

**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY**

**FINANCIAL AUDIT
For the Year Ended June 30, 2012**

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



CliftonLarsonAllen

**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
FINANCIAL AUDIT
For the Year Ended June 30, 2012**

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**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
FINANCIAL AUDIT
For the Year Ended June 30, 2012**

Agency Officials

President	Dr. Sharon Hahs
Vice President for Finance and Administration	Mr. Mark Wilcockson, CPA
Director of Financial Affairs/Controller	Ms. Peggy Ho
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, 2012

FINANCIAL STATEMENT REPORT**

Summary

The audit of the accompanying 2012 basic financial statements of Northeastern Illinois University ("University") was performed by CliftonLarsonAllen 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 it.

Summary of Findings

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 51 to 53 of this report, as Finding 12-1, *Failure to Identify and Refund Title IV Aid in a Timely Manner*.

Exit Conference

The University waived having an exit conference in correspondence dated December 20, 2012, from the University's Vice President for Finance and Administration, Mark Wilcockson.

The responses to the recommendations were provided by Mark Wilcockson in correspondence dated December 20, 2012.



Independent Auditor's Report

Honorable William G. Holland
Auditor General of the State of Illinois
and
Board of Trustees
Northeastern Illinois University

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the business-type activities of the Northeastern Illinois University (University) and its aggregate discretely presented component units, collectively a component unit of the State of Illinois, as of and for the year ended June 30, 2012, which collectively comprise the University's basic financial statements 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, 2011 financial statements and, in our report dated February 10, 2012, we expressed an unqualified opinion on the respective financial statements of the business-type activities and the aggregate discretely presented component units. We did not audit the financial statements of the aggregate discretely presented component units, as described in Note 1 of the financial statements. Those financial statements were audited by another auditor whose report thereon has been provided to us, and our opinion on the financial statements, insofar as it relates to the amounts included for the aggregate discretely presented component units, is based on the report of the other auditor.

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 and the report of the other auditor provides a reasonable basis for our opinion.

In our opinion, based on our audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the University, as of June 30, 2012, and the respective changes in its financial position and its cash flows, where applicable, 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 a report dated January 16, 2013 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing,

and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 5 through 17 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the University's basic financial statements. The accompanying supplementary information, as listed in the table of contents, which is the responsibility of management, 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 by us in the audit of the basic financial statements, and accordingly, we express no opinion on it.

CliftonLarsonAllen LLP

Oak Brook, Illinois
January 16, 2013

**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2012**

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, 2012 with comparative information for the year ended June 30, 2011. 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 Component Unit 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 No. 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 non-operating revenues and expenses for the fiscal year. Operating revenues are generated by providing goods and services to the 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. Non-operating revenues and expenses include resources provided by the State of Illinois and other non-operating transactions. 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, 2012**

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

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

FINANCIAL HIGHLIGHTS

Highlights of the University's financial position for the fiscal year ended June 30, 2012 are presented below:

- The University has total assets of \$197.7 million, including current assets of \$70.6 million and noncurrent assets of \$127.1 million.
- The University has total liabilities of \$53.5 million, including current liabilities of \$14.0 million and noncurrent liabilities of \$39.5 million.
- The University's total net assets increased over the prior year by \$14.2 million to \$144.1 million, including an increase of \$10.6 million in net capital assets and an increase of \$3.3 million in unrestricted net assets.
- The total operating revenues of the University were \$80.8 million, including \$56.3 million in student tuition and fees, net of scholarship allowances, and \$16.3 million in grants and contracts.
- The total operating expenses of the University were \$163.3 million, including \$78.9 million for instruction.
- The operating loss of \$82.5 million was completely funded by non-operating revenues, including state appropriations, payments on behalf of the University, Pell Grant revenue, investment income, and other non-operating revenues. As a result, net income before other revenues, expenses, gains and losses totaled \$14.2 million. This amount includes \$4.8 million in depreciation expense.

FINANCIAL ANALYSIS

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

**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2012**

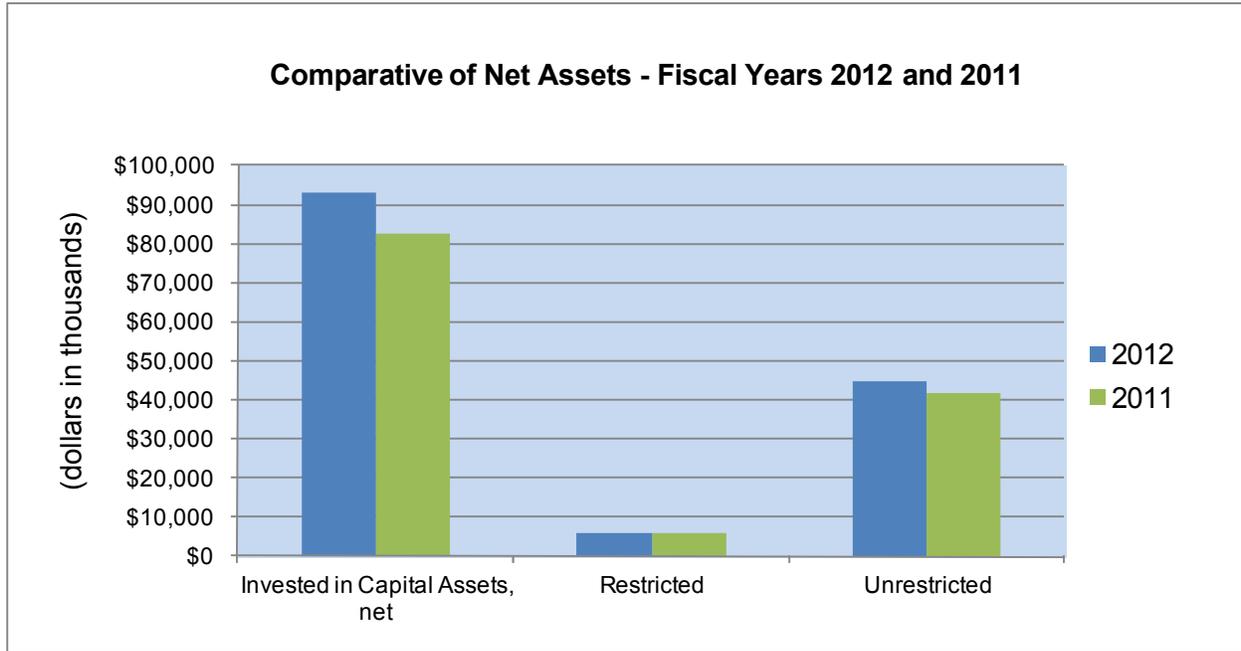
Statement of Net Assets

**Condensed Statement of Net Assets
As of June 30, 2012 and 2011
(dollars in thousands)**

	<u>2012</u>	<u>2011</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
ASSETS				
Current assets	\$ 70,542	\$ 67,631	\$ 2,911	4.3
Noncurrent assets:				
Restricted cash and cash equivalent	2,945	7,635	(4,690)	(61.4)
Restricted investment	1,359	1,347	12	0.9
Receivables, net	2,418	2,406	12	0.5
Unamortized bond issue costs	680	718	(38)	(5.3)
Capital assets, net	119,292	105,329	13,963	13.3
Other assets	428	-	428	100.0
Total assets	<u>197,664</u>	<u>185,066</u>	<u>12,598</u>	<u>6.8</u>
LIABILITIES				
Current liabilities	14,007	12,134	1,873	15.4
Noncurrent liabilities:				
Liability for compensated absences	4,870	7,310	(2,440)	(33.4)
Revenue bonds payable	17,165	17,350	(185)	(1.1)
Certificates of participation	17,475	18,286	(811)	(4.4)
Total liabilities	<u>53,517</u>	<u>55,080</u>	<u>(1,563)</u>	<u>(2.8)</u>
NET ASSETS				
Invested in capital assets, net	93,185	82,619	10,566	12.8
Restricted	6,004	5,751	253	4.4
Unrestricted	44,958	41,616	3,342	8.0
TOTAL NET ASSETS	<u>\$ 144,147</u>	<u>\$ 129,986</u>	<u>\$ 14,161</u>	<u>10.9</u>

**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2012**

The following chart shows net assets by classification and restriction:



Current Assets - The majority of the Current Assets of the University consists of cash and cash equivalents of \$49.3 million, and net receivables of \$20.2 million, including \$3.5 million in grants receivables, \$3.9 million in tuition and fees receivables, and \$12.7 million in other receivables. Total current assets increased by \$2.9 million from the prior year. This is primarily the result of the \$6.6 million increase in cash and cash equivalents and the \$4.0 million decrease in receivables. The increase in cash and cash equivalents can be attributable to the following factors. Net student tuition and fees cash receipts increased by \$3.2 million mainly due to a 6% increase in undergraduate student tuition rates. The cash receipts from the state appropriation increased by \$12.2 million, which was offset by the \$5.6 million increase in the employee compensation and benefits and the \$3.7 million decrease in Pell Grant cash receipts. The decrease in receivables was mainly due to the more timely reimbursement from the State Comptroller for University payroll expenses.

