STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY

FINANCIAL AUDIT
For the Year Ended June 30, 2016

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, 2016

Table of Contents **Page(s)**

Related Report Published Under a Separate Cover

Northeastern Illinois University
Compliance Examination (In Accordance with the Uniform Guidance) for the Year Ended June 30, 2016

STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
FINANCIAL AUDIT
FOR THE YEAR ENDED JUNE 30, 2016

University Officials

Interim President (from October 1, 2016)	Dr. Richard Helldobler
President (to September 30, 2016)	Dr. Sharon Hahs
Acting Provost (from October 1, 2016)	Dr. Victoria Roman-Lagunas
Provost (to September 30, 2016)	Dr. Richard Helldobler
Vice President for Finance and Administration/Treasurer	Mr. Michael Pierick
Vice President for Student Affairs	Dr. Daniel Lopez, Jr.
Vice President for Institutional Advancement	Ms. Liesl Downey
Vice President for Legal Affairs	Ms. Melissa Reardon-Henry
Assistant Vice President for Business Services	Mr. Craig Duetsch
Director of Financial Affairs/Controller	Ms. Fe Lenon
Director of Internal Audit	
(from March 1, 2016)	Mr. Glen Gustafson
(from January 1, 2016 to February 29, 2016)	Vacant
(to December 31, 2015)	Mr. Ronald Cierny, CPA
Executive Director - Office of University Budgets	Ms. Ann McNabb

University offices are located at:

5500 North St. Louis Avenue
Chicago, Illinois 60625

STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
FINANCIAL AUDIT
FOR THE YEAR ENDED JUNE 30, 2016

Financial Statement Report

Summary

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

Based on their audit, the auditors expressed an unmodified opinion on the University's basic financial statements.

Summary of Findings

The auditors identified matters involving the University's internal control over financial reporting that they considered to be significant deficiencies. The significant deficiencies are described in the accompanying Schedule of Findings on pages 65 through 71 of this report as item 2016-001 *Inadequate Controls over Recording of Bond Issuance Costs*, item 2016-002 *Inadequate Controls over Monitoring of Deposits and Investments*, and item 2016-003 *Inadequate Controls over Allowance for Doubtful Accounts and Monitoring of Construction Projects*.

Exit Conference

The University waived having an exit conference in a letter dated December 13, 2016, from Michael Pierick, Vice President for Finance and Administration/Treasurer.

The responses to the recommendations were provided by Fe Lenon, Director of Financial Affairs/Controller, in a letter dated December 21, 2016.

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

INDEPENDENT AUDITOR'S REPORT

Honorable Frank J. Mautino
Auditor General
State of Illinois

and

The Board of Trustees
Northeastern Illinois University

Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of Northeastern Illinois University (University), a component unit of the State of Illinois, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the University and its discretely presented component unit, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 18 to the financial statements, Public Act of 099-0524 granted the University Fiscal Year 2017 appropriations, totaling $19,562,000, which the University has used to pay Fiscal Year 2016 costs as allowed for by Public Act of 099-0524. Even though this law was enacted on June 30, 2016, the University did not recognize this nonoperating appropriations revenue from the State of Illinois at June 30, 2016 in accordance with generally accepted accounting principles. In addition, the State of Illinois has not enacted an appropriations bill to fund the University's Fiscal Year 2017 operations. Our opinions are not modified with respect to these matters.

Report on Summarized Comparative Information

The June 30, 2015 financial statements of the University were audited by other auditors whose report dated January 10, 2016 expressed an unmodified opinion. Based on the report from other auditors, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 6 through 19 and pension information on pages 59 through 60 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the

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

Other Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated January 10, 2017 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

SIGNED ORIGINAL ON FILE

Chicago, Illinois
January 10, 2017

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, 2016 with comparative information for the fiscal year ended June 30, 2015. The discussion and analysis is designed to focus on current activities and currently known facts. Please read it in conjunction with the University's financial statements and related footnote disclosures. This discussion and analysis is focused on the University. A discussion and analysis of the University's Component Unit can be found in the separately issued financial statements of the University's Foundation.

REPORTING ENTITY

Northeastern Illinois University is an institution of higher education and is considered to be a component unit of the State of Illinois. Accordingly, the University's financial statements are included in the State of Illinois' comprehensive annual financial report as a discrete component unit.

USING THIS ANNUAL REPORT

The University's annual report contains three financial statements: The Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management Discussion and Analysis - for State and Local Governments*; GASB Statement No. 35, *Basic Financial Statements - and Management Discussion and Analysis - for Public Colleges and Universities*, as amended by GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*; GASB Statement No. 38, *Certain Financial Statement Note Disclosures*; GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, and GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transitions for Contributions Made to the Measurement Date*. These statements establish standards for external financial reporting and provide a consolidated perspective of the University's assets, liabilities, net position, revenues, expenses, and cash flows. For comparison purposes, comparative data is provided for the prior year.

The **Statement of Net Position** presents the assets, deferred outflows, liabilities, deferred inflows and net position of the University as of the end of the fiscal year using the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided, and whereby expenses and liabilities are recognized when a service is delivered to the University, regardless of when cash is exchanged. Net position, consisting of the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources, is one indicator of the current financial condition of the University. Except for capital assets, all other assets and liabilities are measured at a point in time using current values. Capital assets are recorded at historical cost less an allowance for depreciation.

The **Statement of Revenues, Expenses, and Changes in Net Position** present the University's results of operations, as well as the non-operating revenues and expenses for the fiscal year. Operating revenues are generated by providing goods and services to the various customers and constituencies of the University. Operating expenses are incurred when goods and services are provided by vendors and employees for the overall operations of the University. Nonoperating revenues and expenses include resources provided by the State of Illinois, State MAP grants, Pell and SEOG grants and other non-operating transactions.

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

The **Notes to the Basic Financial Statements** are a crucial component of the report. The notes include important background and financial information that may not be reflected in the basic financial statements including details of University's accounting policies, cash holdings, receivables, capital assets, long-term debt, other liabilities and other financial information.

FINANCIAL HIGHLIGHTS

Highlights of the University's financial position for the fiscal year ended June 30, 2016 are presented below:

- The University has total assets of $215.2 million, including current assets of $44.0 million and noncurrent assets of $171.2 million.
- In Fiscal Year 2016 the University has deferred outflows of resources totaling $1.0 million relating to pension expense related to federal/trust/grant/other contributions resulting from the implementation of GASB Statement No. 68.
- The University has total liabilities of $76.0 million, including current liabilities of $13.3 million and noncurrent liabilities of $62.7 million.
- The University's total net position decreased by $20.5 million from the prior year of $160.7 million to $140.2 million, with an increase of $4.4 million in net investment in capital assets and a decrease of $26.2 million in unrestricted net position.
- The total operating revenues of the University were $78.5 million, including $48.9 million in student tuition and fees, net of scholarship allowances, and $22.6 million in grants and contracts.
- The total operating expenses of the University were $187.9 million, including $87.4 million for instruction.
- The operating loss of $109.4 million was partially funded by non-operating revenues, including State appropriations and grants, payments on behalf of the University, Pell and SEOG grant revenues and investment income. As a result, the University incurred a loss of $20.8 million before other revenues, expenses, gains and losses. This amount includes $5.6 million in depreciation expense.

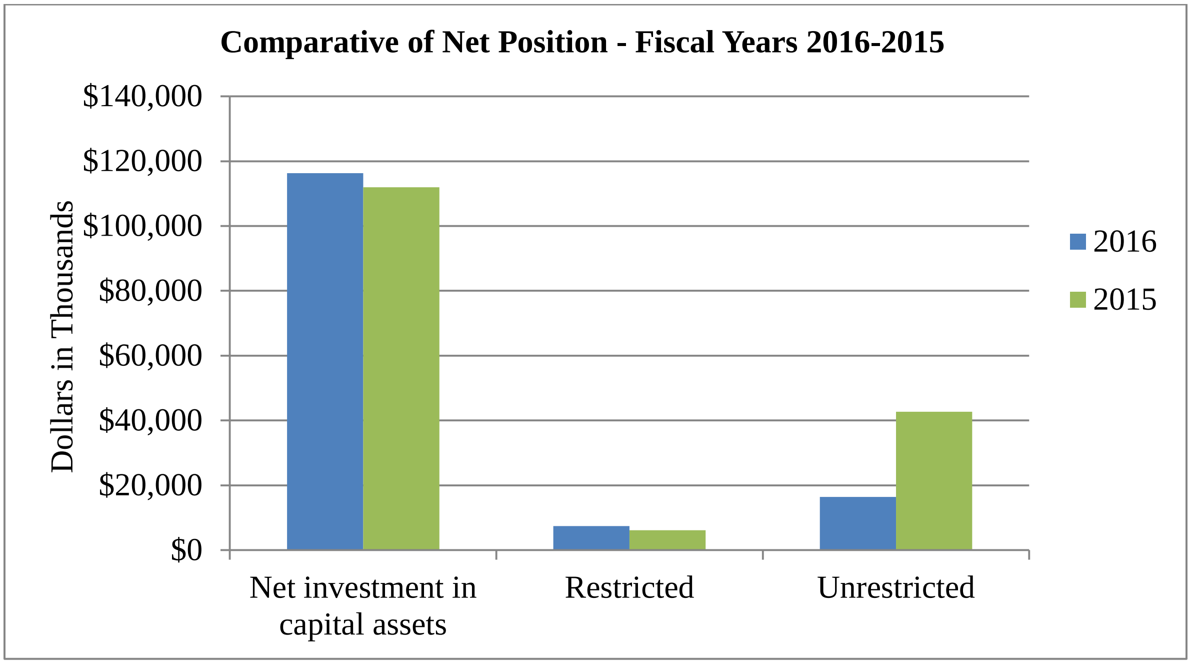
FINANCIAL ANALYSIS

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

Condensed Statement of Net Position
As of June 30, 2016 and 2015
(dollars in thousands)

