

**STATE OF ILLINOIS  
NORTHEASTERN ILLINOIS UNIVERSITY**

**FINANCIAL AUDIT  
For the Year Ended June 30, 2014**

**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, 2014**

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**STATE OF ILLINOIS  
NORTHEASTERN ILLINOIS UNIVERSITY  
FINANCIAL AUDIT  
For the Year Ended June 30, 2014**

**Agency Officials**

President	Dr. Sharon Hahs
Vice President for Finance and Administration	Mr. Michael Pierick
Director of Financial Affairs/Controller	Ms. Fe Lenon
Director of Internal Audit	Mr. Ronald Cierny, CPA
Executive Director - Office of University Budgets	Ms. Ann McNabb

**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, 2014  
  
FINANCIAL STATEMENT REPORT**

**Summary**

The audit of the accompanying 2014 basic financial statements of Northeastern Illinois University (University) was performed by CliftonLarsonAllen LLP.

Based on their audit, the auditors expressed an unmodified 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 two matters involving the University's internal control over financial reporting that they considered to be material weaknesses. The material weaknesses are described in the accompanying Schedule of Findings on pages 55 to 58 of this report, as Finding 2014-001, *Inadequate Controls over Identifying and Recording Accrued Liabilities* and Finding 2014-002, *Inadequate Controls Over Recording the Historical Cost of Capital Assets*.

The auditors also 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 59 to 60 of this report, as Finding 2014-003, *Generally Accepted Accounting Principles (GAAP) Not Properly Applied in the Preparation of Financial Statements*.

**Exit Conference**

The University waived having an exit conference in correspondence dated December 16, 2014, from the University's Vice President for Finance and Administration, Michael Pierick.

The responses to the recommendations were provided by University management in correspondence dated December 17, 2014.



## INDEPENDENT AUDITORS' REPORT

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

### Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of Northeastern Illinois University (University), a component unit of the State of Illinois, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit. Those statements were audited by another auditor whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based solely 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 from material misstatement.

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

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

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

### **Opinions**

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 of the University and its discretely presented component unit, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Change in Accounting Principle and Correction of Errors**

As described in Note 12 to the basic financial statements, the University adopted the provisions of a new accounting principle which required debt service costs to be written off to opening net position. As further described in Note 12, the University restated opening net position due to errors in recording accrued compensation and capitalized interest costs incurred prior to the fiscal year ended June 30, 2014. Our opinions are not modified with respect to these matters.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 6-19 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.

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

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. The accompanying supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The accompanying supplementary information, as listed in the table of contents, has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2014 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

*CliftonLarsonAllen LLP*

Oak Brook, Illinois  
December 19, 2014

**STATE OF ILLINOIS  
NORTHEASTERN ILLINOIS UNIVERSITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2014**

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, 2014. 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 Position; the Statement of Revenues, Expenses, and Changes in Net Position; 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 Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. These statements establish standards for external financial reporting and provide a consolidated perspective of the University's assets, liabilities, net position, revenues, expenses, and cash flows.

The **Statement of Net Position** presents the assets, deferred outflows of resources, deferred inflows of resources, liabilities, and net position 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 position, consisting of the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources, is one indicator of the current financial condition of the University. 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.

The **Statement of Revenues, Expenses, and Changes in Net Position** present 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, State MAP grants, PELL and SEOG grants, and other non-operating transactions.

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.



**STATE OF ILLINOIS  
NORTHEASTERN ILLINOIS UNIVERSITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2014**

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 in the financial 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, 2014 are presented below:

- The University has total assets of \$242.4 million, including current assets of \$84.1 million and noncurrent assets of \$158.3 million.
- The University has total liabilities of \$87.1 million, including current liabilities of \$20.9 million and noncurrent liabilities of \$66.2 million.
- The University's total net position increased over the prior year by \$5.4 million to \$155.0 million, including an increase of \$14.7 million in net capital assets and a decrease of \$13.3 million in unrestricted net position.
- The total operating revenues of the University were \$75.4 million, including \$47.7 million in student tuition and fees, net of scholarship allowances, and \$20.1 million in grants and contracts.
- The total operating expenses of the University were \$182.0 million, including \$80.6 million for instruction.
- The operating loss of \$106.6 million was completely funded by non-operating revenues, including State appropriations, payments on behalf of the University, State MAP grants Pell and SEOG grant revenues, investment income, and other non-operating revenues. As a result, net income before other revenues, expenses, gains and losses totaled \$4.3 million. This amount includes \$4.5 million in depreciation expense.

**FINANCIAL ANALYSIS**

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

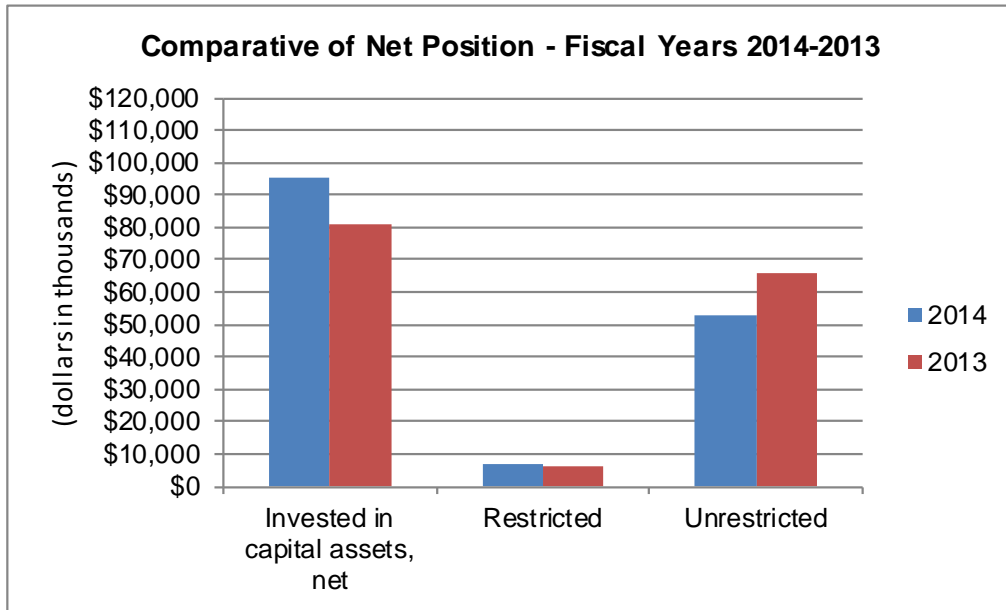
**STATE OF ILLINOIS  
NORTHEASTERN ILLINOIS UNIVERSITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2014**

**Condensed Statement of Net Position  
As of June 30, 2014 and 2013  
(dollars in thousands)**

	<u>2014</u>	<u>2013</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
<b>ASSETS</b>				
Current assets	\$ 84,089	\$ 91,657	\$ (7,568)	(8.3)
Noncurrent assets:				
Restricted cash and cash equivalents	8,869	15,885	(7,016)	(44.1)
Restricted investment	1,080	1,342	(262)	(19.5)
Receivables, net	2,325	2,454	(129)	(5.3)
Unamortized bond issue costs	-	1,353	(1,353)	(100.0)
Capital assets, net	145,514	120,847	24,667	20.4
Other assets	503	552	(49)	(8.9)
	<u>242,380</u>	<u>234,090</u>	<u>8,290</u>	<u>3.5</u>
<b>LIABILITIES</b>				
Current liabilities	20,878	13,530	7,348	54.3
Noncurrent liabilities:				
Liability for compensated absences	5,569	5,388	181	3.4
Revenue bonds payable	16,755	16,970	(215)	(1.3)
Certificates of participation	43,925	45,286	(1,361)	(3.0)
	<u>87,127</u>	<u>81,174</u>	<u>5,953</u>	<u>7.3</u>
<b>DEFERRED INFLOW OF RESOURCES</b>				
	<u>196</u>	<u>-</u>	<u>196</u>	<u>100.0</u>
<b>NET POSITION</b>				
Invested in capital assets, net	95,598	80,857	14,741	18.2
Restricted	6,901	6,198	703	11.3
Unrestricted	52,558	65,861	(13,303)	(20.2)
	<u>155,057</u>	<u>152,916</u>	<u>2,141</u>	<u>1.4</u>
<b>TOTAL NET POSITION</b>	<u>\$ 155,057</u>	<u>\$ 152,916</u>	<u>\$ 2,141</u>	<u>1.4</u>

**STATE OF ILLINOIS  
NORTHEASTERN ILLINOIS UNIVERSITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2014**

The following chart shows net position by classification and restriction:

