

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

For the Year Ended June 30, 2007
Performed as Special Assistant Auditors for
the Auditor General, State of Illinois

**State of Illinois
 Northeastern Illinois University
 Financial Audit
 For the Year Ended June 30, 2007**

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Related Reports Published Under Separate Covers

Northeastern Illinois University
 Compliance Examination (In Accordance with the Single Audit Act and OMB Circular A-133) for the Year Ended June 30, 2007

Northeastern Illinois University Foundation
 Financial Audit for the Year Ended June 30, 2007
 Compliance Examination for the Two Years Ended June 30, 2007

**State of Illinois
Northeastern Illinois University**

Agency Officials

President

Dr. Sharon Hahs
(02/01/07 to present)

Dr. Salme Harju Steinberg
(07/01/06 to 01/31/07)

Vice President for Finance and Administration

Mr. Mark Wilcockson, CPA

Associate Vice President - Financial and Administrative
Affairs

Mr. David Jonaitis

Director of Financial Affairs / Controller

Ms. Peggy Ho

Acting Director of Internal Audit

Mr. Ronald Cierny, CPA

Executive Director - Office of University Budgets

Ms. Helen Ang

Agency offices are located at:

5500 North St. Louis Avenue
Chicago, Illinois 60625

**State of Illinois
Northeastern Illinois University**

Financial Statement Report

Summary

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

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

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

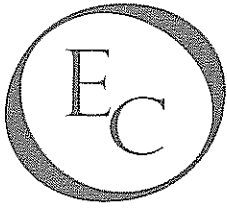
Summary of Finding

The auditors identified a matter involving the University's internal control over financial reporting that they considered to be a significant deficiency. The significant deficiency is described in the accompanying Schedule of Findings on pages 50-51 of this report, as finding 07-1, *Improper Cut-Off Procedures for Expenditures*. The auditors also considered finding 07-1 to be a material weakness.

Exit Conference

The University waived having an exit conference in a letter dated December 6, 2007, from the University's Vice President for Finance and Administration, Mark Wilcockson.

The responses to the recommendation were provided by Mark Wilcockson in a letter dated December 17, 2007.



INDEPENDENT AUDITORS' REPORT

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying basic financial statements of the business-type activities of Northeastern Illinois University (University) and its aggregate discretely presented component unit, collectively a component unit of the State of Illinois, as of and for the year ended June 30, 2007, as listed in the Table of Contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative information has been derived from the University's June 30, 2006 financial statements and, in our report dated November 15, 2006, we expressed an unqualified opinion on those financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Northeastern Illinois University and of its aggregate discretely presented component unit as of June 30, 2007, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2007 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The *Management's Discussion and Analysis* on pages 5 to 17 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

E. C. Artiz & Co LLP

December 19, 2007

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

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, 2007 with comparative information for the year ended June 30, 2006. The discussion and analysis is designed to focus on current activities and currently known facts. Please read it in conjunction with the University's financial statements and related footnote disclosures. This discussion and analysis is focused on the University, a discussion and analysis of the University's Foundation can be found in the separately issued financial statements of the University's Foundation.

USING THIS ANNUAL REPORT

The University's annual report contains three financial statements: The Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. These financial statements are prepared in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management Discussion and Analysis - for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements - and Management Discussion and Analysis - for Public Colleges and Universities*, as amended by GASB Statements No. 37 and 38. These statements establish standards for external financial reporting and provide a consolidated perspective of the University's assets, liabilities, net assets, revenues, expenses, and cash flows.

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

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

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

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

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

FINANCIAL HIGHLIGHTS

Highlights of the University's financial position for the fiscal year ended June 30, 2007 are presented below:

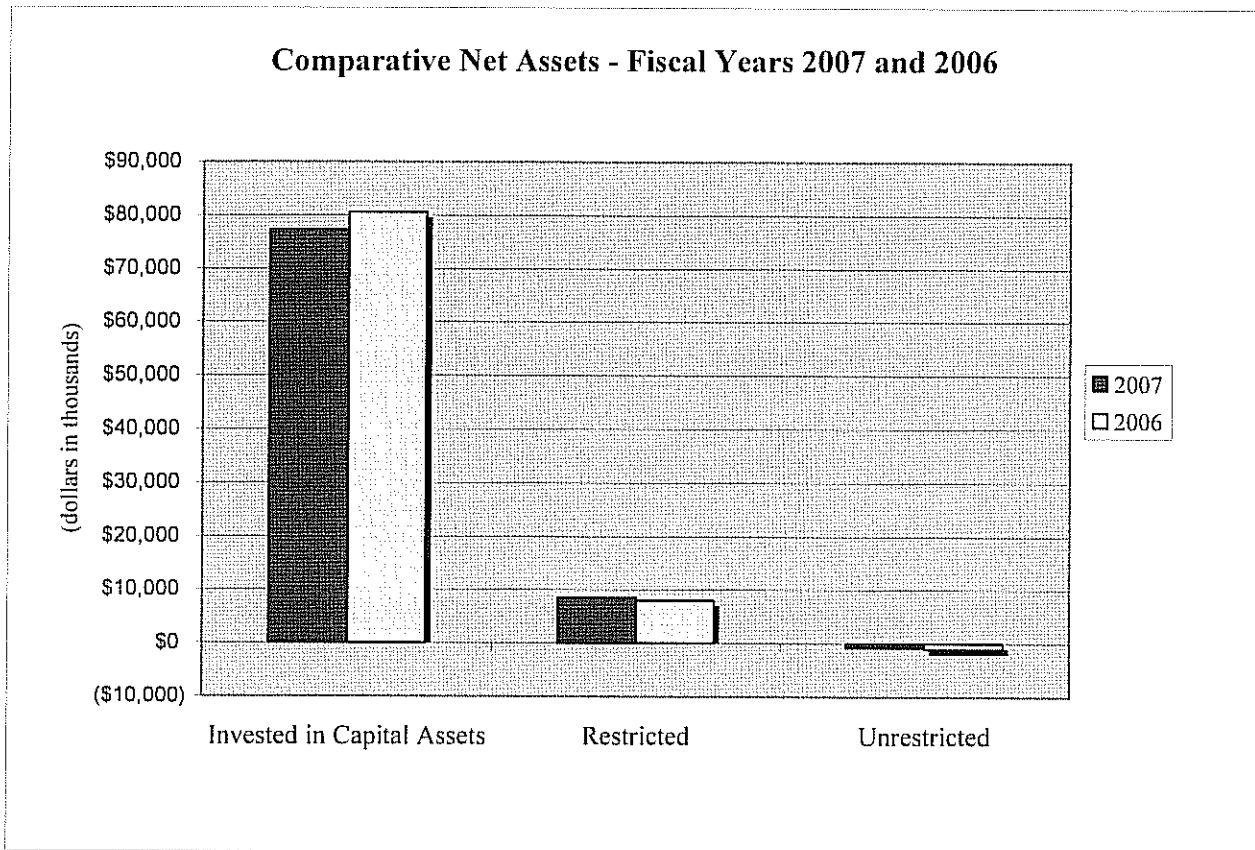
- The University has total assets of \$143.7 million, including current assets of \$21.3 million and noncurrent assets of \$122.4 million.
- The University has total liabilities of \$58.8 million, including current liabilities of \$15.9 million and noncurrent liabilities of \$42.8 million.
- The University's total net assets decreased over the prior year by \$2.5 million to \$84.9 million, including a decrease of \$3.3 million in invested in capital assets, net of related debts, and an increase of \$0.8 million in non-capital unrestricted and restricted net assets.
- The total operating revenues of the University were \$71.5 million, including \$34.5 million in student tuition and fees, net of scholarship allowances, and \$30.7 million in grants and contracts.
- The total operating expenses of the University were \$133.0 million, including \$41.0 million in instruction and \$31.3 million in institutional support.
- The operating loss of \$61.5 million was 95 percent funded by nonoperating revenues, including State appropriations, gifts and donations, investment income, payments on behalf of the University and other nonoperating revenues. As a result, net loss before other revenues, expenses, gains and losses totaled \$2.9 million. This amount includes \$4.9 million in depreciation expense.