	2016	2015	Increase (Decrease)	Percent Change
ASSETS				
Current assets	$ 43,956	$ 71,379	($ 27,423)	(38.4%)
Noncurrent assets:				
Restricted cash and cash equivalents	578	567	11	1.9%
Receivables, net	2,371	2,439	(68)	(2.8%)
Capital assets, net	167,404	163,182	4,222	2.6%
Other assets	891	491	400	81.5%
Total noncurrent assets	171,244	166,679	4,565	2.7%
Total assets	215,200	238,058	(22,858)	(9.6%)
DEFERRED OUTFLOWS OF RESOURCES	993	891	102	11.4%
LIABILITIES				
Current liabilities	13,339	14,141	(802)	(5.7%)
Noncurrent liabilities:				
Liability for compensated absences	5,954	6,208	(254)	(4.1%)
Revenue bonds payable, net	15,248	15,236	12	0.1%
Certificates of participation, net	41,220	42,494	(1,274)	(3.0%)
Installment purchases payable	244	–	244	100.0%
Total noncurrent liabilities	62,666	63,938	(1,272)	(2.0%)
Total liabilities	76,005	78,079	(2,074)	(2.7%)
DEFERRED INFLOWS OF RESOURCES	–	176	(176)	(100%)
NET POSITION				
Net investment in capital assets	116,256	111,909	4,347	3.9%
Restricted	7,448	6,120	1,328	21.7%
Unrestricted	16,484	42,665	(26,181)	(61.4%)
Total net position	$ 140,188	$ 160,694	($ 20,506)	(12.8%)

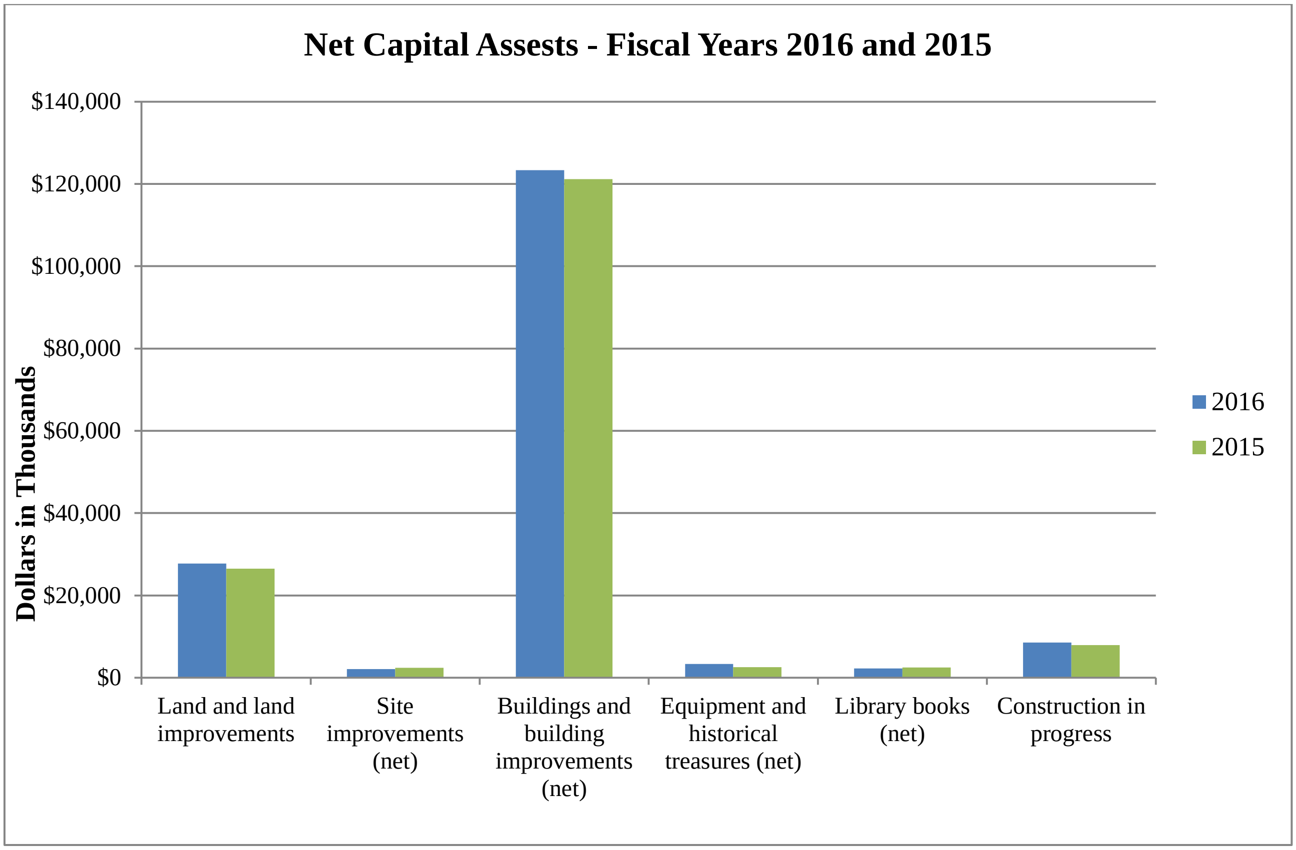
The following chart shows net position by classification and restriction:



Current Assets - The University's current assets totaled $44.0 million. This consists primarily of cash and cash equivalents of $30.4 million and net receivables of $12.6 million. Total current assets decreased by $27.4 million from the prior year. This is due to the decrease in cash and cash equivalents of $21.7 million and a decrease of $5.7 million in receivables. The current assets of the University of $44.0 million were sufficient to cover the current liabilities of $13.3 million.

Noncurrent Assets - As of June 30, 2016, the University had total noncurrent assets of $171.2 million compared with $166.7 million at June 30, 2015. The net increase of $4.5 million was primarily due to increase in capital assets of $4.2 million and an increase of $0.4 million in other assets. The increase in capital assets was mainly due to the purchase of properties on Bryn Mawr Avenue to support the University's strategic initiative to develop its second phase of student housing.

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



Current Liabilities - Current liabilities total $13.3 million and consist primarily of accounts payable and accrued liabilities of $9.0 million, unearned revenues from tuition and fees of $1.2 million, current portion of liability for compensated absences of $0.8 million, and current portion of revenue bonds and certificates of participation of $1.9 million.

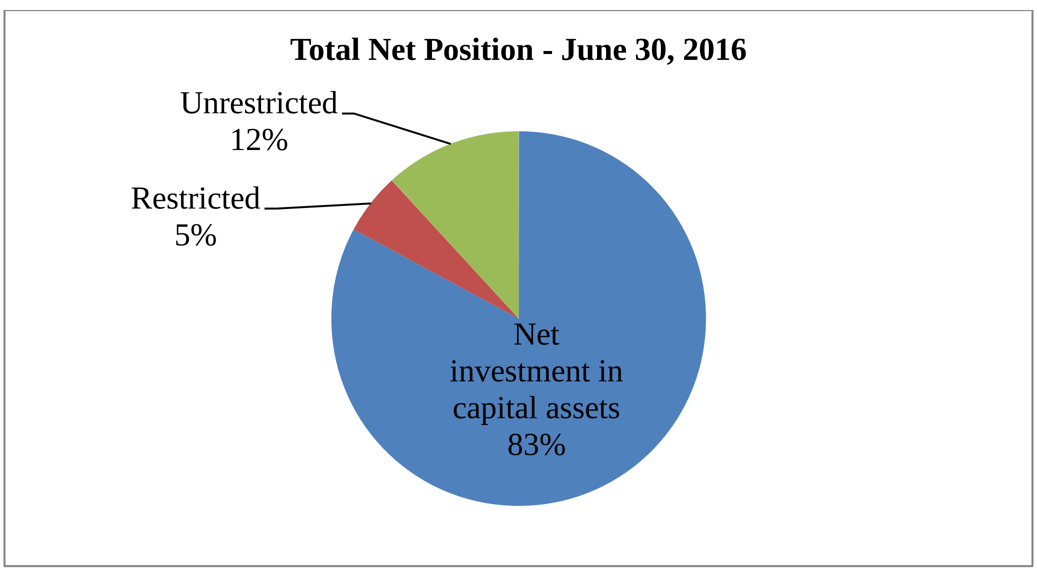
Noncurrent Liabilities - Noncurrent liabilities consist of long-term debt and other obligations for which the principal is due more than one year from the statement of net position date. Long-term debt totaled $62.7 million at June 30, 2016 compared to $64.0 million at June 30, 2015. The University's current revenue bonds and certificates of participation payable consist of University Facilities System Revenue Bonds Series 2014, Certificates of Participation Series 2010, Certificates of Participation Series 2012 and Certificates of Participation Series 2015.