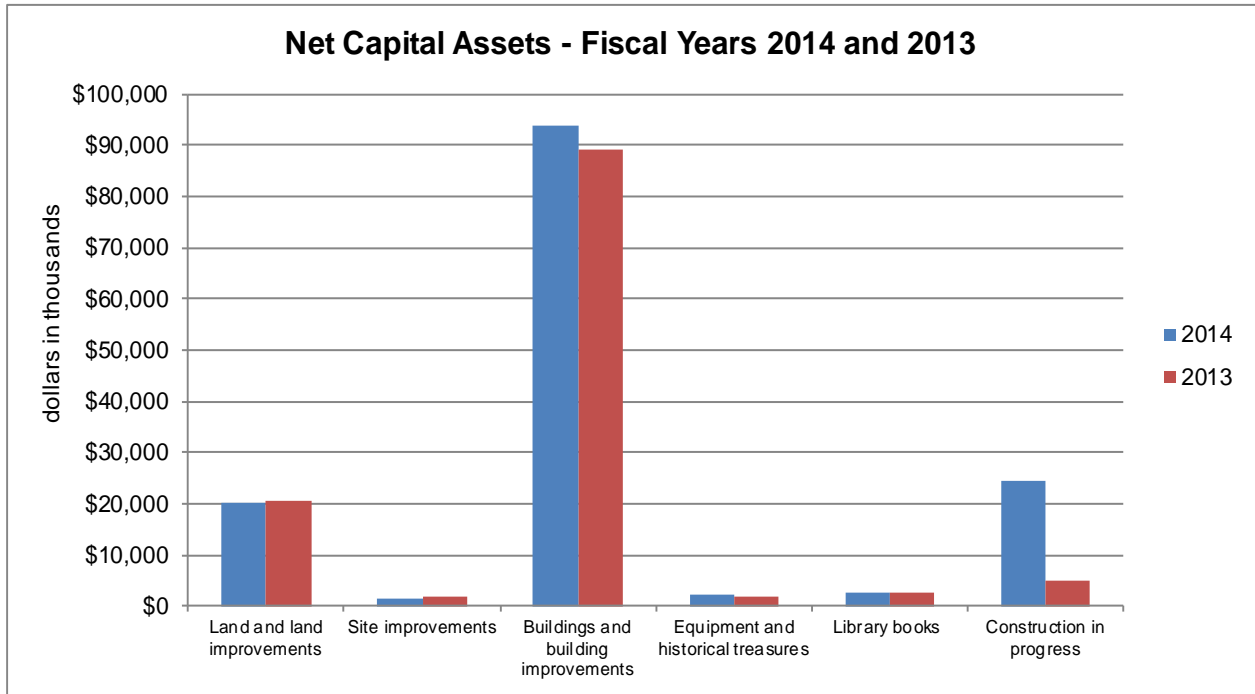


**Current Assets** - The University's current assets totaled \$84.1 million. This consists primarily of cash and cash equivalents of \$64.0 million and net receivables of \$18.9 million. Total current assets decreased by \$7.6 million from the prior year. This is primarily due to the decrease in cash and cash equivalents of \$4.6 million and the decrease of \$3.3 million in receivables. The current assets of the University of \$84.1 million were sufficient to cover the current liabilities of \$20.9 million.

**Noncurrent Assets** - As of June 30, 2014, the University had total noncurrent assets of \$158.3 million compared with \$142.4 million at June 30, 2013. The net increase of \$15.9 million was primarily due to increase in capital assets of \$24.7 million and a decrease of \$7.3 million in restricted cash and cash equivalents and restricted investments and a decrease of \$1.4 million in unamortized bond issue costs. The increase in capital assets was due to the construction of the El Centro academic facility.

**STATE OF ILLINOIS  
NORTHEASTERN ILLINOIS UNIVERSITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2014**

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



**Current Liabilities** - Current liabilities consist primarily of accounts payable and accrued liabilities of \$16.2 million, unearned revenues from tuition and fees of \$1.6 million, the current portion of liability for compensated absences of \$1.2 million and current portion of revenue bonds and certificates of participation payables of \$1.6 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 position date. Long-term debt totaled \$66.2 million at June 30, 2014 as compared to \$67.6 million at June 30, 2013. The University's current revenue bonds and Certificates of Participation payable consist of University Facilities System Revenue Bonds Series 2004, Certificate of Participation Series 2006, Certificates of Participation Series 2010 and Certificates of Participation Series 2012.

**STATE OF ILLINOIS  
NORTHEASTERN ILLINOIS UNIVERSITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2014**

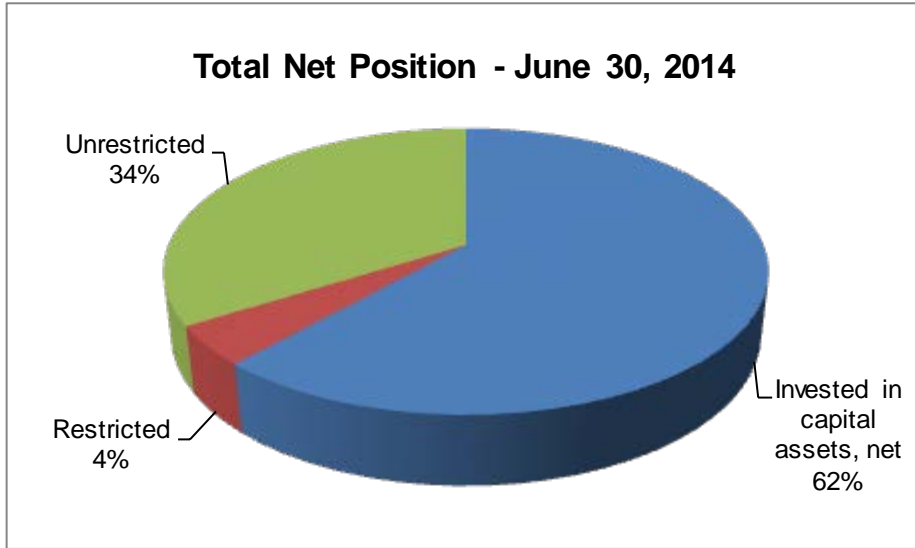
Fiscal year 2014 principal repayments for the two revenue bonds and the three Certificates of Participation are as follows:

Revenue Bonds Series 1973	\$ 195,000
Revenue Bonds Series 2004*	-
Certificates of Participation 2006	685,000
Certificates of Participation 2010	170,000
Certificates of Participation 2012*	-
	<hr/>
<b>Total Principal Paid</b>	<b><u><u>\$ 1,050,000</u></u></b>

\*No principal repayment until year 2015

**Total Net Position** - Net position is divided into three major categories as shown in the following chart. The first category, invested in capital assets, net of related debts, represent the University's capital assets net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. The second category, restricted net position, reports net positions 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 position, which is available to be used for any lawful purpose of the University. The total net position increased by \$5.4 million over the prior year. This is a result of a \$14.7 million increase in invested capital assets, net of related debt, and a \$13.3 million decrease in unrestricted net position. The increase in invested capital assets, net of related debt, was due mainly to the construction of the EI Centro academic facility which also caused the decrease of \$13.3 million in unrestricted net position.

**STATE OF ILLINOIS  
NORTHEASTERN ILLINOIS UNIVERSITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2014**



The following is a breakdown of the \$6.9 million restricted net position:

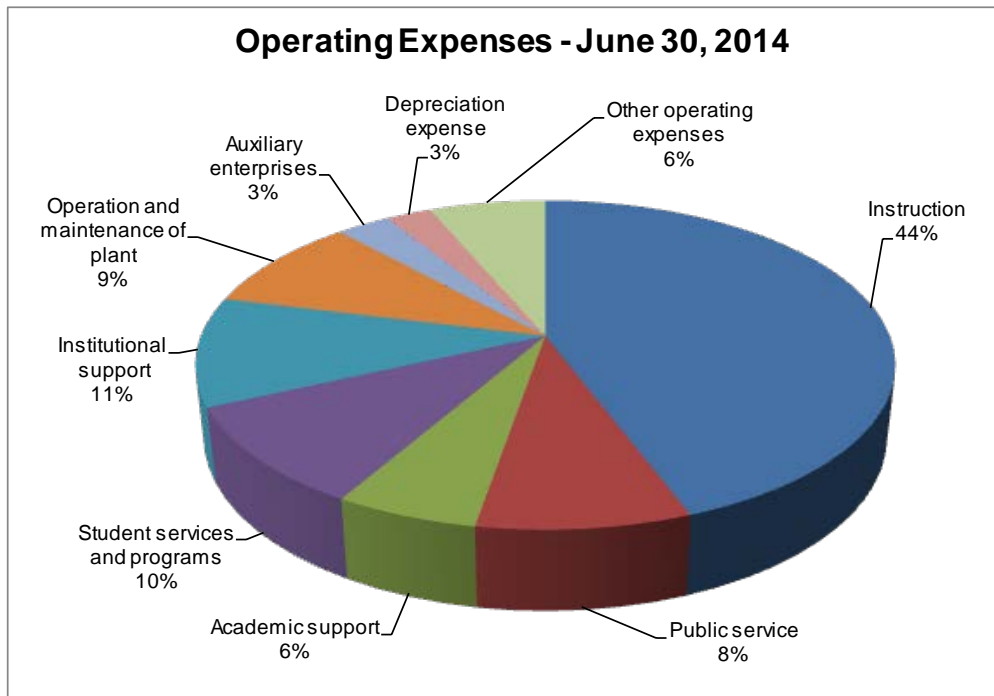
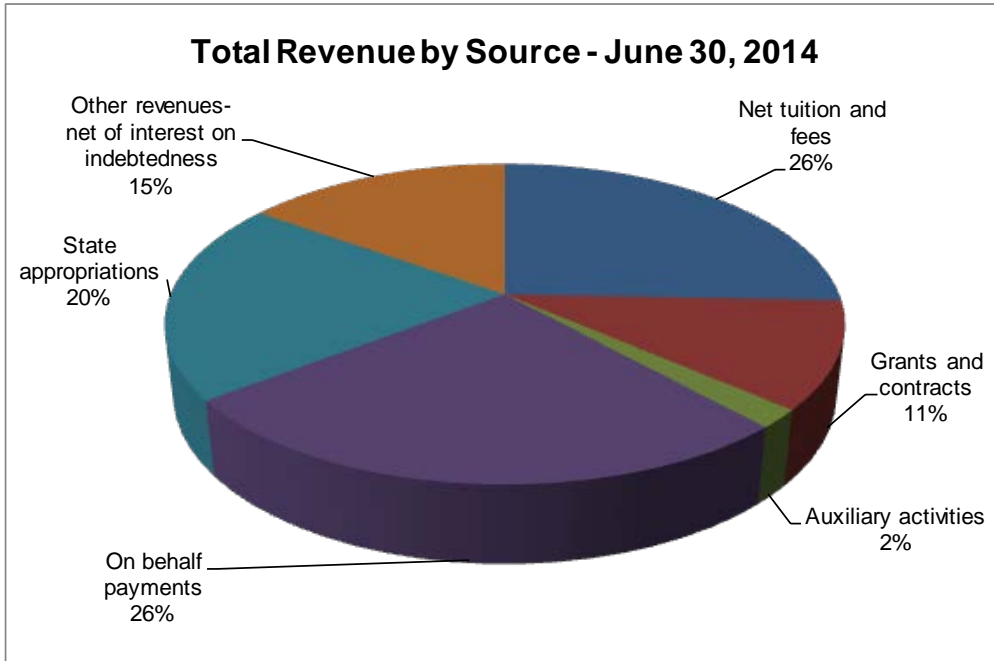
	<u>2014</u>
Grants and contracts	\$ 798
Student loans	2,287
Debt service	2,545
Other	<u>1,271</u>
<b>TOTAL RESTRICTED NET POSITION</b>	<b><u><u>\$ 6,901</u></u></b>

