

**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
FINANCIAL AUDIT**

For the Year Ended June 30, 2008
Performed as Special Assistant Auditors for
the Auditor General, State of Illinois

**State of Illinois
 Northeastern Illinois University
 Financial Audit
 For the Year Ended June 30, 2008**

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Related Reports Published Under Separate Covers

Northeastern Illinois University
 Compliance Examination (In Accordance with the Single Audit Act
 and OMB Circular A-133) for the Year Ended June 30, 2008

Northeastern Illinois University Foundation
 Financial Audit for the Year Ended June 30, 2008

**State of Illinois
Northeastern Illinois University
Financial Audit
For the Year Ended June 30, 2008**

Agency Officials

President	Dr. Sharon Hahs
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 Audit
For the Year Ended June 30, 2008**

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., LLP.

Based on their audit, the auditors 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.

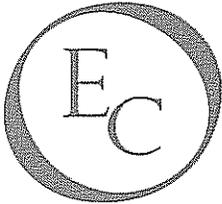
Summary of Finding

The auditors identified a matter involving the University's internal control over financial reporting that they considered to be a significant deficiency. The significant deficiency is described in the accompanying Schedule of Findings on pages 50-51 of this report, as finding 08-1, *Controls for Reporting Accrued Compensated Absences*. The auditors also considered finding 08-1 to be a material weakness.

Exit Conference

The University waived having an exit conference in a letter dated January 6, 2009, from the University's Vice President for Finance and Administration, Mark Wilcockson.

The responses to the recommendation were provided by Mark Wilcockson in a letter dated January 14, 2009.



E.C. ORTIZ & CO., LLP
CERTIFIED PUBLIC ACCOUNTANTS

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 the business-type activities 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, 2008, as listed in the Table of Contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative information has been derived from the University's June 30, 2007 financial statements and, in our report dated December 19, 2007, 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Northeastern Illinois University and of its aggregate discretely presented component unit as of June 30, 2008, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2009 on our consideration of the University's internal control over financial reporting and on our tests of the University's compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The *Management's Discussion and Analysis* on pages 5 to 15 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise 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. Artzy & Co., LLP

January 22, 2009

**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008**

This section of Northeastern Illinois University's (University) annual report presents management's discussion and analysis of the University's financial position and activities during the fiscal year ended June 30, 2008 with comparative information for the year ended June 30, 2007. 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) Statement 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. 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 nonoperating revenues and expenses for the fiscal year. Operating revenues are generated by providing goods and services to various customers and constituencies of the University. Operating expenses are incurred when goods and services are provided by vendors and employees for the overall operations of the University. Nonoperating revenues and expenses include resources provided by the State and other nonoperating transactions. For comparison purposes, comparative data are provided for the prior year.

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.

**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008**

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, 2008 are presented below:

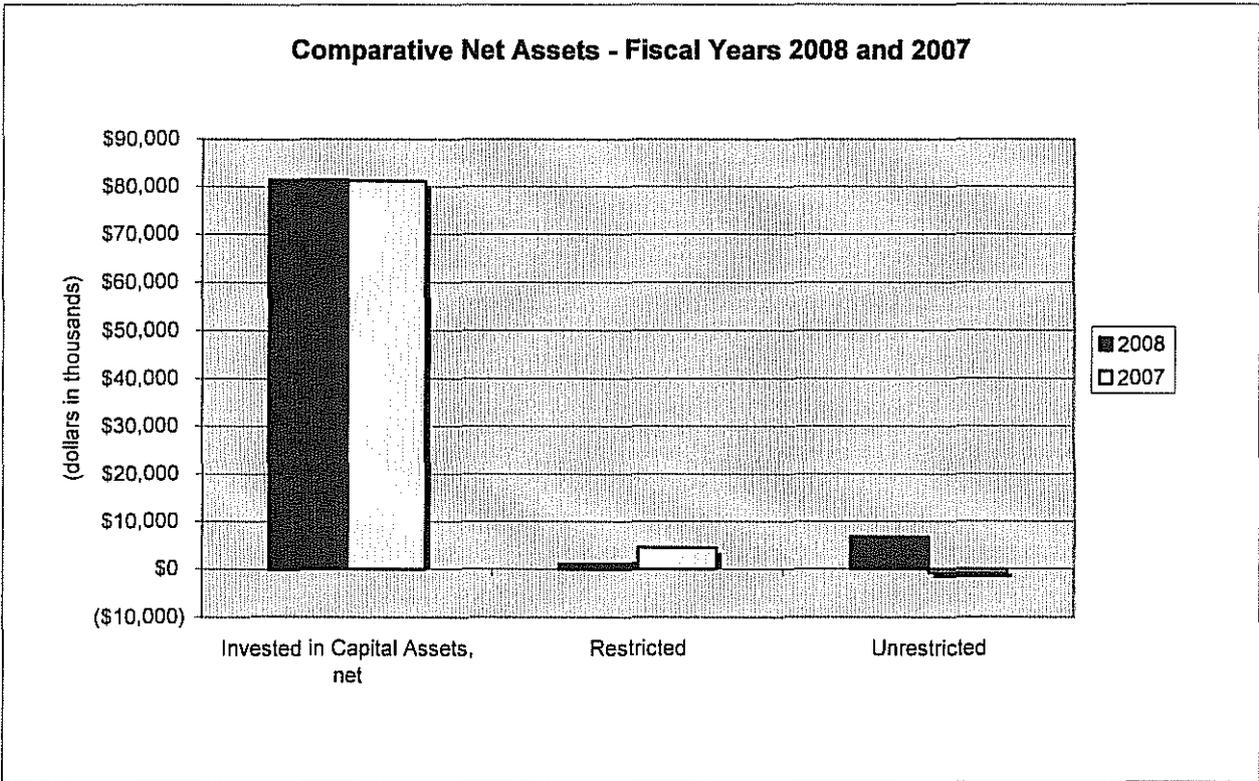
- The University has total assets of \$146.4 million, including current assets of \$25.9 million and noncurrent assets of \$120.5 million.
- The University has total liabilities of \$57.0 million, including current liabilities of \$13.1 million and noncurrent liabilities of \$43.9 million.
- The University's total net assets increased over the prior year by \$4.5 million to \$89.4 million, including an increase of \$0.3 million in invested in capital assets, net of related debts, a decrease of \$3.3 million in restricted net assets, and an increase of \$7.5 million in unrestricted net assets.
- The total operating revenues of the University were \$75.9 million, including \$40.4 million in student tuition and fees, net of scholarship allowances, and \$29.1 million in grants and contracts.
- The total operating expenses of the University were \$135.4 million, including \$42.2 million in instruction and \$32.8 million in institutional support.
- The operating loss of \$59.5 million was completely funded by nonoperating revenues, including State appropriations, gifts and donations, investment income, payments on behalf of the University and other nonoperating revenues. As a result, net income before other revenues, expenses, gains and losses totaled \$2.2 million. This amount includes \$5.2 million in depreciation expense.

**STATE OF ILLINOIS
 NORTHEASTERN ILLINOIS UNIVERSITY
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 FOR THE YEAR ENDED JUNE 30, 2008**

FINANCIAL ANALYSIS

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

Statement of Net Assets



**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008**

**Condensed Statement of Net Assets
as of June 30, 2008 and 2007
(dollars in thousands)**

	<u>2008</u>	<u>2007</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
ASSETS				
Current assets	\$ 25,910	\$ 21,283	\$ 4,627	21.7%
Non-current assets				
Restricted cash and cash equivalent	9,009	8,532	477	5.6%
Restricted investment	3,833	6,346	(2,513)	-39.6%
Receivables, net	2,559	2,506	53	2.1%
Unamortized bond issue costs	723	756	(33)	-4.4%
Capital assets, net	104,389	104,277	112	0.1%
Total Assets	<u>146,423</u>	<u>143,700</u>	<u>2,723</u>	<u>1.9%</u>
LIABILITIES				
Current liabilities	13,077	15,923	(2,846)	-17.9%
Non-current liabilities				
Liability for compensated absences	9,491	7,477	2,014	26.9%
Revenue bonds payable	20,395	20,755	(360)	-1.7%
Certificates of participation	14,046	14,612	(566)	-3.9%
Total Liabilities	<u>57,009</u>	<u>58,767</u>	<u>(1,758)</u>	<u>-3.0%</u>
NET ASSETS				
Invested in capital assets, net	81,506	81,219	287	0.4%
Restricted	1,171	4,501	(3,330)	-74.0%
Unrestricted	6,736	(787)	7,523	955.9%
Total Net Assets	<u>\$ 89,413</u>	<u>\$ 84,933</u>	<u>\$ 4,480</u>	<u>5.3%</u>

Current Assets - The majority of the Current Assets of the University consist of cash and cash equivalents of \$15.5 million, and net receivables of \$9.8 million, including \$7.4 million in grants receivable, \$2.0 million in tuition and fees receivable, and \$0.4 million in other receivables. Total current assets increased by \$4.6 million from the prior year. This increase was primarily due to the \$4.5 million increase in cash and cash equivalents, which reflects a 17% increase in tuition revenue.