Fiscal Year 2016 principal repayments for the revenue bonds and the Certificates of Participation are as follows:

Revenue Bonds Series 2014	$ 225,000
Certificates of Participation Series 2006*	10,230,000
Certificates of Participation Series 2010	205,000
Certificates of Participation Series 2012	485,000
Total Principal Paid	$ 11,145,000

* The Certificates of Participation 2006 were defeased in Fiscal Year 2016 with the issuance of the Certificates of Participation Series 2015 with a principal amount of $9,510,000.

Total Net Position - Net position is divided into three major categories as shown in the following chart. The first category, net investment in capital assets, represent the University's capital assets net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. The second category, restricted net position, reports net positions that are owned by the University, but the use or purpose of the funds is restricted by an external source or entity. The third category is unrestricted net position, which is available to be used for any lawful purpose of the University. The total net position decreased by $20.5 million over the prior year. This is a result of a $4.3 million increase in net investment in capital assets, an increase of $1.3 million in restricted net position, and a $26.1 million decrease in unrestricted net position. The increase in net investment in capital assets, was due mainly to the purchase of properties on Bryn Mawr Avenue to support the second phase of the University's student housing project. The decrease in unrestricted net position is due to the decrease in State appropriations which forced the University to use its locally held funds for expenditures that would normally have been paid by appropriations.

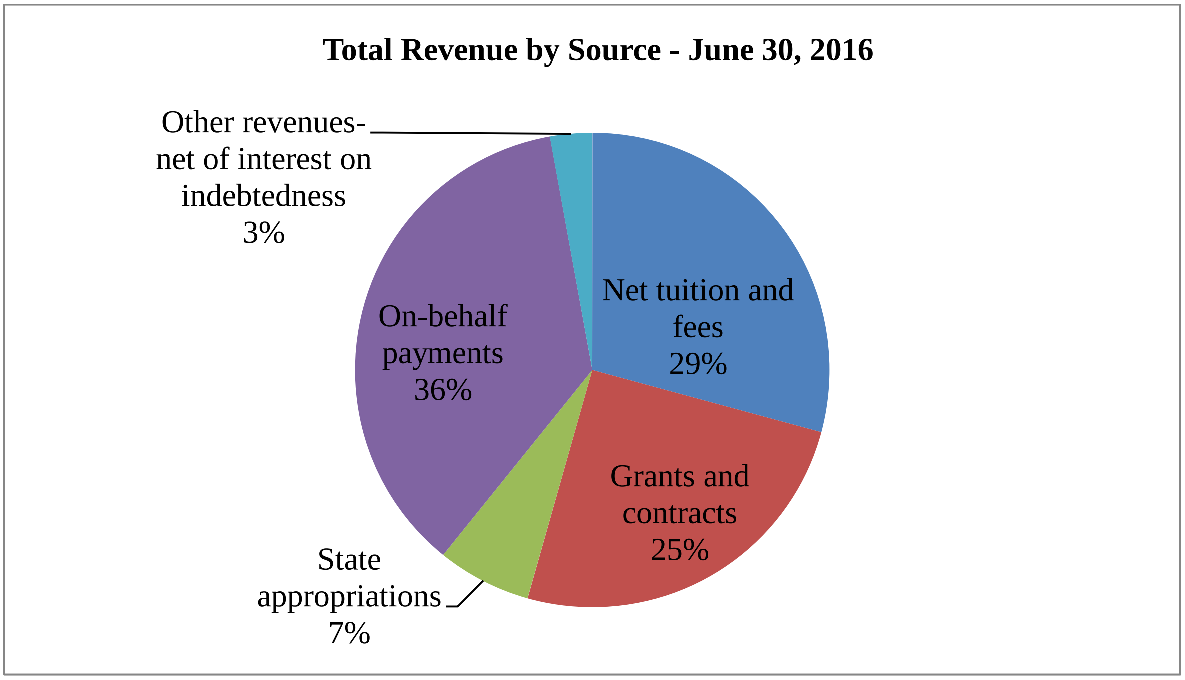


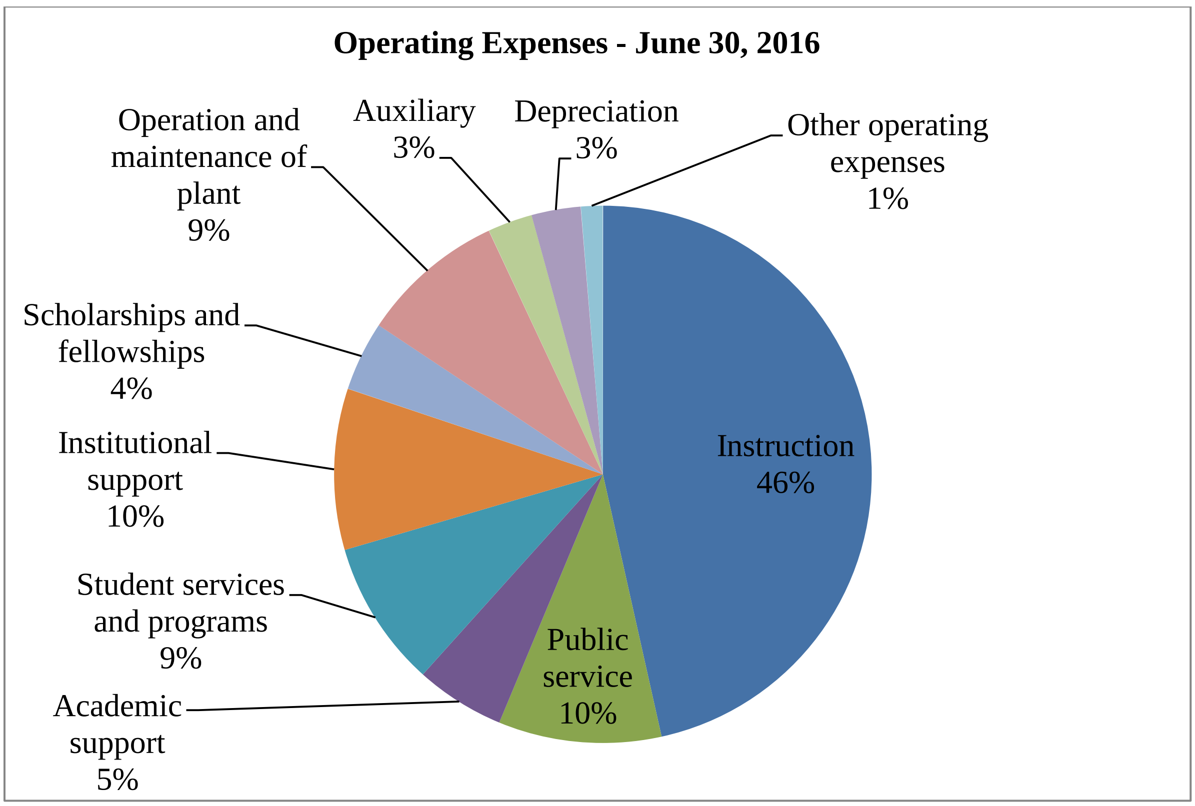
The following is a breakdown of the $7.4 million restricted net position:

	(dollars in thousands)	
	2016	2015
Grants and contracts	$ 1,766	$ 1,116
Student loans	1,679	2,272
Debt service	1,630	1,458
Other	2,373	1,274
Total restricted net position	$ 7,448	$ 6,120

Condensed Statement of Revenues, Expenses, and Changes in Net Position
for the Years Ended June 30, 2016 and 2015
(dollars in thousands)

	2016	2015	Increase (Decrease)	Percent Change
OPERATING REVENUES				
Net tuition and fees	$ 48,852	$ 46,741	$ 2,111	4.5%
Grants and contracts	22,594	19,704	2,890	14.7%
Auxiliary enterprises	2,937	3,335	(398)	(11.9%)
Other	4,148	4,722	(574)	(12.2%)
Total operating revenues	78,531	74,502	4,029	5.4%
OPERATING EXPENSES				
Instruction	87,352	85,647	1,705	2.0%
Public service	18,435	16,038	2,397	14.9%
Academic support	10,066	10,851	(785)	(7.2%)
Student services and programs	16,538	16,664	(126)	(0.8%)
Institutional support	18,236	18,907	(671)	(3.5%)
Operation and maintenance of plant	16,344	18,628	(2,284)	(12.3%)
Depreciation expense	5,560	4,819	741	15.4%
Auxiliary	5,055	5,402	(347)	(6.4%)
Other	10,330	10,430	(100)	(1.0%)
Total operating expenses	187,916	187,386	530	0.3%
Operating loss	(109,385)	(112,884)	(3,499)	(3.1%)
NONOPERATING REVENUES (EXPENSES)				
State appropriations	10,695	36,899	(26,204)	(71.0%)
Payments on behalf of the University	60,747	55,535	5,212	9.4%
Federal grants - Pell and SEOG	16,060	17,244	(1,184)	(6.9%)
State grants - MAP	3,420	7,399	(3,979)	(53.8%)
Other nonoperating revenues	19	27	(8)	(29.6%)
Other nonoperating expenses	(2,319)	(2,132)	(187)	(8.8%)
Net nonoperating revenues	88,622	114,972	(26,350)	(22.9%)
NET INCOME (LOSS)	(20,763)	2,088	(22,851)	(1094.4%)
Gain (loss) on disposal of capital assets	2	(20)	22	110.0%
Capital additions provided by State of Illinois	255	2,676	(2,421)	(90.5%)
CHANGES IN NET POSITION	(20,506)	4,744	(25,250)	(532.2%)
NET POSITION, BEGINNING OF YEAR	160,694	155,057	5,637	3.6%
Cumulative effect of change in accounting principle	–	893	(893)	(100.0%)
NET POSITION, BEGINNING OF YEAR, AS RESTATED	160,694	155,950	4,744	3.0%
NET POSITION, END OF YEAR	$ 140,188	$ 160,694	($ 20,506)	(12.8%)


Total Revenue by Source - June 30, 2016
Other revenues- net of interest on indebtedness 3%
Net tuition and fees 29%
Grants and contracts 25%
State appropriations 7%
On-behalf payments 36%


Operating Expenses - June 30, 2016
Operation and maintenance of plant 9%
Auxiliary 3%
Depreciation 3%
Other operating expenses 1%
Scholarships and fellowships 4%
Institutional support 10%
Instruction 46%
Student services and programs 9%
Public service 10%
Academic support 5%

Operating Revenues - Total operating revenues for Fiscal Year 2016 totaled $78.5 million. The most significant sources of operating revenues were tuition and fees, and grants and contracts at $71.4 million or 91%.