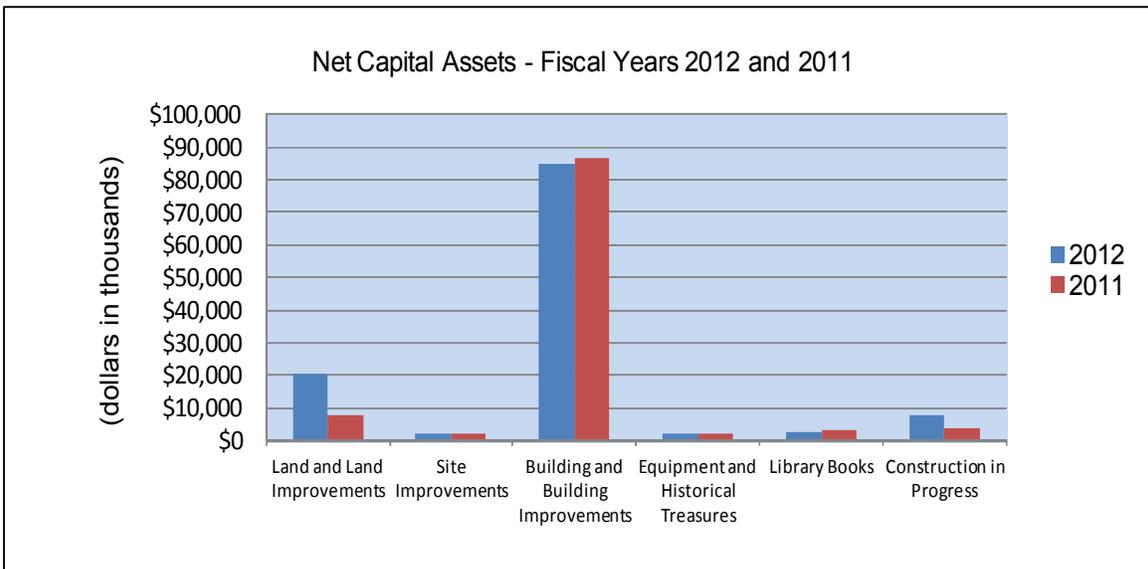
Noncurrent Assets - As of June 30, 2012, the University had total noncurrent assets of \$127.1 million compared with \$117.4 million at June 30, 2011. This net increase of \$9.7 million was primarily due to the \$4.7 million decrease in restricted cash and cash equivalents and \$14.0 million increase in capital assets. The decrease in restricted cash and cash equivalents reflects spending from the proceeds of the 2010 Certificates of Participation which were issued in September 2010 to fund the energy conservation project. The increase in capital assets is primarily due to the land purchased for the construction of a new academic facility for the University's El Centro campus. The University's net investment in capital assets is as follows:

**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2012**

**Capital Assets, Net
As of June 30, 2012 and 2011
(dollars in thousands)**

	<u>2012</u>	<u>2011</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Capital assets:				
Land and land improvements	\$ 20,417	\$ 8,008	\$ 12,409	155.0
Site improvements	6,434	6,408	26	0.4
Building	135,275	134,099	1,176	0.9
Equipment and historical treasures	14,066	14,032	34	0.2
Library books	23,202	22,571	631	2.8
Construction in progress	<u>7,603</u>	<u>3,679</u>	<u>3,924</u>	<u>106.7</u>
Total	206,997	188,797	18,200	9.6
Less accumulated depreciation	<u>87,705</u>	<u>83,469</u>	<u>4,236</u>	<u>5.1</u>
NET CAPITAL ASSETS	<u><u>\$ 119,292</u></u>	<u><u>\$ 105,328</u></u>	<u><u>\$ 13,964</u></u>	<u><u>13.3</u></u>

The following chart is the breakdown of the University's capital assets, net of depreciation, by category:



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NORTHEASTERN ILLINOIS UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2012**

Current Liabilities - Current liabilities consist primarily of accounts payable and accrued liabilities of \$8.2 million, deferred revenues for summer tuition and grants of \$3.1 million, and the current portion of the liability for compensated absences of \$1.5 million. Total current liabilities as of June 30, 2012 were \$14.0 million.

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 totaled \$39.5 million at June 30, 2012 as compared to \$42.9 million at June 30, 2011. The decrease of \$3.4 million was primarily due to the \$2.4 million decrease in liability for compensated absences, and the \$1.0 million decrease in revenue bonds and certificates of participation outstanding. The University's current revenue bonds and certificates of participation payable consist of University Facilities Revenue Bonds Series 1973, University Facilities System Revenue Bonds Series 2004, Certificates of Participation Series 2006 and Certificates of Participation Series 2010.

Fiscal year 2012 principal repayments for the two revenue bonds and the two certificates of participation are as follows:

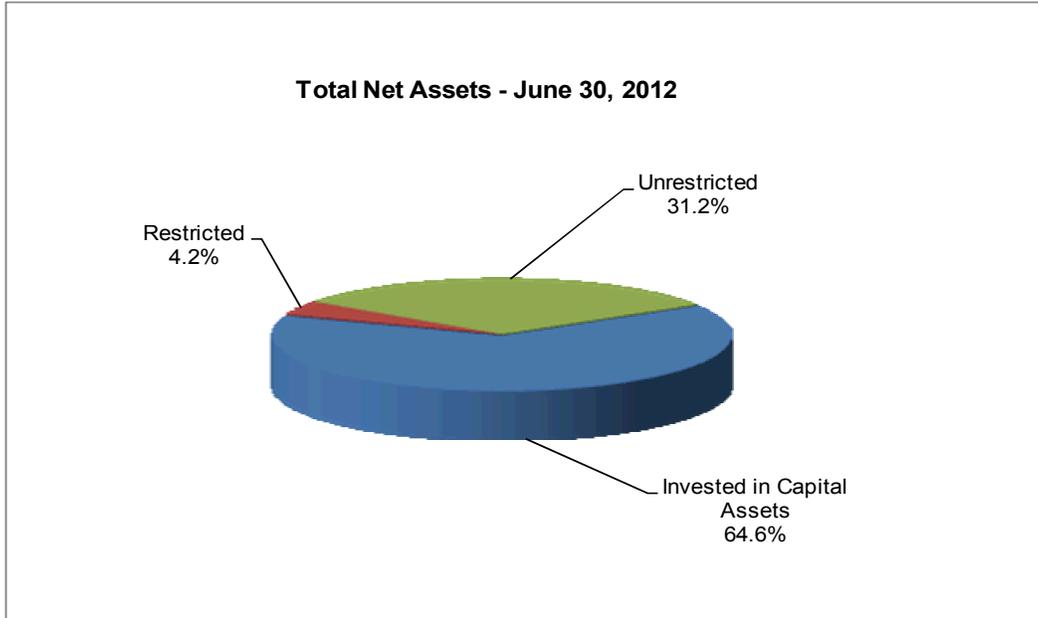
<u>Debt Type</u>	<u>Principal Paid in Fiscal Year 2012</u>
Revenue Bonds Series 1973	\$ 170,000
Revenue Bonds Series 2004*	-
Certificates of Participation 2006	635,000
Certificates of Participation 2010**	-
	<hr/>
Total Principal Paid	<u><u>\$ 805,000</u></u>

* No principal repayment until July 1, 2014

** No principal repayment until October 1, 2012

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 \$14.2 million over the prior year. This is primarily due to a \$10.6 million increase in invested in capital assets, net of related debt, and a \$3.3 million increase in unrestricted net assets. The increase in invested in capital assets, net of related debt, was due to the land purchased for the construction of a new academic facility for the University's El Centro campus. The increase in unrestricted net assets was mainly due to the decrease in liabilities transferred to the plant fund for the capital assets purchased this fiscal year.