**STATE OF ILLINOIS  
NORTHEASTERN ILLINOIS UNIVERSITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2014**

**Condensed Statement of Revenues, Expenses and Changes in Net Position  
For the Years Ended June 30, 2014 and 2013  
(dollars in thousands)**

	<u>2014</u>	<u>2013</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
<b>OPERATING REVENUES</b>				
Net tuition and fees	\$ 47,693	\$ 48,892	\$ (1,199)	(2.5)
Grants and contracts	20,118	20,808	(690)	(3.3)
Auxiliary enterprises	3,490	3,597	(107)	(3.0)
Other	4,105	4,084	21	0.5
Total operating revenues	<u>75,406</u>	<u>77,381</u>	<u>(1,975)</u>	<u>(2.6)</u>
<b>OPERATING EXPENSES</b>				
Instruction	80,579	82,967	(2,388)	(2.9)
Public service	15,312	16,702	(1,390)	(8.3)
Academic support	10,291	11,253	(962)	(8.5)
Student services and programs	17,827	16,657	1,170	7.0
Institutional support	19,532	16,179	3,353	20.7
Operation and maintenance of plant	16,941	15,829	1,112	7.0
Depreciation expense	4,534	4,457	77	1.7
Auxiliary	5,346	5,267	79	1.5
Other	11,602	13,232	(1,630)	(12.3)
Total operating expenses	<u>181,964</u>	<u>182,543</u>	<u>(579)</u>	<u>(0.3)</u>
Operating loss	<u>(106,558)</u>	<u>(105,162)</u>	<u>1,396</u>	<u>1.3</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
State appropriations	37,847	37,808	39	0.1
Payments on behalf of the University	48,951	50,028	(1,077)	(2.2)
Federal grants - Pell and SEOG	17,462	18,213	(751)	(4.1)
State grants - MAP	8,021	9,080	(1,059)	(11.7)
Other non-operating revenues	93	347	(254)	(73.2)
Other non-operating expenses	(1,506)	(2,218)	(712)	(32.1)
Total net non-operating revenue	<u>110,868</u>	<u>113,258</u>	<u>(3,814)</u>	<u>(2.1)</u>
<b>NET INCOME (LOSS)</b>	<u>4,310</u>	<u>8,096</u>	<u>(3,786)</u>	<u>(46.8)</u>
Gain (loss) on disposal of capital assets	1	(9)	10	111.1
Capital additions provided by State of Illinois	1,071	682	389	57.0
<b>CHANGES IN NET POSITION</b>	<u>5,382</u>	<u>8,769</u>	<u>(3,387)</u>	<u>(38.6)</u>
<b>NET POSITION, BEGINNING OF YEAR</b>	<u>152,916</u>	<u>144,147</u>	<u>8,769</u>	<u>6.1</u>
Prior year adjustments	(3,241)	-	(3,241)	(100.0)
<b>NET POSITION, BEGINNING OF YEAR, AS RESTATED</b>	<u>149,675</u>	<u>144,147</u>	<u>5,528</u>	<u>3.8</u>
<b>NET POSITION, END OF YEAR</b>	<u>\$ 155,057</u>	<u>\$ 152,916</u>	<u>\$ 2,141</u>	<u>1.4</u>

**STATE OF ILLINOIS  
NORTHEASTERN ILLINOIS UNIVERSITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2014**





**STATE OF ILLINOIS  
NORTHEASTERN ILLINOIS UNIVERSITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2014**

**Operating Revenues** - Total operating revenues for fiscal year 2014 totaled \$75.4 million. The most significant sources of operating revenues were tuition and fees, grants, and contracts at \$67.8 million or 90%.

**Operating Expenses** - GASB Statement No. 35 gives the reporting entities the choice of reporting expenses in functional or natural classifications. The University reports expenses in their functional categories on the face of the statement and has displayed the natural categories in the footnotes to the financial statements. The operating expenses for fiscal year 2014, including depreciation of \$4.5 million, totaled \$181.9 million. Under the functional classifications, \$108.7 million or 59.7% was used for instruction, student services and programs and academic support; \$19.5 million or 10.7% was used for institutional support; \$21.5 million or 11.8% was used for operations and maintenance of plant and depreciation; \$15.3 million or 8.4% was used for public service; \$5.3 million or 2.9% was used for auxiliary services; and \$11.6 million or 6.4% was used for other operating expenses.

Under the natural classifications, \$137.1 million or 75.4% was used for compensation and benefits; \$30.0 million or 16.5% was used for supplies and services; \$10.3 million or 5.7% was used for scholarships, and \$4.5 million or 2.5% in depreciation expense.

**Non-Operating Revenues (Expenses)** - This consists of state appropriations, on behalf of payments, State MAP grant revenues, Pell and SEOG grant revenues, investment income and other non-operating revenues, less interest on indebtedness. Total non-operating revenues decreased by \$2.4 million. This was mainly the result of the decrease of \$1.0 million in payments on behalf of the University and the decrease of \$1.8 million in Pell, SEOG, and MAP grants.

**STATE OF ILLINOIS  
NORTHEASTERN ILLINOIS UNIVERSITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2014**

**Condensed Statement of Cash Flows  
For the Years Ended June 30, 2014 and 2013  
(dollars in thousands)**

	<u>2014</u>	<u>2013</u>
Cash received from operations	\$ 74,342	\$ 74,995
Cash expended for operations	<u>(128,050)</u>	<u>(128,096)</u>
Net cash used in operating activities	(53,708)	(53,101)
Net cash provided by noncapital financing activities	67,200	65,926
Net cash provided by (used in) capital financing activities	(25,425)	19,252
Net cash provided by investing activities	<u>355</u>	<u>189</u>
Net increase (decrease) in cash	(11,578)	32,266
<b>CASH, BEGINNING OF YEAR</b>	<u>84,463</u>	<u>52,197</u>
<b>CASH, END OF YEAR</b>	<u>\$ 72,885</u>	<u>\$ 84,463</u>

The primary cash receipts from operating activities consist of tuition and fees of \$46.2 million, and grants and contracts of \$20.0 million. Cash outlays included payments to employees of \$84.0 million, payments for fringe benefits of \$5.0 million, payment for scholarships and fellowships of \$10.4 million, and payments to suppliers of \$28.3 million.

The State appropriation of \$41.5 million, State MAP grants of \$8.0 million and Federal Pell and SEOG grants of \$17.4 million are the primary sources 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 \$22.8 million and debt service payments of \$2.6 million.

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

The total net cash decreased by \$11.6 million from fiscal year 2013, which is mainly due to disbursements on the construction of the EI Centro facility.

**STATE OF ILLINOIS  
NORTHEASTERN ILLINOIS UNIVERSITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2014**

**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 2014. This is a total decrease of \$7.6 million, or 16.7%. From fiscal year 2010 to fiscal year 2014, funding has decreased \$5.6 million, an average annual decrease of 3.4%. Given Illinois' fiscal challenges, it is unlikely this trend will change in the near future. In response to this trend, the University, and most higher education institutions in the nation, have increased tuition to compensate for both 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. Tuition for incoming freshmen in fiscal year 2014 was increased by 4.4%.

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).

**STATE OF ILLINOIS  
NORTHEASTERN ILLINOIS UNIVERSITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2014**

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 electronic time recording project. 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 increase student enrollment and to bring additional resources to the University. For example, the University implemented a new Customer Relationship Management (CRM) system in the fall of 2014 to assist with recruiting and communicating with prospective and current students. 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 events diminish the quality of the education we offer to our students as we prepare our graduates to be future leaders.

The University opened its new El Centro campus in the Fall of 2014. In addition to the general education program, students can work on obtaining their bachelor's degree in the following majors: Social Work, Justice Studies, Computer Science and Special Education. In addition, English as a Second Language and computer literacy workshops are offered to the community as well as seminars on education, health, housing, and technology.

In November 2013, the University submitted a Request for Proposal to seek a partner to develop a comprehensive, multi-phased University student housing program that will include the development of housing both on campus and adjacent to the main NEIU campus. We expect that this will provide us with increased opportunities for the recruitment of students from other states and nations. Target opening for Phase I is fall 2016.