Operating Expenses - GASB Statement No. 35 gives the reporting entities the choice of reporting expenses in functional or natural classifications. The University reports expenses in their functional categories on the face of the statement and has displayed the natural categories in the footnotes to the financial statements. The operating expenses for Fiscal Year 2016, including depreciation of $5.6 million, totaled $187.9 million. Under the functional classifications, $114.0 million or 60.6% was used for instruction, student services and programs, and academic support; $18.2 million or 9.7% was used for institutional support; $16.3 million or 8.7% was used for operations and maintenance of plant; $18.4 million or 9.8% was used for public service; $5.0 million or 2.7% was used for auxiliary services; and $10.3 million or 5.5% was used for other operating expenses.

Under the natural classifications, $147.4 million or 78.5% was used for compensation and benefits; $26.7 million or 14.2% was used for supplies and services; $8.2 million or 4.4% was used for scholarships and $5.6 million or 2.9% in depreciation expense.

Nonoperating Revenues (Expenses) - This consists of State appropriations and grants, payments on behalf of the University, Pell and SEOG grant revenues, and investment income, less interest on indebtedness. Total nonoperating revenues decreased by $26.3 million. This was mainly the result of a decrease of $26.2 million in State appropriations, a decrease of $5.2 million in grants, and an increase in payments on behalf of the University of $5.2 million.

Condensed Statement of Cash Flows
For the Years Ended June 30, 2016 and 2015
(dollars in thousands)

	2016	2015	Increase (Decrease)
Cash received from operations	$ 76,587	$ 74,548	$ 2,039
Cash expended for operations	(122,049)	(127,941)	5,892
Net cash used in operating activities	(45,462)	(53,393)	7,931
Net cash provided by noncapital financing activities	37,674	62,181	(24,507)
Net cash used in capital financing activities	(13,959)	(30,099)	16,140
Net cash provided by investing activities	19	1,107	(1,088)
Net decrease in cash and cash equivalents	(21,728)	(20,204)	(1,524)
Cash and cash equivalents - beginning of year	52,681	72,885	(20,204)
Cash and cash equivalents - end of year	$ 30,953	$ 52,681	($ 21,728)

The primary cash receipts from operating activities consist of tuition and fees of $48.3 million, and grants and contracts of $21.3 million. Cash outlays included payments to employees of $81.2 million, payments for fringe benefits of $5.4 million, and payments to suppliers of $27.1 million.

The State appropriation of $18.0 million, State MAP grants of $3.6 million and federal Pell and SEOG grants of $16.1 million are the primary sources of noncapital financing activities. Accounting standards require the University to reflect this source of revenue as nonoperating even though the University's budget depends on this funding to support operations.

The main capital financing activities included purchases of capital assets and construction costs of $10.2 million, proceeds from capital debt of $9.8 million, and debt service payments of $13.6 million.

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

The total net cash decrease of $21.7 million from Fiscal Year 2015 was mainly due to decrease in State appropriations.

SIGNIFICANT FINANCIAL EVENTS IMPACTING FUTURE PERIODS

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

In the fall of 2014, the University updated the strategic plan, revising the strategic goals and action steps, then endorsed by the Board of Trustees in February 2015.

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

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

The fiscal climate in Illinois can best be described as uncertain. Since Fiscal Year 2002, the high-water mark for state support for the University appropriations have declined from \$45.4 million, to \$36.9 million for Fiscal Year 2015. This is a total decrease of \$8.5 million, or 18.7%. From Fiscal Year 2010 to Fiscal Year 2015, funding decreased \$6.4 million, an average annual decrease of 3.5%. Given Illinois' fiscal challenges, it is unlikely this trend will change in the near future.

In fact, as of this writing, the State of Illinois has not adopted an official budget for Fiscal Year 2016 and Fiscal Year 2017. The State provided stopgap funding via which the University received \$10.7 million in Fiscal Year 2016 through Public Act No. 99-0502 and \$19.6 million for Fiscal Year 2017 through Public Act No. 99-0524.

In response to this trend, the University, like most higher education institutions in the nation, has increased tuition to compensate for both declining state support and to address the need for resources to meet increasing costs, implement new and innovative academic programs, and provide needed student support services. Tuition for incoming freshmen for both Fiscal Year 2015 and Fiscal Year 2016 was increased by 5.9%.

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

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

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

In response to these challenges, the University will continue to identify and implement cost savings measures, such as our current electronic time-recording and purchasing card projects. We will continue to be good stewards of the resources that we have and use those resources for the highest priorities within our strategic plan, focusing on student retention and success. We will look for new and creative ways to increase student enrollment and to bring additional resources to the University. For example, the University implemented a new Customer Relationship Management (CRM) system in fall of 2014 to assist with recruitment and communication of prospective and current students. We will continue to be accountable by self-assessing our progress in meeting our goals using key performance indicators and we will share those results, both good and areas for improvement, with our stakeholders. We will advocate for appropriate governmental appropriations and grants to support the operations of the University and to assure access to higher education for students with financial need. Finally, we will not let future events diminish the quality of the education we offer to our students as we prepare our graduates to be future leaders.

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

On October 18, 2013, the University submitted a Request for Proposal to seek a partner to develop a comprehensive, multi-phased University student housing program that will include the development of housing both on campus and adjacent to the main NEIU campus.

Following review of five responses, the award was made on August 13, 2014 to American Campus Communities (ACC) as a concession under the Illinois Procurement Code.

The concession arrangement is structured as a ground lease with the University, enabling the project to be financed by the Collegiate Housing Foundation (CHF), a 501(c)(3) organization, through bonds issued by the Illinois Finance Authority (IFA).

In conjunction with the award to ACC, CHF was identified to be the ground lessee under the ground lease. The ground lease provides that CHF enter into a development agreement with ACC, the latter to serve as developer overseeing the planning, construction, equipping and furnishing of the project. The ground lease also provides that CHF will enter into a management agreement with ACC, the latter managing the operations of the competed project.

CHF as ground lessee was the borrower with the project financed through bonds issued by IFA. The student housing project was approved by the Board of Trustees of Northeastern Illinois University. Fifteen months after breaking ground, the University's first residence hall opened on August 19, 2016. Management expects that this will provide the University with increased opportunities for the recruitment of students from other states and nations.

Additional information may be found in Note 13 to the basic financial statements.

CONTACTING FINANCIAL MANAGEMENT AT NEIU

This financial report is designed to provide interested parties with a general overview of Northeastern Illinois University 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, please contact Michael Pierick, Vice President for Finance and Administration/Treasurer; Craig Duetsch, Assistant Vice President for Business Services; or Fe Lenon, Director of Financial Affairs/Controller; all located at 5500 North St. Louis Avenue, Chicago, Illinois 60625.

STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
STATEMENT OF NET POSITION

	JUNE 30,			
	2016		(Comparative totals only) 2015	
	University	Component Unit	University	Component Unit
ASSETS				
Current assets:				
Cash and cash equivalents	$ 28,734,042	$ 587,810	$ 51,228,838	$ 1,640,918
Restricted cash and cash equivalents	1,641,054	-	885,654	-
Short-term investments	-	1,780,530	-	1,066,215
Receivables:				
Grants	5,790,886	-	4,769,971	-
Student loans (net of allowance for doubtful accounts of $446,413 in 2016 and $402,101 in 2015)	117,919	-	104,407	-
Tuition and fees (net of allowance for doubtful accounts of $1,943,704 in 2016 and $1,346,205 in 2015)	5,914,184	-	5,723,024	-
Other receivables (net of allowance for doubtful accounts of $991,891 in 2016 and $896,022 in 2015)	742,296	-	7,684,974	-
Inventories	8,192	-	5,497	-
Prepaid expenses	1,006,647	-	976,210	-
Other assets	1,051	201,224	-	209,953
Total current assets	43,956,271	2,569,564	71,378,575	2,917,086
Noncurrent assets:				
Restricted cash and cash equivalents	578,420	-	567,052	-
Restricted investments	-	8,186,073	-	8,365,717
Assets held under split-interest agreements	-	416,532	-	418,244
Receivables:				
Student loans (net of allowance for doubtful accounts of $234,037 in 2016 and $292,289 in 2015)	1,056,571	-	1,326,899	-
Tuition and fees (net of allowance for doubtful accounts of $8,883,129 in 2016 and $7,127,014 in 2015)	1,314,322	-	1,111,591	-
Capital assets:				
Land and land improvements	27,728,507	-	26,480,675	-
Site improvements (net of accumulated depreciation of $5,487,701 in 2016 and $5,169,943 in 2015)	2,126,714	-	2,444,472	-
Buildings and building improvements (net of accumulated depreciation of $64,068,261 in 2016 and $60,084,243 in 2015)	123,310,162	-	121,162,306	-
Equipment (net of accumulated depreciation of $10,799,068 in 2016 and $10,824,534 in 2015)	3,287,435	-	2,528,379	-
Historical treasures and works of art	83,330	-	83,330	-
Library books (net of accumulated depreciation of $23,213,021 in 2016 and $22,557,044 in 2015)	2,282,887	-	2,512,569	-
Construction in progress	8,584,892	-	7,970,566	-
Other assets	890,229	8,000	491,291	8,000
Total noncurrent assets	171,243,469	8,610,605	166,679,130	8,791,961
TOTAL ASSETS	215,199,740	11,180,169	238,057,705	11,709,047

See accompanying notes to the basic financial statements.

STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
STATEMENT OF NET POSITION

	JUNE 30,			
	2016		(Comparative totals only) 2015	
	University	Component Unit	University	Component Unit
DEFERRED OUTFLOWS OF RESOURCES	993,039	-	891,325	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	216,192,779	11,180,169	238,949,030	11,709,047
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities	8,956,104	10,795	9,777,825	-
Obligations under split-interest agreements	-	15,162	-	25,000
Unearned revenues	1,207,772	-	1,359,722	-
Liability for compensated absences	849,106	-	938,659	-
Revenue bonds payable, net	266,286	-	241,285	-
Certificates of participation, net	1,616,802	-	1,431,194	-
Funds held in custody for others	364,279	423,000	392,563	572,817
Installment purchases payable	78,325	-	-	-
Total current liabilities	13,338,674	448,957	14,141,248	597,817
Noncurrent liabilities:				
Obligations under split-interest agreements	-	284,754	-	124,655
Liability for compensated absences	5,954,438	-	6,208,149	-
Revenue bonds payable, net	15,247,496	-	15,236,264	-
Certificates of participation, net	41,220,451	-	42,493,672	-
Installment purchases payable	243,547	-	-	-
Total noncurrent liabilities	62,665,932	284,754	63,938,085	124,655
TOTAL LIABILITIES	76,004,606	733,711	78,079,333	722,472
DEFERRED INFLOWS OF RESOURCES	-	-	176,108	-
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	76,004,606	733,711	78,255,441	722,472
NET POSITION				
Net investment in capital assets	116,255,840	-	111,909,153	-
Restricted for:				
Nonexpendable:				
Scholarships and memorials	-	8,602,604	-	8,783,961
Expendable:				
Grants and contracts	1,765,638	-	1,115,460	-
Student loans	1,679,126	-	2,272,453	-
Debt service	1,630,000	-	1,458,202	-
Other	2,373,631	1,179,251	1,274,068	1,423,415
Unrestricted	16,483,938	664,603	42,664,253	779,199
TOTAL NET POSITION	$ 140,188,173	$ 10,446,458	$ 160,693,589	$ 10,986,575

See accompanying notes to the basic financial statements.

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

	FOR THE YEAR ENDED JUNE 30,			
	2016		(Comparative totals only) 2015	
	University	Component Unit	University	Component Unit
OPERATING REVENUES				
Student tuition and fees (net of scholarship allowances of $20,220,825 in 2016 and $21,300,640 in 2015)	$ 48,851,607	$ -	$ 46,741,433	$ -
Federal grants and contracts	19,697,354	-	16,941,667	-
State and local grants	1,895,321	-	2,345,836	-
Nongovernmental grants and contracts	1,001,507	-	416,645	-
Auxiliary enterprises	2,937,532	-	3,335,193	-
Other operating revenues	4,147,599	724,146	4,721,416	1,154,273
Total operating revenues	78,530,920	724,146	74,502,190	1,154,273
OPERATING EXPENSES				
Instruction	87,352,075	-	85,647,459	-
Research	1,200,863	-	1,355,888	-
Public service	18,434,739	-	16,037,620	-
Academic support	10,066,336	-	10,851,107	-
Student services and programs	16,537,739	-	16,663,729	-
Institutional support	18,236,139	-	18,907,110	-
Operation and maintenance of plant	16,343,573	-	18,628,002	-
Scholarships and fellowships	7,853,324	-	8,895,232	-
Auxiliary enterprises	5,055,280	-	5,401,735	-
Depreciation	5,560,519	-	4,818,688	-
Other operating expenses	1,275,614	1,738,662	179,226	879,081
Total operating expenses	187,916,201	1,738,662	187,385,796	879,081
Operating income (loss)	(109,385,281)	(1,014,516)	(112,883,606)	275,192
NONOPERATING REVENUES (EXPENSES)				
State appropriation - general revenue fund	10,694,997	-	36,898,800	-
Payments on behalf of the University	60,747,243	-	55,534,524	-
Federal grants - Pell and SEOG	16,059,826	-	17,244,083	-
State grants - Monetary Award Program (MAP)	3,419,612	-	7,398,845	-
Investment income	19,431	-	27,022	-
Interest on indebtedness	(2,318,862)	-	(2,131,665)	-
Net nonoperating revenues	88,622,247	-	114,971,609	-
Income (loss) before other revenues, expenses, gains and losses	(20,763,034)	(1,014,516)	2,088,003	275,192
Additions to permanent endowments	-	474,399	-	1,244,104
Gain (loss) on disposal of capital assets	1,861	-	(20,222)	-
Capital additions provided by State of Illinois	255,757	-	2,676,269	-
INCREASE (DECREASE) IN NET POSITION	(20,505,416)	(540,117)	4,744,050	1,519,296
NET POSITION, BEGINNING OF YEAR	160,693,589	10,986,575	155,057,089	9,467,279
Cumulative effect of change in accounting principle	-	-	892,450	-
NET POSITION, BEGINNING OF YEAR, AS RESTATED	160,693,589	10,986,575	155,949,539	9,467,279
NET POSITION, END OF YEAR	$ 140,188,173	$ 10,446,458	$ 160,693,589	$ 10,986,575

See accompanying notes to the basic financial statements.

STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
STATEMENT OF CASH FLOWS

	FOR THE YEAR ENDED JUNE 30,			
			(Comparative Totals Only)	
	2016		2015	
	University	Component Unit	University	Component Unit
CASH FLOWS FROM OPERATING ACTIVITIES				
Student tuition and fees	$ 48,289,752	$ -	$ 45,708,009	$ -
Grants and contracts	21,299,443	-	20,208,511	-
Payments to employees	(81,179,010)	-	(82,963,586)	-
Payments for fringe benefits	(5,372,070)	-	(5,081,640)	-
Payments to suppliers	(27,101,073)	(1,468,073)	(30,673,322)	(809,635)
Payments for scholarships and fellowships	(8,249,704)	-	(9,007,218)	-
Loans issued to students	(147,685)	-	(214,895)	-
Collections of loans from students	387,618	-	366,240	-
Auxiliary enterprises	3,017,348	-	3,382,558	-
Other receipts	3,592,837	1,238,558	4,882,552	1,505,485
Net cash provided by (used in) operating activities	(45,462,544)	(229,515)	(53,392,791)	695,850
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State appropriation	18,000,795	-	37,632,968	-
Federal grants - Pell and SEOG	16,149,573	-	17,116,240	-
State grants - Monetary Award Program (MAP)	3,552,116	-	7,389,449	-
Agency transactions	(28,284)	-	41,913	-
Other noncapital financing activities	-	474,399	-	1,244,104
Net cash provided by noncapital financing activities	37,674,200	474,399	62,180,570	1,244,104
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES				
Purchases of capital assets and construction	(10,180,236)	-	(24,760,292)	-
Proceeds from bond refinance	9,818,921	-	15,160,000	-
Principal paid on capital debt and leases	(11,145,000)	-	(18,313,715)	-
Interest paid on capital debt and leases	(2,452,800)	-	(2,184,587)	-
Net cash used in capital financing activities	(13,959,115)	-	(30,098,594)	-
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sales and maturities of investments	-	2,055,617	-	10,999,116
Interest on investments	19,431	-	27,022	-
Purchases of investments	-	(3,353,609)	1,079,996	(12,469,561)
Net cash provided by (used in) investing activities	19,431	(1,297,992)	1,107,018	(1,470,445)
Net increase (decrease) in cash and cash equivalents	(21,728,028)	(1,053,108)	(20,203,797)	469,509
Cash and cash equivalents - beginning of year	52,681,544	1,640,918	72,885,341	1,171,409
Cash and cash equivalents - end of year	$ 30,953,516	$ 587,810	$ 52,681,544	$ 1,640,918
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	$ (109,385,281)	$ (1,014,516)	$ (112,883,606)	$ 275,192
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Payments on-behalf of the University	60,747,243	-	55,534,524	-
Realized gain on sale and changes in market value of investments	-	765,033	-	451,579
Loss on split-interest agreement	-	169,308	-	-
Depreciation	5,560,519	-	4,818,688	-
Changes in assets and liabilities:				
Receivables, net	(1,845,075)	8,145	(103,521)	22,564
Prepaid expenses and other assets	(430,426)	584	192,935	9,024
Inventories	(2,695)	-	786	-
Accounts payable and accrued liabilities	11,227	10,795	(1,213,531)	(18,445)
Obligations under split-interest agreements	-	(19,047)	-	149,655
Accrued salaries and wages	553,266	-	118,593	-
Liability for compensated absences	(343,264)	-	367,410	-
Unearned revenues	(328,058)	(149,817)	(225,069)	(193,719)
Net cash provided by (used in) operating activities	$ (45,462,544)	$ (229,515)	$ (53,392,791)	$ 695,850
Noncash operating and capital financing activities:				
On-behalf payments for fringe benefits	$ 60,747,243	$ -	$ 55,534,524	$ -
Capital asset acquisition via capital appropriations	$ 192,002	$ -	$ -	$ -