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

FINANCIAL ANALYSIS

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

Statement of Net Assets



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

**Condensed Statement of Net Assets
as of June 30, 2007 and 2006
(dollars in thousands)**

	<u>2007</u>	<u>2006</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
ASSETS				
Current assets	\$ 21,283	\$ 18,078	\$ 3,205	17.7%
Noncurrent assets				
Restricted cash and cash equivalents	8,532	9,101	(569)	-6.3%
Restricted investments	6,346	10,013	(3,667)	-36.6%
Receivables, net	2,506	2,415	91	3.8%
Unamortized bond issue costs	756	788	(32)	-4.1%
Capital assets, net	<u>104,277</u>	<u>104,214</u>	<u>63</u>	<u>0.1%</u>
Total Assets	<u>143,700</u>	<u>144,609</u>	<u>(909)</u>	<u>-0.6%</u>
LIABILITIES				
Current liabilities	15,923	13,700	2,223	16.2%
Noncurrent liabilities				
Liability for compensated absences	7,477	7,401	76	1.0%
Revenue bonds payable	20,755	21,095	(340)	-1.6%
Certificates of participation, net	<u>14,612</u>	<u>14,967</u>	<u>(355)</u>	<u>-2.4%</u>
Total Liabilities	<u>58,767</u>	<u>57,163</u>	<u>1,604</u>	<u>2.8%</u>
NET ASSETS				
Invested in capital assets, net	77,269	80,570	(3,301)	-4.1%
Restricted	8,451	7,958	493	6.2%
Unrestricted	<u>(787)</u>	<u>(1,082)</u>	<u>295</u>	<u>-27.3%</u>
Total Net Assets	<u>\$ 84,933</u>	<u>\$ 87,446</u>	<u>\$ (2,513)</u>	<u>-2.9%</u>

Current Assets - The majority of the Current Assets of the University consist of cash and cash equivalents of \$11.0 million, and net receivables of \$9.7 million, including \$4.6 million in grants receivable, \$4.8 million in tuition and fees receivable, and \$0.3 million in other receivables. Total current assets increased by \$3.2 million from the prior year. This is the result of the \$8.1 million increase in cash and cash equivalents, the \$5.9 million decrease in short-term investments, and the \$0.9 million increase in receivables. The increase in cash and cash equivalents reflects the decrease in short term investment of \$5.9 million and a 7.9 percent increase in undergraduate tuition rates.

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

Noncurrent Assets - As of June 30, 2007, the University had total noncurrent assets of \$122.4 million compared with \$126.5 million at June 30, 2006. This net decrease of \$4.1 million was primarily due to the decrease in restricted investment of \$3.7 million. This decrease reflects spending on the proceeds from the 2006 Certificate of Participation, which was issued to finance an enterprise resource planning (ERP) system. The University's net investment in capital assets is as follows:

**Capital Assets, Net
as of June 30, 2007 and 2006
(dollars in thousands)**

	<u>2007</u>	<u>2006</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Capital assets				
Land and land improvements	\$ 7,971	\$ 7,971	\$ -	-
Site improvements	5,940	5,940	-	-
Building and building improvements	121,251	117,181	4,070	3.5%
Equipment	14,523	12,564	1,959	15.6%
Library books	19,731	18,858	873	4.6%
Construction in Progress	499	2,671	(2,172)	-81.3%
Total	<u>169,915</u>	<u>165,185</u>	<u>4,730</u>	<u>2.9%</u>
Less: accumulated depreciation	<u>65,638</u>	<u>60,971</u>	<u>4,667</u>	<u>7.7%</u>
Net capital assets	<u>\$ 104,277</u>	<u>\$ 104,214</u>	<u>\$ 63</u>	<u>0.1%</u>

Current Liabilities - Current liabilities consist primarily of accounts payable and accrued liabilities of \$7.3 million, deferred revenues for summer tuition of \$4.0 million, and the current portion of the liability for compensated absences of \$3.8 million. Total current liabilities increased by \$2.2 million. This increase is primarily due to the \$1.2 million increase in accounts payable and accrued liabilities, the \$0.7 million increase in the deferred revenues, and the \$0.3 million increase in the current liabilities of the 2006 Certificates of Participation.

Noncurrent Liabilities - Noncurrent liabilities consist of long-term debt and other obligations for which the principal is due more than one year from the statement of net assets date. Long-term debt and obligations totaled \$42.8 million at June 30, 2007 as compared to \$43.5 million at June 30, 2006. The University's current revenue bonds payable consists of University Facilities Revenue Bonds Series 1973, University Facilities System Revenue Bonds Series 1997, and University Facilities System Revenue Bonds Series 2004.

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

Fiscal year 2007 principal repayments for the three revenue bonds and the Certificates of Participation are as follows:

Debt Type	Principal paid in FY 2007
Revenue Bonds Series 1973	\$ 130,000
Revenue Bonds Series 1997	195,000
Revenue Bonds Series 2004*	-
Certificates of Participation 2006**	-
Total Principal Paid	<u><u>\$ 325,000</u></u>

* No principal repayment until year 2014

** No principal repayment until year 2008

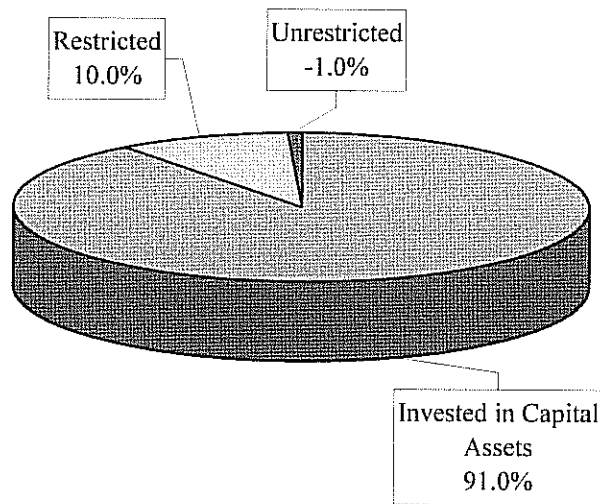
Total Net Assets - Net assets are divided into three major categories. The first category, invested in capital assets, net of related debts, reports the University's net equity in property and equipment. The second category, restricted net assets, reports net assets that are owned by the University, but the use or purpose of the funds is restricted by an external source or entity. The third category is unrestricted net assets, which are available to be used for any lawful purpose of the University. The total net assets decreased by \$2.5 million over the prior year. This decrease is a net result of a \$3.3 million decrease in invested capital assets, \$0.3 million increase in unrestricted net assets, and a \$0.5 million increase in restricted net assets, which is mainly due to the close of 2004 Bond project account wherein the account balance of \$0.4 million was transferred to the 2004 Bond Account. The following is a breakdown of the \$8.5 million restricted net assets:

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

**Restricted Net Assets
as of June 30, 2007 and 2006
(dollars in thousands)**

	<u>2007</u>	<u>2006</u>
Grants and Contracts	\$ 999	\$ 1,590
Student loans	2,805	2,872
Debt Service	2,336	1,638
Other	2,311	1,858
Total Restricted Net Assets	<u><u>\$ 8,451</u></u>	<u><u>\$ 7,958</u></u>

Total Net Assets - June 30, 2007



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

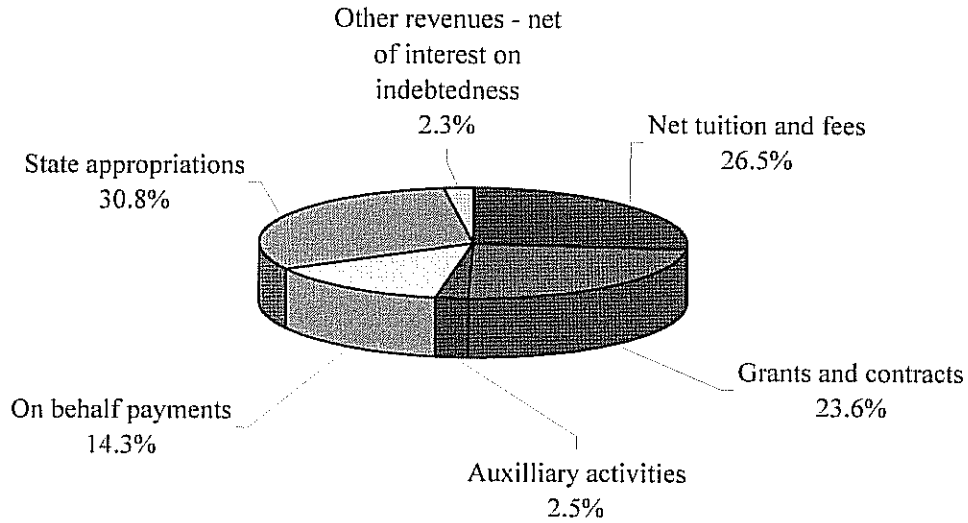
Statement of Revenues, Expenses, and Changes in Net Assets

Condensed Statement of Revenues, Expenses, and Changes in Net Assets
For the Years Ended June 30, 2007 and 2006
(dollars in thousands)