Noncurrent Assets - As of June 30, 2008, the University had total noncurrent assets of \$120.5 million compared with \$122.4 million at June 30, 2007. This net decrease of \$1.9 million was primarily due to the decrease in restricted investment of \$2.5 million. This decrease reflects spending on the proceeds from the 2006 Certificate of Participation, which was issued to finance an enterprise resource planning (ERP) system. The University's net investment in capital assets is as follows:

**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008**

**Capital Assets, Net
as of June 30, 2008 and 2007
(dollars in thousands)**

	<u>2008</u>	<u>2007</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Capital assets				
Land and land improvements	\$ 7,971	\$ 7,971	\$ -	0.0%
Site improvements	5,940	5,940	-	0.0%
Building and building improvements	122,886	121,251	1,635	1.3%
Equipment and historical treasures	13,994	14,523	(529)	-3.6%
Library books	20,500	19,731	769	3.9%
Construction in progress	2,680	499	2,181	437.1%
Total	<u>173,971</u>	<u>169,915</u>	<u>4,056</u>	<u>2.4%</u>
Less: accumulated depreciation	<u>69,581</u>	<u>65,638</u>	<u>3,943</u>	<u>6.0%</u>
Net capital assets	<u>\$ 104,390</u>	<u>\$ 104,277</u>	<u>\$ 113</u>	<u>0.1%</u>

Current Liabilities - Current liabilities consist primarily of accounts payable and accrued liabilities of \$6.5 million, deferred revenues for summer tuition and grants revenues of \$4.5 million, and the current portion of the liability for compensated absences of \$1.1 million. Total current liabilities decreased by \$2.8 million. This decrease is primarily due to the \$2.7 million decrease in the liability for compensated absences, which is a result of changing the estimation methods to derive the current portion of compensated absences in fiscal year 2008.

Noncurrent Liabilities - Noncurrent 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 and obligations totaled \$43.9 million at June 30, 2008 as compared to \$42.8 million at June 30, 2007. 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 2008 principal repayments for the three revenue bonds and the Certificates of Participation are as follows:

Debt Type	Principal paid in FY 2008
Revenue Bonds Series 1973	\$ 135,000
Revenue Bonds Series 1997	205,000
Revenue Bonds Series 2004*	-
Certificates of Participation 2006	365,000
Total Principal Paid	<u>\$ 705,000</u>

* No principal repayment until year 2014

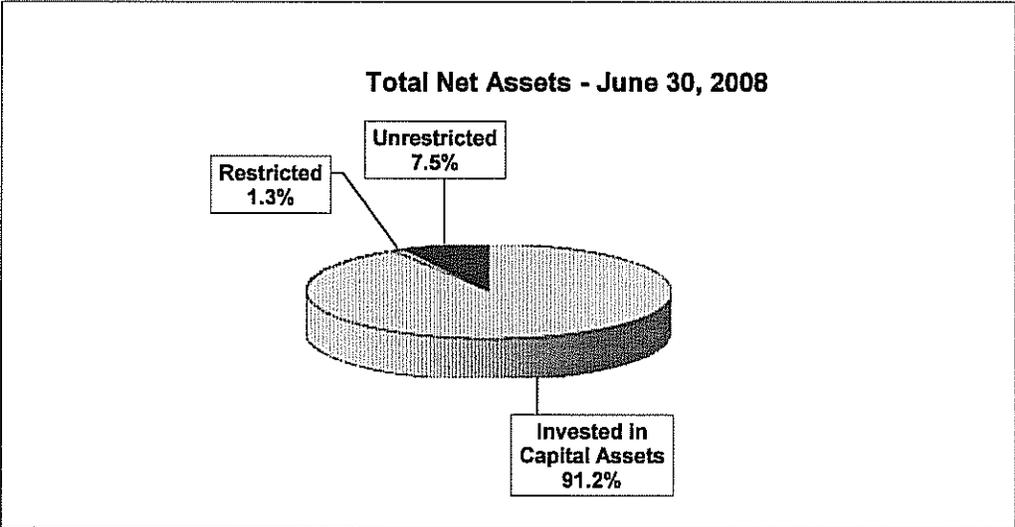
**STATE OF ILLINOIS
 NORTHEASTERN ILLINOIS UNIVERSITY
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 FOR THE YEAR ENDED JUNE 30, 2008**

Total Net Assets - Net assets are divided into three major categories. The first category, invested in capital assets, net of related debts, reports the University's net equity in property 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 increased by \$4.5 million over the prior year. This increase is a net result of a \$0.3 million increase in invested in capital assets, net of related debt, a \$3.3 million decrease in restricted net assets, and a \$7.5 million increase in unrestricted net assets. The decrease in restricted net assets is primarily due to the spending on the proceeds from the 2006 Certificate of Participation. The increase in unrestricted net assets is due mainly to a \$6.0 million increase in tuition and fees and a \$1.0 million decrease in indirect cost as a result of lower expenses. The following is a breakdown of the \$1.2 million restricted net assets:

**Restricted Net Assets
 as of June 30, 2008 and 2007
 (dollars in thousands)**

	<u>2008</u>	<u>2007</u>
Grants and contracts	\$ 591	\$ 999
Student loans	2,740	2,805
Debt service	2,466	2,335
Other	(4,626)	(1,638) *
Total Restricted Net Assets	<u>\$ 1,171</u>	<u>\$ 4,501</u>

* Certain non-capital related debts, which were originally presented under invested in capital assets, net of related debts, in prior year financial statements have been reclassified to other restricted net assets.



**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008**

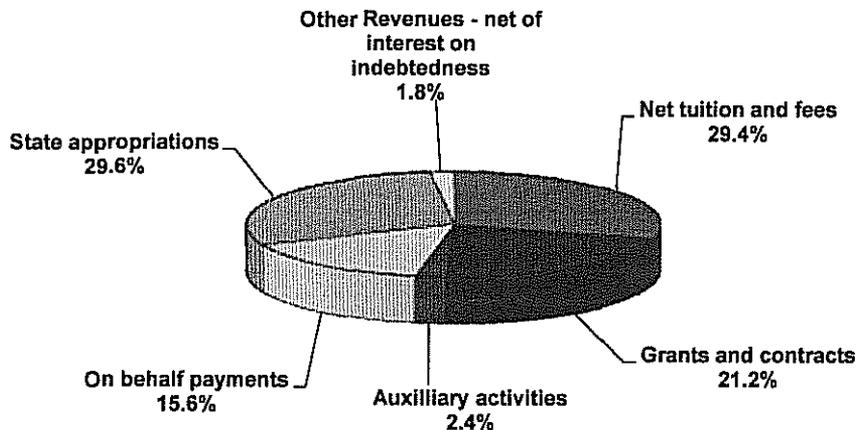
Statement of Revenues, Expenses, and Changes in Net Assets

**Condensed Statement of Revenues, Expenses, and Changes in Net Assets
For the Years Ended June 30, 2008 and 2007
(dollars in thousands)**

