year ending June 30, 2005 was 9.65 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the Illinois General Assembly. The University's contributions to SURS for the year ended June 30, 2005, 2004, and 2003 were \$5,219,402, \$31,170,742 and \$4,984,787, respectively, equal to the required contributions for each year.

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**Notes to Basic Financial Statements, continued**

**Medicare**

University employees hired prior to April 1, 1986 are exempt from contributions required under the Federal Insurance Contribution Act. Employees hired after March 31, 1986 are required to contribute 1.45 percent of their gross salary for Medicare. The University is required to match this contribution.

**Tax-Sheltered Retirement Plans**

Employees may also elect to participate in certain tax-sheltered retirement plans. These voluntary plans permit employees to designate a part of their earnings into tax-sheltered investments and thus defer federal and state income taxes on their contributions and the accumulated earnings under the plans. Participation and the level of employee contributions are voluntary. The employer is not required to make contributions to these plans.

**Compensated Absences**

It is the policy of the University to accrue vacation pay as earned. As of June 30, 2005 the accrued liability for this benefit was \$3,871,798, and is reported as a liability for compensated absences.

As a result of Illinois Public Act 83-976, the University is required to compensate certain employees for sick leave benefits earned after January 1, 1984. Sick leave earned by these employees after this date will accumulate without limit and are payable upon termination of employment for one-half of the unused amount. As of January 1, 1998 per 30 ILCS 105/14a, sick leave benefits earned after that date are no longer compensable upon termination of employment. All prior earned benefits will still be paid. As of June 30, 2005, the accrued liability of this benefit was \$7,681,237, and is included in the liability for compensated absences.

The liability for compensated absences will be funded through future State of Illinois General Revenue Fund appropriations as the terminating employees leave the University.

**Postemployment Benefits**

In addition to providing pension benefits, the State provides certain health, dental and life insurance benefits to annuitants who are former State employees. This includes annuitants of the University. Substantially all State employees, including the University's employees, may become eligible for postemployment benefits if they eventually become annuitants. Health and dental benefits include basic benefits for annuitants under the State's self-insurance plan and insurance contracts currently in force. Life insurance benefits for annuitants under age 60 are equal to their annual salary at the time of retirement; life insurance benefits for annuitants age 60 and older are limited to five thousand dollars per annuitant.

**State of Illinois**  
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**Notes to Basic Financial Statements, continued**

Currently, the State does not segregate payments made to annuitants from those made to current employees for health, dental and life insurance benefits. The cost of health, dental and life insurance benefits is recognized on a pay-as-you-go basis. These costs are funded by the State and are not an obligation of the University.

**8. Operating Leases**

The University leases various buildings and equipment under operating lease agreements. Total rental expense for the year ended June 30, 2005 under these agreements was \$404,969. Minimum lease payments for the years ending June 30 are:

<u>Fiscal Year</u>	<u>Principal</u>
2006	449,817
2007	457,017
2008	270,942
2009	22,578
	<u>\$ 1,200,354</u>

**9. Self-Insurance**

The University participates in the State University Risk Management Association (SURMA), a self-insurance pool. Through its participation in SURMA, IPHEC (Illinois Public Higher Education Consortium) and MHEC (Midwest Higher Education Commission), the University has contracted with commercial carriers to provide general liability insurance. The University's general liability coverage has a \$350,000 self-insured retention level, which is covered by SURMA. In most cases, participant contributions to SURMA are based upon actuarial valuations. Additionally, the University purchases property insurance coverage for the replacement value of the University's property.

**State of Illinois**  
**Northeastern Illinois University**  
**Notes to Basic Financial Statements, continued**

**10. Operating Expenses by Natural Classification**

Operating expenses by natural classification for the year ended June 30, 2005 are summarized as follows:

	<u>Compensation and Benefits</u>	<u>Supplies and Service</u>	<u>Scholarships</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$ 36,276,767	\$ 2,096,160	\$ 14,750	\$ —	\$38,387,677
Research	93,602	84,551	—	—	178,153
Public Service	7,238,196	8,306,811	59,660	—	15,604,667
Academic					
Support	4,824,194	1,255,816	—	—	6,080,010
Student Services	4,974,956	2,559,882	—	—	7,534,838
Institutional Support	27,226,728	2,944,467	—	—	30,171,195
Operation and					
Maintenance of Plant	5,059,589	4,937,471	—	—	9,997,060
Scholarships and					
Fellowships	—	—	4,824,937	—	4,824,937
Auxiliary	1,561,761	816,552	—	—	2,378,313
Depreciation	—	—	—	3,563,528	3,563,528
Other Operating					
Expenses	25,119	102,209	83,310	—	210,638
Total	<u>\$ 87,280,912</u>	<u>\$ 23,103,919</u>	<u>\$ 4,982,657</u>	<u>\$ 3,563,528</u>	<u>\$118,931,016</u>