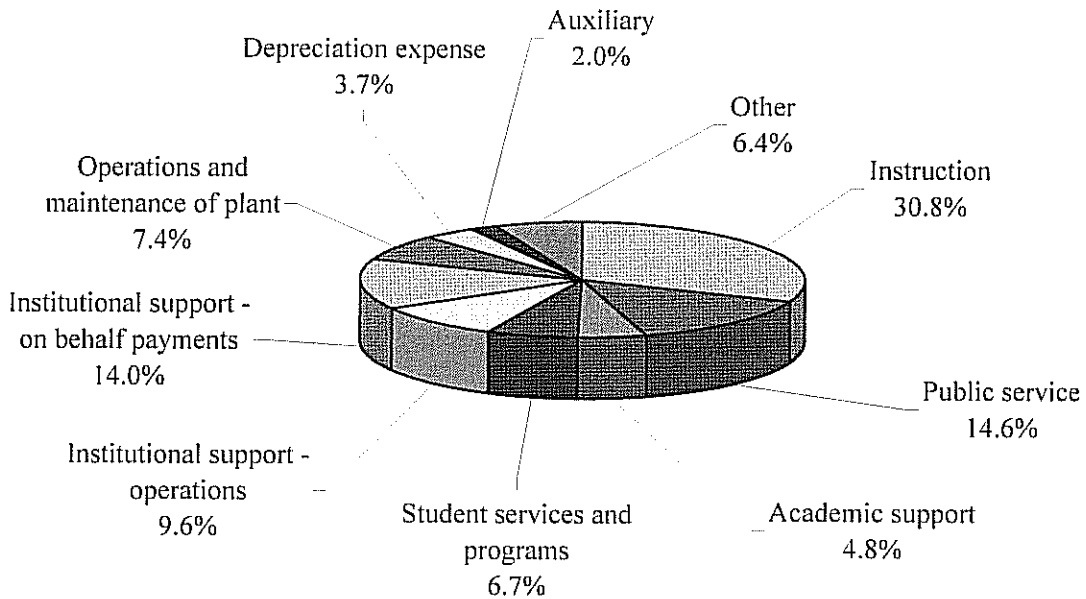
	<u>2007</u>	<u>2006</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
OPERATING REVENUES				
Net tuition and fees	\$ 34,477	\$ 32,821	\$ 1,656	5.0%
Grants and contracts	30,747	26,583	4,164	15.7%
Auxilliary enterprises	3,283	3,298	(15)	-0.5%
Other operating revenues	2,944	2,664	280	10.5%
Total operating revenues	<u>71,451</u>	<u>65,366</u>	<u>6,085</u>	<u>9.3%</u>
OPERATING EXPENSES				
Instruction	41,005	40,343	662	1.6%
Public service	19,355	15,224	4,131	27.1%
Academic support	6,403	6,435	(32)	-0.5%
Student services and programs	8,856	8,233	623	7.6%
Institutional support - operations	12,740	12,092	648	5.4%
Institutional support - on behalf payments	18,562	16,208	2,354	14.5%
Operations and maintenance of plant	9,877	10,097	(220)	-2.2%
Depreciation expense	4,897	4,169	728	17.5%
Auxiliary enterprises	2,719	2,482	237	9.5%
Other operating expenses	8,543	6,671	1,872	28.1%
Total operating expenses	<u>132,957</u>	<u>121,954</u>	<u>11,003</u>	<u>9.0%</u>
Operating loss	<u>(61,506)</u>	<u>(56,588)</u>	<u>(4,918)</u>	<u>8.7%</u>
NONOPERATING REVENUES (EXPENSES)				
State appropriations	39,994	39,168	826	2.1%
Payments on behalf of the University	18,562	16,208	2,354	14.5%
Other nonoperating revenues	1,667	1,244	423	34.0%
Interest on indebtedness	(1,600)	(1,180)	(420)	35.6%
Total nonoperating revenues, net	<u>58,623</u>	<u>55,440</u>	<u>3,183</u>	<u>5.7%</u>
NET LOSS	(2,883)	(1,148)	(1,735)	151.1%
Gain (loss) on disposal of capital assets	(22)	11	(33)	-300.0%
Capital additions provided by State of Illinois	392	617	(225)	-36.5%
DECREASE IN NET ASSETS	(2,513)	(520)	(1,993)	383.3%
NET ASSETS, BEGINNING OF YEAR	87,446	87,966	(520)	-0.6%
NET ASSETS, END OF YEAR	\$ 84,933	\$ 87,446	\$ (2,513)	-2.9%

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

Total Revenue by Source - June 30, 2007



Operating Expenses - June 30, 2007



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

Operating Revenues - Total operating revenues increased by \$6.1 million. This is the result of the increase in tuition and fees of \$1.7 million due to a 7.9 percent increase in the undergraduate tuition rates, and the increase in state, federal, and local grant and contract awards of \$4.2 million.

Operating Expenses - Instruction accounted for the largest portion of operating expenses at \$41.0 million. Institutional support is the next largest at \$31.3 million. These two sources, plus public service at \$19.4 million, operation and maintenance at \$9.9 million, student services at \$8.9 million, and academic support at \$6.4 million, account for approximately 88 percent of the operating expenses of the University. Operating expenses increased by \$11.0 million. This increase is a net result of five items: public service increased by \$4.1 million due to the increase in grants and contracts, on behalf payments increased by \$2.4 million which reflects the rise in employee benefit costs financed by the State of Illinois, depreciation increased by \$0.7 million primarily due to the first year of depreciation of the Parking structure, other expenses increased by \$1.9 million due to the expenses of the ERP project, and a \$1.7 million increase in employee salaries through out each functional category as a result of negotiated and non-negotiated employee salary increases.

Nonoperating Revenues (Expenses) - This consists of State appropriations, on behalf payments, investment income, and other nonoperating revenues, less interest on indebtedness. Total nonoperating revenues increased by \$3.2 million. This is due primarily to the increase of \$0.8 million in State appropriation and an increase of \$2.4 in payments on behalf of the University.

Statement of Cash Flows

**Condensed Statement of Cash Flows
For the Years Ended June 30, 2007 and 2006
(dollars in thousands)**

	<u>2007</u>	<u>2006</u>
Cash received from operations	\$ 74,401	\$ 67,735
Cash expended for operations	(111,878)	(104,907)
Net cash used in operating activities	<u>(37,477)</u>	<u>(37,172)</u>
Net cash provided by noncapital financing activities	40,181	39,878
Net cash provided by (used in) capital financing activities	(6,156)	6,150
Net cash provided by (used in) investing activities	10,961	(5,537)
Net increase in cash and cash equivalents	<u>7,509</u>	<u>3,319</u>
Cash and cash equivalents - beginning of the year	<u>12,047</u>	<u>8,728</u>
Cash and cash equivalents - end of the year	<u>\$ 19,556</u>	<u>\$ 12,047</u>

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

The primary cash receipts from operating activities consist of tuition and fees of \$33.2 million and grants and contracts of \$29.4 million. Cash outlays included payments to employees of \$72.5 million, payments for fringe benefits of \$3.7 million and payments to suppliers of \$30.0 million.

The State appropriation of \$40.0 million is the primary source of noncapital financing activities. The accounting standards require the University to reflect this source of revenue as nonoperating even though the University's budget depends on this to support operations.

The main capital financing activities included purchases of capital assets and construction costs of \$4.2 million, and debt service payment of 2.0 million.

Investing activities reflect purchases, sales and interest income earned on investments. The rise in interest rate, the investments of proceeds from Certificate of Participation issued in fiscal year 2006, and unrealized market fluctuation resulted in an increase of \$0.9 million in investment income.

The total net cash increased by \$7.5 million from fiscal year 2006 primarily because the University liquidated \$5.9 million of investments into cash and cash equivalents.

SIGNIFICANT FINANCIAL EVENTS IMPACTING FUTURE PERIODS

During this past year, the University completed its Higher Learning Commission Self-Study Report and, in January 2007, hosted the Commission's reaccreditation team visit to the University. The University received notification from the Commission that it granted to the University the 10 year maximum reaccreditation and, as a result, we will continue to fulfill our mission of educating the most diverse student population in the Midwest. The self-study was significant for the University because it reinforced our commitment to strategically direct all of our resources - financial, faculty and staff - towards our mission and our priorities.

During this past year, Sharon K. Hahs became President of Northeastern Illinois University. Two significant areas of focus in her tenure as president have been University-wide strategic planning and increasing University support through the development of our fund-raising efforts. The Higher Learning Commission recommended that the University revisit our overall strategic planning to better integrate our various campus planning process. To that end, President Hahs has led a University-wide effort to adopt a statement of University values, based on our mission statement, which will help form the basis for our strategic planning effort. Current plans call for the formal strategic planning process to start in early 2008 with completion in early summer 2008. Regarding fund-raising, President Hahs created the new position of Vice President for Advancement that will be responsible for expanding the University's fund-raising and development program and a search is currently underway to fill that position.

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

The University is focused on and committed to the four principles contained in our mission statement: excellence, access, diversity and community; and the six principles contained in our values statement: integrity, excellence, access to opportunity, diversity, community, and empowerment through learning. Our fall 2007 enrollment is 11,644 students, a slight decrease from the previous fall, but our long-term trend continues to demonstrate the demands from students for our courses and programs, and our success in providing an accessible and affordable education. In what can be described as challenging financial times, the University has continued to improve our educational programs by increasing the number of full-time, tenure-track faculty and increasing the number of course sections available to students. We continue to be the most diverse public university in the Midwest, according to *US News and World Report*, and our partnerships with local schools, community colleges, government agencies, and private foundations reinforce and extend our educational mission beyond our campus.

These successes also present challenges. Most significantly, the State of Illinois continues to provide funding to Illinois public higher education and Northeastern at levels below previous years. In fiscal year 2002, the University's State General Funds appropriation to Northeastern was \$45.4 million. In fiscal year 2008, the University's State General Funds appropriation is \$40.8 million, an increase of \$793,100, or 2 percent, over the fiscal year 2007 level. While not regaining previous funding levels, this is a positive sign in that the University continues to move towards our previous state funding level.