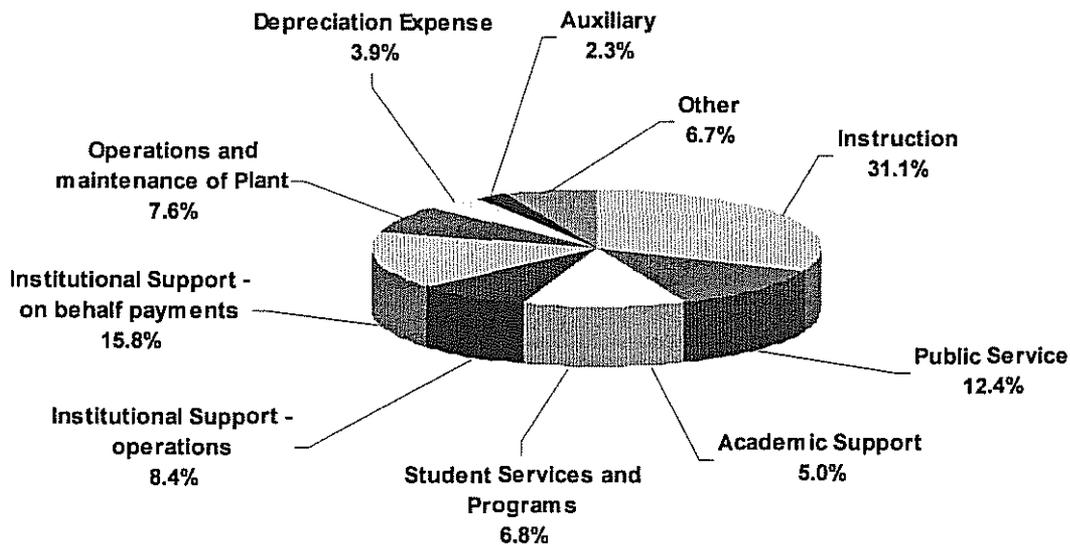
	<u>2008</u>	<u>2007</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
OPERATING REVENUES				
Net tuition and fees	\$ 40,447	\$ 34,477	\$ 5,970	17.3%
Grants and contracts	29,112	30,747	(1,635)	-5.3%
Auxilliary enterprises	3,334	3,283	51	1.6%
Other operating revenues	2,995	2,944	51	1.7%
Total operating revenues	<u>75,888</u>	<u>71,451</u>	<u>4,437</u>	<u>6.2%</u>
OPERATING EXPENSES				
Instruction	42,161	41,005	1,156	2.8%
Public service	16,736	19,355	(2,619)	-13.5%
Academic support	6,824	6,403	421	6.6%
Student services and programs	9,176	8,856	320	3.6%
Institutional support - operations	11,311	12,740	(1,429)	-11.2%
Institutional support - on behalf payments	21,449	18,562	2,887	15.6%
Operations and maintenance of plant	10,309	9,877	432	4.4%
Depreciation expense	5,228	4,897	331	6.8%
Auxiliary enterprises	3,106	2,719	387	14.2%
Other operating expenses	9,066	8,543	523	6.1%
Total operating expenses	<u>135,366</u>	<u>132,957</u>	<u>2,409</u>	<u>1.8%</u>
Operating loss	<u>(59,478)</u>	<u>(61,506)</u>	<u>2,028</u>	<u>3.3%</u>
NONOPERATING REVENUES (EXPENSES)				
State appropriations	40,745	39,994	751	1.9%
Payments on behalf of the University	21,449	18,562	2,887	15.6%
Other nonoperating revenues	1,041	1,667	(626)	-37.6%
Interest on indebtedness	(1,572)	(1,600)	28	1.8%
Total nonoperating revenues, net	<u>61,663</u>	<u>58,623</u>	<u>3,040</u>	<u>5.2%</u>
NET INCOME (LOSS)	<u>2,185</u>	<u>(2,883)</u>	<u>5,068</u>	<u>175.8%</u>
Loss on disposal of capital assets	(33)	(22)	(11)	-50.0%
Capital additions provided by State of Illinois	<u>2,328</u>	<u>392</u>	<u>1,936</u>	<u>493.9%</u>
CHANGES IN NET ASSETS	<u>4,480</u>	<u>(2,513)</u>	<u>6,993</u>	<u>278.3%</u>
NET ASSETS, BEGINNING OF YEAR	<u>84,933</u>	<u>87,446</u>	<u>(2,513)</u>	<u>-2.9%</u>
NET ASSETS, END OF YEAR	<u>\$ 89,413</u>	<u>\$ 84,933</u>	<u>\$ 4,480</u>	<u>5.3%</u>

**STATE OF ILLINOIS
 NORTHEASTERN ILLINOIS UNIVERSITY
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 FOR THE YEAR ENDED JUNE 30, 2008**

Total Revenue by Source - June 30, 2008



Operating Expenses - June 30, 2008



**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008**

Operating Revenues - Total operating revenues increased by \$4.4 million. This is the net result of the increase in tuition and fees of \$6.0 million and the decline in state grant and contract awards of \$1.6 million due to the non-renewal of several state grants.

Operating Expenses - Instruction accounted for the largest portion of operating expenses at \$42.2 million. Institutional support is the next largest at \$32.8 million. These two sources, plus public service at \$16.7 million, operation and maintenance at \$10.3 million, student services at \$9.2 million, and academic support at \$6.8 million, account for approximately 87 percent of the operating expenses of the University. Operating expenses increased by \$2.4 million. This increase is a net result of four items; public service decreased by \$2.6 million, primarily due to the decrease in state grant and contract awards; institutional support increased by \$1.5 million due to the \$2.9 million increase in on behalf payments, which was offset by a decrease of \$1.4 million in operations; other expenses increased by \$0.5 million; and a \$2.8 million increase in employee salaries through out each functional category as a result of negotiated and non-negotiated employee salary increases.

Nonoperating Revenues (Expenses) - This consists of State appropriations, on behalf payments, investment income, and other nonoperating revenues, less interest on indebtedness. Total nonoperating revenues increased by \$3.0 million. This is due primarily to the increase of \$2.9 million in payments on behalf of the University.

Statement of Cash Flows

**Condensed Statement of Cash Flows
For the Years Ended June 30, 2008 and 2007
(dollars in thousands)**

	<u>2008</u>	<u>2007</u>
Cash received from operations	\$ 76,591	\$ 74,401
Cash expended for operations	(110,448)	(111,878)
Net cash used in operating activities	(33,857)	(37,477)
Net cash provided by noncapital financing activities	41,064	40,181
Net cash used in capital financing activities	(5,379)	(6,156)
Net cash provided by investing activities	3,122	10,961
Net increase in cash and cash equivalents	4,950	7,509
Cash and cash equivalents - beginning of the year	19,556	12,047
Cash and cash equivalents - end of the year	<u>\$ 24,506</u>	<u>\$ 19,556</u>

The primary cash receipts from operating activities consist of tuition and fees of \$42.3 million and grants and contracts of \$27.3 million. Cash outlays included payments to employees of \$75.3 million, payments for fringe benefits of \$3.9 million and payments to suppliers of \$25.7 million.

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The State appropriation of \$40.7 million is the primary source of noncapital financing activities. The accounting standards require the University to reflect this source of revenue as nonoperating even though the University's budget depends on this to support operations.

The main capital financing activities included purchases of capital assets and construction costs of \$3.1 million, and debt service payment of \$2.3 million.

Investing activities reflect purchases, sales and interest income earned on investments. The decrease in interest rate, the maturity of investments of proceeds from certificates of participation issued in fiscal year 2006, and unrealized market fluctuation resulted in a decrease of \$0.8 million in investment income.

Total net cash increased by \$5.0 million from fiscal year 2007, primarily due to the increase in tuition rates.

SIGNIFICANT FINANCIAL EVENTS IMPACTING FUTURE PERIODS

At the time this audit report was completed, the most significant financial events taking place, not only in Chicago but worldwide, involve the state of the economy. On all levels - regional, state, national and international - consumer confidence is declining, many sectors of the economy are experiencing hardships and cutting their workforce, unemployment is increasing, governments are committing significant funds to stimulate the economy, and consumer spending is decreasing.

Significantly for the State of Illinois and Northeastern Illinois University, revenues from sales taxes and income taxes, two of the major sources of funding for State operations, are declining. This means that increasing or even level support for University operations from the State of Illinois will be a challenge.

From fiscal year 2002 to fiscal year 2009, State general funds appropriation to Northeastern for ongoing operations decreased \$3.5 million, or 7.7 percent. During this period, the share of operating expenses paid by students through their tuition charges increased from 31 percent of the University's operating budget to 47 percent. The balancing of University spending priorities, decreasing State funding, and increasing student charges will be the focus for future periods.

Two items should be mentioned regarding future periods. Over the past several months the University community engaged in an inclusive strategic planning process, the result of which is a comprehensive strategic plan endorsed by our Board of Trustees that prioritizes our goals and objectives for the next several years. That plan will guide our decisions in future periods given either increases or decreases in state funding.