See accompanying notes to the basic financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The Foundation is a University Related Organization as defined under University Guidelines adapted by the State of Illinois Legislative Audit Commission in 1982 and amended September 1997. The Foundation was formed for the purpose of providing fund raising and other assistance to the University in order to attract private gifts to support the University's instructional, research, and public service activities. In this capacity, the Foundation solicits, receives, holds, and administers gifts for the benefit of the University. An audit of the Foundation's financial statements, for the fiscal year ended June 30, 2016, was conducted by an independent certified public accountant. Complete financial statements for the Foundation may be obtained by writing to the NEIU Foundation, Vice President for Institutional Advancement, Northeastern Illinois University, 5500 North St. Louis Ave., Chicago, Illinois 60625.

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

Basis of Accounting

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

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

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

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

- The Statement of Net Position details current assets/liabilities and noncurrent assets/liabilities and deferred inflows/outflows. In general, current assets are those that are available to satisfy current liabilities. Current liabilities are those that will be paid within one year of the date of the Statement of Net Position. Other assets and liabilities due beyond one year are noncurrent. Deferred inflows and outflows represent an increase or outflow in net position that applies to a future period. The University will not recognize the related revenue or expense until the future event occurs. Net Position is divided into three major categories: 1) Net investment in capital assets, 2) Restricted and 3) Unrestricted.

- The Statement of Revenues, Expenses, and Changes in Net Position provides operating and nonoperating revenues and expenses, and displays the net income or loss from operations and total changes in net position.

- The Statement of Cash Flows details the change in the cash and cash equivalents balance for the fiscal year and is prepared using the direct method. Cash and cash equivalents include bank accounts and investments with original maturities of 90 days or less at the time of purchase, primarily U.S. Treasury bills and money market funds. This Statement provides information related to cash receipts and cash payments during the year. The statement also helps users evaluate the University's ability to meet financial obligations as they mature.

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

Operating and Nonoperating Revenues

Operating revenues of the University consist of student tuition and fees, grants and contracts, student union sales and services, parking revenues, and other operating revenues. Transactions relating to capital or financing activities, noncapital financing activities, investing activities, State appropriations, Pell and SEOG grants, State MAP grants 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 position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net positions are available.

Auxiliary Enterprises

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

Use of Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents include bank accounts and investments with original maturities of 90 days or less at the time of purchase, primarily U.S. Treasury bills and money market funds.

Investments and Marketable Securities

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

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

Restricted Assets

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

Receivables

Receivables consist mainly of charges to students for tuition and fees, auxiliary enterprise service charges, and student loans made to students from federal loan programs. Receivables also include amounts due from the federal government, state and local governments, or private sources in connection with the reimbursement of allowable expenditures made to the University's grants and contracts. Receivables are recorded net of allowance for doubtful accounts based on management's best estimate of uncollectible accounts considering type, age, collection history and other appropriate factors.

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.

Capital Assets

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

Classification	Capitalized Threshold	Estimated Useful Life (in years)
Land	$ 100,000	Indefinite
Land improvements	25,000	Indefinite
Site improvements	25,000	5-50
Buildings	100,000	50
Building improvements	25,000	10-45
Equipment	5,000	3-25
Non-depreciable historical treasures/works of art	5,000	Indefinite
Software/license fees	50,000	5
Library books*	5,000	7

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

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

Liability for Compensated Absences

Liability for compensated absences includes earned but unused vacation and sick leave days valued at the current rate of pay.

Unearned Revenues

Unearned revenues include amounts received for tuition and fees prior to the end of the fiscal year but related to the subsequent accounting period.

Revenue Bonds Payable and Certificates of Participation (COPs)

Bonds and COPs payable are stated at face value net of unamortized discounts and premiums.

Net Position

The University's net position are classified as follows:

Net investment in capital assets - represents the University's total investment in capital assets net of accumulated depreciation, reduced by outstanding obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets.

Restricted - expendable - includes resources in which the University is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Restricted - nonexpendable - consists of endowment and similar type funds in which donors or outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

Unrestricted - represents sources derived from student tuition and fees, State appropriations, and sales and services provided by educational departments and auxiliary enterprises. These resources are used for educational and general operations of the University and may be used at the discretion of the governing board to meet current expenses for any purpose.

Deferred Inflows/Outflows of Resources

In addition to assets and liabilities, the Statement of Net Position includes a separate section for deferred inflows or outflows of resources. Deferred inflows of resources represent increase in net position that applies to a future period. The revenue is not recognized until a future period. There were no deferred inflows of resources reported in the Statement of Net

Position during the current fiscal year. Deferred outflows of resources represent consumption of net position that applies to a future period and so will not be recognized as an expense until then. The deferred outflows of resources reported by the University consist of deferral of employer pension contributions as explained in Note 9 to the basic financial statements.

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 \$20,220,825 for Fiscal Year 2016. The Summer Session tuition and fees are allocated between fiscal years based on when the revenue is earned, since the Summer Session begins in one fiscal year and ends in the next. 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 \$4,058,513 in Fiscal Year 2016.

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 inflows of resources.

Certain revenue sources that the University relies on to provide funding for operations, including State appropriations, on-behalf payments, Monetary Award Program (MAP) grants, federal Pell and Supplemental Educational Opportunity (SEOG) grants, gifts, and investment income are recognized as nonoperating as defined by GASB Statement No. 35. In addition, transactions related to capital and financing activities are components of nonoperating revenues.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the plan net position of the State Universities Retirement System (SURS or the System) and additions to/deductions from SURS' plan net position has been determined on the same basis as they are reported by SURS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

For the purposes of financial reporting, the State of Illinois and participating employers are considered to be under a special funding situation. A special funding situation is defined as a circumstance in which a non-employer entity is legally responsible for making contributions directly to a pension plan that is used to provide pensions to the employees of another entity or entities and either (1) the amount of the contributions for which the non-employer entity is legally responsible is not dependent upon one or more events unrelated to pensions, or (2) the non-employer is the only entity with a legal obligation to make contributions directly to a pension plan. The State of Illinois is considered a non-employer contributing entity. Participating employers are considered employer contributing entities.

New Accounting Standards

Effective for the year ended June 30, 2016, the University adopted the following GASB statements:

GASB Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. It further provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The implementation of this statement had no financial impact on the University's financial statements.

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* (portion of this Statement adopted in Fiscal Year 2016). This Statement improves the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. It also establishes requirements for defined benefit pensions and defined contribution pensions that are not within the scope of GASB Statement No. 68. In addition, this Statement amends certain provisions of GASB Statement No. 67, *Financial Reporting for Pension Plans*, and GASB Statement No. 68 for pension plans and pensions that are within their respective scopes. The implementation of this statement had no financial impact on the University's financial statements.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This Statement supersedes GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The implementation of this statement had no financial impact on the University's financial statements.

Future Adoption of GASB Statements

Effective for the year ending June 30, 2017, the University will adopt the following GASB statements:

A portion of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68,* which addresses accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68.

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* which replaces Statement No. 43 and addresses the financial reports of defined benefit other postemployment benefit (OPEB) plans that are administered through trusts that meet specified criteria. This Statement follows the framework for financial reporting of defined benefit OPEB plans in Statement No. 45 by requiring a statement of fiduciary net position and a statement of changes in fiduciary net position. This Statement requires more extensive note disclosures and Required Supplementary Information (RSI) related to the measurement of the OPEB liabilities for which assets have been accumulated, including information about the annual money-weighted rates of return on plan investments. This Statement also sets forth note disclosure requirements for defined contribution OPEB plans.

GASB Statement No. 77, *Tax Abatement Disclosures,* which is intended to improve financial reporting by requiring disclosure of tax abatement information about a reporting government's own tax abatement agreements and those that are entered into by other governments and that reduce the reporting government's tax revenues.

GASB Statement No. 82, *Pension Issues - An Amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

Effective for the year ending June 30, 2018, the University will adopt the following GASB statement:

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* which replaces the requirements of Statement No. 45 and requires governments to report a liability on the face of the financial statements for the OPEB they provide. This Statement requires governments in all types of OPEB plans to present more extensive note disclosures and RSI about their OPEB liabilities. Among the new note disclosures is a description of the effect on the reported OPEB liability of using a discount rate and a healthcare cost trend rate that are one percentage point higher and one percentage point lower than assumed by the government. The new RSI includes a schedule showing the causes of increases and decreases in the OPEB liability and a schedule comparing a government's actual OPEB contributions to its contribution requirements.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, which provides accounting and financial reporting guidance for irrevocable split-interest agreements in which a government is a beneficiary.