**11. Subsequent event**

On November 28, 2005 a fire occurred in the University Library. The fire was contained in a mechanical room on the lower level of the Library with some smoke damage throughout the building. The University relocated critical student services, including the reference desk and tutoring services, to other locations on campus and has temporarily relocated building occupants. Firms specializing in fire damage assessment and restoration began cleanup efforts on November 30, 2005. A full assessment of affected mechanical systems will take place following the cleaning of the mechanical room. It is anticipated that University insurance will cover all costs after the first \$25,000 and that normal operations will resume near the start of the Spring semester.

**STATE OF ILLINOIS  
NORTHEASTERN ILLINOIS UNIVERSITY  
JUNE 30, 2005**

**UNIVERSITY FACILITIES REVENUE BOND FUNDS  
INSURANCE IN FORCE  
(Unaudited)**

<b>Type of Coverage</b>	<b>Required Coverage</b>	<b>Coverage in Force***</b>
Fire and lightning, extended coverage	Not stipulated	\$13,678,000
Use and occupancy insurance (Business interruption)	None *	\$2,000,000****
Public liability insurance	\$100,000/person \$300,000/accident	\$5,000,000/accident \$5,000,000/aggregate
Corporate surety bonds	\$4,159,151**	\$6,500,000
Each University employee Blanket crime policy	None	\$2,000,000

\* Excess of debt service requirements for the year ended June 30, 2005 over cash and short-term investments in the Bond Account and Bond Reserve at June 30, 2005.

\*\* The sum of the amounts established to be deposited in the Revenue Fund Account during the succeeding fiscal year.

\*\*\* This statement is prepared from the policies and is intended only as a descriptive summary. The auditors do not express an opinion as to the adequacy of the coverage

\*\*\*\* Estimate of coverage is directly related to loss of fee income

**STATE OF ILLINOIS  
NORTHEASTERN ILLINOIS UNIVERSITY  
JUNE 30, 2005**

**UNIVERSITY FACILITIES REVENUE BOND FUNDS  
RATES AND CHARGES  
(Unaudited)**

The Board of Trustees of Northeastern Illinois University is responsible for establishing rates and charges for the use of the University's Student Union. This income is pledged for payment of the University's Student Union operating expenses and making reserve deposits and bond payments in accordance with the bond indenture.

Effective the summer semester of 2003, students enrolling at Northeastern Illinois University pay a fee of \$6.30 per credit hour for the right to use the University's Student Union. The rate has not been changed since then.

**STATE OF ILLINOIS  
NORTHEASTERN ILLINOIS UNIVERSITY  
JUNE 30, 2005**

**UNIVERSITY FACILITIES REVENUE BOND FUNDS  
SUMMARY OF RESERVES FOR DEBT SERVICE  
AND RENEWAL AND REPLACEMENT  
(Unaudited)**

The comparison of the maximum reserve requirements with the actual amounts transferred to the bond account and the three reserve accounts established under the bond indenture as of June 30, 2005 is as follows:

	<u>Balance of Assets Reserved</u>	<u>Deposits Required to Date</u>	<u>Maximum Reserve Requirement</u>
Bond account <sup>(a)</sup>	\$ 806,570	\$ 806,570	\$ 806,570
Bond reserve account	1,302,130	1,302,130	1,302,130
Renewal and replacement reserve account <sup>(b)</sup>	500,000	1,500,000	500,000
Non-instructional facilities reserve account	1,032,161	1,032,161	1,032,161
Equipment reserve account	162,586	162,586	162,586

Notes:

- (a) The amounts required for the deposit in the bond account were remitted from the Revenue Fund to the Trustee, U.S. Bank National Association, for payment of the bond principal and interest installments coming due on July 1, 2005.
- (b) Total expenditures for extraordinary repairs, as defined in the bond indenture, as of June 30, 2005, amounted to \$1,310,382. Amounts used in this manner are to be replaced in the reserve by extending the periodic payments until the maximum is accumulated.