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A second area to mention is progress the University has made in the development area. This past fiscal year, the University created and filled a new position of Vice President of Institutional Advancement. The University also committed funds for additional development professionals and filled those positions. Already, the University Foundation has seen an 84 percent increase in contributions and a 108 percent increase in scholarship contributions. While not directly benefiting the University's operating budget, the availability of additional student scholarships will strengthen our student recruitment and retention efforts and make Northeastern a more affordable University for students to access higher education.

CONTACTING NEIU'S FINANCIAL MANAGEMENT

This financial report is designed to provide interested parties with a general overview of Northeastern Illinois University'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,			
			(Comparative totals only)	
	2008		2007	
	University	Foundation	University	Foundation
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 15,496,863	\$ 146,924	\$ 11,023,225	\$ 166,389
Short-term investments	-	1,669,330	-	1,981,695
Receivables				
Grants	7,413,893	-	4,561,030	-
Student loans (net of allowance for doubtful accounts of \$321,482 in 2008 and \$345,704 in 2007)	72,591	-	68,036	-
Tuition and fees (net of allowance for doubtful accounts of \$502,142 in 2008 and \$750,935 in 2007)	1,967,034	-	4,750,434	-
Other receivables (net of allowance for doubtful accounts of \$747,449 in 2008 and \$766,796 in 2007)	394,684	215,831	308,319	-
Inventories	57,396	-	64,859	-
Deferred charges	474,324	-	473,972	-
Other assets	32,827	3,085	32,827	1,552
Total current assets	25,909,612	2,035,170	21,282,702	2,149,636
Noncurrent assets:				
Restricted cash and cash equivalents	9,008,711	-	8,532,344	-
Restricted investments	3,832,664	2,537,686	6,346,414	2,663,481
Receivables				
Student loans (net of allowance for doubtful accounts of \$429,997 in 2008 and \$427,496 in 2007)	2,426,081	-	2,405,345	-
Tuition and fees (net of allowance for doubtful accounts of \$917,565 in 2008 and \$669,663 in 2007)	132,849	-	100,712	-
Unamortized bond issue costs	722,839	-	755,666	-
Capital assets				
Land and land improvements	7,971,117	-	7,971,117	-
Site improvements (net of accumulated depreciation of \$3,459,153 in 2008 and \$3,218,054 in 2007)	2,481,096	-	2,722,195	-
Buildings and building improvements (net of accumulated depreciation of \$39,179,865 in 2008 and \$36,472,243 in 2007)	83,706,463	-	84,778,468	-
Equipment (net of accumulated depreciation of \$9,985,089 in 2008 and \$9,869,167 in 2007)	3,960,181	-	4,653,878	-
Nondepreciable historical treasures and works of art	48,330	-	-	-
Library books (net of accumulated depreciation of \$16,957,004 in 2008 and \$16,078,505 in 2007)	3,542,938	-	3,652,136	-
Construction in progress	2,679,693	-	498,703	-
Other assets	-	18,286	-	21,714
Total noncurrent assets	120,512,962	2,555,972	122,416,978	2,685,195
Total assets	146,422,574	4,591,142	143,699,680	4,834,831

See accompanying notes to basic financial statements

STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
STATEMENT OF NET ASSETS

	JUNE 30,			
	2008		(Comparative totals only) 2007	
	University	Foundation	University	Foundation
LIABILITIES				
<i>Current liabilities:</i>				
Accounts payable and accrued liabilities	6,460,540	20,407	7,341,548	6,042
Deferred revenues	4,500,183	752,753	3,953,606	752,888
Liability for compensated absences	1,083,407	-	3,815,391	-
Revenue bonds payable	360,000	-	340,000	-
Certificates of participation, net	565,284	-	360,284	-
Funds held in custody for others	107,472	-	112,446	-
<i>Total current liabilities</i>	<u>13,076,886</u>	<u>773,160</u>	<u>15,923,275</u>	<u>758,930</u>
<i>Noncurrent liabilities:</i>				
Liability for compensated absences	9,490,822	-	7,477,138	-
Revenue bonds payable	20,395,000	-	20,755,000	-
Certificates of participation, net	14,046,438	-	14,611,722	-
<i>Total noncurrent liabilities</i>	<u>43,932,260</u>	<u>-</u>	<u>42,843,860</u>	<u>-</u>
<i>Total liabilities</i>	<u>57,009,146</u>	<u>773,160</u>	<u>58,767,135</u>	<u>758,930</u>
NET ASSETS				
Invested in capital assets, net of related debts	81,505,528	-	81,218,687	-
Restricted for:				
Nonexpendable				
Scholarships and charitable trust	-	2,537,686	-	2,663,481
Expendable				
Grants and contracts	590,573	-	998,661	-
Student loans	2,740,454	-	2,805,227	-
Debt service	2,466,486	-	2,335,569	-
Other	(4,625,631)	848,717	(1,638,362)	874,004
Unrestricted	6,736,018	431,579	(787,237)	538,416
<i>Total net assets</i>	<u>\$ 89,413,428</u>	<u>\$ 3,817,982</u>	<u>\$ 84,932,545</u>	<u>\$ 4,075,901</u>

See accompanying notes to basic financial statements

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

FOR THE YEAR ENDED JUNE 30,

	(Comparative totals only)			
	2008		2007	
	University	Foundation	University	Foundation
OPERATING REVENUES				
Student tuition and fees (net of scholarship allowances of \$8,331,457 in 2008 and \$7,039,868 in 2007)	\$ 40,447,226	\$ -	\$ 34,477,189	\$ -
Federal grants and contracts	24,027,801	-	24,393,435	-
State and local grants	3,469,916	-	5,179,911	-
Nongovernmental grants and contracts	1,613,907	-	1,174,018	-
Auxiliary enterprises	3,333,719	-	3,283,405	-
Other operating revenues	2,995,344	112,206	2,943,430	924,285
Total operating revenues	75,887,913	112,206	71,451,388	924,285
OPERATING EXPENSES				
Instruction	42,160,886	-	41,004,674	-
Research	781,761	-	771,010	-
Public service	16,736,104	-	19,354,940	-
Academic support	6,824,520	-	6,402,891	-
Student services and programs	9,175,718	-	8,856,022	-
Institutional support	32,760,596	-	31,301,841	-
Operation and maintenance of plant	10,308,811	-	9,877,389	-
Scholarships and fellowships	4,592,734	-	4,914,597	-
Auxiliary enterprises	3,105,951	-	2,719,513	-
Depreciation expense	5,228,066	-	4,897,271	-
Other operating expenses	3,691,030	635,269	2,857,162	540,571
Total operating expenses	135,366,177	635,269	132,957,310	540,571
Operating income (loss)	(59,478,264)	(523,063)	(61,505,922)	383,714
NONOPERATING REVENUES (EXPENSES)				
State appropriations - general revenue fund	40,745,238	-	39,994,182	-
Payments on behalf of the University	21,448,970	-	18,562,423	-
Gifts and donations	148,330	-	100,000	-
Investment income	608,814	-	1,414,600	-
Interest on indebtedness	(1,571,749)	-	(1,600,052)	-
Other nonoperating revenues	283,531	-	151,803	-
Net nonoperating revenues	61,663,134	-	58,622,956	-
Income (loss) before other revenues, expenses, gains and losses	2,184,870	(523,063)	(2,882,966)	383,714
Additions to permanent endowments	-	265,144	-	110,553
Loss on disposal of capital assets	(32,780)	-	(22,007)	-
Capital additions provided by State of Illinois	2,328,793	-	391,902	-
Increase (decrease) in Net Assets	4,480,883	(257,919)	(2,513,071)	494,267
NET ASSETS				
Net assets - beginning of year	84,932,545	4,075,901	87,445,616	3,581,634
Net assets - end of year	\$ 89,413,428	\$ 3,817,982	\$ 84,932,545	\$ 4,075,901