The University is expanding its utility infrastructure, a \$12 million project, at the main campus to allow for the construction of the Education Building and to allow meeting future campus needs for utilities connectivity in the southern part of the campus. This project is currently in the construction document phase and planned to be completed during the fall semester of 2016.

The University is also expanding its Center for Diversity and Intercultural Affairs, a \$2 million project, at the main campus. This project will provide more space for the varied programs within this space in order to increase support for the wonderfully diverse student body at the University. This project is currently in the construction document phase and planned to be completed during the summer of 2015.

**STATE OF ILLINOIS  
NORTHEASTERN ILLINOIS UNIVERSITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2014**

**CONTACTING NEIU'S FINANCIAL MANAGEMENT**

This financial report is designed to provide interested parties with a general overview of Northeastern Illinois University's finances and to show the University's stewardship and accountability for the money it receives. If you have questions about this report or need additional financial information, contact Michael Pierick, Vice President for Finance and Administration, or Fe Lenon, Director of Financial Affairs/Controller, at 5500 N. St. Louis Avenue, Chicago, IL 60625.

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

	June 30,	
	2014	
	University	Component Units
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 64,016,576	\$ 1,171,409
Short-term investments	-	1,091,816
Receivables:		
Grants	5,166,340	-
Student loans (net of allowance for doubtful accounts of \$410,660)	81,288	-
Tuition and fees (net of allowance for doubtful accounts of \$978,685)	5,033,127	-
Other receivables (net of allowance for doubtful accounts of \$812,127)	8,608,723	-
Inventories	6,283	-
Prepaid expenses	1,170,045	-
Other assets	6,782	241,541
Total current assets	84,089,164	2,504,766
Noncurrent assets:		
Restricted cash and cash equivalents	8,868,765	-
Restricted investments	1,079,996	7,739,493
Receivables:		
Student loans (net of allowance for doubtful accounts of \$334,626)	1,516,933	-
Tuition and fees (net of allowance for doubtful accounts of \$5,346,683)	807,862	-
Capital assets:		
Land and land improvements	20,354,041	-
Site improvements (net of accumulated depreciation of \$4,937,149)	1,497,137	-
Buildings and building improvements (net of accumulated depreciation of \$56,724,598)	93,904,098	-
Equipment (net of accumulated depreciation of \$10,385,333)	2,357,244	-
Historical treasures and works of art	83,330	-
Library books (net of accumulated depreciation of \$21,855,187)	2,719,429	-
Construction in progress	24,598,949	-
Other assets	503,398	8,000
Total noncurrent assets	158,291,182	7,747,493
<b>TOTAL ASSETS</b>	<b>242,380,346</b>	<b>10,252,259</b>

See accompanying notes to basic financial statements.

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

	June 30,	
	2014	
	University	Component Units
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable and accrued liabilities	16,156,462	18,444
Unearned revenues	1,584,791	766,536
Liability for compensated absences	1,210,052	-
Revenue bonds payable	215,000	-
Certificates of participation, net	1,361,194	-
Funds held in custody for others	350,650	-
Total current liabilities	20,878,149	784,980
Noncurrent liabilities:		
Liability for compensated absences	5,569,346	-
Revenue bonds payable	16,755,000	-
Certificates of participation, net	43,924,866	-
Total noncurrent liabilities	66,249,212	-
<b>TOTAL LIABILITIES</b>	87,127,361	784,980
<b>DEFERRED INFLOW OF RESOURCES</b>	195,896	-
<b>TOTAL LIABILITIES AND DEFERRED INFLOW OF RESOURCES</b>	87,323,257	784,980
<b>NET POSITION</b>		
Net investment in capital assets	95,597,781	-
Restricted for:		
Nonexpendable:		
Scholarships and charitable trust	-	7,739,290
Expendable:		
Grants and contracts	797,909	-
Student loans	2,287,206	-
Debt service	2,545,019	-
Other	1,271,087	928,424
Unrestricted	52,558,087	799,565
<b>TOTAL NET POSITION</b>	\$ 155,057,089	\$ 9,467,279

See accompanying notes to basic financial statements.

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

	<b>For the Year Ended June 30,</b>	
	<b>2014</b>	
	<b>University</b>	<b>Component Units</b>
<b>OPERATING REVENUES</b>		
Student tuition and fees (net of scholarship allowances of \$20,594,656)	\$ 47,693,146	\$ -
Federal grants and contracts	16,535,373	-
State and local grants	3,188,777	-
Nongovernmental grants and contracts	394,282	-
Auxiliary enterprises	3,489,734	-
Other operating revenues	4,104,707	794,374
Total operating revenues	75,406,019	794,374
<b>OPERATING EXPENSES</b>		
Instruction	80,578,599	-
Research	977,462	-
Public service	15,312,242	-
Academic support	10,290,657	-
Student services and programs	17,827,029	-
Institutional support	19,531,980	-
Operation and maintenance of plant	16,940,704	-
Scholarships and fellowships	10,033,988	-
Auxiliary enterprises	5,346,184	-
Depreciation expense	4,533,895	-
Other operating expenses	591,322	748,586
Total operating expenses	181,964,062	748,586
Operating income (loss)	(106,558,043)	45,788
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
State appropriations - general revenue fund	37,847,400	-
Payments on behalf of the University	48,950,555	-
Federal Grants - PELL & SEOG	17,461,981	-
State grants - MAP	8,020,741	-
Investment income	93,021	1,417,297
Interest on indebtedness	(1,505,864)	-
Net non-operating revenues	110,867,834	1,417,297
Income before other revenues, expenses, gains, and losses	4,309,791	1,463,085
Additions to permanent endowments	-	378,334
Gain (loss) on disposal of capital assets	935	-
Capital additions provided by State of Illinois	1,071,189	-
<b>INCREASE IN NET POSITION</b>	<b>5,381,915</b>	<b>1,841,419</b>
<b>NET POSITION, BEGINNING OF YEAR</b>	<b>152,915,609</b>	<b>7,625,860</b>
Prior year adjustments	(3,240,435)	-
<b>NET POSITION, BEGINNING OF YEAR, AS RESTATED</b>	<b>149,675,174</b>	<b>7,625,860</b>
<b>NET POSITION, END OF YEAR</b>	<b>\$ 155,057,089</b>	<b>\$ 9,467,279</b>

See accompanying notes to basic financial statements.



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

**For the Year Ended June 30,**

	<b>2014</b>	
	<b>University</b>	<b>Component Units</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Tuition and fees	\$ 46,106,568	\$ -
Grants and contracts	20,000,298	-
Payments to employees	(83,996,074)	-
Payments for fringe benefits	(5,034,775)	-
Payments to suppliers	(28,315,502)	(607,538)
Payments for scholarships and fellowships	(10,432,095)	-
Loans issued to students	(271,465)	-
Collections of loans from students	474,959	-
Auxiliary enterprises	3,479,795	-
Other receipts	4,280,739	(761,221)
Net cash used in operating activities	<u>(53,707,552)</u>	<u>(1,368,759)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State appropriations	41,540,213	-
Federal grants- PELL and SEOG	17,452,878	-
Direct lending receipts	23,276,632	-
Direct lending payments	(23,276,632)	-
State grants- MAP	8,142,736	-
Agency transactions	63,882	-
Other noncapital financing activities	-	208,901
Net cash provided by noncapital financing activities	<u>67,199,709</u>	<u>208,901</u>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>		
Purchases of capital assets and construction	(22,855,822)	-
Principal paid on capital debt and leases	(1,050,000)	-
Interest paid on capital debt and leases	(1,519,769)	-
Net cash used in capital financing activities	<u>(25,425,591)</u>	<u>-</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest on investments	93,021	1,417,297
Purchases of investments	262,269	(380,457)
Net cash provided by investing activities	<u>355,290</u>	<u>1,036,840</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(11,578,144)	(123,018)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	84,463,485	1,294,427
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 72,885,341</u>	<u>\$ 1,171,409</u>
<b>Reconciliation of operating income (loss) to net cash used in operating activities:</b>		
Operating income (loss)	\$ (106,558,043)	\$ 45,788
Adjustments to reconcile operating income (loss) to net cash used in operating activities:		
Payment on-behalf of the University	48,950,555	-
Unrealized gain on changes in market value of investments	-	(1,187,045)
Depreciation expense	4,533,895	-
Changes in assets and liabilities:		
Receivables, net	414,859	-
Prepaid expenses and other assets	(87,891)	(5,255)
Inventories	114	-
Accounts payable and accrued liabilities	(607,562)	13,169
Accrued salaries and wages	101,382	-
Liability for compensated absences	18,593	-
Unearned revenues	(473,454)	(235,416)
<b>Net cash used in operating activities</b>	<u>\$ (53,707,552)</u>	<u>\$ (1,368,759)</u>
<b>Noncash operating and capital financing activities:</b>		
On-behalf payments for fringe benefits	\$ 48,950,555	\$ -
<b>Net noncash activities</b>	<u>\$ 48,950,555</u>	<u>\$ -</u>

See accompanying notes to basic financial statements.