Our challenges continue: most notably, addressing faculty and staff compensation levels and providing funds to recruit and retain the best faculty and staff. While progress was made the past few years, improving salary competitiveness continues to be an issue. Our students need and demand the latest technology and the University is progressing with a multi-year plan to consolidate our currently disparate information systems into a fully integrated information system. The University's new financial system went live July 1, 2007 and the human resources will go live January 1, 2008. The new student information system is now accepting new applications for admission to the University and it is expected that student registration for summer 2008 will go live in March 2008. With our enrollment level comes increased teaching and support needs, all of which have both financial and space resource implications. And finally, the lack of State of Illinois capital appropriations for new facilities and the repair, maintenance and rehabilitation of current University facilities is beginning to affect the University's ability to improve our physical plant. Signs are encouraging, however, that a State of Illinois capital program is being considered by the Governor and Illinois General Assembly.

Overall, because of high student demand and the University's continuing efforts to focus resources on our core mission, the operating budget for fiscal year 2008 will be limited, but will support the academic and support needs of our students, avoid layoffs to faculty and staff, and maintain the highest level of quality instruction.

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

CONTACTING NEIU'S FINANCIAL MANAGEMENT

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

STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
STATEMENT OF NET ASSETS

	JUNE 30,			
	2007		(Comparative totals only) 2006	
	University	Foundation	University	Foundation
ASSETS				
<i>Current assets:</i>				
Cash and cash equivalents	\$ 11,023,225	\$ 166,389	\$ 2,945,652	\$ 182,434
Short-term investments	-	1,981,695	5,880,470	1,046,060
Receivables				
Grants	4,561,030	-	3,187,416	-
Student loans (net of allowance for doubtful accounts of \$345,704 in 2007 and \$328,503 in 2006)	68,036	-	85,134	-
Tuition and fees (net of allowance for doubtful accounts of \$750,935 in 2007 and \$480,390 in 2006)	4,750,434	-	2,731,420	-
Other receivables (net of allowance for doubtful accounts of \$766,796 in 2007 and \$791,559 in 2006)	308,319	-	2,857,351	-
Inventories	64,859	-	124,030	-
Deferred charges	473,972	-	233,309	-
Other assets	32,827	1,552	32,827	3,125
Total current assets	21,282,702	2,149,636	18,077,609	1,231,619
<i>Noncurrent assets:</i>				
Restricted cash and cash equivalents	8,532,344	-	9,101,135	-
Restricted investments	6,346,414	2,663,481	10,012,835	2,344,759
Receivables				
Student loans (net of allowance for doubtful accounts of \$427,496 in 2007 and \$417,529 in 2006)	2,405,345	-	2,341,345	-
Tuition and fees (net of allowance for doubtful accounts of \$669,663 in 2007 and \$477,092 in 2006)	100,712	-	73,857	-
Unamortized bond issue costs	755,666	-	788,493	-
Capital assets				
Land and land improvements	7,971,117	-	7,971,117	-
Site improvements (net of accumulated depreciation of \$3,218,054 in 2007 and \$2,911,196 in 2006)	2,722,195	-	3,029,053	-
Buildings and building improvements (net of accumulated depreciation of \$36,472,243 in 2007 and \$33,850,164 in 2006)	84,778,468	-	83,331,175	-
Equipment (net of accumulated depreciation of \$9,869,167 in 2007 and \$9,054,562 in 2006)	4,653,878	-	3,508,512	-
Library books (net of accumulated depreciation of \$16,078,505 in 2007 and \$15,155,488 in 2006)	3,652,136	-	3,702,533	-
Construction in progress	498,703	-	2,671,154	-
Other assets	-	21,714	-	21,714
Total noncurrent assets	122,416,978	2,685,195	126,531,209	2,366,473
Total assets	143,699,680	4,834,831	144,608,818	3,598,092

See accompanying notes to basic financial statements

STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
STATEMENT OF NET ASSETS

	JUNE 30,			
	2007		(Comparative totals only) 2006	
	University	Foundation	University	Foundation
LIABILITIES				
<i>Current liabilities:</i>				
Accounts payable and accrued liabilities	7,341,548	6,042	6,142,964	16,458
Deferred revenues	3,953,606	752,888	3,224,584	-
Liability for compensated absences	3,815,391	-	3,849,763	-
Revenue bonds payable	340,000	-	325,000	-
Certificates of participation, net	360,284	-	-	-
Funds held in custody for others	112,446	-	157,360	-
<i>Total current liabilities</i>	<u>15,923,275</u>	<u>758,930</u>	<u>13,699,671</u>	<u>16,458</u>
<i>Noncurrent liabilities:</i>				
Liability for compensated absences	7,477,138	-	7,401,241	-
Revenue bonds payable	20,755,000	-	21,095,000	-
Certificates of participation, net	14,611,722	-	14,967,290	-
<i>Total noncurrent liabilities</i>	<u>42,843,860</u>	<u>-</u>	<u>43,463,531</u>	<u>-</u>
<i>Total liabilities</i>	<u>58,767,135</u>	<u>758,930</u>	<u>57,163,202</u>	<u>16,458</u>
NET ASSETS				
Invested in capital assets, net of related debts	77,268,908	-	80,569,660	-
Restricted for:				
Nonexpendable				
Scholarships and charitable trust	-	2,663,481	-	2,344,758
Expendable				
Grants and contracts	998,661	-	1,589,869	-
Student loans	2,805,227	-	2,871,705	-
Debt service	2,335,569	-	1,638,210	-
Other	2,311,417	874,004	1,858,198	709,679
Unrestricted	(787,237)	538,416	(1,082,026)	527,197
<i>Total net assets</i>	<u>\$ 84,932,545</u>	<u>\$ 4,075,901</u>	<u>\$ 87,445,616</u>	<u>\$ 3,581,634</u>

See accompanying notes to basic financial statements

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

	FOR THE YEAR ENDED JUNE 30,			
			(Comparative totals only)	
	2007		2006	
	University	Foundation	University	Foundation
OPERATING REVENUES				
Student tuition and fees (net of scholarship allowances of \$7,039,868 in 2007 and \$6,451,590 in 2006)	\$ 34,477,189	\$ -	\$ 32,821,397	\$ -
Federal grants and contracts	24,393,435	-	21,046,482	-
State and local grants	5,179,911	-	4,133,940	-
Nongovernmental grants and contracts	1,174,018	-	1,402,805	-
Auxiliary enterprises	3,283,405	-	3,297,405	-
Other operating revenues	2,943,430	924,285	2,664,272	540,438
<i>Total operating revenues</i>	<u>71,451,388</u>	<u>924,285</u>	<u>65,366,301</u>	<u>540,438</u>
OPERATING EXPENSES				
Instruction	41,004,674	-	40,342,794	-
Research	771,010	-	158,458	-
Public service	19,354,940	-	15,223,591	-
Academic support	6,402,891	-	6,435,117	-
Student services and programs	8,856,022	-	8,233,391	-
Institutional support	31,301,841	-	28,299,628	-
Operation and maintenance of plant	9,877,389	-	10,097,128	-
Scholarships and fellowships	4,914,597	-	4,905,792	-
Auxiliary enterprises	2,719,513	-	2,481,931	-
Depreciation expense	4,897,271	-	4,169,179	-
Other operating expenses	2,857,162	540,571	1,607,214	527,674
<i>Total operating expenses</i>	<u>132,957,310</u>	<u>540,571</u>	<u>121,954,223</u>	<u>527,674</u>
<i>Operating income (loss)</i>	<u>(61,505,922)</u>	<u>383,714</u>	<u>(56,587,922)</u>	<u>12,764</u>
NONOPERATING REVENUES (EXPENSES)				
State appropriations - general revenue fund	39,994,182	-	39,168,216	-
Payments on behalf of the University	18,562,423	-	16,207,855	-
Gifts and donations	100,000	-	100,000	-
Investment income	1,414,600	-	557,334	-
Interest on indebtedness	(1,600,052)	-	(1,180,342)	-
Other nonoperating revenues	151,803	-	586,370	-
<i>Net nonoperating revenues</i>	<u>58,622,956</u>	<u>-</u>	<u>55,439,433</u>	<u>-</u>
<i>Income (loss) before other revenues, expenses, gains and losses</i>	<u>(2,882,966)</u>	<u>383,714</u>	<u>(1,148,489)</u>	<u>12,764</u>
Additions to permanent endowments	-	110,553	-	60,141
Gain (loss) on disposal of capital assets	(22,007)	-	10,908	-
Capital additions provided by State of Illinois	391,902	-	616,636	-
<i>Increase (decrease) in Net Assets</i>	<u>(2,513,071)</u>	<u>494,267</u>	<u>(520,945)</u>	<u>72,905</u>
NET ASSETS				
Net assets - beginning of year	87,445,616	3,581,634	87,966,561	3,508,729
Net assets - end of year	<u>\$ 84,932,545</u>	<u>\$ 4,075,901</u>	<u>\$ 87,445,616</u>	<u>\$ 3,581,634</u>