**STATE OF ILLINOIS
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NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2012**



The following is a breakdown of the \$6.0 million restricted net assets:

**Restricted Net Assets
As of June 30, 2012 and 2011
(dollars in thousands)**

	<u>2012</u>	<u>2011</u>
Grants and contracts	\$ 336	\$ 659
Student loans	2,398	2,487
Debt service	2,101	1,951
Other	1,169	654
TOTAL RESTRICTED NET ASSETS	<u><u>\$ 6,004</u></u>	<u><u>\$ 5,751</u></u>

**STATE OF ILLINOIS
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NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2012**

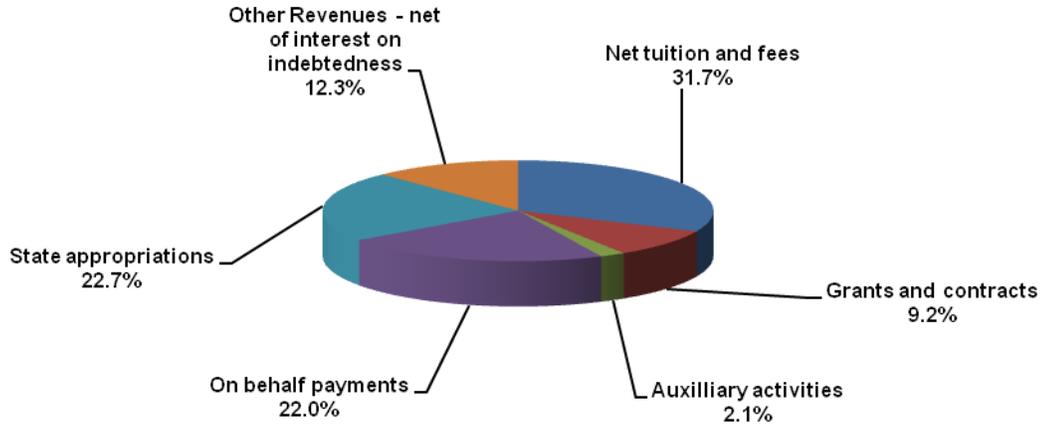
Statement of Revenues, Expenses, and Changes in Net Assets

**Condensed Statement of Revenues, Expenses, and Changes in Net Assets
For the Years Ended June 30, 2012 and 2011
(dollars in thousands)**

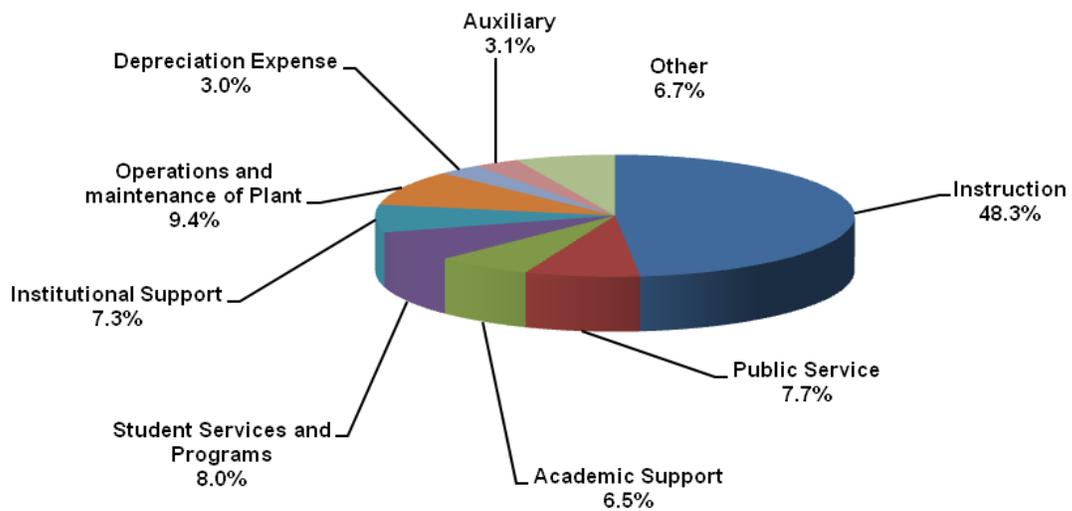
	<u>2012</u>	<u>2011</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
OPERATING REVENUES				
Net tuition and fees	\$ 56,277	\$ 53,053	\$ 3,224	6.1
Grants and contracts	16,335	17,763	(1,428)	(8.0)
Auxiliary enterprises	3,743	3,913	(170)	(4.3)
Other	4,459	4,317	142	3.3
Total operating revenues	<u>80,814</u>	<u>79,046</u>	<u>1,768</u>	<u>2.2</u>
OPERATING EXPENSES				
Instruction	78,900	70,745	8,155	11.5
Public service	12,624	13,439	(815)	(6.1)
Academic support	10,569	9,603	966	10.1
Student services and programs	13,078	11,608	1,470	12.7
Institutional support	11,957	13,440	(1,483)	(11.0)
Operations and maintenance of plant	15,310	14,014	1,296	9.2
Depreciation expense	4,837	4,944	(107)	(2.2)
Auxiliary	4,999	4,053	946	23.3
Other	10,991	11,654	(663)	(5.7)
Total operating expenses	<u>163,265</u>	<u>153,500</u>	<u>9,765</u>	<u>6.4</u>
Operating loss	<u>(82,451)</u>	<u>(74,454)</u>	<u>(7,997)</u>	<u>10.7</u>
NON-OPERATING REVENUES (EXPENSES)				
State appropriations	40,229	40,711	(482)	(1.2)
Payments on behalf of the University	39,102	33,391	5,711	17.1
Pell Grant	18,719	19,972	(1,253)	(6.3)
Other non-operating revenues	257	234	23	9.8
Other non-operating expenses	<u>(1,674)</u>	<u>(1,499)</u>	<u>(175)</u>	<u>11.7</u>
Total non-operating revenues	<u>96,633</u>	<u>92,809</u>	<u>3,824</u>	<u>4.1</u>
NET INCOME	14,182	18,355	(4,173)	(22.7)
Gain/(loss) on disposal of capital assets	(21)	(14)	(7)	50.0
Adjustments to capital additions provided by State of Illinois	<u>-</u>	<u>(184)</u>	<u>184</u>	<u>(100.0)</u>
CHANGES IN NET ASSETS	14,161	18,157	(3,996)	(22.0)
NET ASSETS, BEGINNING OF YEAR	<u>129,986</u>	<u>111,829</u>	<u>18,157</u>	<u>16.2</u>
NET ASSETS, END OF YEAR	<u>\$ 144,147</u>	<u>\$ 129,986</u>	<u>\$ 14,161</u>	<u>10.9</u>

**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2012**

Total Revenue by Source - June 30, 2012



Operating Expenses - June 30, 2012



**STATE OF ILLINOIS
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MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2012**

Operating Revenues - Total operating revenues increased by \$1.8 million. This is the result of the increase in tuition and fees of \$3.2 million and the decline in grant and contract awards of \$1.4 million due to the non-renewal of certain federal and state grants.

Operating Expenses - Instruction accounted for the largest portion of operating expenses at \$78.9 million. Operation and maintenance of the physical plant is the next largest at \$15.3 million. These two areas, plus institutional support at \$12.0 million, public service at \$12.6 million, student services and programs at \$13.1 million, and academic support at \$10.6 million, account for approximately 87% of the operating expenses of the University. Operating expenses increased by \$9.8 million. The increase is a result of two items: employee salaries increased by \$4.8 million due mainly to the salary increases for negotiated and non-negotiated employees plus the increase in vacation and sick leave payouts for the large number of employees who retired in fiscal year 2012. Payments on behalf of the University for health insurance and retirement benefits increased by \$5.7 million, which reflects the rise in employee health insurance and retirement benefits costs financed by the state.

Non-operating Revenues (Expenses) - This consists of state appropriations, on behalf payments, Pell Grant revenue, investment income, and other non-operating revenues, less interest on indebtedness. Total non-operating revenues increased by \$3.8 million. This is primarily the net result of the increase of \$5.7 million in payments on behalf of the University, the decrease of \$1.3 million in Pell Grant and the decrease of \$0.5 million in state appropriations.

Statement of Cash Flows

	<u>2012</u>	<u>2011</u>
Cash received from operations	\$ 81,393	\$ 79,872
Cash expended for operations	<u>(121,306)</u>	<u>(116,429)</u>
Net cash used in operating activities	(39,913)	(36,557)
Net cash provided by noncapital financing activities	63,051	54,460
Net cash used in capital financing activities	(21,363)	(2,114)
Net cash provided by (used in) investing activities	<u>174</u>	<u>(189)</u>
Net increase in cash	1,949	15,600
CASH, BEGINNING OF YEAR	<u>50,248</u>	<u>34,648</u>
CASH, END OF YEAR	<u>\$ 52,197</u>	<u>\$ 50,248</u>

**STATE OF ILLINOIS
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MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2012**

The primary cash receipts from operating activities consist of tuition and fees of \$55.4 million, and grants and contracts of \$17.2 million. Cash outlays included payments to employees of \$82.4 million, payments for fringe benefits of \$5.9 million, and payments to suppliers of \$23.9 million.

The state appropriation of \$45.3 million is the primary source of noncapital financing activities. Accounting standards require the University to reflect this source of revenue as non-operating even though the University's budget depends on this funding to support operations.

The main capital financing activities included purchases of capital assets and construction costs of \$18.9 million and debt service payment of \$2.4 million.

Investing activities reflect purchases, sales, and interest income earned on investments.

The total net cash increased by \$1.9 million from fiscal year 2011.

SIGNIFICANT FINANCIAL EVENTS IMPACTING FUTURE PERIODS

In September 2008, the Northeastern Illinois University Board of Trustees endorsed the University's strategic planning priorities that include six major goals and underlying action steps to accomplish each of the goals. The goals are ensuring student success, enhancing academic excellence and innovation, providing urban leadership in Chicago and the region, investing in exemplary faculty and staff, enhancing University operations and facilities, and strengthening the financial position of the University.

The University also identified key performance indicators and uses those indicators to measure our successes in addressing our strategic goals. Through the indicators, we identify areas in which additional resources, financial and staffing, should be allocated to make progress in attaining our goals.