The University has not yet determined the impact of adopting these statements on its financial statements.

Reclassifications

Certain prior year amounts have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported results of operations.

2. CASH AND INVESTMENTS

The University uses the "pooled cash" method of accounting for substantially all of its operating cash and investments. The following table is a reconciliation of deposits and investments held by the University and University's Component Unit as shown on the Statement of Net Assets as of June 30, 2016:

	University	Foundation
Carrying amounts of deposits	$ 29,280,937	$ 587,810
Carrying amounts of investments	1,665,879	10,383,135
	$ 30,946,816	$ 10,970,945

	University	Foundation
Cash and cash equivalents	$ 28,727,342	$ 587,810
Restricted cash and cash equivalents - current	1,641,054	–
Restricted cash and cash equivalents - noncurrent	578,420	–
Short-term investments	–	1,780,530
Long-term investments	–	8,602,605
	$ 30,946,816	$ 10,970,945

The University also had cash on hand of $6,700 as of June 30, 2016.

Deposits

The University utilizes multiple bank accounts for the various activities of the University. The book balance of such accounts was $29,280,937 at June 30, 2016, while the bank balance was $31,756,669. The difference between the above amounts primarily represents checks that have been issued but have not yet cleared the bank as of June 30, 2016.

Custodial credit risk for deposits exists when, in the event of the failure of a depository financial institution, the University's deposits may not be recovered. The University's policy for reducing its exposure to the risk is to require deposits in excess of the federally insured amount to be collateralized at 110%. As of June 30, 2016, 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. However, the pledge collateral of the financial institution as of June 30, 2016 represents only 106% of the total bank deposits in excess of FDIC coverage as noted in Finding 2016-002 on pages 67 through 68.

Investments

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

The University has pooled its investments, except for certain funds that are required by bond resolution to be in separate accounts. Investments are stated at fair value. Net income from investments of pooled funds is allocated and credited to the original sources of the funds or is remitted to the University's Income Fund. The following table presents the fair value of investments held by the University and the University's Component Unit at June 30, 2016:

Investment Description	University	Foundation
Illinois Fund	$ 104,200	$ –
U.S. Treasury Notes	1,561,679	–
Mutual Funds	–	10,207,616
Certificates of deposit	–	175,519
	$ 1,665,879	$ 10,383,135

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, when the maturity of an investment is longer, its fair value susceptibility to changes in market interest rates is greater. 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, 2016, the University had the following investments subject to interest rate risk:

		Maturity	
Investment Type	Fair Value	Less than 1 year	1 – 5 years
Illinois Fund	$ 104,200	$ 104,200	$ –
U.S. Treasury Notes	1,561,679	1,561,679	–
	$ 1,665,879	$ 1,665,879	$ –

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, 2016, the University had quality ratings as shown in the table below:

Investment Type	Fair Value	Standard & Poor's	Moody's
Illinois Fund	$ 104,200	AAAm	–
U.S. Treasury Notes	1,561,679	AAAm	Aaa-mf
	$ 1,665,879		

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, 2016, the University does not have any investments representing 5% or more of total assets in any single issuer other than the U.S. government, its agencies or sponsored corporations.

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the University will not be able to recover the value of the investments that are in the possession of an outside party. The University minimizes its custodial credit risk by establishing limitations on the types of investments held with qualifying institutions. Investments in external investment pools are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. The University therefore, has no custodial credit risk in its investment portfolio.

3. CAPITAL ASSETS

Details of the University's investment in capital assets at June 30, 2016 are as follows:

	Balance June 30, 2015	Additions	Transfers	Reductions	Balance June 30, 2016
Capital assets not being depreciated:					
Land and land improvements	$ 26,480,675	$ 1,247,832	$ –	$ –	$ 27,728,507
Nondepreciable historical treasures and works of art	83,330	–	–	–	83,330
Construction in progress	7,970,566	1,444,539	(830,213)	–	8,584,892
Total capital assets not being depreciated	34,534,571	2,692,371	(830,213)	–	36,396,729
Capital assets being depreciated:					
Site improvements	7,614,415	–	–	–	7,614,415
Buildings and building improvements	181,246,549	5,301,661	830,213	–	187,378,423
Equipment	13,352,913	1,358,614	–	(625,024)	14,086,503
Library books	25,069,613	427,642	–	(1,347)	25,495,908
Total capital assets being depreciated	227,283,490	7,087,917	830,213	(626,371)	234,575,249
Less accumulated depreciation:					
Site improvements	5,169,943	317,758	–	–	5,487,701
Buildings and building improvements	60,084,243	3,984,018	–	–	64,068,261
Equipment	10,824,534	601,419	–	(626,885)	10,799,068
Library books	22,557,044	657,324	–	(1,347)	23,213,021
Total accumulated depreciation	98,635,764	5,560,519	–	(628,232)	103,568,051
Capital assets, net	$ 163,182,297	$ 4,219,769	$ –	$ 1,861	$ 167,403,927

4. LONG-TERM DEBT AND OTHER LIABILITIES

Long-term debt and other liabilities consist of the following as of June 30, 2016:

	Balance June 30, 2015	Additions	Reductions	Balance June 30, 2016	Amounts Due Within One Year
Compensated absences	$ 7,146,808	$ 567,321	$ 910,585	$ 6,803,544	$ 849,106
Revenue bonds:					
Series 2014	15,160,000	–	225,000	14,935,000	235,000
Premium	610,068	–	31,286	578,782	31,286
Discount	(292,519)	–	(292,519)	–	–
Certificates of participation:					
Series 2006	10,230,000	–	10,230,0000	–	–
Discount	(50,268)	–	(50,268)	–	–
Certificates of participation:					
Series 2010	5,550,000	–	205,000	5,345,000	225,000
Certificates of participation:					
Series 2012	28,040,000	–	485,000	27,555,000	515,000
Premium	155,134	–	5,910	149,224	5,910
Certificates of participation:					
Series 2015	–	9,510,000	–	9,510,000	840,000
Premium	–	308,921	30,892	278,029	30,892
Installment purchases payable	–	405,571	83,699	321,872	78,325
Subtotal	66,549,223	$ 10,791,813	$ 11,864,585	65,476,451	$ 2,810,519
Less current portion	2,611,138			2,810,519	
Total noncurrent liabilities	$ 63,938,085			$ 62,665,932	

Compensated Absences

It is the policy of the University to accrue vacation pay as earned. As of June 30, 2016, the accrued liability for this benefit was $5,397,316 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, 2016, the accrued liability of this benefit was $1,406,228 and is included in the liability for compensated absences.

5. UNIVERSITY FACILITIES SYSTEM REVENUE BONDS

Series 2014

The University Facilities System Revenue Bond Series 2014-1 in the amount of $4,520,000 and Series 2014-2 in the amount of $10,640,000 with an aggregate amount of $15,160,000 were issued in December 2014 to provide funds to refund all of the outstanding University Facilities System Revenue Bonds, Series 2004 and to pay the necessary issuance costs. The bonds are fully registered and are special, limited obligations of the Board and are not obligations of the State of Illinois. The bonds are only payable from and secured by the net revenues of the University Facilities System, Student Union, and fees (subject to the extent necessary to the prior payment of operating and maintenance expenses of the System) and the Bond Reserve Account.

The Series 2014 Bonds mature in increasing principal amounts ranging from $235,000 due on July 1, 2016 to $1,060,000 due on July 1, 2034. Interest is payable annually on July 1, at rates between 3.00% and 5.00%, with an average effective rate of approximately 3.932%. Future aggregate annual payments applicable to the Series 2014 Bonds at June 30, 2016 are:

Fiscal Year	Principal	Interest
2017	$ 235,000	$ 598,125
2018	240,000	591,000
2019	585,000	575,700
2020	600,000	552,000
2021	625,000	530,625
2022 - 2026	3,615,000	2,270,925
2027 - 2031	4,680,000	1,371,950
2032 - 2035	4,355,000	356,060
Total	$ 14,935,000	$ 6,846,385

The Series 2014 Bonds shall be subject to optional and mandatory redemption prior to maturity as set forth in the Notification of Sale. The Series 2014-1 Bonds are not subject to optional redemption prior to maturity. The Series 2014-2 Bonds maturing on or after July 1, 2025 are subject to redemption on any date on or after January 1, 2025, at the option of the Board, 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 Registrar may deem fair and appropriate, at a redemption price of par (100%), plus accrued interest to the date fixed for redemption.

Operation of the Project

The resolutions by which the University Facilities Revenue Bonds were authorized provide 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 and interest income 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 amounts monthly from the revenue fund account such 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. In Fiscal Year 2015, as provided for in the official statement for the Series 2014 Bonds, upon the effectiveness of the Restated Bond Resolution on December 26, 2014, all moneys in the 2004 Bond Reserve Account were used to pay a portion of the Series 2004 Bonds of the account was closed in Fiscal year 2016. With the defeasance of the Series 2004 Bonds, the Series 2014 Bonds will not be secured by the Bond Reserve Account. At June 30, 2016, the fund balance of this account was $0.

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

During 2016, $50,000 was credited to the renewal and replacement reserve account. At June 30, 2016, the fund balance in this account was $134,004.

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, 2016, the fund balance in this account was $0.