See accompanying notes to basic financial statements

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

	FOR THE YEAR ENDED JUNE 30,			
	2007		(Comparative Totals Only) 2006	
	University	Foundation	University	Foundation
CASH FLOWS FROM OPERATING ACTIVITIES				
Tuition and fees	\$ 33,166,142	\$ -	\$ 32,754,317	\$ -
Grants and contracts	29,373,750	-	26,962,713	-
Payments to employees	(72,465,597)	-	(70,741,044)	-
Payments for fringe benefits	(3,677,438)	-	(3,660,558)	-
Payments to suppliers	(29,990,234)	(458,118)	(24,679,976)	(449,139)
Payments for scholarships and fellowships	(4,932,985)	-	(4,964,216)	-
Loans issued to students	(812,083)	-	(861,284)	-
Collections of loans from students	658,681	-	693,796	-
Auxiliary enterprises	3,289,334	-	3,293,834	-
Other receipts	7,912,735	1,585,877	4,030,286	472,682
Net cash provided by (used in) operating activities	<u>(37,477,695)</u>	<u>1,127,759</u>	<u>(37,172,132)</u>	<u>23,543</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State appropriations	39,994,182	-	39,168,216	-
Gifts	100,000	-	100,000	-
Agency transactions	(43,252)	-	12,438	-
Other noncapital financing activities	129,796	110,553	597,278	60,141
Net cash provided by noncapital financing activities	<u>40,180,726</u>	<u>110,553</u>	<u>39,877,932</u>	<u>60,141</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES				
Purchases of capital assets and construction	(4,168,643)	-	(7,531,521)	-
Proceeds from capital debt	-	-	14,967,290	-
Principal paid on capital debt and leases	(325,000)	-	(310,000)	-
Interest paid on capital debt and leases	(1,662,097)	-	(975,580)	-
Net cash provided by (used in) capital financing activities	<u>(6,155,740)</u>	<u>-</u>	<u>6,150,189</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sales and maturities of investments	10,086,970	197,588	3,643,356	420,065
Interest on investments	1,414,600	-	557,334	-
Purchases of investments	(540,079)	(1,451,945)	(9,737,546)	(623,383)
Net cash provided by (used in) investing activities	<u>10,961,491</u>	<u>(1,254,357)</u>	<u>(5,536,856)</u>	<u>(203,318)</u>
Net increase (decrease) in cash and cash equivalents	7,508,782	(16,045)	3,319,133	(119,634)
Cash and cash equivalents - beginning of year	12,046,787	182,434	8,727,654	302,068
Cash and cash equivalents - end of year	<u>\$ 19,555,569</u>	<u>\$ 166,389</u>	<u>\$ 12,046,787</u>	<u>\$ 182,434</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ (61,505,922)	\$ 383,714	\$ (56,587,922)	\$ 12,764
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Payment on-behalf of the University	18,562,423	-	16,207,855	-
Depreciation expense	4,897,271	-	4,169,179	-
Changes in assets and liabilities:	-	-	-	-
Receivables, net	(917,353)	-	(2,105,396)	-
Deferred charges and other assets	(207,836)	1,573	(120,666)	201
Inventories	59,171	-	(33,655)	-
Accounts payable and accrued liabilities	962,219	(10,416)	1,003,471	10,578
Accrued salaries and wages	(98,215)	-	(147,963)	-
Liability for compensated absences	41,525	-	(302,031)	-
Deferred revenues	729,022	752,888	744,996	-
Net cash provided by (used in) operating activities	<u>\$ (37,477,695)</u>	<u>\$ 1,127,759</u>	<u>\$ (37,172,132)</u>	<u>\$ 23,543</u>
Noncash operating and capital financing activities:				
On-behalf payments for fringe benefits	\$ 18,562,423		\$ 16,207,855	
Capital asset acquisition via capital appropriations	391,902		616,636	
	<u>\$ 18,954,325</u>		<u>\$ 16,824,491</u>	

See accompanying notes to basic financial statements

State of Illinois

Northeastern Illinois University

Notes to Basic Financial Statements

1. Summary of Significant Accounting Policies

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

Reporting Entity

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

The Foundation is a University Related Organization as defined under University Guidelines adopted by the State of Illinois Legislative Audit Commission in 1982 and amended September 1997. The Foundation was formed for the purpose of providing fund raising and other assistance to the University in order to attract private gifts to support the University's instructional, research, and public service activities. In this capacity, the Foundation solicits, receives, holds, and administers gifts for the benefit of the University. Complete financial statements for the Foundation may be obtained by writing to the NEIU Foundation Director of Development, Northeastern Illinois University, 5500 North St. Louis Ave., Chicago, Illinois 60625.

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

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

Basis of Accounting

The financial statements of the University are prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when incurred. All significant intra-agency transactions have been eliminated.

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

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

Management's Discussion and Analysis

This provides an objective analysis of the University's financial activities based on facts, decisions and conditions.

Basic financial statements including a Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets and Statement of Cash Flows

- The Statement of Net Assets details current assets/liabilities and noncurrent assets/liabilities. In general, current assets are those that are available to satisfy current liabilities. Current liabilities are those that will be paid within one year of the date of the Statement of Net Assets. Other assets and liabilities due beyond one year are noncurrent. Net Assets are divided into three major categories: 1) Invested in capital assets, net of related debt, 2) Restricted net assets, and 3) Unrestricted net assets.
- The Statement of Revenues, Expenses and Changes in Net Assets provides operating and nonoperating revenues and expenses, and displays the net income or loss from operations and total changes in net assets.

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

- The Statement of Cash Flows details the change in the cash and cash equivalents balance for the fiscal year and is prepared using the direct method. Cash and cash equivalents include bank accounts and investments with original maturities of ninety days or less at the time of purchase, primarily U.S. Treasury bills and money market funds. This statement provides information related to cash receipts and cash payments during the year. The statement also helps users to evaluate the University's ability to meet financial obligations as they mature.

Notes to Basic Financial Statements

This provides additional analysis of the University's Basic Financial Statements.

Operating and Nonoperating Revenues

Operating revenues of the University consist of student tuition and fees, grants and contracts, student union sales and services, parking revenues, and other operating revenues.

Transactions relating to capital or financing activities, noncapital financing activities, investing activities, State appropriations, and State on behalf payments for retirement and health care costs are components of nonoperating income. Restricted and unrestricted resources are used at the discretion of the University, within the proper guidelines. The University first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

Auxiliary Enterprises

The auxiliary enterprises are primarily composed of the student union, child care, and parking operations.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses. Actual results could differ from those estimates.

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

Cash and Cash Equivalents

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

Investments and Marketable Securities

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

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

Restricted Assets

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

Inventories

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

Unamortized Bond Issue Costs

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

Certificates of Participation

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

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

Capital Assets

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

<u>Classification</u>	<u>Capitalized Threshold</u>	<u>Estimated Useful Life (in years)</u>
Land	\$ 100,000	Indefinite
Land improvements	25,000	Indefinite
Site improvements	25,000	5-50
Buildings	100,000	50
Building improvements	25,000	10-45
Equipment	5,000	3-25
Software/License Fees	50,000	5
Library books	5,000 *	7

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

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

Revenue Recognition

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

Tuition and fees, except for the Summer Session, are recognized as revenues as they are assessed. Tuition and fees are reduced by scholarship discounts and allowances of \$7,039,868 for fiscal year 2007. The Summer Session tuition and fees are allocated between fiscal years based on when the revenue is earned. The portion of Summer Session tuition and fees applicable to the following fiscal year is deferred. The value of tuition and fee exemptions awarded to graduate assistants, staff members and others is calculated at the applicable tuition rates. These exemptions amounted to \$2,867,297 in fiscal year 2007.

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

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

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

In accordance with GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, the University reported on-behalf payments totaling \$18,562,423 representing \$14,096,848 and \$4,465,575 respectively, for health care and retirement costs. These on-behalf payments are reflected in Payments Made on Behalf of the University as nonoperating revenues and offsetting amount reported as Institutional Support expenses.

2. Cash and Investments

The University uses the “pooled cash” method of accounting for substantially all of its operating cash and investments. The following table is a reconciliation of deposits and investments held by the University and University’s Foundation as shown on the Statement of Net Assets as of June 30, 2007:

	<u>University</u>	<u>Foundation</u>
Carrying amounts of deposits	\$ 7,100,353	\$ 166,389
Carrying amounts of investments	<u>18,801,630</u>	<u>4,645,176</u>
	<u>\$ 25,901,983</u>	<u>\$ 4,811,565</u>
Cash and cash equivalents	\$ 11,023,225	\$ 166,389
Restricted cash and cash equivalents	8,532,344	-
Short-term investments	-	1,981,695
Restricted investments	<u>6,346,414</u>	<u>2,663,481</u>
	<u>\$ 25,901,983</u>	<u>\$ 4,811,565</u>

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

Deposits

The University utilizes several different bank accounts for the various activities of the University. The book balance of such accounts is \$7,100,352 at June 30, 2007, while the bank balance was \$8,552,354. The difference between the above amounts primarily represents checks that have been issued but have not yet cleared the bank as of June 30, 2007.

Custodial credit risk for deposits exists when, in the event of the failure of a depository financial institution, the University's deposits may not be recovered. The University's policy for reducing its exposure to the risk is to require deposits in excess of the federally insured amount to be collateralized to the extent of 110 percent. As of June 30, 2007, the University's deposits were covered by the Federal Deposit Insurance Corporation (FDIC) and by collateral held by the financial institution in the University's name. The University therefore, has no custodial credit risk in its deposits.