The University will continue to use the above described planning process in future periods as the means to allocate available financial resources to the highest institution goals and priorities. However, the fiscal climate in Illinois and the nation will have a significant financial impact on the level of resources available to the University, and to our students, and will impact the University's ability to address our goals and likely will affect students' ability to access higher education.

The fiscal climate in Illinois can best be described as uncertain. Since fiscal year 2002, the high-water mark for state support for the University, appropriations have declined from \$45.4 million to \$37.8 million for fiscal year 2013. This is a total decrease of \$7.6 million, or 16.7%. Over the past three years, fiscal year 2010 to fiscal year 2013, funding has decreased \$5.6 million, an average annual decrease of 4.5%. Given Illinois' fiscal challenges, it is unlikely that this trend will change in the near future. In response to this trend, the University, and most higher education institutions in the nation, has increased tuition to compensate for both

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NORTHEASTERN ILLINOIS UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2012**

declining state support and to address the need for resources to meet increasing costs, implement new and innovative academic programs, and provide needed student support services. However, the Northeastern Illinois University Board of Trustees voted to hold tuition level for incoming freshmen in fiscal year 2013.

A further complication is pension funding. Discussions continue at the state level on options to address the pension challenges. The solution to the state's underfunded pension system will likely have some financial effect on the University.

Another result of decreasing government support for education, at both the state and national levels, is less financial aid grant funding to allow students with few financial resources to attend college. This trend also is likely to continue in future periods. In response, many colleges and universities, including the University, are allocating a portion of operating funds for institutional need-based student aid programs. Future cuts in federal spending likely will decrease available grant funding that has been used at the University for student support services (e.g., veterans and transfer students) and certain facility renovations (e.g., science lab renovations).

Given these trends, significant financial events impacting future periods will likely be as follows: State and federal support for the University and our students likely will continue to diminish, resulting in increasing costs to students, a shift in University resources to financial assistance programs for students with financial need, increasing deferred maintenance of facilities, and financial challenges in implementing new academic programs to address student and occupational demands.

In response to these challenges, the University will continue to identify and implement cost savings measures, such as our current energy conservation project and the new voice-over-IP phone system. We will continue to be good stewards of the resources that we have and use those resources for the highest priorities within our strategic plan, focusing on student retention and success. We will look for new and creative ways to bring additional resources to the University. We will continue to be accountable by self-assessing our progress in meeting our goals using key performance indicators and we will share those results, both good and areas for improvement, with our stakeholders. We will advocate for appropriate governmental appropriations and grants to support the operations of the University and to assure access to higher education for students with financial need. And finally, we will not let future financial events diminish the quality of the education we offer to our students as we prepare our graduates to be future leaders.

**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2012**

CONTACTING NEIU'S FINANCIAL MANAGEMENT

This financial report is designed to provide interested parties with a general overview of the 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,			
	2012		(Comparative Totals Only) 2011	
	University	Component Units	University	Component Units
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 49,252,846	\$ 227,747	\$ 42,612,199	\$ 108,967
Short-term investments	-	1,408,118	-	1,667,812
Receivables:				
Grants	3,477,360	-	3,089,505	-
Student loans (net of allowance for doubtful accounts of \$386,027 in 2012 and \$350,241 in 2011)	79,223	-	51,761	-
Tuition and fees (net of allowance for doubtful accounts of \$884,720 in 2012 and \$424,901 in 2011)	3,924,668	-	3,226,639	-
Other receivables (net of allowance for doubtful accounts of \$729,370 in 2012 and \$701,611 in 2011)	12,721,387	-	17,808,831	-
Inventories	6,914	-	18,170	-
Deferred charges	1,041,244	-	785,729	-
Other assets	38,596	7,215	38,596	75,721
Total current assets	<u>70,542,238</u>	<u>1,643,080</u>	<u>67,631,430</u>	<u>1,852,500</u>
Noncurrent assets:				
Restricted cash and cash equivalents	2,944,566	-	7,635,272	-
Restricted investments	1,358,686	5,002,517	1,346,959	4,451,184
Receivables:				
Student loans (net of allowance for doubtful accounts of \$406,577 in 2012 and \$434,800 in 2011)	1,840,134	-	1,972,606	-
Tuition and fees (net of allowance for doubtful accounts of \$3,142,907 in 2012 and \$2,224,201 in 2011)	578,026	-	433,512	-
Unamortized bond issue costs	679,506	-	718,102	-
Capital assets:				
Land and land improvements	20,416,597	-	8,007,817	-
Site improvements (net of accumulated depreciation of \$4,464,000 in 2012 and \$4,225,996 in 2011)	1,970,286	-	2,181,939	-
Buildings and building improvements (net of accumulated depreciation of \$50,618,729 in 2012 and \$47,690,222 in 2011)	84,655,760	-	86,408,690	-
Equipment (net of accumulated depreciation of \$12,267,937 in 2012 and \$11,998,671 in 2011)	1,714,839	-	1,950,661	-
Historical treasures and works of art	83,330	-	83,330	-
of \$20,354,134 in 2012 and \$19,554,105 in 2011)	2,847,989	-	3,017,145	-
Construction in progress	7,603,464	-	3,678,792	-
Other assets	428,248	8,000	-	18,286
Total noncurrent assets	<u>127,121,431</u>	<u>5,010,517</u>	<u>117,434,825</u>	<u>4,469,470</u>
TOTAL ASSETS	<u>197,663,669</u>	<u>6,653,597</u>	<u>185,066,255</u>	<u>6,321,970</u>

See accompanying notes to basic financial statements.

**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
STATEMENT OF NET ASSETS**

	June 30,			
	2012		(Comparative Totals Only) 2011	
	University	Component Units	University	Component Units
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities	8,207,393	1,771	7,532,184	4,102
Deferred revenues	3,108,943	223,131	2,664,518	337,321
Liability for compensated absences	1,451,176	-	998,037	-
Revenue bonds payable	185,000	-	170,000	-
Certificates of participation, net	810,284	-	630,284	-
Funds held in custody for others	244,579	-	139,460	-
Total current liabilities	<u>14,007,375</u>	<u>224,902</u>	<u>12,134,483</u>	<u>341,423</u>
Noncurrent liabilities:				
Liability for compensated absences	4,869,412	-	7,309,987	-
Revenue bonds payable	17,165,000	-	17,350,000	-
Certificates of participation, net	17,475,301	-	18,285,585	-
Total noncurrent liabilities	<u>39,509,713</u>	<u>-</u>	<u>42,945,572</u>	<u>-</u>
TOTAL LIABILITIES	<u>53,517,088</u>	<u>224,902</u>	<u>55,080,055</u>	<u>341,423</u>
NET ASSETS				
Invested in capital assets, net of related debts	93,184,828	-	82,618,639	-
Restricted for:				
Nonexpendable:				
Scholarships and charitable trust	-	5,002,517	-	4,491,184
Expendable:				
Grants and contracts	335,855	-	659,487	-
Student loans	2,397,807	-	2,486,987	-
Debt service	2,101,010	-	1,951,010	-
Other	1,169,339	997,219	653,588	1,038,568
Unrestricted	<u>44,957,742</u>	<u>428,959</u>	<u>41,616,489</u>	<u>450,795</u>
TOTAL NET ASSETS	<u>\$ 144,146,581</u>	<u>\$ 6,428,695</u>	<u>\$ 129,986,200</u>	<u>\$ 5,980,547</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)			
	2012		2011	
	University	Component Units	University	Component Units
OPERATING REVENUES				
Student tuition and fees (net of scholarship allowances of \$15,256,148 in 2012 and \$15,671,679 in 2011)	\$ 56,276,791	\$ -	\$ 53,052,879	\$ -
Federal grants and contracts	13,005,164	-	13,561,635	-
State and local grants	2,272,522	-	2,706,114	-
Nongovernmental grants and contracts	1,057,662	-	1,495,146	-
Auxiliary enterprises	3,743,385	-	3,912,966	-
Other operating revenues	4,458,941	929,604	4,317,416	1,747,130
Total operating revenues	<u>80,814,465</u>	<u>929,604</u>	<u>79,046,156</u>	<u>1,747,130</u>
OPERATING EXPENSES				
Instruction	78,899,658	-	70,745,029	-
Research	1,031,275	-	764,946	-
Public service	12,623,930	-	13,439,552	-
Academic support	10,569,274	-	9,603,298	-
Student services and programs	13,077,999	-	11,608,228	-
Institutional support	11,957,194	-	13,440,062	-
Operation and maintenance of plant	15,309,594	-	14,014,069	-
Scholarships and fellowships	8,498,231	-	9,124,810	-
Auxiliary enterprises	4,999,239	-	4,052,508	-
Depreciation expense	4,836,851	-	4,944,041	-
Other operating expenses	1,462,165	859,285	1,763,866	609,920
Total operating expenses	<u>163,265,410</u>	<u>859,285</u>	<u>153,500,409</u>	<u>609,920</u>
Operating income (loss)	<u>(82,450,945)</u>	<u>70,319</u>	<u>(74,454,253)</u>	<u>1,137,210</u>
NONOPERATING REVENUES (EXPENSES)				
State appropriations - general revenue fund	40,228,500	-	40,711,218	-
Payments on behalf of the University	39,101,845	-	33,390,867	-
Pell Grant	18,719,529	-	19,972,301	-
Investment income	186,144	-	164,381	-
Interest on indebtedness	(1,673,942)	-	(1,499,699)	-
Other nonoperating revenues	70,000	-	70,000	-
Net nonoperating revenues	<u>96,632,076</u>	<u>-</u>	<u>92,809,068</u>	<u>-</u>
Income (loss) before other revenues, expenses, gains and losses	14,181,131	70,319	18,354,815	1,137,210
Additions to permanent endowments	-	377,829	-	230,873
Gain (loss) on disposal of capital assets	(20,750)	-	(13,799)	-
Capital additions provided by State of Illinois	-	-	(184,273)	-
INCREASE IN NET ASSETS	<u>14,160,381</u>	<u>448,148</u>	<u>18,156,743</u>	<u>1,368,083</u>
NET ASSETS, BEGINNING OF YEAR	<u>129,986,200</u>	<u>5,980,547</u>	<u>111,829,457</u>	<u>4,612,464</u>
NET ASSETS, END OF YEAR	<u>\$ 144,146,581</u>	<u>\$ 6,428,695</u>	<u>\$ 129,986,200</u>	<u>\$ 5,980,547</u>