See accompanying notes to basic financial statements

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

	FOR THE YEAR ENDED JUNE 30,			
	2008		(Comparative Totals Only) 2007	
	University	Foundation	University	Foundation
CASH FLOWS FROM OPERATING ACTIVITIES				
Tuition and fees	\$ 42,348,878	\$ -	\$ 33,166,142	\$ -
Grants and contracts	27,282,877	-	29,373,750	-
Payments to employees	(75,322,850)	-	(72,465,597)	-
Payments for fringe benefits	(3,915,153)	-	(3,677,438)	-
Payments to suppliers	(25,744,639)	(462,907)	(29,990,234)	(458,118)
Payments for scholarships and fellowships	(4,839,103)	-	(4,932,985)	-
Loans issued to students	(626,356)	-	(812,083)	-
Collections of loans from students	487,287	-	658,681	-
Auxiliary enterprises	3,328,863	-	3,289,334	-
Other receipts	3,143,068	545,825	7,912,735	1,191,766
Net cash provided by (used in) operating activities	<u>(33,857,128)</u>	<u>82,918</u>	<u>(37,477,695)</u>	<u>733,648</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State appropriations	40,745,238	-	39,994,182	-
Gifts	100,000	-	100,000	-
Agency transactions	(4,974)	-	(43,252)	-
Other noncapital financing activities	223,669	265,144	129,796	110,553
Net cash provided by noncapital financing activities	<u>41,063,933</u>	<u>265,144</u>	<u>40,180,726</u>	<u>110,553</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES				
Purchases of capital assets and construction	(3,090,060)	-	(4,168,643)	-
Principal paid on capital debt and leases	(705,000)	-	(325,000)	-
Interest paid on capital debt and leases	(1,584,304)	-	(1,662,097)	-
Net cash used in capital financing activities	<u>(5,379,364)</u>	<u>-</u>	<u>(6,155,740)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sales and maturities of investments	3,163,390	75,000	10,086,970	197,588
Interest on investments	608,814	-	1,414,600	-
Purchases of investments	(649,640)	(442,527)	(540,079)	(1,057,834)
Net cash provided by (used in) investing activities	<u>3,122,564</u>	<u>(367,527)</u>	<u>10,961,491</u>	<u>(860,246)</u>
Net increase (decrease) in cash and cash equivalents	4,950,005	(19,465)	7,508,782	(16,045)
Cash and cash equivalents - beginning of year	19,555,569	166,389	12,046,787	182,434
Cash and cash equivalents - end of year	<u>\$ 24,505,574</u>	<u>\$ 146,924</u>	<u>\$ 19,555,569</u>	<u>\$ 166,389</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ (59,478,264)	\$ (523,063)	\$ (61,505,922)	\$ 383,714
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Payments on-behalf of the University	21,448,970	-	18,562,423	-
Unrealized loss (gain) on changes in market value of investments	-	592,516	-	(394,111)
Depreciation expense	5,228,066	-	4,897,271	-
Changes in assets and liabilities:				
Receivables, net	(153,394)	(2,433)	(917,353)	227
Deferred charges and other assets	37,191	1,668	(207,836)	1,346
Inventories	7,463	-	59,171	-
Accounts payable and accrued liabilities	(1,166,058)	14,365	962,219	(10,416)
Accrued salaries and wages	390,621	-	(98,215)	-
Liability for compensated absences	(718,300)	-	41,525	-
Deferred revenues	546,577	(135)	729,022	752,888
Net cash provided by (used in) operating activities	<u>\$ (33,857,128)</u>	<u>\$ 82,918</u>	<u>\$ (37,477,695)</u>	<u>\$ 733,648</u>
Noncash operating, investing and capital financing activities:				
On-behalf payments for fringe benefits	\$ 21,448,970	\$ -	\$ 18,562,423	\$ -
Capital asset acquisition via capital appropriations	2,328,793	-	391,902	-
Receivable arising from sale of investments	-	213,171	-	-
	<u>\$ 23,777,763</u>	<u>\$ 213,171</u>	<u>\$ 18,954,325</u>	<u>\$ -</u>

See accompanying notes to basic financial statements

**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

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, an agency of the State of Illinois, with a primary focus on postsecondary institution, 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. Complete financial statements for the Foundation may be obtained by writing to the NEIU Foundation, Executive Director of University Foundation, Northeastern Illinois University, 5500 North St. Louis Ave., Chicago, Illinois 60625.

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.

**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

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 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 GASB. The University has elected not to apply FASB pronouncements issued after November 30, 1989.

The financial statements are prepared in accordance with GASB 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

This 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.
- 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.

**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

- 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, primarily U.S. Treasury bills and money market funds. This statement provides information related to cash receipts and cash payments during the year. The statement also helps users evaluate the University's ability to meet financial obligations as they mature.

Notes to Basic Financial Statements

This 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, State appropriations, and State on behalf payments for retirement and health care costs 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, child care, and parking 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.

The University changed its estimation methods to derive the current portion of compensated absences in Fiscal Year 2008, which resulted in a significant change between the short-term and long-term liability.

**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

Reclassifications

Certain non-capital related debts, which were originally presented under invested in capital assets, net of related debts in the prior year financial statements have been reclassified to other restricted net assets.

Cash and Cash Equivalents

Cash and cash equivalents include bank accounts and investments with original maturities of ninety days or less at the time of purchase, primarily U.S. Treasury bills and money market funds.

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 University, 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.

Restricted Assets

Restricted assets consist of cash and investments that are externally restricted by outside sources and they are classified as noncurrent in the Statement of Net Assets.

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 debts.

Certificates of Participation

Certificates of participation are stated at face value net of unamortized original issue discount.

**STATE OF ILLINOIS
 NORTHEASTERN ILLINOIS UNIVERSITY
 NOTES TO BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2008**

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
Nondepreciable historical treasures/works of art	5,000	Indefinite
Software/License Fees	50,000	5
Library books	5,000 *	7

** Library books consist of a large number of items with modest values reported on a composite basis.*

Depreciation is computed using the straight-line method over the estimated useful lives of the assets. There is no depreciation recorded for assets that are capitalized during the first year.

Revenue Recognition

Appropriations made from the State of Illinois General Revenue and Capital Development Funds for the benefit of the University are recognized as nonoperating 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 \$8,331,457 for fiscal year 2008. 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 \$3,081,535 in fiscal year 2008.

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 revenues.

**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

Certain revenue sources that the University relies on to provide funding for operations including State appropriations, on-behalf payments, 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 \$21,448,970 representing \$15,364,597 and \$6,084,373 respectively, for health care and retirement costs. These on-behalf payments are reflected in Payments Made on Behalf of the University as nonoperating revenues and offsetting amount reported as Institutional Support expenses.

Adoption of Governmental Accounting Standards Board (GASB) Statement No. 48

In September 2006, GASB issued Statement No. 48, Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues. This Statement establishes criteria to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing. The requirements of this Statement are effective for periods beginning after December 15, 2006. The University adopted the Statement in fiscal year 2008 and included it in Note 5 - University Facilities System Revenue Bonds.

2. Cash and Investments

The University uses the “pooled cash” method of accounting for substantially all of its operating cash and investments. The following table is a reconciliation of deposits and investments held by the University and University’s Foundation as shown on the Statement of Net Assets as of June 30, 2008:

	<u>University</u>	<u>Foundation</u>
Carrying amounts of deposits	\$ 8,106,290	\$ 146,924
Carrying amounts of investments	<u>20,231,948</u>	<u>4,207,016</u>
	<u>\$ 28,338,238</u>	<u>\$ 4,353,940</u>
Cash and cash equivalents	\$ 15,496,863	\$ 146,924
Restricted cash and cash equivalents	9,008,711	-
Short-term investments	-	1,669,330
Long-term investments	<u>3,832,664</u>	<u>2,537,686</u>
	<u>\$ 28,338,238</u>	<u>\$ 4,353,940</u>

**STATE OF ILLINOIS
 NORTHEASTERN ILLINOIS UNIVERSITY
 NOTES TO BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2008**

Deposits

The University utilizes several different bank accounts for the various activities of the University. The book balance of such accounts is \$8,106,290 at June 30, 2008, while the bank balance was \$9,600,304. The difference between the above amounts primarily represents checks that have been issued but have not yet cleared the bank as of June 30, 2008.

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. The University's policy for reducing its exposure to the risk is to require deposits in excess of the federally insured amount to be collateralized to the extent of 110 percent. As of June 30, 2008, the University's deposits were covered by the Federal Deposit Insurance Corporation (FDIC) and by collateral held by the financial institution in the University's name. The University therefore, has no custodial credit risk in its deposits.