Investments

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

The University has pooled its investments, except for certain funds that are required by bond resolution to be in separate accounts. Investments are stated at fair value. Net income from investments of pooled funds is allocated and credited to the original sources of the funds or is remitted to the University's Income Fund. The following table presents the fair value of investments held by the University and University's Foundation at June 30, 2007:

<u>Investment Type</u>	<u>University</u>	<u>Foundation</u>
Money Market Fund	\$ 1,257,549	\$ -
Illinois Funds	11,197,667	-
U.S. Treasury Notes	4,328,564	75,105
U.S. Agency Obligations	2,017,850	-
Mutual Funds	-	4,570,071
Total	<u>\$ 18,801,630</u>	<u>\$ 4,645,176</u>

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

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the susceptibility of its fair value to changes in market interest rates. The University's policy for reducing its exposure to the risk is to structure the University's portfolio so that securities mature to meet the University's cash requirements for ongoing operations. Also, the investment returns are evaluated and tracked monthly against appropriate performance benchmarks and reported quarterly to the Vice President for Finance and Administration/Board Treasurer. As of June 30, 2007, the University had the following investments subject to Interest Rate Risk based on the assumption that the callable investments will not be called.

Investment Type	Fair Value	Maturity		Weighted Average Maturity (years)
		Less Than 1 Year	1 - 5 years	
U. S. Treasury Notes	\$ 4,328,564	\$ 2,837,653	\$ 1,490,911	1.04
U. S. Agency Obligations	<u>2,017,850</u>	<u>494,065</u>	<u>1,523,785</u>	1.15
Total	<u>\$ 6,346,414</u>	<u>\$ 3,331,718</u>	<u>\$ 3,014,696</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, 2007, the University's investment in U.S. Agency Obligations was rated AAA by Standard & Poor's and Aaa by Moody's Investors Service. The investment in the State investment pool (Illinois Fund) was rated AAAM by Standard & Poor's and Aaa by Moody's Investors Service. The investment in Money Market Funds was rated AAAM by Standard & Poor's and Aaa by Moody's Investors Service.

Concentration of Credit Risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The University's policy for mitigating the risk is to diversify the investment portfolio so that the failure of any one issue will not place an undue financial burden on the University. As of June 30, 2007, the University had the following investments subject to Concentration of Credit Risk:

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Notes to Basic Financial Statements, continued

Issuer	Fair Value	% of Total Investments
Federal Farm Credit Bank	\$ 755,145	4.02%
Federal Home Loan Bank	782,705	4.16%
Fannie Mae	480,000	2.55%
	\$ 2,017,850	

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, 2007, University's investments in the U.S. Treasury and U.S. Agency Securities were registered with securities in the University's name. Investments in external investment pools and in money market mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. The University therefore, has no custodial credit risk in its investment portfolio.

3. Capital Assets

Details of the University's investment in capital assets at June 30, 2007 are as follows:

	<u>July 1, 2006</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>June 30, 2007</u>
Cost:					
Land and land improvements	\$ 7,971,117	\$ -	\$ -	\$ -	\$ 7,971,117
Site improvements	5,940,249	-	-	-	5,940,249
Building and building improvements	117,181,339	3,258,103	811,269	-	121,250,711
Equipment	12,563,074	354,303	1,859,885	(254,217)	14,523,045
Library books	18,858,021	872,620	-	-	19,730,641
Construction in progress	2,671,154	498,703	(2,671,154)	-	498,703
Total	165,184,954	4,983,729	-	(254,217)	169,914,466

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Notes to Basic Financial Statements, continued

	<u>July 1, 2006</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>June 30, 2007</u>
Less accumulated depreciation:					
Site improvements	2,911,196	306,858	-	-	3,218,054
Building and building improvements	33,850,164	2,622,079	-	-	36,472,243
Equipment	9,054,562	1,045,317	-	(230,712)	9,869,167
Library books	15,155,488	923,017	-	-	16,078,505
Total	<u>60,971,410</u>	<u>4,897,271</u>	<u>-</u>	<u>(230,712)</u>	<u>65,637,969</u>
Capital assets - net	<u>\$104,213,544</u>	<u>\$ 86,458</u>	<u>\$ -</u>	<u>\$ (23,505)</u>	<u>\$104,276,497</u>

Included in the additions to Site Improvements, Building and Building Improvements, and Construction in Progress at June 30, 2007 are expenditures totaling \$391,902 incurred by the Illinois Capital Development Board for construction projects on behalf of the University.

4. Long-Term Debt and Other Liabilities

Long-term debt and other liabilities consist of the following as of June 30, 2007:

	<u>July 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2007</u>
Compensated Absences	\$ 11,251,004	\$ 3,821,671	\$ 3,780,146	\$ 11,292,529
Revenue Bonds Series 1973	1,280,000	-	130,000	1,150,000
Revenue Bonds Series 1997	3,170,000	-	195,000	2,975,000
Revenue Bonds Series 2004	16,970,000	-	-	16,970,000
Certificates of Participation (COP)				
Series 2006	15,060,000	-	-	15,060,000
COP Discount	(92,710)	-	(4,716)	(87,994)
Subtotal	47,638,294	<u>\$ 3,821,671</u>	<u>\$ 4,100,430</u>	47,359,535
Less: current portion	<u>4,174,763</u>			<u>4,515,675</u>
Total noncurrent liabilities	<u>\$ 43,463,531</u>			<u>\$ 42,843,860</u>

5. University Facilities System Revenue Bonds

Revenue Bonds Payable and Interest Subsidy

At June 30, 2007, bonds payable consist of University Facilities Revenue Bond Series 1973, University Facilities System Revenue Bond Series 1997 and University Facilities System Revenue Bond Series 2004.

State of Illinois
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Notes to Basic Financial Statements, continued

Series 1973

The University Facilities Revenue Bonds Series of 1973 were sold during 1974 in the amount of \$3,075,000, (\$1,150,000 of which are outstanding at June 30, 2007) and were used to finance the construction of the University's Student Union Building. The bonds and related interest are not general obligations of the University since they are payable from and secured by a first lien on and the pledge of net revenues to be derived from certain student fees and operations of the University's Student Union, pledged fees and tuition, and funds held in the Bond Reserve Account. The restricted fund balances are legally restricted under the University Facilities Revenue Bonds indenture.

The bonds mature in increasing principal amounts ranging from \$135,000 due on July 1, 2007 to \$195,000 due on July 1, 2013. Interest is payable semi-annually, on January 1 and July 1, at rate of 6.2 percent, with an average effective rate of approximately 6.2 percent. Future aggregate annual payments applicable to revenue bonds at June 30, 2007 are:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2008	\$135,000	\$ 67,115
2009	145,000	58,435
2010	155,000	49,135
2011	165,000	39,215
2012	170,000	28,830
2013-2014	380,000	23,870
Total	<u>\$ 1,150,000</u>	<u>\$ 266,600</u>

The Board of Trustees has the right, after providing proper notice to bondholders, to call the bonds for redemption prior to their maturity, in whole or in part, on July 1, 2007, or on any interest payment date thereafter, at the principal amount redeemed, together with the unpaid interest accrued thereon, plus a premium applied to the principal amounts redeemed at par.

The U.S. Department of Housing and Urban Development has made a grant under which it has guaranteed to pay an annual debt service subsidy on the bonds subject to its audit and approval. During the year ended June 30, 2007, \$70,000 of such subsidy was included in other nonoperating revenues.

State of Illinois
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Notes to Basic Financial Statements, continued

Series 1997

The University Facilities System Revenue Bonds Series 1997, dated March 1, were sold in April 1997, in the amount of \$4,505,000 (\$2,975,000 of which were outstanding at June 30, 2007). The proceeds of the bond issue were used to finance the costs of constructing improvements to the University's Student Union, prepay outstanding lease obligations of the Board related to System renovation (parking lots), fund a deposit to the Bond Reserve Account, provide capitalized interest on the bonds through July 1, 1997 and pay certain expenses incurred in connection with the issuance of the bonds. The bonds are obligations of the Board payable only in accordance with the terms of the indenture and are not obligations of the State of Illinois. The 1997 Bonds are issued as Parity Bonds to the 1973 Bonds, and are secured by a pledge of and lien on the Net Revenues of the System, the pledged fees and tuition, and the funds held in the Bond Reserve Account.