See accompanying notes to basic financial statements.

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

	For the year Ended June 30,			
	(Comparative Totals Only)			
	2012		2011	
	University	Component Units	University	Component Units
CASH FLOWS FROM OPERATING ACTIVITIES				
Tuition and fees	\$ 55,371,941	\$ -	\$ 52,188,554	\$ -
Grants and contracts	17,239,274	-	18,538,206	-
Payments to employees	(82,431,531)	-	(77,986,999)	-
Payments for fringe benefits	(5,858,340)	-	(4,685,003)	-
Payments to suppliers	(23,856,622)	(583,562)	(23,438,414)	(397,972)
Payments for scholarships and fellowships	(8,763,645)	-	(9,447,862)	-
Loans issued to students	(395,908)	-	(870,282)	-
Collections of loans from students	425,547	-	979,145	-
Auxiliary enterprises	3,740,059	-	3,877,289	-
Other receipts	4,616,214	686,030	4,288,757	670,835
Net cash provided by (used in) operating activities	<u>(39,913,011)</u>	<u>102,468</u>	<u>(36,556,609)</u>	<u>272,863</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State appropriations	45,290,779	-	33,048,137	-
Pell Grant	17,585,485	-	21,328,286	-
Agency transactions	105,119	-	13,347	-
Other noncapital financing activities	70,000	428,115	70,000	190,873
Net cash provided by noncapital financing activities	<u>63,051,383</u>	<u>428,115</u>	<u>54,459,770</u>	<u>190,873</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES				
Purchases of capital assets and construction	(18,948,534)	-	(5,889,158)	-
Proceeds from capital debt	-	-	6,060,000	-
Principal paid on capital debt and leases	(805,000)	-	(775,000)	-
Interest paid on capital debt and leases	(1,609,314)	-	(1,510,342)	-
Net cash provided by (used in) capital financing activities	<u>(21,362,848)</u>	<u>-</u>	<u>(2,114,500)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sales and maturities of investments	-	5,026,073	-	102,636
Interest on investments	186,144	-	164,381	-
Purchases of investments	(11,727)	(5,437,876)	(353,254)	(924,103)
Net cash provided by (used in) investing activities	<u>174,417</u>	<u>(411,803)</u>	<u>(188,873)</u>	<u>(821,467)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,949,941	118,780	15,599,788	(357,731)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	50,247,471	108,967	34,647,683	466,698
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 52,197,412</u>	<u>\$ 227,747</u>	<u>\$ 50,247,471</u>	<u>\$ 108,967</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ (82,450,945)	\$ 70,319	\$ (74,454,253)	\$ 1,137,210
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Payment on-behalf of the University	39,101,845	-	33,390,867	-
Unrealized loss (gain) on changes in market value of investments	-	52,160	-	(837,393)
Realized loss (gain) on sale of investments	-	(13,878)	-	(22,914)
Depreciation expense	4,836,851	-	4,944,041	-
Changes in assets and liabilities:				
Receivables, net	(730,604)	-	1,161,859	-
Deferred charges and other assets	119,258	(3,802)	(52,818)	(3,117)
Inventories	11,256	-	(6,211)	-
Accounts payable and accrued liabilities	570,637	(2,331)	275,524	(923)
Accrued salaries and wages	158,861	-	(233,642)	-
Liability for compensated absences	(1,974,595)	-	(532,867)	-
Deferred revenues	444,425	-	(1,049,109)	-
Net cash provided by (used in) operating activities	<u>\$ (39,913,011)</u>	<u>\$ 102,468</u>	<u>\$ (36,556,609)</u>	<u>\$ 272,863</u>
Noncash operating and capital financing activities:				
On-behalf payments for fringe benefits	\$ 39,101,845	\$ -	\$ 33,390,867	\$ -
Capital asset acquisition via capital appropriations	-	-	(184,273)	-
Net noncash activities	<u>\$ 39,101,845</u>	<u>\$ -</u>	<u>\$ 33,206,594</u>	<u>\$ -</u>

See accompanying notes to basic financial statements.

**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012**

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 units; Northeastern Illinois University Foundation (the "Foundation") and the Northeastern Illinois Alumni Association (the "Alumni Association").

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 (University Guidelines). 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. An audit of the Foundation's financial statements, for the fiscal year ended June 30, 2012, was conducted by an independent certified public accountant. Complete financial statements for the Foundation may be obtained by writing to the NEIU Foundation, Vice President for Institutional Advancement, Northeastern Illinois University, 5500 North St. Louis Ave., Chicago, Illinois 60625.

The Alumni Association was also a University Related Organization as defined under University Guidelines. The Alumni Association was formed for the purpose of reconnecting with and engaging Northeastern Illinois University alumni with the University to engender more volunteerism, advocacy and support. Effective July 1, 2011, the Alumni Association donated its net assets to the Foundation and was dissolved as its own entity. An audit of the Alumni Association's financial statements, for the fiscal year ended June 30, 2011, was conducted by an independent certified public accountant. Complete financial statements for the Alumni Association may be obtained by writing to the NEIU Alumni Association, Vice

**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012**

President for Institutional Advancement, 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 of Illinois' comprehensive annual financial report.

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.

**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012**

- The Statement of Revenues, Expenses, and Changes in Net Assets provides operating and nonoperating revenues and expenses, and displays the net income or loss from operations and total changes in net assets.
- The Statement of Cash Flows details the change in the cash and cash equivalents balance for the fiscal year and is prepared using the direct method. Cash and cash equivalents include bank accounts and investments with original maturities of 90 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, Pell Grant, 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.

**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012**

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 the 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 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.

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:

**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012**

<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
Non-depreciable 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 \$15,256,148 for fiscal year 2012. 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 \$3,872,852 in fiscal year 2012.

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.

Certain revenue sources that the University relies on to provide funding for operations including state appropriations, Pell Grant, 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 non-operating revenues.

**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012**

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 \$39,101,845 representing \$21,462,696 and \$17,639,149, 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 allocated to each functional category under the Operating Expenses.

New Accounting Standards

In December 2009, GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. The objective of this statement is to address issue related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit plans. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2011. The University has determined that the Statement has no effect on its financial statements.

In June 2011, GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions - An Amendment of GASB No. 53*, GASB No. 64 clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2011. The University has determined that this Statement has no effect on its financial statements.

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 the University’s Component Units as shown on the Statement of Net Assets as of June 30, 2012:

**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012**

	<u>University</u>	<u>Foundation</u>
Carrying amounts of deposits	\$ 51,652,057	\$ 227,747
Carrying amounts of investments	<u>1,904,041</u>	<u>6,410,635</u>
	<u>\$ 53,556,098</u>	<u>\$ 6,638,382</u>
Cash and cash equivalents	\$ 49,252,846	\$ 227,747
Restricted cash and cash equivalents	2,944,566	-
Short-term investments	-	1,408,118
Long-term investments	<u>1,358,686</u>	<u>5,002,517</u>
	<u>\$ 53,556,098</u>	<u>\$ 6,638,382</u>

Deposits

The University utilizes several different bank accounts for the various activities of the University. The book balance of such accounts is \$51,652,057 at June 30, 2012, while the bank balance was \$52,854,934. The difference between the above amounts primarily represents checks that have been issued but have not yet cleared the bank as of June 30, 2012.

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 at 110%. As of June 30, 2012, 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.