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, 2008:

<u>Investment Type</u>	<u>University</u>	<u>Foundation</u>
Money Market Fund	\$ 1,860,681	\$ -
Illinois Funds	14,538,603	-
U.S. Treasury Notes	1,544,628	-
U.S. Agency Obligations	2,288,036	-
Mutual Funds	-	4,207,016
Total	<u>\$ 20,231,948</u>	<u>\$ 4,207,016</u>

**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

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 susceptibility 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, 2008, 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	
Money Market Fund	\$ 1,860,681	\$ 1,860,681	\$ -	0.10
Illinois Funds	14,538,603	14,538,603	-	0.07
U. S. Treasury Notes	1,544,628	1,143,705	400,923	1.06
U. S. Agency Obligations	2,288,036	752,603	1,535,433	2.15
Total	<u>\$ 20,231,948</u>	<u>\$ 18,295,592</u>	<u>\$ 1,936,356</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, 2008, the University had quality ratings as shown in the table below:

	Total	Standard & Poor's	Moody's	Fitch
Money Market Fund	\$ 1,860,681	AAAm	Aaa	-
Illinois Funds	14,538,603	AAAm	-	-
U.S. Agency Obligations				
Federal Home Loan Bank	205,063	AA Ae	Aaa	-
Fannie Mae	823,518	AA Ae	-	-
Federal Home Loan Mortgage	506,853	AA Ae	-	AA Ae
Federal Farm Credit Bank	752,602	AAA	Aaa	-

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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, 2008, the University had the following investments subject to Concentration of Credit Risk:

Issuer	Fair Value	% of Total Investments
Federal Farm Credit Bank	\$ 752,602	3.72%
Federal Home Loan Bank	205,063	1.01%
Fannie Mae	823,518	4.07%
Federal Home Loan Mortgage	506,853	2.50%
	\$ 2,288,036	

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. The University minimizes its custodial credit risk by establishing limitations on the types of investments held with qualifying institutions. As of June 30, 2008, University's investments in the U.S. Treasury and U.S. Agency Securities were registered with securities in the University's name. Investments in external investment pools and in money market mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. The University therefore, has no custodial credit risk in its investment portfolio.

3. Capital Assets

Details of the University's investment in capital assets at June 30, 2008 are as follows:

	<u>July 1, 2007</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>June 30, 2008</u>
Cost:					
Land and land improvements	\$ 7,971,117	\$ -	\$ -	\$ -	\$ 7,971,117
Site improvements	5,940,249	-	-	-	5,940,249
Building and building improvements	121,250,711	1,535,344	100,273	-	122,886,328
Equipment	14,523,045	347,588	353,000	1,278,363	13,945,270
Nondepreciable historical treasures and works of art	-	48,330	-	-	48,330
Library books	19,730,641	808,642	-	39,341	20,499,942
Construction in progress	498,703	2,634,263	(453,273)	-	2,679,693
Total	169,914,466	5,374,167	-	1,317,704	173,970,929

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	<u>July 1, 2007</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>June 30, 2008</u>
Less accumulated depreciation:					
Site improvements	3,218,054	241,099	-	-	3,459,153
Building and building improvements	36,472,243	2,707,622	-	-	39,179,865
Equipment	9,869,167	1,361,505	-	1,245,583	9,985,089
Library books	16,078,505	917,840	-	39,341	16,957,004
Total	<u>65,637,969</u>	<u>5,228,066</u>	<u>-</u>	<u>1,284,924</u>	<u>69,581,111</u>
Capital assets - net	<u>\$104,276,497</u>	<u>\$ 146,101</u>	<u>\$ -</u>	<u>\$ 32,780</u>	<u>\$104,389,818</u>

Included in the additions to building and building improvements, and construction in progress at June 30, 2008 are expenses totaling \$2,328,793 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, 2008:

	<u>July 1, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2008</u>
Compensated Absences	\$ 11,292,529	\$ 361,082	\$ 1,079,382	\$ 10,574,229
Revenue Bonds Series 1973	1,150,000	-	135,000	1,015,000
Revenue Bonds Series 1997	2,975,000	-	205,000	2,770,000
Revenue Bonds Series 2004	16,970,000	-	-	16,970,000
Certificates of Participation (COP)				
Series 2006	15,060,000	-	365,000	14,695,000
COP Discount	(87,994)	-	(4,716)	(83,278)
Subtotal	47,359,535	<u>\$ 361,082</u>	<u>\$ 1,779,666</u>	45,940,951
Less: current portion	4,515,675			2,008,691
Total noncurrent liabilities	<u>\$ 42,843,860</u>			<u>\$ 43,932,260</u>

5. University Facilities System Revenue Bonds

Revenue Bonds Payable and Interest Subsidy

At June 30, 2008, 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.

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Series 1973

The University Facilities Revenue Bonds Series of 1973 were sold during 1974 in the amount of \$3,075,000, (\$1,015,000 of which are outstanding at June 30, 2008) 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 and 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 \$145,000 due on July 1, 2008 to \$195,000 due on July 1, 2013. Interest is payable semi-annually, on January 1 and July 1, at rate of 6.2 percent, with an average effective rate of approximately 6.2 percent. Future aggregate annual payments applicable to revenue bonds at June 30, 2008 are:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2009	\$145,000	\$ 58,435
2010	155,000	49,135
2011	165,000	39,215
2012	170,000	28,830
2013	185,000	17,825
2014	195,000	6,045
Total	<u>\$ 1,015,000</u>	<u>\$ 199,485</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, 2008, 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 at par.

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, 2008, \$70,000 of such subsidy was included in other nonoperating revenues.

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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 (\$2,770,000 of which were outstanding at June 30, 2008). 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 and 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, 2008 to \$350,000 due on July 1, 2017. Interest is payable semi-annually, on January 1 and July 1, at rates between 5.35 percent and 5.625 percent, with an average effective rate of approximately 5.543 percent. Future aggregate annual payments applicable to the Series 1997 Bonds at June 30, 2008 are:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 215,000	\$ 148,177
2010	230,000	136,274
2011	240,000	123,701
2012	250,000	110,250
2013	265,000	95,766
2014-2018	<u>1,570,000</u>	<u>230,625</u>
Total	<u>\$ 2,770,000</u>	<u>\$ 844,793</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, 2008 as a whole or in part at any time and, 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:

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

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Series 2004

The University Facilities System Revenue Bond 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, 2008. The proceeds from the sale of the bonds were 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 were 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 and 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 4.166 percent. Future aggregate annual payments applicable to the Series 2004 Bonds at June 30, 2008 are:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ -	\$ 726,790
2010	-	726,790
2011	-	726,790
2012	-	726,790
2013	-	726,790
2014-2018	1,515,000	3,570,959
2019-2023	3,465,000	3,147,824
2024-2028	4,255,000	2,376,526
2029-2033	5,280,000	1,385,904
2034-2036	2,455,000	247,775
Total	<u>\$16,970,000</u>	<u>\$14,362,938</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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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, 2008, 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.

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During 2008, \$30,086 was credited to the renewal and replacement reserve account. At June 30, 2008, the fund 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, 2008, the fund balance in this account was \$1,016,635.

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, 2008, the fund balance in this account was \$134,885.

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

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University Facilities Revenue Bond Funds
Statement of Net Assets
June 30, 2008

ASSETS	
Current assets	
Cash and cash equivalents	\$ 1,356,154
Receivables	
Tuition and fees - net	62,302
Parking fines - net	102,808
Other receivables - net	75,589
Inventories	3,898
Other assets	18,823
Total current assets	<u>1,619,574</u>
Noncurrent assets	
Restricted cash and cash equivalents	1,768,541
Investments	3,080,062
Receivables	
Tuition and fees - net	4,207
Unamortized bond issue costs	489,408
Capital assets	
Site improvements - net	2,002,744
Buildings - net	17,697,571
Equipment - net	117,941
Total noncurrent assets	<u>25,160,474</u>
Total assets	<u>26,780,048</u>
LIABILITIES	
Current liabilities	
Accounts payable and accrued liabilities	906,957
Deferred revenues	191,341
Liability for compensated absences	24,028
Revenue bonds payable	360,000
Total current liabilities	<u>1,482,326</u>
Noncurrent liabilities	
Liability for compensated absences	1,098
Revenue bonds payable	20,395,000
Total noncurrent liabilities	<u>20,396,098</u>
Total liabilities	<u>21,878,424</u>
NET ASSETS	
Invested in capital assets - net of related debt	(428,512)
Restricted for:	
Expendable	
Capital projects	1,829,513
Debt service	1,660,811
Unrestricted	1,839,812
Total net assets	<u>\$ 4,901,624</u>

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*University Facilities Revenue Bond Funds
Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2008*

OPERATING REVENUES

Student fees	\$ 1,456,965
Vending services	220,689
Rental and use fees	12,233
Bookstore commission	419,108
Parking revenue	2,030,462
Other operating revenues	65,094
Total operating revenues	<u>4,204,551</u>