The Bonds mature in increasing principal amounts ranging from \$205,000 due on July 1, 2007 to \$350,000 due on July 1, 2017. Interest is payable semi-annually, on January 1 and July 1, at rates between 5.0 percent and 5.625 percent, with an average effective rate of approximately 5.498 percent. Future aggregate annual payments applicable to the Series 1997 Bonds at June 30, 2007 are:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 205,000	\$ 159,105
2009	215,000	148,177
2010	230,000	136,274
2011	240,000	123,701
2012	250,000	110,250
2013-2017	1,485,000	316,547
2018	350,000	9,844
Total	<u>\$ 2,975,000</u>	<u>\$ 1,003,898</u>

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

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

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Notes to Basic Financial Statements, continued

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, 2007. The proceeds from the sale of the bonds were used to finance the construction of a multi-level parking structure on the University's campus, fund a deposit to the Bond Reserve Account, provide capitalized interest on the bonds through January 1, 2005 and pay certain expenses incurred in connection with the issuance of the bonds. The bonds are obligations of the Board payable only in accordance with the term of the indenture and are not obligations of the State of Illinois. The 2004 Bonds were issued as Parity Bonds to the 1973 Bonds and 1997 Bonds, and are secured by a pledge of lien on the Net Revenues of the System, the pledged fees and tuition, and the funds held in the Bond Reserve Account.

The Bonds mature in increasing principal amounts ranging from \$215,000 due on July 1, 2014 to \$1,255,000 due on July 1, 2035. Interest is payable semi-annually, on January 1 and July 1, at rates between 3.45 percent and 4.50 percent, with an average effective rate of approximately 4.166 percent. Future aggregate annual payments applicable to the Series 2004 Bonds at June 30, 2007 are:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ -	\$ 726,790
2009	-	726,790
2010	-	726,790
2011	-	726,790
2012	-	726,790
2013-2017	665,000	3,599,270
2018-2022	2,845,000	3,272,036
2023-2027	3,915,000	2,547,385
2028-2032	4,840,000	1,603,186
2033-2036	4,705,000	433,900
Total	<u>\$16,970,000</u>	<u>\$15,089,727</u>

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

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

Operation of the Project

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

Revenue Fund Account

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

Operation and Maintenance Account

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

Bond Accounts

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

Bond Reserve Accounts

The bond reserve accounts are to be used solely to pay bond principal and interest when there would otherwise be a default. At June 30, 2007, the maximum funding requirements have been met.

Renewal and Replacement Reserve Account

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

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Notes to Basic Financial Statements, continued

During 2007, \$50,000 was credited to the renewal and replacement reserve account. At June 30, 2007, the fund balance in this account was \$406,748.

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, 2007, the fund balance in this account was \$1,050,940.

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, 2007, the fund balance in this account was \$134,885.

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

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

University Facilities Revenue Bond Funds
Statement of Net Assets
June 30, 2007

ASSETS

Current Assets

Cash and cash equivalents	\$ 2,085,691
Receivables	
Tuition and fees - net	169,424
Parking fines - net	132,503
Other receivables - net	70,000
Inventories	3,204
Other assets	18,823
Total current assets	<u>2,479,645</u>

Noncurrent assets

Restricted cash and cash equivalents	1,995,525
Investments	2,753,616
Receivables	
Tuition and fees - net	3,591
Unamortized bond issue costs	508,231
Capital assets	
Site improvements - net	1,999,096
Buildings - net	18,209,321
Equipment - net	101,395
Total noncurrent assets	<u>25,570,775</u>
Total assets	<u>28,050,420</u>

LIABILITIES

Current Liabilities

Accounts payable and accrued liabilities	665,306
Deferred revenues	267,564
Liability for compensated absences	35,244
Revenue bonds payable	340,000
Total current liabilities	<u>1,308,114</u>

Noncurrent liabilities

Liability for compensated absences	6,941
Revenue bonds payable	20,755,000
Total noncurrent liabilities	<u>20,761,941</u>
Total liabilities	<u>22,070,055</u>

NET ASSETS

Invested in capital assets - net of related debt	(259,135)
Restricted for:	
Expendable	
Capital projects	1,772,342
Debt service	2,049,005
Unrestricted	2,418,153
Total net assets	<u>\$ 5,980,365</u>

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

University Facilities Revenue Bond Funds
Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2007

OPERATING REVENUES	
Student fees	\$ 1,459,138
Federal grants - HUD	70,000
Vending services	173,083
Rental and use fees	33,651
Bookstore commission	417,551
Parking revenue	2,047,203
Other operating revenues	62,848
Total operating revenues	<u>4,263,474</u>
OPERATING EXPENSES	
Personal services	1,198,014
Contractual services	559,827
Commodities and supplies	72,569
Vending cost of sales	67,173
Telecommunications	31,248
Depreciation	737,556
Other operating expenses	556,889
Total operating expenses	<u>3,223,276</u>
Operating income	<u>1,040,198</u>
NONOPERATING REVENUES (EXPENSES)	
Investment income	204,627
Interest on indebtedness	<u>(962,371)</u>
Net nonoperating expenses	<u>(757,744)</u>
Total increase in net assets	282,454
NET ASSETS	
Net assets - beginning of year	<u>5,697,911</u>
Net assets - end of year	<u>\$ 5,980,365</u>

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

University Facilities Revenue Bond Funds
Statement of Cash Flows
For the Year Ended June 30, 2007

CASH FLOWS FROM OPERATING ACTIVITIES

Student fees	\$ 1,410,529
Federal grants - HUD	70,000
Payment for salaries	(1,281,163)
Payment for suppliers	(744,439)
Vending services	173,954
Rental and use fees	33,651
Bookstore commission	417,551
Parking revenue	2,053,131
Other payments	(553,314)
Net cash provided by operating activities	<u>1,579,900</u>

CASH FLOWS FROM CAPITAL ACTIVITIES

Purchases of capital assets and construction	(110,334)
Principal paid on capital debt	(325,000)
Interest paid on capital debt	(971,276)
Cash used in capital financing activities	<u>(1,406,610)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from sales and maturities of investments	456,549
Interest on investments	204,627
Purchases of investments	(540,079)
Net cash provided by investing activities	<u>121,097</u>

Net increase in cash and cash equivalents	294,387
Cash and cash equivalents - beginning of the year	3,786,829
Cash and cash equivalents - end of year	<u>\$ 4,081,216</u>

Reconciliation of operating income to

Net cash provided by operating activities:

Operating income	\$ 1,040,198
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	737,556
Changes in asset and liabilities:	
Receivables - net	(82,602)
Inventories	871
Other assets	18,823
Accounts payable and accrued liabilities	(91,999)
Accrued liability for compensated absences	(82,869)
Deferred revenues	39,922
Net cash provided by operating activities	<u>\$ 1,579,900</u>

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

6. Certificates of Participation

On March 1, 2006, the University issued Certificates of Participation Series 2006, in the amount of \$15,060,000 with an original issue discount of \$94,315, to finance the acquisition, development and implementation of an enterprise resource planning system. The Board is obligated to make installment payments either from funds derived from State appropriations or from legally available nonappropriated funds on an annual basis.

The certificates mature in increasing principal amounts ranging from \$365,000 due on October 1, 2007 to \$1,155,000 due on October 1, 2025 at rates between 3.50 percent and 4.75 percent. Future aggregate annual payments applicable to the certificates of participation at June 30, 2007 are:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 365,000	\$ 631,294
2009	570,000	614,931
2010	590,000	594,631
2011	610,000	573,250
2012	635,000	550,288
2013-2017	3,575,000	2,349,034
2018-2022	4,400,000	1,517,669
2023-2026	4,315,000	420,663
Total	<u>\$15,060,000</u>	<u>\$ 7,251,760</u>

7. Northeastern Illinois University Foundation Agreement

On July 1, 2005, the University entered into an agreement with Northeastern Illinois University Foundation. The Foundation is a separate non-profit organization incorporated in the State of Illinois and a University related organization under University Guidelines, 1982 (amended 1997). Under the terms of the contract, the Foundation aids and assists the University in developing facilities for broader educational opportunities for the service to its students, alumni, and citizens of the State of Illinois and of the United States by encouraging gifts of money, property, works of art, historical and other material having educational, artistic and historical value. In turn, the University will furnish certain services necessary to the operation of the Foundation. The contract may be cancelled upon ninety days written notice by either party.

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Notes to Basic Financial Statements, continued

During fiscal year 2007, certain funds and in-kind services of the University with an estimated value of \$91,296 were provided to the Foundation without charge. In turn, during fiscal year 2007, the Foundation gave the University \$164,461 in funds considered unrestricted for purposes of the University Guidelines computation. In addition, the Foundation gave the University non-qualifying restricted funds of approximately \$164,660 in fiscal year 2007 for scholarships and awards.

8. Pension, Compensated Absences and Postemployment Benefits

State Universities Retirement System

Plan Description

The University contributes to the State Universities Retirement System of Illinois (SURS), a cost-sharing, multiple-employer defined-benefit pension plan with a special funding situation whereby the State of Illinois makes substantially all actuarially determined required contributions on behalf of the participating employers. SURS was established on July 21, 1941, to provide retirement annuities and other benefits for staff members and employees of the state universities, certain affiliated organizations, and certain other state educational and scientific agencies and for survivors, dependents, and other beneficiaries of such employees. SURS is considered a component unit of the State of Illinois' financial reporting entity and is included in the State's financial reports as a pension trust fund. SURS is governed by Section 5/15, Chapter 40, of the Illinois Compiled Statutes. SURS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to SURS, 1901 Fox Drive, Champaign, IL 61820 or by calling 1-800-275-7877.