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 the University's Component Units at June 30, 2012:

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<u>Investment Type</u>	<u>University</u>	<u>Foundation</u>
Illinois funds	\$ 545,355	\$ -
U.S. Treasury notes	1,114,198	-
Certificate of deposit	244,488	-
Mutual funds	-	6,410,635
Total	\$ 1,904,041	\$ 6,410,635

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, 2012, the University had the following investments subject to Interest Rate Risk:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity</u>		<u>Weighted Average Maturity (Years)</u>
		<u>Less than 1 Year</u>	<u>1 - 5 Years</u>	
Illinois funds	\$ 545,355	\$ 545,355	\$ -	0.06
U.S. Treasury notes	1,114,198	-	1,114,198	2.71
Certificate of deposit	244,488	-	244,488	1.00
Total	\$ 1,904,041	\$ 545,355	\$ 1,358,686	

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, 2012, the University had quality ratings as shown in the table below:

<u>Investment Type</u>	<u>Total</u>	<u>Standard & Poor's</u>	<u>Moody's</u>
Certificate of deposit	\$ 244,488	AA-	Aa2
Illinois Fund	545,355	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, 2012, the University does not have any investments representing 5% or more of total assets in any single issuer other than the U.S. Government, its agencies or sponsored corporations.

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, 2012, the University's investment in the U.S. Treasury was registered with securities in the University's name. Investments in external investment pools 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, 2012 are as follows:

	<u>July 1, 2011</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>June 30, 2012</u>
Cost:					
Land and land improvements	\$ 8,007,817	\$ 12,408,780	\$ -	\$ -	\$ 20,416,597
Site improvements	6,407,935	26,351	-	-	6,434,286
Building and building improvements	134,098,912	166,084	1,009,493	-	135,274,489
Equipment	13,949,332	655,103	-	621,659	13,982,776
Non-depreciable historical treasures and works of art	83,330	-	-	-	83,330
Library books	22,571,250	631,007	-	134	23,202,123
Construction in progress	3,678,792	4,934,165	(1,009,493)	-	7,603,464
Total	<u>188,797,368</u>	<u>18,821,490</u>	<u>-</u>	<u>621,793</u>	<u>206,997,065</u>
Less accumulated depreciation					
Site improvements	4,225,996	238,004	-	-	4,464,000
Building and building improvements	47,690,222	2,928,507	-	-	50,618,729
Equipment	11,998,671	870,177	-	600,911	12,267,937
Library books	19,554,105	800,163	-	134	20,354,134
Total	<u>83,468,994</u>	<u>4,836,851</u>	<u>-</u>	<u>601,045</u>	<u>87,704,800</u>
Capital assets net	<u>\$ 105,328,374</u>	<u>\$ 13,984,639</u>	<u>\$ -</u>	<u>\$ 20,748</u>	<u>\$ 119,292,265</u>

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4. LONG-TERM DEBT AND OTHER LIABILITIES

Long-term debt and other liabilities consist of the following as of June 30, 2012:

<u>Investment Type</u>	<u>July 1, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2012</u>
Compensated absences	\$ 8,308,024	\$ 414,943	\$ 2,402,379	\$ 6,320,588
Revenue Bonds Series 1973	550,000	-	170,000	380,000
Revenue Bonds Series 2004	16,970,000	-	-	16,970,000
Certificates of Participation (COP):				
Series 2006	12,925,000	-	635,000	12,290,000
Certificates of Participation (COP):				
Series 2010	6,060,000	-	-	6,060,000
COP Discount	<u>(69,131)</u>	<u>-</u>	<u>(4,716)</u>	<u>(64,415)</u>
Subtotal	44,743,893	<u>\$ 414,943</u>	<u>\$ 3,202,663</u>	41,956,173
Less current portion	<u>1,798,321</u>			<u>2,446,460</u>
Total noncurrent liabilities	<u>\$ 42,945,572</u>			<u>\$ 39,509,713</u>

5. UNIVERSITY FACILITIES SYSTEM REVENUE BONDS

Revenue Bonds Payable and Interest Subsidy

At June 30, 2012, bonds payable consist of University Facilities Revenue Bond Series 1973, and University Facilities System Revenue Bond Series 2004.

Series 1973

The University Facilities Revenue Bonds Series of 1973 were sold during 1974 in the amount of \$3,075,000, (\$380,000 of which are outstanding at June 30, 2012) 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.

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The bonds mature in increasing principal amounts ranging from \$185,000 due on July 1, 2012 to \$195,000 due on July 1, 2013. Interest is payable semi-annually, on January 1 and July 1, at a rate of 6.2%, with an average effective rate of approximately 6.2%. Future aggregate annual payments applicable to revenue bonds at June 30, 2012 are:

Fiscal Year	Principal	Interest
2013	\$ 185,000	\$ 17,825
2014	195,000	6,045
Total	\$ 380,000	\$ 23,870

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, 2011, 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, 2012, \$70,000 of such subsidy was included in other nonoperating revenues.

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, 2012. 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% and 4.50%, with an average effective rate of approximately 4.166%. Future aggregate annual payments applicable to the Series 2004 Bonds at June 30, 2012 are:

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<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ -	\$ 726,790
2014	-	726,790
2015	215,000	723,081
2016	220,000	715,412
2017	230,000	707,198
2018-2022	2,845,000	3,272,036
2023-2027	3,915,000	2,547,385
2028-2032	4,840,000	1,603,185
2033-2036	<u>4,705,000</u>	<u>433,900</u>
Total	<u><u>\$ 16,970,000</u></u>	<u><u>\$ 11,455,777</u></u>

The Series 2004 Bonds are subject to redemption on or after January 1, 2014, at the option of the Board, from monies 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.

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.

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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, 2012, the maximum funding requirements have been met.

Renewal and Replacement Reserve Account

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

During 2012, \$50,000 was credited to the renewal and replacement reserve account. At June 30, 2012, the fund balance in this account was \$120,938.

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, 2012, the fund balance in this account was \$0.

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, 2012, the fund balance in this account was \$302,719.

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

**University Facilities Revenue Bond Funds
Statement of Net Assets
June 30, 2012**

ASSETS	
Current Assets	
Cash and cash equivalents	\$ 3,195,567
Receivables:	
Tuition and fees - net	142,978
Parking fines - net	186,501
Other receivables - net	143,630
Inventories	904
Deferred charges	263
Other assets	18,823
Total current assets	<u>3,688,666</u>
Noncurrent Assets	
Restricted cash and cash equivalents	1,243,596
Investments	1,358,686
Receivables	
Tuition and fees - net	21,058
Unamortized bond issue costs	414,114
Capital assets:	
Site improvements - net	1,412,987
Buildings - net	16,118,322
Equipment - net	60,433
Construction in progress	21,862
Total noncurrent assets	<u>20,651,058</u>
Total assets	<u>24,339,724</u>
LIABILITIES	
Current Liabilities	
Accounts payable and accrued liabilities	754,447
Deferred revenues	152,591
Liability for compensated absences	74,243
Revenue bonds payable	185,000
Total current liabilities	<u>1,166,281</u>
Noncurrent Liabilities	
Liability for compensated absences	420
Revenue bonds payable	17,165,000
Total noncurrent liabilities	<u>17,165,420</u>
Total liabilities	<u>18,331,701</u>
NET ASSETS	
Invested in capital assets - net of related debt	696,541
Restricted for:	
Expendable:	
Capital projects	836,137
Debt service	1,476,532
Unrestricted	2,998,813
TOTAL NET ASSETS	<u>\$ 6,008,023</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, 2012**

OPERATING REVENUES	
Student fees	\$ 1,487,054
Vending services	132,365
Rental and use fees	3,585
Bookstore commission	336,515
Parking revenue	2,488,349
Other operating revenues	44,562
Total operating revenues	<u>4,492,430</u>
OPERATING EXPENSES	
Personal services	1,069,661
Contractual services	927,117
Commodities and supplies	86,281
Vending cost of sales	11,493
Telecommunications	7,328
Depreciation	693,750
Other operating expenses	704,701
Total operating expenses	<u>3,500,331</u>
Operating income	<u>992,099</u>
NONOPERATING REVENUES (EXPENSES)	
Investment income	31,314
Interest on indebtedness	(750,350)
Federal grants - HUD	70,000
Net nonoperating expenses	<u>(649,036)</u>
Total increase in net assets	343,063
NET ASSETS, BEGINNING OF YEAR	<u>5,664,960</u>
NET ASSETS, END OF YEAR	<u><u>\$ 6,008,023</u></u>

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**University Facilities Revenue Bond Funds
Statement of Cash Flows
For the Year Ended June 30, 2012**