**STATE OF ILLINOIS  
NORTHEASTERN ILLINOIS UNIVERSITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2014**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**Reporting Entity**

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

The Foundation is a University Related Organization as defined under University Guidelines adopted by the State of Illinois Legislative Audit Commission in 1982 and amended September 1997. The Foundation was formed for the purpose of providing fund raising and other assistance to the University in order to attract private gifts to support the University's instructional, research, and public service activities. In this capacity, the Foundation solicits, receives, holds, and administers gifts for the benefit of the University. An audit of the Foundation's financial statements, for the fiscal year ended June 30, 2014, 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 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

**STATE OF ILLINOIS  
NORTHEASTERN ILLINOIS UNIVERSITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
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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 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 Position; Statement of Revenues, Expenses, and Changes in Net Position; and Statement of Cash Flows***

- The Statement of Net Position 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 Position. Other assets and liabilities due beyond one year are noncurrent. Net Position is divided into three major categories: 1) Invested in capital assets, net of related debt, 2) Restricted and 3) Unrestricted.
- The Statement of Revenues, Expenses, and Changes in Net Position provide operating and non-operating revenues and expenses, and display the net income or loss from operations and total changes in net position.
- 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.

**STATE OF ILLINOIS  
NORTHEASTERN ILLINOIS UNIVERSITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2014**

**Operating and Non-operating Revenues**

Operating revenues of the University consist of student tuition and fees, grants and contracts, student union sales and services, parking revenues, and other operating revenues. Transactions relating to capital or financing activities, noncapital financing activities, investing activities, State appropriations and grants, Pell and SEOG Grants, and State on-behalf payments for retirement and health care costs are components of non-operating income. Restricted and unrestricted resources are used at the discretion of the University, within the proper guidelines. The University first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net positions 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.

**Cash and Cash Equivalents**

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.

**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 Position.

**STATE OF ILLINOIS  
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**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.

**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 Position are recorded at actual cost at the time of acquisition or fair value at the date of donation. The University follows the capitalization policy established by the Comptroller of the State of Illinois as follows:

<u>Classification</u>	<u>Capitalized Threshold</u>	<u>Estimated Useful Life (in years)</u>
Land	\$ 100,000	Indefinite
Land improvements	25,000	Indefinite
Site improvements	25,000	5-50
Buildings	100,000	50
Building improvements	25,000	10-45
Equipment	5,000	3-25
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 non-operating revenues to the extent expended, limited to available appropriations.

**STATE OF ILLINOIS  
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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 \$20,594,656 for fiscal year 2014. 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 \$3,504,754 in fiscal year 2014.

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 inflow of resources.

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

In accordance with GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, the University reported on-behalf payments totaling \$48,950,555 representing \$22,283,628 and \$26,666,927, respectively, for health care and retirement costs. These on-behalf payments are reflected in Payments Made on Behalf of the University as non-operating revenues and offsetting amount allocated to each functional category under the Operating Expenses. In 2014, the University determined that it had sufficient administrative responsibility under Federal and State financial aid programs which qualify as pass through grants under GASB 24. Under this guidance, the University reported Federal financial aid under the Supplemental Educational Opportunity Grants (SEOG) and State and financial aid under the Monetary Assistance Program (MAP) as non-operating revenues. Additional information may be found in Note 12.

### **New Accounting Standards**

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflow of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. The University adopted the provisions of the Statement in 2014. The impact on the University's 2014 financial statements is discussed in Note 12.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. This Statement requires governments that participate in defined benefit pension

**STATE OF ILLINOIS  
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NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2014**

plans to report in their statement of net position a net pension liability, which is the difference between the total pension liability and the assets set aside to pay pension benefits. Statement No. 68 also requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net pension liability and expense for the cost-sharing plan. It is effective for periods beginning after June 15, 2014. University management is currently assessing the impact that implementation of this Statement will have on the University's 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 University's Component Units as shown on the Statement of Net Position as of June 30, 2014:

	<u>University</u>	<u>Foundation</u>
Carrying amounts of deposits	\$72,789,462	\$ 1,171,409
Carrying amounts of investments	1,175,875	8,831,309
	<u>\$73,965,337</u>	<u>\$10,002,718</u>
Cash and cash equivalents	\$64,016,576	\$ 1,171,409
Restricted cash and cash equivalents	8,868,765	-
Short-term investments	-	1,091,816
Long-term investments	1,079,996	7,739,493
	<u>\$73,965,337</u>	<u>\$10,002,718</u>

**Deposits**

The University utilizes several different bank accounts for the various activities of the University. The book balance of such accounts was \$72,789,462 at June 30, 2014, while the bank balance was \$74,187,060. The difference between the above amounts primarily represents checks that have been issued but have not yet cleared the bank as of June 30, 2014.

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, 2014, the University's deposits were covered by the Federal Deposit Insurance Corporation (FDIC) and by collateral held by the

**STATE OF ILLINOIS  
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NOTES TO BASIC FINANCIAL STATEMENTS  
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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, 2014:

<u>Investment Type</u>	<u>University</u>	<u>Foundation</u>
Illinois funds	\$ 95,879	\$ -
U.S. Treasury notes	1,079,996	-
Mutual funds	-	8,831,309
<b>Total</b>	<u>\$ 1,175,875</u>	<u>\$ 8,831,309</u>

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.



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As of June 30, 2014, 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	\$ 95,879	\$ 95,879	\$ -	0.11
U.S. Treasury notes	<u>1,079,996</u>	<u>740,255</u>	<u>339,741</u>	1.71
<b>Total</b>	<u>\$ 1,175,875</u>	<u>\$ 836,134</u>	<u>\$ 339,741</u>	

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The University's policy for managing its exposure to the risk is to limit investments to those allowable by the Illinois Public Funds Investment Act. As of June 30, 2014, the University had quality ratings as shown in the table below:

<u>Investment Type</u>	<u>Total</u>	<u>Standard &amp; Poor's</u>
Illinois Fund	\$ 95,879	AAA

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, 2014, 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, 2014, 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.

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**3. CAPITAL ASSETS**

Details of the University's investment in capital assets at June 30, 2014 are as follows:

	<u>July 1, 2013</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>June 30, 2014</u>
<b>Capital assets not being depreciated:</b>					
Land and land improvements	\$ 20,596,474	\$ 107,567	\$ (350,000)	\$ -	\$ 20,354,041
Non-depreciable historical treasures and works of art	83,330	-	-	-	83,330
Construction in progress	4,803,871	22,330,996	(2,535,918)	-	24,598,949
Total capital assets not being depreciated	<u>25,483,675</u>	<u>22,438,563</u>	<u>(2,885,918)</u>	<u>-</u>	<u>45,036,320</u>
<b>Capital assets being depreciated:</b>					
Site improvements	6,434,286	-	-	-	6,434,286
Building and building improvements	142,597,489	5,145,289	2,885,918	-	150,628,696
Equipment	14,089,245	997,449	-	(2,344,117)	12,742,577
Library books	23,952,117	622,574	-	(75)	24,574,616
Total capital assets being depreciated	<u>187,073,137</u>	<u>6,765,312</u>	<u>2,885,918</u>	<u>(2,344,192)</u>	<u>194,380,175</u>
<b>Less accumulated depreciation:</b>					
Site improvements	4,700,574	236,575	-	-	4,937,149
Building and building improvements	53,576,626	3,147,972	-	-	56,724,598
Equipment	12,315,053	411,531	-	(2,341,251)	10,385,333
Library books	21,117,445	737,817	-	(75)	21,855,187
Total	<u>91,709,698</u>	<u>4,533,895</u>	<u>-</u>	<u>(2,341,326)</u>	<u>93,902,267</u>
<b>Capital assets net</b>	<u>\$ 120,847,114</u>	<u>\$ 24,669,980</u>	<u>\$ -</u>	<u>\$ (2,866)</u>	<u>\$ 145,514,228</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, 2014:

<u>Investment Type</u>	<u>July 1, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2014</u>
Compensated absences	\$ 6,760,805	\$ 1,002,538	\$ 983,945	\$ 6,779,398
Revenue Bonds Series 1973	195,000	-	195,000	-
Revenue Bonds Series 2004	16,970,000	-	-	16,970,000
Certificates of Participation (COP):				
Series 2006	11,630,000	-	685,000	10,945,000
COP Discount	(59,699)	-	(4,715)	(54,984)
Certificates of Participation (COP):				
Series 2010	5,905,000	-	170,000	5,735,000
Certificates of Participation (COP):				
Series 2012	28,500,000	-	-	28,500,000
COP Premium	166,953	-	5,909	161,044
	<u>70,068,059</u>	<u>\$ 1,002,538</u>	<u>\$ 2,035,139</u>	<u>69,035,458</u>
Less current portion	<u>2,423,699</u>			<u>2,786,246</u>
<b>Total noncurrent liabilities</b>	<u>\$ 67,644,360</u>			<u>\$ 66,249,212</u>

**5. UNIVERSITY FACILITIES SYSTEM REVENUE BONDS**

**Revenue Bonds Payable and Interest Subsidy**

At June 30, 2014, bonds payable consist of University Facilities System Revenue Bond Series 2004. The University Revenue Bond Series 1973 matured on July 1, 2013 and is now fully retired.

***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, 2014. 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

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funds held in the Bond Reserve Account. The restricted fund balance is legally restricted under the University Facilities Revenue Bonds indenture.

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 3.450% and 4.500%, with an average effective rate of approximately 4.166%. Future aggregate annual payments applicable to the Series 2004 Bonds at June 30, 2014 are:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 215,000	\$ 723,081
2016	220,000	715,412
2017	230,000	707,198
2018	235,000	698,478
2019	615,000	682,020
2020-2024	3,465,000	3,009,379
2025-2029	4,255,000	2,196,990
2030-2034	5,280,000	1,157,927
2035-2036	<u>2,455,000</u>	<u>111,713</u>
<b>Total</b>	<u><u>\$ 16,970,000</u></u>	<u><u>\$ 10,002,198</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.