Funding Policy

Plan members are required to contribute 8.0 percent of their annual covered salary and substantially all employer contributions are made by the State of Illinois on behalf of the individual employers at an actuarially determined rate. The rate for the fiscal year ending June 30, 2007 was 10.82 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the Illinois General Assembly. The University's contributions to SURS for the years ended June 30, 2007, 2006, and 2005 were \$5,080,008, \$3,503,835 and \$5,219,402 respectively, equal to the required contributions for each year.

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Notes to Basic Financial Statements, continued

Medicare

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

Tax-Sheltered Retirement Plans

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

Compensated Absences

It is the policy of the University to accrue vacation pay as earned. As of June 30, 2007 the accrued liability for this benefit was \$4,240,325, 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, 2007, the accrued liability of this benefit was \$7,052,204, and is included in the liability for compensated absences.

Postemployment Benefits

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

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Northeastern Illinois University
Notes to Basic Financial Statements, continued

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

9. Operating Leases

The University leases various buildings and equipment under operating lease agreements. Total rental expense for the year ended June 30, 2007 under these agreements was \$476,926. Minimum lease payments for the years ending June 30 are:

<u>Fiscal Year</u>	<u>Principal</u>
2008	\$ 446,592
2009	444,454
2010	428,327
2011	336,753
2012	278,928
2013 - 2014	296,839
	<u>\$ 2,231,893</u>

10. Self-Insurance

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

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Northeastern Illinois University
Notes to Basic Financial Statements, continued

11. Operating Expenses by Natural Classification

Operating expenses by natural classification for the year ended June 30, 2007 are summarized as follows:

	<u>Compensation and Benefits</u>	<u>Supplies and Services</u>	<u>Scholarships</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$ 38,613,160	\$ 2,286,702	\$ 104,812	\$ -	\$ 41,004,674
Research	380,374	390,636	-	-	771,010
Public service	8,588,601	10,719,194	47,145	-	19,354,940
Academic support	5,119,280	1,283,611	-	-	6,402,891
Student services	5,559,550	3,296,472	-	-	8,856,022
Institutional support	28,628,806	2,673,035	-	-	31,301,841
Operation and maintenance of plant	5,647,975	4,229,414	-	-	9,877,389
Scholarships and fellowships	-	-	4,914,597	-	4,914,597
Auxiliary	1,676,558	1,042,955	-	-	2,719,513
Depreciation	-	-	-	4,897,271	4,897,271
Other operating expenses	295,227	2,400,904	161,031	-	2,857,162
Total	<u>\$ 94,509,531</u>	<u>\$ 28,322,923</u>	<u>\$ 5,227,585</u>	<u>\$ 4,897,271</u>	<u>\$132,957,310</u>

12. Commitments and Contingencies

At June 30, 2007, the University had commitments on construction projects for repairs and renovation of Building A of \$835,446.

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

**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
JUNE 30, 2007**

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

<u>Type of Coverage</u>	<u>Required Coverage</u>	<u>Coverage in Force</u> ^(a)
Fire and lightning, extended coverage	Not stipulated	\$100,000,000 Primary
Use and occupancy insurance (Business interruption)	None ^(b)	Actual sustained within Policy limits ^(c)
General liability insurance	\$100,000/person \$300,000/accident	\$10,650,000/occurrence \$18,650,000/aggregate
Corporate surety bonds	\$4,334,007 ^(d)	\$5,000,000 ^(e)
Each University employee Blanket crime policy	None	\$2,000,000

- (a) This statement is prepared from the policies and is intended only as a descriptive summary. The auditors do not express an opinion as to the adequacy of the coverage.
- (b) Excess of debt service requirements for the year ended June 30, 2007 over cash and short-term investments in the Bond Account and Bond Reserve at June 30, 2007.
- (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, 2007**

**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 2006, students enrolling at Northeastern Illinois University pay a fee of \$6.45 per credit hour for the right to use the University's Student Union.

**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
JUNE 30, 2007**

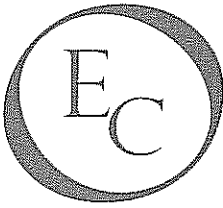
**UNIVERSITY FACILITIES REVENUE BOND FUNDS
SUMMARY OF RESERVES FOR DEBT SERVICE
AND RENEWAL AND REPLACEMENT
(Unaudited)**

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, 2007 is as follows:

	<u>Balance of Assets Reserved</u>	<u>Deposits Required to Date</u>	<u>Maximum Reserve Requirement</u>
Bond account ^(a)	\$ 1,228,060	\$ 1,228,060	\$ 1,228,060
Bond reserve account	1,302,130	1,302,130	1,302,130
Renewal and replacement reserve account ^(b)	406,748	1,600,000	500,000
Non-instructional facilities reserve account	1,050,940	1,050,940	1,050,940
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, 2007.
- (b) Total expenditures for extraordinary repairs, as defined in the bond indenture, as of June 30, 2007, amounted to \$1,503,634. 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
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the basic financial statements of Northeastern Illinois University (University) and its aggregate discretely presented component unit as of and for the year ended June 30, 2007, and have issued our report thereon dated December 19, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting (07-1).

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider item 07-1 to be a material weakness.

Compliance and Other Matters

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

We have conducted a State compliance examination of the University as required by the Illinois State Auditing Act. The results of that examination will be reported to management under separate cover.

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

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

E. C. BERTZ & CO. LLP

December 19, 2007

State of Illinois
Northeastern Illinois University
Schedule of Findings

Current Finding - Government Auditing Standards
For the Year Ended June 30, 2007

07-1. *Improper Cut-Off Procedures for Expenditures*

The University did not perform proper cut-off procedures for some of their expenses.

We noted the following in our audit of financial statements originally submitted by the University to the Office of the State Comptroller:

- Six (6) vouchers paid subsequent to June 30, 2007 totaling \$1,213,104 were initially reported as fiscal year 2008 expenses. These invoices were for professional services performed and supplies and services received of \$975,387 and \$237,717 during fiscal years 2007 and 2008, respectively.
- Three (3) unpaid invoices as of June 30, 2007 totaling \$666,962 were for professional services of \$606,101 and \$60,861 performed during fiscal years 2007 and 2008, respectively. The fiscal year 2007 expenses were not properly accrued in the University's general ledger.
- The University paid the maintenance fee for the ERP system totaling \$97,101 for the period March 2007 to February 2008. A portion of the maintenance fee for fiscal year 2008 amounting to \$64,734 was expensed during the current year instead of being recorded as a prepaid expense.

The University subsequently revised the financial statements and submitted revised accounting reports to the Office of State Comptroller to include the adjustments necessary to properly record the transactions.

During our detailed testing of vouchers, we also noted that seven (7) vouchers paid during the fiscal year totaling \$1,165,359 were recorded as fiscal year 2007 expenses. These invoices were for professional services of \$653,859 and \$511,500 performed during fiscal years 2006 and 2007, respectively. The effect on the previously issued 2006 financial statements would be an understatement of revenues and expenses in the amount of \$653,859 and this amount was recorded by the auditors as a passed adjustment.

Generally Accepted Accounting Principles (GAAP) for governmental entities is promulgated by the Governmental Accounting Standards Board (GASB). GASB Statement No. 35, requires the accrual basis of accounting for business type activities. The accrual basis of accounting requires expenses to be recognized when incurred.

Additionally, the Statewide Accounting and Management System (SAMS) Manual, Procedure 03.50.10 requires that the amount paid for services in advance should be deferred and recorded as a “prepaid asset” in the Statement of Net Assets. It also requires that the amount paid for professional services should be reported as an expense in the period for which the liability is incurred.

According to University management, most of the exceptions noted were due to late receipt of billings for professional services from partner schools with inadequate support. The other exceptions were due to oversight.

Failure to perform proper cut-off procedures of expenditures resulted in inaccurate and incomplete financial statements submitted with the original GAAP Package. (Finding Code No. 07-1)

Recommendation

We recommend the University establish procedures to ensure that detailed invoices from partner schools are promptly obtained and reviewed. In addition, year-end cut-off entries for accruals should be reviewed to ensure that they are complete and that they are charged to the proper account and to the correct fiscal year.

University Response

The University concurs with this finding and recommendation. Several of these exceptions relate to partnership agreements with area schools or higher education institutions. The Chicago Teachers Center, which administers these grants with partner schools, will require its project directors to request invoices from partner schools in a timely manner to facilitate fiscal year cut-offs and allow the University to properly recognize expenses. The University also will more closely review year-end accruals and adjusting entries for non-routine journal entries.

State of Illinois
Northeastern Illinois University
Schedule of Findings

Prior Finding Not Repeated - Government Auditing Standards
For the Year Ended June 30, 2007

07-2 *Failure to Apply Appropriate Accounting Principles*

Status: Implemented.

It was recommended that the University establish procedures to ensure that transactions which include special terms and reporting be carefully reviewed for proper accounting and recognition of related transactions. It was also recommended, if necessary, that accounting and reporting guidance be obtained from technical resources to be in conformity with generally accepted accounting principles. In addition, year-end cut-off entries for accruals should be reviewed to ensure that they are charged to the proper account and to the correct fiscal year.

During the current year, our testing disclosed that the University applied the proper accounting principles for transactions which included special terms and reporting. (Finding Code No. 06-1)