CASH FLOWS FROM OPERATING ACTIVITIES	
Student fees	\$ 1,481,159
Payment for salaries and benefits	(1,101,208)
Payment for suppliers	(1,895,415)
Vending services	139,006
Rental and use fees	977
Bookstore commission	345,029
Parking revenue	2,480,053
Other revenues	294,562
Other payments	<u>(228,301)</u>
Net cash provided by operating activities	<u>1,515,862</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITY	
Federal grants - HUD	<u>70,000</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Purchases of capital assets and construction	(8,364)
Principal paid on capital debt	(170,000)
Interest paid on capital debt	<u>(750,350)</u>
Net cash used in capital financing activities	<u>(928,714)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of investments	(11,727)
Interest on investments	<u>31,314</u>
Net cash provided by investing activities	<u>19,587</u>
Net increase in cash and cash equivalents	676,735
Cash and cash equivalents, beginning of year	<u>3,762,428</u>
Cash and cash equivalents, end of year	<u>\$ 4,439,163</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 992,099
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	693,750
Changes in assets and liabilities:	
Receivables - net	(20,306)
Inventories	655
Deferred charges	(263)
Unamortized bond issue cost	18,823
Accounts payable and accrued liabilities	(148,087)
Accrued liability for compensated absences	(26,916)
Deferred revenues	<u>6,107</u>
Net cash provided by operating activities	<u>\$ 1,515,862</u>

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Pledged Revenues and 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:

PLEGDED 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	\$ 403,870	2013	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	<u>28,425,778</u>	2035	100.00%
Total future revenues pledged			<u><u>\$ 28,829,648</u></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

Series 2006

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 on an annual basis either from funds derived from state appropriations or from legally available non-appropriated funds. 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 not sufficient legally available non-appropriated funds to pay the installment payments. The Certificates are subject to mandatory redemption, in whole, at the redemption prices set forth below, plus accrued interest to the date fixed for redemption, on the following dates, if the Board notifies

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the Trustee not less than 60 days prior thereto that it is exercising its option to terminate the purchase contract:

<u>Redemption Date</u>	<u>Redemption Price</u>
October 1, 2010	110%
On or after October 1, 2015	100%

The certificates mature in increasing principal amounts ranging from \$660,000 due on October 1, 2012 to \$1,155,000 due on October 1, 2025 at rates between 3.875% and 4.75%. Future aggregate annual payments applicable to the certificates of participation at June 30, 2012 are:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 660,000	\$ 525,594
2014	685,000	499,106
2015	715,000	471,106
2016	740,000	442,006
2017	775,000	411,222
2018-2022	4,400,000	1,517,669
2023-2026	<u>4,315,000</u>	<u>420,662</u>
Total	<u><u>\$ 12,290,000</u></u>	<u><u>\$ 4,287,365</u></u>

Series 2010

On September 1, 2010, the University issued Certificates of Participation Series 2010, in the amount of \$6,060,000 to finance the acquisition of energy conserving improvements at the University. The American Recovery and Reinvestment Act of 2009 permits the Board to issue taxable obligations referred to as "Build America Bonds" to finance capital expenditures for which it could issue tax-exempt obligations, and to elect to receive payments from the federal government equal to 35% of the corresponding interest payable on such taxable obligations. The Board is obligated to make installment payments on an annual basis either from funds derived from state appropriations or from legally available non-appropriated funds. 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 not sufficient legally available non-appropriated funds to pay the installment payments. The Certificates maturing on and after October 1, 2021 are subject to redemption on any date on or after October 1, 2010 at the price of 100% of the principal

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amount thereof, plus accrued interest to the date fixed for redemption, in whole or in part, and if in part, by lot. Such redemption shall be at the option of the Board, upon at least 35 days prior written notice from the Board to the Trustee.

The certificates mature in increasing principal amounts ranging from \$155,000 due on October 1, 2012 to \$645,000 due on October 1, 2028 at rates between 2.000% and 6.000%. Future aggregate annual payments applicable to the certificates of participation at June 30, 2012 are:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 155,000	\$ 301,856
2014	170,000	298,287
2015	185,000	293,725
2016	205,000	287,850
2017	225,000	280,300
2018-2022	1,520,000	1,220,959
2023-2027	2,360,000	721,066
2028-2029	1,240,000	75,528
Total	\$ 6,060,000	\$ 3,479,571

7. NORTHEASTERN ILLINOIS UNIVERSITY COMPONENT UNITS AGREEMENT

On July 1, 2005, the University entered into an agreement with the 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 broader educational opportunities for students, alumni, and citizens of the State of Illinois by encouraging gifts of money; property; works of art; and 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 90 days written notice by either party.

During fiscal year 2012, certain funds and in-kind services of the University with an estimated value of \$281,857 were provided to the Foundation without charge. In turn, during fiscal year 2012, the Foundation gave the University \$453,410 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 \$124,617 in fiscal year 2012 for scholarships and awards.

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As discussed in Note 1, on July 1, 2012, the Alumni Association donated its net assets to the Foundation and was dissolved as its own entity. Consequently, there were no transactions or in-kind services between the University and the Alumni Association during fiscal year 2012.

8. PENSION, COMPENSATED ABSENCES AND POST-EMPLOYMENT 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 state universities, certain affiliated organizations, and certain other state educational and scientific agencies and for survivors, dependents, and other beneficiaries of such employees. SURS is considered a component unit of the State of Illinois' financial reporting entity and is included in the state's financial reports as a pension trust fund. SURS is governed by Section 5/15, Chapter 40, of the Illinois Compiled Statutes. SURS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by accessing the website at www.SURS.org, or calling 1-800-275-7877.

Funding Policy

Plan members are required to contribute 8.0% of their annual covered salary and substantially all employer contributions are made by the State of Illinois on behalf of the individual employers at an actuarially determined rate. The current rate is 35.41% 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, 2012, 2011, and 2010 were \$18,517,588 \$14,376,041 and \$12,886,424, 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% of their gross salary for Medicare. The University is required to match this contribution.

**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
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June 30, 2012**

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, 2012, the accrued liability for this benefit was \$4,285,472 and is reported as liability for compensated absences. This liability is for active employees.

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, 2012, the accrued liability of this benefit was \$2,035,116 and is included in the liability for compensated absences.

Post-employment Benefits

The state provides health, dental, vision, and life insurance benefits for retirees and their dependents in a program administered by the Department of Healthcare and Family Services along with the Department of Central Management Services. Substantially all state employees become eligible for post-employment benefits if they eventually become annuitants of one of the state sponsored pension plans. Health, dental, and vision benefits include basic benefits for annuitants and dependents under the state's self-insurance plan and insurance contracts currently in force. Annuitants may be required to contribute towards health, dental, and vision benefits with the amount based on factors such as date of retirement, years of credited service with the state, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants who retired prior to January 1, 1998, and who are vested in the state Employee's Retirement System do not contribute towards health, dental, and vision benefits. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced 5% for each year of credited service with the state allowing those annuitants with 20 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.

**STATE OF ILLINOIS
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June 30, 2012**

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.

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, 2012 under these agreements was \$691,987. Minimum lease payments for the years ending June 30 are:

<u>Fiscal Year</u>	<u>Principal</u>
2013	\$ 557,696
2014	306,525
2015	251,757
2016	55,016
2017	1,181
	<u>\$ 1,172,175</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 \$250,000 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.

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June 30, 2012**

SURMA was created as a successor to the Board of Governors' Self-Insurance Liability Program. SURMA was initially funded by the surplus of the Board of Governor's Self-Insurance Liability Program upon its termination (treated as capital contributions of the original participants), as well as additional contributions which were assessed to the members. The SURMA members are Chicago State University, Eastern Illinois University, Governors State University, Northeastern Illinois University, and Western Illinois University.

According to the SURMA's bylaw, in the event of termination, if there are surplus funds available, such surplus shall be distributed to the then existing members in the same proportion that each existing member's contributions over the immediately previous five years were in proportion to the contributions of all members. Similar provisions also apply to members who elect to withdraw (subject to the approval by the remaining members) prior to the termination of SURMA. In accordance with GASB Interpretation No. 4, *Accounting and Financial Reporting for Capitalization Contributions to Public Entity Risk Pools*, the University has recorded the capital contributions to SURMA as an asset on the books. The University's share of the excess capital contributions to SURMA was \$428,248 as of June 30, 2012.

11. BEVERAGE CONTRACT

The University has entered into a sponsorship contract with the Pepsi-Cola General Bottlers III, LLC (Vendor) to provide beverages for its employees, visitors, faculty, and students. This is a ten-year agreement commencing on 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 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 fiscal year 2012 was \$55,288. 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. This 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 fifth 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.

**STATE OF ILLINOIS
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June 30, 2012**

12. OPERATING EXPENSES BY NATURAL CLASSIFICATION

Operating expenses by natural classification for the year ended June 30, 2012 are summarized as follows:

	Compensation and Benefits	Supplies and Services	Scholarships	Depreciation	Total
Instruction	\$ 74,971,647	\$ 3,806,727	\$ 121,284	\$ -	\$ 78,899,658
Research	714,020	218,347	98,908	-	1,031,275
Public service	8,298,644	4,252,694	72,592	-	12,623,930
Academic support	8,324,658	2,244,616	-	-	10,569,274
Student services	7,358,402	5,694,791	24,806	-	13,077,999
Institutional support	10,247,474	1,709,720	-	-	11,957,194
Operation and maintenance of plant	11,310,076	3,999,518	-	-	15,309,594
Scholarships and fellowships	-	-	8,498,231	-	8,498,231
Auxiliary	3,146,270	1,852,969	-	-	4,999,239
Depreciation	-	-	-	4,836,851	4,836,851
Other operating expenses	49,642	1,412,523	-	-	1,462,165
TOTAL	\$ 124,420,833	\$ 25,191,905	\$ 8,815,821	\$ 4,836,851	\$ 163,265,410

13. SUBSEQUENT EVENT

On November 14, 2012, the University issued Certificates of Participation Series 2012 in the original principal amount of \$28,500,000. The proceeds of the issue will be used to fund the land acquisition made in fiscal year 2012 and for building construction for the new El Centro campus. Interest on the Certificates is payable beginning on April 1, 2013, and on each April 1 and October 1 thereafter. Principal on the Certificates matures on each October 1 beginning on October 1, 2014 through final maturity on October 1, 2041. The interest rates on the Certificates range from 3.00% to 4.10%.