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***Operation and Maintenance Account***

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

***Bond Accounts***

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

***Bond Reserve Accounts***

The bond reserve accounts are to be used solely to pay bond principal and interest when there would otherwise be a default. At June 30, 2014, 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 2014, \$50,000 was credited to the renewal and replacement reserve account. At June 30, 2014, the fund balance in this account was \$16,059.

***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, 2014, 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, 2014, 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 Position  
as of June 30, 2014**

<b>ASSETS</b>	
<b>Current Assets</b>	
Cash and cash equivalents	\$ 1,673,709
Receivables:	
Tuition and fees - net	193,909
Parking fines - net	162,419
Other receivables - net	114,652
Inventories	646
<b>Total current assets</b>	<u>2,145,335</u>
<b>Noncurrent Assets</b>	
Restricted cash and cash equivalents	1,588,452
Investments	1,079,996
Receivables:	
Tuition and fees - net	31,124
Capital assets:	
Site improvements - net	1,102,389
Buildings - net	16,867,955
Equipment - net	62,707
Construction in progress	959,630
<b>Total noncurrent assets</b>	<u>21,692,253</u>
<b>Total assets</b>	<u>23,837,588</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
	<u>-</u>
<b>LIABILITIES</b>	
<b>Current Liabilities</b>	
Accounts payables and accrued liabilities	890,845
Unearned revenues	79,940
Liability for compensated absences	101,525
Revenue bonds payable	215,000
<b>Total current liabilities</b>	<u>1,287,310</u>
<b>Noncurrent Liabilities</b>	
Liability for compensated absences	888
Revenue bonds payable	16,755,000
<b>Total noncurrent liabilities</b>	<u>16,755,888</u>
<b>Total liabilities</b>	<u>18,043,198</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
	<u>-</u>
<b>NET POSITION</b>	
Net investment in capital assets	2,022,682
Restricted for:	
Expendable:	
Capital projects	1,104,766
Debt service	1,507,852
Unrestricted	1,159,090
<b>TOTAL NET POSITION</b>	<u>\$ 5,794,390</u>

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**OPERATING REVENUES**

Student fees	\$ 1,301,749
Vending services	129,489
Rental and use fees	3,145
Bookstore commission	321,907
Parking revenue	2,305,666
Other operating revenues	(3,957)
<b>Total operating revenues</b>	<u>4,057,999</u>

**OPERATING EXPENSES**

Personal services	1,226,484
Contractual services	1,095,747
Commodities and supplies	104,656
Vending cost of sales	4,635
Telecommunications	6,579
Depreciation	695,708
Other operating expenses	511,851
<b>Total operating expenses</b>	<u>3,645,660</u>

<b>Operating income</b>	<u>412,339</u>
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**NON-OPERATING REVENUE (EXPENSES)**

Investment income	8,085
Interest on indebtedness	(726,790)
<b>Net non-operating expenses</b>	<u>(718,705)</u>

<b>Total decrease in net assets</b>	<u>(306,366)</u>
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<b>NET POSITION, BEGINNING OF YEAR</b>	6,514,870
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Prior year adjustment	<u>(414,114)</u>
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<b>NET POSITION, BEGINNING OF YEAR, AS RESTATED</b>	<u>6,100,756</u>
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<b>NET POSITION, END OF YEAR</b>	<u><u>\$ 5,794,390</u></u>
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**University Facilities Revenue Bond Funds  
Statement of Cash Flows  
For the Year Ended June 30, 2014**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Student fees	\$ 1,257,518
Payment for salaries and benefits	(1,191,633)
Payment for suppliers	(1,630,450)
Vending services	113,640
Rental and use fees	3,145
Bookstore commission	280,956
Parking revenue	2,332,589
Other revenues	(3,740)
Other payments	29,604
<b>Net cash provided by operating activities</b>	<u>1,191,629</u>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>	
Purchases of capital assets and construction	(2,337,411)
Principal paid on capital debt	(195,000)
Interest paid on capital debt	(726,790)
<b>Net cash used in capital financing activities</b>	<u>(3,259,201)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchase of investments	17,780
Interest on investments	8,085
<b>Cash provided by investing activities</b>	<u>25,865</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(2,041,707)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>5,303,868</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u><u>\$ 3,262,161</u></u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>	
Operating income	\$ 412,339
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	695,708
Changes in assets and liabilities:	
Receivables - net	56,916
Inventories	217
Accounts payable and accrued liabilities	13,308
Accrued liability for compensated absences	29,624
Deferred revenues	(16,483)
<b>Net cash provided by operating activities</b>	<u><u>\$ 1,191,629</u></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:

<b>PLEGGED REVENUES</b>					<b>Debt Service to</b>
<b>Bond Issues</b>	<b>Purpose</b>	<b>Source of Revenue Pledged</b>	<b>Future Revenues Pledged</b>	<b>Term of Commitment</b>	<b>Pledged Revenues (Current Year)</b>
Facilities Revenue Bonds Series 2004	Construction of a multi-level parking structure	Net revenues of the University Facilities System*, student tuition and fees	\$ 26,972,197	2036	100.00%
<b>Total future revenues pledged</b>			<u>\$ 26,972,197</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 the Trustee not less than 60 days prior thereto that it is exercising its option to terminate the purchase contract:

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<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 \$715,000 due on October 1, 2014 to \$1,155,000 due on October 1, 2025 at rates between 4.00% and 4.75%, with an average effective rate of approximately 4.396%. Future aggregate annual payments applicable to the certificates of participation at June 30, 2014 are:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 715,000	\$ 471,106
2016	740,000	442,006
2017	775,000	411,222
2018	805,000	378,131
2019	840,000	343,175
2020-2024	4,810,000	1,108,487
2025-2026	<u>2,260,000</u>	<u>108,538</u>
<b>Total</b>	<u><u>\$ 10,945,000</u></u>	<u><u>\$ 3,262,665</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, 2020 at the price of 100% of the principal 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.

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The certificates mature in increasing principal amounts ranging from \$185,000 due on October 1, 2014 to \$645,000 due on October 1, 2028 at rates between 2.750% and 6.000%, with an average effective rate of approximately 4.842%. Future aggregate annual payments applicable to the certificates of participation at June 30, 2014 are:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 185,000	\$ 293,725
2016	205,000	287,850
2017	225,000	280,300
2018	250,000	270,925
2019	275,000	259,581
2020-2024	1,825,000	1,055,530
2025-2029	<u>2,770,000</u>	<u>431,516</u>
<b>Total</b>	<u><u>\$ 5,735,000</u></u>	<u><u>\$ 2,879,427</u></u>

**Series 2012**

On November 1, 2012, the University issued Certificates of Participation Series 2012, in the amount of \$28,500,000 to finance the acquisition and construction of a new academic facility. 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, 2023 are subject to redemption on any date on or after October 1, 2022 at the price of 100% of the principal 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 \$460,000 due on October 1, 2014 to \$1,815,000 due on October 1, 2041 at rates between 3.000% and 4.100%, with an average effective rate of approximately 3.534%. Future aggregate annual payments applicable to the certificates of participation at June 30, 2014 are:

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<u>Fiscal Year</u>	<u>Principle</u>	<u>Interest</u>
2015	\$ 460,000	\$ 1,045,025
2016	485,000	1,030,850
2017	515,000	1,015,850
2018	540,000	1,000,025
2019	575,000	983,300
2020-2024	3,440,000	4,625,619
2025-2029	4,505,000	3,975,037
2030-2034	5,895,000	3,025,815
2035-2039	6,985,000	1,760,800
2040-2042	<u>5,100,000</u>	<u>322,670</u>
<b>Total</b>	<b><u>\$ 28,500,000</u></b>	<b><u>\$ 18,784,991</u></b>

**7. NORTHEASTERN ILLINOIS UNIVERSITY FOUNDATION AGREEMENT**

The Northeastern Illinois University Foundation is a separate nonprofit organization incorporated in the State of Illinois and a University Related Organization under University Guidelines, 1982 (amended 1997). Its mission is to advance the interests and welfare of the University. The direction and management of the affairs of the Foundation and the control and disposition of its assets are vested in the Board of Directors of the Foundation. The University has no liability with regard to the Foundation's liabilities. The majority of endowments supporting University scholarships and other University programs are owned by the Foundation; therefore, it would be misleading to exclude the Foundation's financial reports.

On July 1, 2005, the University entered into an agreement with Northeastern Illinois University Foundation. 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 2014, certain funds and in-kind services of the University with an estimated value of \$133,134 were provided to the Foundation without charge. In turn, during fiscal year 2014, the Foundation gave the University \$380,764 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 \$234,688 in fiscal year 2014 for scholarships and awards.

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**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 the state universities, certain affiliated organizations, and certain other state educational and scientific agencies and for survivors, dependents, and other beneficiaries of such employees. SURS is considered a component unit of the State of Illinois' financial reporting entity and is included in the State's financial reports as a pension trust fund. SURS is governed by Section 5/15, Chapter 40, of the Illinois Compiled Statutes. SURS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by accessing the website at [www.SURS.org](http://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 35.80% 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, 2014, 2013, and 2012 were \$27,560,062, \$25,632,154 and \$18,517,588, 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.

**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.

**STATE OF ILLINOIS  
NORTHEASTERN ILLINOIS UNIVERSITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2014**

**Compensated Absences**

It is the policy of the University to accrue vacation pay as earned. As of June 30, 2014, the accrued liability for this benefit was \$5,108,947 and is reported as liability for compensated absences.