OPERATING EXPENSES

Personal services	1,326,452
Contractual services	988,032
Commodities and supplies	104,413
Vending cost of sales	63,178
Telecommunications	33,445
Depreciation	708,691
Other operating expenses	1,277,417
Total operating expenses	<u>4,501,628</u>
Operating loss	<u>(297,077)</u>

NONOPERATING REVENUES (EXPENSES)

Investment income	201,315
Interest on indebtedness	(943,649)
Federal grant - HUD	70,000
Net nonoperating expenses	<u>(672,334)</u>
Total decrease in net assets	<u>(969,411)</u>

NET ASSETS

Net assets - beginning of year	<u>5,871,035</u>
Net assets - end of year	<u>\$ 4,901,624</u>

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*University Facilities Revenue Bond Funds
Statement of Cash Flows
For the Year Ended June 30, 2008*

CASH FLOWS FROM OPERATING ACTIVITIES	
Student fees	\$ 1,521,717
Payment for salaries	(1,320,748)
Payment for suppliers	(1,130,085)
Vending services	210,141
Rental and use fees	12,233
Bookstore commission	419,108
Parking revenue	2,025,687
Other revenues	64,904
Other payments	(1,194,202)
Net cash provided by operating activities	<u>608,755</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITY	
Federal grant - HUD	70,000
Cash provided by noncapital financing activity	<u>70,000</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Purchases of capital assets and construction	(217,135)
Principal paid on capital debt	(340,000)
Interest paid on capital debt	(953,010)
Cash used in capital financing activities	<u>(1,510,145)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sales and maturities of investments	323,194
Interest on investments	201,315
Purchases of investments	(649,640)
Net cash used in investing activities	<u>(125,131)</u>
Net decrease in cash and cash equivalents	(956,521)
Cash and cash equivalents - beginning of the year	4,081,216
Cash and cash equivalents - end of year	<u>\$ 3,124,695</u>
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	\$ (297,077)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation expense	708,691
Changes in asset and liabilities:	
Receivables - net	130,612
Inventories	(694)
Unamortized bond issue costs	18,823
Accounts payable and accrued liabilities	141,682
Accrued liability for compensated absences	(17,059)
Deferred revenues	(76,223)
Net cash provided by operating activities	<u>\$ 608,755</u>

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Pledged Revenues & Debt Service Requirements

The University has pledged specific revenues, net of specified operating expenses, to repay the principal and interest of revenue bonds. The following is a schedule of the pledged revenues and related debt:

PLEGGED REVENUES					
Bond Issues	Purpose	Source of Revenue Pledged	Future Revenues Pledged	Term of Commitment	Debt Service to Pledged Revenues (Current Year)
Facilities Revenue Bonds Series 1973	Construction of the University's Student Union Building	Net revenues of the University Facilities System*, student tuition and fees	\$ 1,214,485	2013	100.00%
Facilities Revenue Bonds Series 1997	Renovation of Student Union Building, prepay outstanding lease obligations to improve the University's Parking lot	Net revenues of the University Facilities System*, student tuition and fees	3,614,793	2017	100.00%
Facilities Revenue Bonds Series 2004	Construction of a multi-level parking structure	Net revenues of the University Facilities System*, student tuition and fees	31,332,938	2035	100.00%
Total Future Revenues Pledged			<u>\$ 36,162,216</u>		

* The University Facilities System consists of the Student Union, all parking facilities, the University's vending facilities, the University bookstore, and any equipment or improvements pertaining thereto.

6. Certificates of Participation

On March 1, 2006, the University issued Certificates of Participation Series 2006, in the amount of \$15,060,000 with an original issue discount of \$94,315, to finance the acquisition, development and implementation of an enterprise resource planning system. The Board is obligated to make installment payments either from funds derived from State appropriations or from legally available nonappropriated funds on an annual basis. The Board's obligation to pay installment payments is subject to termination 60 days after the Board certifies to the Trustee that: 1) the General Assembly of the State has made a determination not to appropriate requested funds necessary to make the installment payments from State-appropriated funds, and 2) the Board has determined that there are no sufficient legally available non-appropriated funds to pay the installment payments. The Board has the option to terminate the purchase contract on October 1, 2010, and on any date on or after October 1, 2015, upon written notice to the Trustee at least 60 days prior to the termination date.

The certificates mature in increasing principal amounts ranging from \$570,000 due on October 1, 2008 to \$1,155,000 due on October 1, 2025 at rates between 3.50 percent and 4.75 percent. Future aggregate annual payments applicable to the certificates of participation at June 30, 2008 are:

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<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 570,000	\$ 614,931
2010	590,000	594,631
2011	610,000	573,250
2012	635,000	550,288
2013	660,000	525,594
2014-2018	3,720,000	2,201,572
2019-2023	4,600,000	1,319,375
2024-2026	3,310,000	240,825
Total	<u>\$14,695,000</u>	<u>\$ 6,620,466</u>

7. Northeastern Illinois University Foundation Agreement

On July 1, 2005, the University entered into an agreement with Northeastern Illinois University 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). Under the terms of the contract, the Foundation aids and assists the University in developing facilities for broader educational opportunities for the service to its students, alumni, and citizens of the State of Illinois and of the United States by encouraging gifts of money, property, works of art, historical and other material having educational, artistic and historical value. In turn, the University will furnish certain services necessary to the operation of the Foundation. The contract may be cancelled upon ninety days written notice by either party.

During fiscal year 2008, certain funds and in-kind services of the University with an estimated value of \$110,567 were provided to the Foundation without charge. In turn, during fiscal year 2008, the Foundation gave the University \$258,465 in funds considered unrestricted for purposes of the University Guidelines computation. In addition, the Foundation gave the University non-qualifying restricted and unrestricted funds of approximately \$181,237 in fiscal year 2008 for scholarships and awards.

8. 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

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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, 2008 was 10.75 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 years ended June 30, 2008, 2007, and 2006 were \$6,671,847, \$5,080,008 and \$3,503,835 respectively, equal to the required contributions for each year.

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, 2008 the accrued liability for this benefit was \$4,591,730, and is included in the liability for compensated absences.

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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, 2008, the accrued liability of this benefit was \$5,982,499, and is included in the liability for compensated absences.

Postemployment Benefits

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

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

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

9. Operating Leases

The University leases various buildings and equipment under operating lease agreements. Total rental expense for the year ended June 30, 2008 under these agreements was \$589,782. Minimum lease payments for the years ending June 30 are:

<u>Fiscal Year</u>	<u>Principal</u>
2009	\$ 683,150
2010	638,124
2011	551,443
2012	499,927
2013	274,005
2014	22,834
	<u>\$ 2,669,483</u>

10. 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 under the same coverage restrictions as the general liability coverage. 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.

11. Beverage Contract

The University entered into a sponsorship contract with the Pepsi-Cola General Bottlers Illinois LLC (Vendor) to provide beverages for its employees, visitors, faculty, and students. This is a ten-year agreement commencing December 18, 2007. Under the agreement, the University receives 50% of the total revenue derived by the Vendor from the vending machines installed and serviced on each respective University campus. Such payments will

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FOR THE YEAR ENDED JUNE 30, 2008**

be paid no less frequently than monthly and will be accompanied by appropriate documentation verifying the receipts and commission amounts. The commission received from the Vendor for the fiscal year of 2008 was \$33,603. Under the contract, the Vendor extended terms made during its negotiations with the Illinois Department of Revenue regarding marketing monies due to the University on an annual basis. The Vendor agreed to allocate statewide \$440,000 of marketing money. The University's share of the marketing money is 3.5948% of the total allocated statewide, or \$15,817. Payment of these funds is due at the beginning of each year throughout the term of the contract. The University received its payment of \$15,817 for the first year of the agreement. The Vendor also agreed to honor the agreement made during negotiations with the Illinois Department of Revenue regarding the guaranteed annual vending commitment, which for the University is \$13,631. This amount will increase in direct proportion to any price increases implemented by the Vendor during the life of this agreement.