As of January 16, 2013, the date which the financial statements were available to be issued, no significant commitments were made by the University with respect to the purchase of additional land or building construction for the new El Centro campus.

**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
June 30, 2012**

**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, 2012 over cash and short-term investments in the Bond Account and Bond Reserve at June 30, 2012.
- (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
NORTHEASTERN ILLINOIS UNIVERSITY
June 30, 2012**

**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 2011, students enrolling at Northeastern Illinois University pay a fee of \$6.75 per credit hour for the right to use the University's Student Union.

**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
June 30, 2012**

**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, 2012 is as follows:

	<u>Balance of Assets Reserved</u>	<u>Deposits Required to Date</u>	<u>Maximum Reserve Requirement</u>
Bond account ^(a)	\$ 708,946	\$ 560,175	\$ 560,175
Bond reserve account	1,354,157	1,312,020	1,312,020
Renewal and replacement reserve account ^(b)	357,166	1,850,000	500,000
Non-instructional facilities reserve account	-	-	-
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, 2012.
- (b) Total expenditures for extraordinary repairs, as defined in the bond indenture, as of June 30, 2012, amounted to \$2,153,953. Amounts used in this manner are to be replaced in the reserve by extending the periodic payments until the maximum is accumulated.



**Independent Auditor's 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 of the State of Illinois
and
Board of Trustees
Northeastern Illinois University

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the business-type activities of Northeastern Illinois University (University) and its aggregate discretely presented component units, collectively a component unit of the State of Illinois, as of and for the year ended June 30, 2012, which collectively comprise the University's basic financial statements and have issued our report thereon dated January 16, 2013. Our report was modified to include a reference to other auditors. 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. Another auditor audited the financial statements of the University's discretely presented component units, as described in our report on the University's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by that auditor.

Internal Control over Financial Reporting

Management of the University is responsible for establishing and maintaining effective 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.

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting, described in finding 12-1, in the

accompanying Schedule of Findings that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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*.

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 the response.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, University management, the University's Board of Trustees, and 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.

CliftonLarsonAllen LLP

Oak Brook, Illinois
January 16, 2013

**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
For the Year Ended June 30, 2012**

SCHEDULE OF FINDINGS

CURRENT FINDING - GOVERNMENT AUDITING STANDARDS

Finding 12-1 - Failure to Identify and Refund Title IV Aid in a Timely Manner

Northeastern Illinois University (the "University") did not properly identify all students who withdrew from the University. The University also did not determine or return the unearned portion of Title IV aid provided to all students who withdrew from the University resulting in inaccuracies in the amounts reported in their financial statements and noncompliance with federal regulations.

- In our testing of unofficial withdrawal determination over students receiving Title IV aid and who failed to receive a passing grade in any of their classes (473 students), we noted 18 students that received Title IV aid and should have been considered to have unofficially withdrawn from the University, but for which the University had not made this determination.

ED requires (Dear Colleague Letter DCL GEN 04-03 Revised) that an institution must have a procedure for determining whether a Title IV aid recipient who began attendance during a period completed the period or should be treated as a withdrawal. If a student who began attendance and has not officially withdrawn fails to earn a passing grade in at least one course offered over an entire period, the institution must assume, for Title IV purposes, that the student has unofficially withdrawn, unless the institution can document that the student completed the period.

Furthermore, Federal Regulations require that when a recipient of Title IV grant or loan assistance withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance, the institution must determine the amount of Title IV grant or loan assistance that the student earned as of the student's withdrawal date and refund the unearned portion to ED (34 CFR 668.22).

The withdrawal date for a student who ceases attendance without providing notice at an institution that is not required to take attendance is the mid-point of the payment period (34 CFR 668.22(c)). Consequently, 50% of Title IV grant or loan assistance provided to the student is considered unearned and should be refunded to ED.

In response to our testing and inquiries, the University identified \$26,157 in unearned Title IV aid which should have been refunded to ED and for which the University has recourse against the students for payment.

Since the liability to ED had not been identified timely, the University's financial statements understated current liabilities for refundable grant revenues by \$26,157 and also understated student receivables, net of an allowance for doubtful accounts, by \$13,079. A proposed adjustment was deemed immaterial and not recorded by the University.

**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
For the Year Ended June 30, 2012**

SCHEDULE OF FINDINGS

CURRENT FINDING - GOVERNMENT AUDITING STANDARDS (continued)

Finding 12-1 - Failure to Identify and Refund Title IV Aid in a Timely Manner (continued)

Generally accepted accounting principles require the proper identification, valuation and reporting of assets and liabilities. Additionally, the Fiscal Control and Internal Auditing Act (ILCS 30 10/3001), requires the University to establish and maintain a system, or systems, of internal fiscal and administrative controls, which shall provide assurance that revenues, expenditures, and transfers of assets, resources or funds applicable to operations are properly accounted for to permit the preparation of accounts and reliable financial reports.

- Furthermore, we noted that the University does not have adequate procedures in place to determine if a student began attendance in a payment period. This determination is necessary to correctly calculate the refundable amount of Title IV aid. Specifically, if an institution cannot document that a student began attendance in any class during the payment period, all Title IV grant or loan assistance provided to the student is considered unearned and should be refunded to ED as opposed to the 50% requirement discussed above.

The University's current process requests that University instructors notify the Registrar of students that do not attend at least one day of class. Based on inquiries of University management, this process is not mandatory and instructors may not always respond. Furthermore, unless the instructor specifically responds to the request, the student will be considered as having attended at least one day of class.

The University's reliance on this notification procedure does not effectively ensure that the University can document a student's attendance as required by Federal Regulation.

Federal Regulations state that a student is considered to not have begun attendance in a payment period of enrollment if the institution is unable to document the student's attendance at any class during the period (34 CFR 668.21(c)).

Furthermore, Federal Regulations require that for a student who does not begin attendance in a payment period of enrollment, the University must refund all Title IV funds credited to the student's account (34 CFR 668.21(a)(1)).

- In addition to the testing described above, we tested the calculation of unearned Title IV funds for 40 students who withdrew from the University. We noted that one student's refund was not calculated correctly resulting in a \$211 over-refund to ED. Furthermore, we noted that one student's return of Title IV funds was not returned in the required 45 day time period.

**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
For the Year Ended June 30, 2012**

SCHEDULE OF FINDINGS

CURRENT FINDING - GOVERNMENT AUDITING STANDARDS (continued)

Finding 12-1 - Failure to Identify and Refund Title IV Aid in a Timely Manner (continued)

Federal Regulations require an institution to return the amount of unearned Title IV funds no later than 45 days after the date of determination of a student's withdrawal (34 CFR 668.22 (j)(1)).

OMB Circular A-110 requires nonfederal entities receiving federal awards establish and maintain internal controls designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure that the amount of Title IV aid earned by students is calculated accurately and that unearned portions are returned in a timely manner.

University officials indicated that the conditions noted in this finding related to the timely refunding of Title IV aid were the result of a computer system error.

University officials indicated their belief that procedures in place to identify students who did not begin attendance were consistent with federal regulations regarding institutions that do not require the taking of attendance.

Failure to perform accurate and complete refund calculations and timely remittances of unearned Title IV funds resulted in inaccurate financial reporting and may jeopardize future federal funding. (Finding Code 12-1, 11-1, 10-5).

Recommendation

We recommend that the University implement procedures to ensure that refunds are processed timely and accurately in order to facilitate accurate financial reporting and to be in compliance with federal regulations.

University's Response

The University concurs with the finding and recommendation.

**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
For the Year Ended June 30, 2012**

SCHEDULE OF FINDINGS

PRIOR FINDINGS NOT REPEATED - GOVERNMENT AUDITING STANDARDS

- A. *Generally Accepted Accounting Principles (GAAP) Not Properly Applied to the State Universities Risk Management Association (SURMA) Asset*

Northeastern Illinois University did not properly account for its participation in the State Universities Risk Management Association (SURMA) in accordance with accounting principles generally accepted in the United States of America (GAAP). (Finding Code 11-2).

Status: Not Repeated

In the current year, we did not note any inaccuracies or inadequate monitoring with regard to its accounting and participation in SURMA.