As a result of Illinois Public Act 83-976, the University is required to compensate certain employees for sick leave benefits earned after January 1, 1984. Sick leave earned by these employees after this date will accumulate without limit and are payable upon termination of employment for one-half of the unused amount. As of January 1, 1998 per 30 ILCS 105/14a, sick leave benefits earned after that date are no longer compensable upon termination of employment. All prior earned benefits will still be paid. As of June 30, 2014, the accrued liability of this benefit was \$1,670,451 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 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.

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.

**STATE OF ILLINOIS  
NORTHEASTERN ILLINOIS UNIVERSITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2014**

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 Central Management Services. A copy of the financial statements of the Department of Central Management Services may be obtained by writing to the Department of Central Management Services, 401 South Spring Street, Springfield, Illinois 62706-4100.

**9. OPERATING LEASES**

The University leases various buildings and equipment under operating lease agreements. Total rental expense for the year ended June 30, 2014 under these agreements was \$763,380. Minimum lease payments for the years ending June 30 are:

<u>Fiscal Year</u>	<u>Principal</u>
2015	\$ 618,109
2016	459,931
2017	375,009
2018	336,960
2019	<u>39,918</u>
<b>Total</b>	<b><u>\$ 1,829,927</u></b>

**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.

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 Governors' 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.

**STATE OF ILLINOIS  
NORTHEASTERN ILLINOIS UNIVERSITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2014**

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 \$391,956 as of June 30, 2014.

#### **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 2014 was \$52,955. 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 seventh year of the agreement. The Vendor also agreed to honor the agreement made during negotiations with the Illinois Department of Revenue regarding the guaranteed annual vending commitment, which for the University is \$13,631. This amount will increase in direct proportion to any price increases implemented by the Vendor during the life of this agreement.

#### **12. RESTATEMENTS**

##### **Implementation of New Accounting Pronouncement**

The University adopted the provisions of GASB 65, *Items Previously Reported as Assets and Liabilities*, effective for financial statement periods beginning after December 15, 2012. This statement requires that debt issuance costs should be recognized as expense in the period incurred. As a result of implementing this standard, the University decreased beginning net position as of July 1, 2013 by \$1,417,973 which represents unamortized debt issuance costs from debt issued in prior years.



**STATE OF ILLINOIS  
NORTHEASTERN ILLINOIS UNIVERSITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2014**

**Change in Accounting**

During the year ended June 30, 2014, the University changed the reporting for certain federal and state grants totaling \$8,439,339. In previous years the items were reported as third party payments and considered operating revenue by the University. Upon review of the nature of the transactions, the University determined that it is preferable to present certain federal and state grants as pass through transactions in the non-operating revenue section of the Statement of Revenues, Expenses and Changes in Net Position and to record offsetting amounts to a scholarship allowance. Accordingly, certain federal and state grants are now included in the non-operating revenue section and the scholarship and allowance line in the operating expense section of the Statement of Revenues, Expenses and Changes in Net Position. Had this reporting been followed for the year ended June 30, 2013, certain federal and state grants totaling \$9,517,477 would have been reclassified. There was no effect on net position related to this change.

**Correction of Errors**

*Accrued Compensation*

The University restated certain amounts related to accrued compensation. The University has employment contracts for certain academic personnel which the contracted services are rendered over a nine month period while the payments are spread over a year. During the year ended June 30, 2014, the University recognized as expense the amount due for the nine-month contract and accrued the liability for the remaining pay. In the prior year this liability was incorrectly omitted. As a result, the University increased liabilities and decreased beginning net position as of July 1, 2013 by \$2,832,752 to correct this error.

*Capitalized Interest Costs*

The University restated certain amounts related to capitalized interest costs. In November 2012, the University issued Certificates of Participation Series 2012 to finance the acquisition and construction of a new academic facility. During the year ended June 30, 2014 interest costs related to the construction have been capitalized. In the prior years, the interest costs were incorrectly expensed. As a result, the beginning net position as of June 30, 2013 was increased by \$1,010,290 to correct this error.

**STATE OF ILLINOIS  
NORTHEASTERN ILLINOIS UNIVERSITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2014**

**Summary of Changes**

A summary of changes to beginning net position for the year ended June 30, 2014 is as follows:

<b>Net position at June 30, 2013, as previously reported</b>	<u>\$152,915,609</u>
Decrease in reported amount for debt issuance costs as a result of implementation of GASB 65	(1,417,973)
Decrease related to accrued compensation	(2,832,752)
Increase related to capitalized interest	<u>1,010,290</u>
 Total adjustments	 <u>(3,240,435)</u>
 <b>Net position, June 30, 2013, as restated</b>	 <u><u>\$149,675,174</u></u>

**13. OPERATING EXPENSES BY NATURAL CLASSIFICATION**

	<u>Compensation and Benefits</u>	<u>Supplies and Services</u>	<u>Scholarships</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$ 77,354,229	\$ 3,119,565	\$ 104,805	\$ -	\$ 80,578,599
Research	663,339	199,190	114,933	-	977,462
Public service	9,436,671	5,838,801	36,770	-	15,312,242
Academic support	8,412,305	1,864,352	14,000	-	10,290,657
Student services	10,992,195	6,774,806	60,028	-	17,827,029
Institutional support	16,073,572	3,458,408	-	-	19,531,980
Operation and maintenance of plant	12,011,352	4,929,352	-	-	16,940,704
Scholarships and fellowships	-	-	10,033,988	-	10,033,988
Auxiliary	3,022,497	2,323,687	-	-	5,346,184
Depreciation	-	-	-	4,533,895	4,533,895
Other operating expenses	92,844	498,478	-	-	591,322
<b>TOTAL</b>	<u><u>\$ 138,059,004</u></u>	<u><u>\$ 29,006,639</u></u>	<u><u>\$ 10,364,524</u></u>	<u><u>\$ 4,533,895</u></u>	<u><u>\$181,964,062</u></u>

**STATE OF ILLINOIS  
NORTHEASTERN ILLINOIS UNIVERSITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2014**

**14. SUBSEQUENT EVENTS**

On November 13, 2014, the Board of Trustees of Northeastern Illinois University adopted a resolution creating and authorizing the issue and delivery of University Facilities System Revenue Bonds, Series 2014 in two series in an aggregate amount of \$15,160,000 for the purpose of refunding all of the outstanding University Facilities System Revenue Bonds Series 2004. This third supplemental resolution supplements a resolution duly adopted by the Board of Governors of State Colleges and Universities for Northeastern Illinois University on July 12, 1973, as amended by the Board of Trustees of Northeastern Illinois University on February 4, 1997 and February 11, 2004. The Series 2014 Bonds will be fully registered and will be special, limited obligations of the Board and not obligations of the State of Illinois. The Series 2014 Bonds are payable from and secured by a pledge of and lien on (i) the Net revenues of the System, (ii) the Pledge Fees and Pledged Tuition (subject to prior payment of operating and maintenance expenses of the System, but only to the extent necessary) and (III) funds held in the Bond Account.

**STATE OF ILLINOIS  
NORTHEASTERN ILLINOIS UNIVERSITY  
June 30, 2014**

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

<u>Type of Coverage</u>	<u>Required Coverage</u>	<u>Coverage in Force</u> <sup>(a)</sup>
Fire and lightning, extended coverage	Not stipulated	\$100,000,000 Primary
Use and occupancy insurance (business interruption)	None <sup>(b)</sup>	Actual sustained within policy limits <sup>(c)</sup>
General liability insurance	\$100,000/person \$300,000/accident	\$10,650,000/occurrence \$19,650,000/aggregate
Corporate surety bonds	\$4,242,500 <sup>(d)</sup>	\$5,000,000 <sup>(e)</sup>
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, 2014 over cash and short-term investments in the Bond Account and Bond Reserve at June 30, 2014.
- (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, 2014**

**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 2012, 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, 2014**

**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, 2014 is as follows:

	<b><u>Balance of Assets Reserved</u></b>	<b><u>Deposits Required to Date</u></b>	<b><u>Maximum Reserve Requirement</u></b>
Bond account <sup>(a)</sup>	\$ 710,388	\$ 578,395	\$ 578,395
Bond reserve account	1,402,717	1,402,717	1,312,020
Renewal and replacement reserve account <sup>(b)</sup>	407,166	1,950,000	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, 2014.
- (b) Total expenditures for extraordinary repairs, as defined in the bond indenture, as of June 30, 2014, amounted to \$2,508,832. Amounts used in this manner are to be replaced in the reserve by extending the periodic payments until the maximum is accumulated.

**INDEPENDENT AUDITORS' 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, in accordance with the 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, the financial statements of the business-type activities of Northeastern Illinois University (University) and its discretely presented component unit, collectively a component unit of the State of Illinois, as of and for the year ended June 30, 2014, which collectively comprise the University's basic financial statements and have issued our report thereon dated December 19, 2014. Our report includes a reference to another auditor who audited the financial statements of the University's discretely presented component unit, 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**

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

*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,

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

or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings as items 2014-001 and 2014-002 to be material weaknesses.

A *significant deficiency* is a deficiency, or a 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. We consider the deficiency described in the accompanying schedule of findings as item 2014-003 to be a significant deficiency.

### **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*.

### **Northeastern Illinois University's Responses to Findings**

The University's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The University's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Oak Brook, Illinois  
December 19, 2014



**STATE OF ILLINOIS  
NORTHEASTERN ILLINOIS UNIVERSITY  
For the Year Ended June 30, 2014**

**SCHEDULE OF FINDINGS**

**CURRENT FINDINGS - GOVERNMENT AUDITING STANDARDS**

**Finding 2014-001 - Inadequate Controls over Identifying and Recording Accrued Liabilities**

Northeastern Illinois University (University) has not established adequate internal controls over identifying and recording accrued liabilities for financial reporting purposes.