12. Operating Expenses by Natural Classification

Operating expenses by natural classification for the year ended June 30, 2008 are summarized as follows:

	<u>Compensation and Benefits</u>	<u>Supplies and Services</u>	<u>Scholarships</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$ 40,170,013	\$ 1,899,724	\$ 91,149	\$ -	\$ 42,160,886
Research	593,080	187,781	900	-	781,761
Public service	8,632,992	7,969,869	133,243	-	16,736,104
Academic support	5,447,060	1,377,460	-	-	6,824,520
Student services	5,726,116	3,436,203	13,399	-	9,175,718
Institutional support	31,035,975	1,724,621	-	-	32,760,596
Operation and maintenance of plant	5,953,830	4,354,981	-	-	10,308,811
Scholarships and fellowships	-	-	4,592,734	-	4,592,734
Auxiliary	1,913,152	1,192,799	-	-	3,105,951
Depreciation	-	-	-	5,228,066	5,228,066
Other operating expenses	847,209	2,830,567	13,254	-	3,691,030
Total	<u>\$ 100,319,427</u>	<u>\$ 24,974,005</u>	<u>\$ 4,844,679</u>	<u>\$ 5,228,066</u>	<u>\$135,366,177</u>

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13. Commitments and Contingencies

At June 30, 2008, the University had a commitment for the construction project for the renovation of Building A of \$1,218,446.

Substantial amounts are received and expended by the University under federal and state grants and contracts. This funding relates to research, public services, and other programs, and is subject to audit under OMB Circular A-133, and disallowance by the granting agency. The University believes that any liabilities arising from subsequent audits will not have a material effect on the University's financial position.

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

<u>Type of Coverage</u>	<u>Required Coverage</u>	<u>Coverage in Force</u> ^(a)
Fire and lightning, extended coverage	Not stipulated	\$100,000,000 Primary
Use and occupancy insurance (Business interruption)	None ^(b)	Actual sustained within Policy limits ^(c)
General liability insurance	\$100,000/person \$300,000/accident	\$10,650,000/occurrence \$19,650,000/aggregate
Corporate surety bonds	\$4,334,007 ^(d)	\$5,000,000 ^(e)
Each University employee Blanket crime policy	None	\$2,000,000

- (a) 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.
- (b) Excess of debt service requirements for the year ended June 30, 2008 over cash and short-term investments in the Bond Account and Bond Reserve at June 30, 2008.
- (c) Estimate of coverage is directly related to loss of fee income.
- (d) The sum of the amounts established to be deposited in the Revenue Fund Account during the succeeding fiscal year.
- (e) This is a combination of bond and crime policies.

**STATE OF ILLINOIS
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**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 fall semester of 2007, students enrolling at Northeastern Illinois University pay a fee of \$6.60 per credit hour for the right to use the University's Student Union.

**STATE OF ILLINOIS
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JUNE 30, 2008**

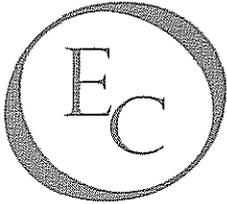
**UNIVERSITY FACILITIES REVENUE BOND FUNDS
SUMMARY OF RESERVES FOR DEBT SERVICE
AND RENEWAL AND REPLACEMENT
(Unaudited)**

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, 2008 is as follows:

	<u>Balance of Assets Reserved</u>	<u>Deposits Required to Date</u>	<u>Maximum Reserve Requirement</u>
Bond account ^(a)	\$ 830,505	\$ 830,505	\$ 830,505
Bond reserve account	1,302,130	1,302,130	1,302,130
Renewal and replacement reserve account ^(b)	500,000	1,650,000	500,000
Non-instructional facilities reserve account	1,016,635	1,016,635	1,016,635
Equipment reserve account	134,885	134,885	134,885

Notes:

- (a) The amounts required for the deposit in the bond account were remitted from the revenue fund account to the Trustee, U.S. Bank National Association, for payment of the bond principal and interest installments coming due on July 1, 2008.
- (b) Total expenditures for extraordinary repairs, as defined in the bond indenture, as of June 30, 2008, amounted to \$1,568,025. Amounts used in this manner are to be replaced in the reserve by extending the periodic payments until the maximum is accumulated.



E.C. ORTIZ & CO., LLP
CERTIFIED PUBLIC ACCOUNTANTS

**Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance With *Government Auditing Standards***

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the basic financial statements of Northeastern Illinois University (University) and its aggregate discretely presented component unit as of and for the year ended June 30, 2008, and have issued our report thereon dated January 22, 2009. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements and not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting (08-1).

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider item 08-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain matters which we have reported to management of the University in a separate letter dated January 22, 2009.

The University's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the University's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, Board of Trustees, University's management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

E. C. Artiz & Co., LLP

January 22, 2009

**State of Illinois
Northeastern Illinois University
For the Year Ended June 30, 2008
Schedule of Findings**

Current Finding - Government Auditing Standards

08-1 Controls for Reporting Accrued Compensated Absences

The Northeastern Illinois University (University) did not have adequate controls in place for identifying and reporting the University's liability for accrued compensated absences.

Effective January 1, 2008, the University began maintaining its records of employees' vested vacation and sick time in its new Human Resources (HR) Banner information system. At the end of the fiscal year, the HR department queried the system in order to extract data, which is then used to adjust the accrued compensated absences liability on the University's financial statements. The HR department does not have procedures in place to ensure the information extracted from the system has been verified and analyzed for accuracy and completeness prior to submission to the Finance department for adjustments in the financial statements.

The liability for accrued compensated absences reported on the University's financial statements amounted to \$10,574,229 at June 30, 2008. Based on our review of the Leave Liability Report (Report), we noted the following errors:

- The June vacation usages of semi-monthly and bi-weekly employees were not included in the Report resulting in an overstatement of the accrued compensated absences liability in the amount of \$247,102.
- Vacation leave balances of 21 tenure track faculty members who formerly served as chairpersons were not included in the Report resulting in an understatement of the accrued compensated absences liability in the amount of \$262,685.
- The Report included non-compensable vacation leave balances for 43 administrative and professional limited employees resulting in an overstatement of the accrued compensated absences liability in the amount of \$80,848.
- Twenty-eight (28) employees with compensable vacation leave balances were not included in the Report resulting in an understatement of \$102,350 in the accrued compensated absences liability.
- The salary rates used in the calculation of accrued compensated absences for 6 employees did not agree with the current salary rate per personnel appointment form resulting in an understatement of \$95,232 in the accrued compensated absences liability.

**State of Illinois
Northeastern Illinois University
For the Year Ended June 30, 2008
Schedule of Findings**

Current Finding - *Government Auditing Standards* (Continued)

- Five (5) terminated employees during the year and one provisional employee were included in the Report resulting in an overstatement of \$4,016 in the accrued compensated absences liability.

The University was not aware of the errors noted above until the auditors brought the issues to their attention. An adjusting entry of \$128,301 was proposed to correct the understated liability associated for the exceptions noted. The University did not adjust the financial statements. The amount was determined not to materially affect the financial statements and the adjustment has been included on the auditor's schedule of passed adjustments.

Proper internal controls require management to establish appropriate procedures to ensure that accurate financial statements are presented in accordance with generally accepted accounting principles. In addition, the Fiscal Control and Internal Auditing Act requires State agencies to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance that financial data is properly recorded and accounted for to permit the preparation of reliable financial reports.

University officials indicated that the errors noted in the Report were mainly due to the implementation of the new information system used to accumulate the information for the accrued compensated absences liability. The Report for this audit was the first prepared with the new system.

Failure to implement proper internal control procedures may result in a material misstatement in the University's financial statements. (Finding Code No. 08-1)

Recommendation

We recommend the University implement adequate internal controls to ensure that financial information is complete and accurate. Specifically, the HR department should verify the information extracted from the system prior to submitting the Report to the auditors for their review.

University Response

The University concurs with this finding and recommendation and will implement procedures using the new Banner system to ensure that the liabilities for compensated absences are complete and accurate.

**State of Illinois
Northeastern Illinois University
For the Year Ended June 30, 2008
Schedule of Findings**

Prior Finding Not Repeated - *Government Auditing Standards*

A *Improper Cut-Off Procedures for Expenditures*

Status: Implemented.

It was recommended that the University establish procedures to ensure that detailed invoices from partner schools are promptly obtained and reviewed. It was also recommended that yearend cut-off entries for accruals should be reviewed to ensure that they are complete and charged to the proper account and correct fiscal year.

During the current year, our sample testing disclosed that the invoices from partner schools were promptly obtained and reviewed by the University. In addition, we also noted that yearend cut-off entries for accruals were properly reviewed for completeness and accuracy. (Finding Code No. 07-1)