Subsequent to the release of the University's financial statements for the year ended June 30, 2013, University management determined that expenses and the related liability for employees who had completed their contracted services as of June 30, 2013, but had not received final payment for these services, had not been properly recorded. Consequently, University management recorded a prior period adjustment to correct this error. The adjustment reduced unrestricted net position as of June 30, 2013 by \$2,832,752 for the unrecorded liability as of that date.

Generally Accepted Accounting Principles (GAAP) for governmental entities is promulgated by the Governmental Accounting Standards Board (GASB). GASB Statement No. 35 Basic Financial Statements - and Management Discussion and Analysis - for Public Colleges and Universities, requires the use of accrual basis of accounting for business-type entities. Under the accrual basis, expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

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

The University's Board of Trustees and management share the ultimate responsibility for the University's internal control over financial reporting. This responsibility should include an adequate system of review of the completeness and accuracy of the University's financial statements and disclosures to ensure that the financial statements are presented in accordance with accounting principles generally accepted in the United States of America.

University management indicated that the University had historically recorded the salaries in question in the months in which faculty was paid, instead of when the compensation was earned, inadvertently failing to follow accrual basis for accounting in this situation. Specifically, for faculty on a 9-month contract who were paid over 12 months, the compensation that they were paid in July and August was recorded in the new fiscal year even though it was earned in the previous fiscal year.

**STATE OF ILLINOIS  
NORTHEASTERN ILLINOIS UNIVERSITY  
For the Year Ended June 30, 2014**

**SCHEDULE OF FINDINGS**

**Finding 2014-001 - Inadequate Controls over Identifying and Recording Accrued Liabilities (continued)**

Failure to maintain accounting records and present financial reports in accordance with accounting principles generally accepted in the United States of America distorts the net position of the University and the State. (Finding Code No. 2014-001).

***Recommendation***

We recommend the University implement procedures to ensure that all accrued liabilities are properly identified and recorded in the University's accounting records in order to facilitate accurate financial reporting.

***University's Response***

The University concurs with this finding and recommendation.

**STATE OF ILLINOIS  
NORTHEASTERN ILLINOIS UNIVERSITY  
For the Year Ended June 30, 2014**

**SCHEDULE OF FINDINGS**

**Finding 2014-002 - Inadequate Controls Over Recording the Historical Cost of Capital Assets**

Northeastern Illinois University (University) has not established adequate internal controls over recording the historical cost of capital assets.

Subsequent to the release of the University's financial statements for the year ended June 30, 2013, University management determined that net interest cost incurred on borrowed funds during the period of construction of capital assets through June 30, 2013 had incorrectly been charged to expense rather than properly capitalized as a component of the cost of acquiring those assets. Consequently, University management recorded a prior period adjustment to correct this error. The adjustment recorded by the University increased net position as of June 30, 2013 by \$439,138 for the cumulative capitalized interest costs as of that date.

During our audit of the calculations supporting the University's adjustment, we noted that University management had not calculated the amount correctly. As a result, we proposed an audit adjustment to the originally submitted financial statements to recognize an additional \$571,151 of cumulative capitalized interest costs as of June 30, 2013 as well as \$396,032 in additional capitalized interest costs for the year ended June 30, 2014. University management reviewed, accepted, and recorded the proposed adjustment.

Generally Accepted Accounting Principles (GAAP) for governmental entities is promulgated by the Governmental Accounting Standards Board (GASB). GASB Statement No. 62 Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, paragraphs 5-22, establish the requirements for capitalizing interest cost as one of the components of historical cost of capital assets reported in business-type activities and enterprise funds. In general, the standard requires the amount of interest cost to be capitalized for qualifying assets is intended to be that portion of the interest cost incurred during the assets' acquisition periods that theoretically could have been avoided (for example, by avoiding additional borrowings or by using the resources expended for the assets to repay existing borrowings) if outlays for the assets had not been made.

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

The University's Board of Trustees and management share the ultimate responsibility for the University's internal control over financial reporting. This responsibility should include an adequate system of review of the completeness and accuracy of the University's financial statements and disclosures to ensure that the financial statements are presented in accordance with accounting principles generally accepted in the United States of America.

**STATE OF ILLINOIS  
NORTHEASTERN ILLINOIS UNIVERSITY  
For the Year Ended June 30, 2014**

**SCHEDULE OF FINDINGS**

**Finding 2014-002 - Inadequate Controls Over Recording the Historical Cost of Capital Assets (continued)**

University management indicated that during the course of the 2014 audit the University determined that net interest cost incurred on borrowed funds during the period of construction of capital assets should be capitalized. The University was aware of the standards and applied the provisions of FASB 34 to the best of its interpretation. Later in the audit, after the GAAP package was submitted, the University was made aware of additional applicable standards, GASB 62 (specifically paragraphs 5-22,) which caused the change in its reported amounts.

Failure to maintain accounting records and present financial reports in accordance with accounting principles generally accepted in the United States of America distorts the net position of the University and the State. (Finding Code No. 2014-002)

***Recommendation***

We recommend the University implement procedures to ensure that the historical cost of capital assets is properly calculated and recorded in the University's accounting records in order to facilitate accurate financial reporting.

***University's Response***

The University concurs with this finding and recommendation.

**STATE OF ILLINOIS  
NORTHEASTERN ILLINOIS UNIVERSITY  
For the Year Ended June 30, 2014**

**SCHEDULE OF FINDINGS**

**Finding 2014-003 - Generally Accepted Accounting Principles (GAAP) Not Properly Applied in the Preparation of Financial Statements**

Northeastern Illinois University (University) did not properly apply Generally Accepted Accounting Principles (GAAP) in the preparation of its financial statements.

In the performance of our auditing procedures, we noted the following financial statement matters:

- In implementing the provisions of Governmental Accounting Standards Board (GASB) Statement 65 Items Previously Reported as Assets and Liabilities, the University erroneously wrote off premiums and discounts related to outstanding debt obligations totaling \$166,954 and \$59,699, respectively.
- The originally submitted financial statements reflected a negative net position of \$738,235 as restricted for capital projects.

We proposed audit adjustments to correct the matters described above. University management reviewed, accepted, and recorded the proposed adjustments.

Generally Accepted Accounting Principles (GAAP) for governmental entities is promulgated by the Governmental Accounting Standards Board (GASB). GASB Statement No. 65 Items Previously Reported as Assets and Liabilities, establishes that debt issuance costs, defined as all costs incurred to issue debt, including but not limited to insurance costs (net of rebates from the old debt, if any), financing costs (such as rating agency fees), and other related costs (such as printing, legal, administrative, and trustee expenses) should be recognized as expense in the period incurred, except for any portion related to prepaid insurance costs. Furthermore, the standard establishes that the requirements of the statement are to be adopted retroactively by restating beginning balances. The standard does not address or require restatement for premiums and discounts which arise during the issuance of debt.

GASB Statement No. 34 Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, establishes the requirements for reporting net position as restricted. Under the standard, net position on which externally imposed restrictions by creditors, grantors, contributions, or laws and regulations of other governments exist or on which restrictions are imposed though constitutional provisions or enabling legislation should be reported as restricted. Consequently, under this definition, it is not possible to report a negative restricted net position.

**STATE OF ILLINOIS  
NORTHEASTERN ILLINOIS UNIVERSITY  
For the Year Ended June 30, 2014**

**SCHEDULE OF FINDINGS**

**Finding 2014-003 - Generally Accepted Accounting Principles (GAAP) Not Properly Applied in the Preparation of Financial Statements (continued)**

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

The University's Board of Trustees and management share the ultimate responsibility for the University's internal control over financial reporting. This responsibility should include an adequate system of review of the completeness and accuracy of the University's financial statements and disclosures to ensure that the financial statements are presented in accordance with accounting principles generally accepted in the United States of America.

With regard to the University's implementation of GASB 65, University management indicated that it based its initial interpretation on the GASB's guideline which states: "...debt issuance costs include all costs incurred to issue the bonds, including but not limited to insurance costs, financing costs, and other related costs." This statement made no reference to premiums and discounts, as such; initially the University included these items as part of debt issue costs.

With regard to the negative net position, University management indicated that the University's initial statement presentation for June 30, 2014 was based on past year calculations which made the balances of negative net position for restricted capital projects comparable to prior years. In the fiscal year ended June 30, 2014, due to GASB 65 implementation, debt issue costs were written off and consequently changed this year's net position balances.

Failure to maintain accounting records and present financial reports in accordance with accounting principles generally accepted in the United States of America distorts the net position of the University and the State. (Finding Code No. 2014-003).

***Recommendation***

We recommend the University implement procedures to ensure that financial reporting is in accordance with accounting principles generally accepted in the United States of America.

***University's Response***

The University concurs with this finding and recommendation.

**STATE OF ILLINOIS  
NORTHEASTERN ILLINOIS UNIVERSITY  
For the Year Ended June 30, 2014**

**SCHEDULE OF FINDINGS**

**PRIOR FINDINGS NOT REPEATED - GOVERNMENT AUDITING STANDARDS**

A. Failure to Identify and Refund Title IV Aid in a Timely Manner

Northeastern Illinois University (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 its financial statements and noncompliance with federal regulations.

During our testing, it was noted that the University did not properly determine or return the required refund for 162 students who had received aid totaling \$578,308. (Finding Code No. 2013-001, 12-1, 11-1, 10-5).

Disposition: During the current period, we did not note any unidentified Title IV refunds in the sample tested.