Equipment Reserve Account
On or before the close of each fiscal year, the Treasurer will, from the funds remaining in the revenue fund, credit to the equipment reserve account such funds as have been approved by the Board for expenditures in connection with the acquisition of movable equipment to be installed in the facilities constituting the system. Monies or investments to the credit of the equipment reserve account are not pledged as security for the payment of the bonds or parity bonds. At June 30, 2016, the fund balance in this account was $446,253.

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

University Facilities Revenue Bond Funds
Statement of Net Position
as of June 30, 2016

ASSETS		
Current assets:		
Cash and cash equivalents	$	2,300,164
Restricted cash and cash equivalents		535,832
Receivables:		
Tuition and fees - net		136,216
Parking fines - net		102,695
Other receivables - net		47,194
Inventories		510
Prepaid expenses		3,917
Total current assets		3,126,528
Noncurrent assets:		
Restricted cash and cash equivalents		578,420
Receivables:		
Tuition and fees - net		30,098
Capital assets:		
Site improvements - net		1,717,206
Buildings and building improvements - net		15,775,589
Equipment - net		97,067
Total noncurrent assets		18,198,380
TOTAL ASSETS		21,324,908
LIABILITIES		
Current liabilities:		
Accounts payables and accrued liabilities		377,113
Unearned revenues		76,160
Liability for compensated absences		101,843
Revenue bonds payable, net		266,286
Total current liabilities		821,402
Noncurrent liabilities		
Revenue bonds payable, net		15,247,496
Total noncurrent liabilities		15,247,496
TOTAL LIABILITIES		16,068,898
NET POSITION		
Net investment in capital assets		2,076,081
Restricted for:		
Expendable:		
Capital projects		1,618,184
Debt service		235,000
Unrestricted		1,326,745
TOTAL NET POSITION	$	5,256,010

University Facilities Revenue Bonds Funds
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2016

OPERATING REVENUES	
Student tuition and fees	$ 1,300,925
Vending services	143,087
Rental and use fees	87,930
Bookstore commission	115,091
Parking revenue	1,873,857
Other operating revenues	10,049
Total operating revenues	3,530,939
OPERATING EXPENSES	
Personal services	1,156,999
Contractual services	639,680
Commodities and supplies	46,320
Vending cost of sales	2,676
Telecommunications	18,487
Amortization	261,233
Depreciation	813,578
Other operating expenses	371,485
Total operating expenses	3,310,458
OPERATING INCOME	220,481
NONOPERATING REVENUES (EXPENSES)	
Investment income	39,973
Interest on indebtedness	(601,650)
Net nonoperating expenses	(561,677)
TOTAL DECREASE IN NET POSITION	(341,196)
NET POSITION, BEGINNING OF YEAR	5,597,206
NET POSITION, END OF YEAR	$ 5,256,010

University Facilities Revenue Bonds Funds
Statement of Cash Flows
For the Year Ended June 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES	
Student tuition and fees	$ 1,292,382
Payment for salaries and benefits	(1,159,382)
Payment for suppliers	(908,465)
Vending services	148,676
Rental and use fees	(52,135)
Bookstore commission	157,821
Parking revenue	1,893,296
Other revenues	6,391
Other payments	(205,822)
Net cash provided by operating activities	1,172,762
CASH FLOWS FROM CAPITAL ACTIVITIES	
Purchases of capital assets and construction	(55,186)
Principal paid on capital debt	(225,000)
Interest paid on capital debt	(601,650)
Cash used in capital financing activities	(881,836)
CASH FLOW FROM INVESTING ACTIVITY	
Interest on investments	39,973
Cash provided by investing activity	39,973
NET INCREASE IN CASH AND CASH EQUIVALENTS	330,899
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,083,517
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 3,414,416
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	$ 220,481
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	813,578
Amortization	261,233
Changes in asset and liabilities:	
Receivables - net	70,829
Inventories	(269)
Prepaid expenses	(3,389)
Accounts payable and accrued liabilities	(164,744)
Unearned revenues	(11,613)
Liability for compensated absences	(13,344)
Net cash provided by operating activities	$ 1,172,762

Pledged Revenues and Debt Service Requirements

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

Bond Issues	Purpose	Source of Revenue Pledged	Future Revenues Pledged	Terms of Commitment	Debt Service to Pledged Revenues (Current Year)
Facilities Revenue Bonds Series 2014	Construction of a multi-level parking structure	Net Revenues of the University Facilities System*, student tuition and fees	$ 21,781,385	2034	100%

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

6. CERTIFICATES OF PARTICIPATION

Series 2010

On September 1, 2010, the University issued Certificates of Participation Series 2010, in the amount of $6,060,000 to finance the acquisition of energy conserving improvements at the University. The American Recovery and Reinvestment Act of 2009 permits the Board to issue taxable obligations referred to as "Build America Bonds" to finance capital expenditures for which it could issue tax-exempt obligations, and to elect to receive payments from the federal government equal to 35% of the corresponding interest payable on such taxable obligations. The Board is obligated to make installment payments on an annual basis either from funds derived from State appropriations or from legally available non-appropriated funds. The Board's obligation to pay installment payments is subject to termination 60 days after the Board certifies to the Trustee that: 1) the General Assembly of the State has made a determination not to appropriate requested funds necessary to make the installment payments from State-appropriated funds, and 2) the Board has determined that there are not sufficient legally available non-appropriated funds to pay the installment payments. The Certificates maturing on and after October 1, 2021 are subject to redemption on any date on or after October 1, 2020 at the price of 100% of the principal amount thereof, plus accrued interest to the date fixed for redemption, in whole or in part, and if in part, by lot. Such redemption shall be at the option of the Board, upon at least 35 days prior written notice from the Board to the Trustee.

The certificates mature in increasing principal amounts ranging from $225,000 due on October 1, 2016 to $645,000 due on October 1, 2028 at rates between 3.750% and 6.000%, with an average effective rate of approximately 5.125%. Future aggregate annual payments applicable to the certificates of participation at June 30, 2016 are:

Fiscal Year	Principal	Interest
2017	$ 225,000	$ 280,300
2018	250,000	270,925
2019	275,000	259,581
2020	300,000	246,269
2021	330,000	230,894
2022 - 2026	2,175,000	844,887
2027 - 2029	1,790,000	164,997
Total	$ 5,345,000	$ 2,297,853

Series 2012

On November 1, 2012, the University issued Certificates of Participation Series 2012, in the amount of $28,500,000 to finance the acquisition and construction of a new academic facility ("El Centro"). The Board is obligated to make installment payments on an annual basis either from funds derived from State appropriations or from legally available non-appropriated funds. The Board's obligation to pay installment payments is subject to termination 60 days after the Board certifies to the Trustee that: 1) the General Assembly of the State has made a determination not to appropriate requested funds necessary to make the installment payments from State-appropriated funds, and 2) the Board has determined that there are not sufficient legally available non-appropriated funds to pay the installment payments. The certificates maturing on and after October 1, 2023 are subject to redemption on any date on or after October 1, 2022 at the price of 100% of the principal amount thereof, plus accrued interest to the date fixed for redemption, in whole or in part, and if in part, by lot. Such redemption shall be at the option of the Board, upon at least 35 days prior written notice from the Board to the Trustee.

The certificates mature in increasing principal amounts ranging from $515,000 due on October 1, 2016 to $1,815,000 due on October 1, 2041 at rates between 3.000% and 4.100%, with an average effective rate of approximately 3.575%. Future aggregate annual payments applicable to the certificates of participation at June 30, 2016 are:

Fiscal Year	Principal	Interest
2017	$ 515,000	$ 1,015,850
2018	540,000	1,000,025
2019	575,000	983,300
2020	610,000	965,525
2021	645,000	946,700
2022 - 2026	3,865,000	4,395,360
2027 - 2031	5,050,000	3,636,491
2032 - 2036	6,370,000	2,552,394
2037 - 2041	7,570,000	1,176,263
2042	1,815,000	37,208
Total	$ 27,555,000	$ 16,709,116

Series 2015

On July 21, 2015, the University issued University Capital Improvement Project Certificates of Participation Series 2015 (Series 2015 Certificates), in the amount of $9,510,000 with interest rates ranging from 3.00% to 4.00% to advance refund all of the outstanding Certificates of Participation Series 2006 and to pay the costs of issuing the Series 2015 Certificates. The Series 2015 Certificates are payable on a parity basis, solely from (i) an undivided interest in payments (the "Installment Payments") to be made by the Board under an Installment Purchase Contract with U.S. Bank National Association as trustee, and (ii) certain funds and accounts held under the Indenture.

The Installment Payments will be payable both from State appropriated funds and from budgeted legally available funds of the Board derived from sources other than appropriations on an annual basis. The term of the Purchase Contract will expire on July 1, 2025 unless earlier terminated in accordance with the Indenture.

The Series 2015 Certificates are subject to redemption, in whole, at the price of 100% of the principal amount thereof, plus accrued interest to the date fixed for redemption, on any date on which the Purchase Contract is terminated by the Board because (i) an Event of Non-appropriation has occurred, (ii) the Board has determined that there are not sufficient Legally Available Non-appropriated Funds to pay the portion of the Installment Payments coming due during the then-current fiscal year, and (iii) the Board has exercised its option to prepay the Series 2015 Certificates. The Series 2015 Certificates are not otherwise subject to redemption prior to maturity.

The Series 2015 Certificates maturing on July 1, 2023 and July 1, 2025 are subject to mandatory redemption prior to maturity through the application of sinking fund payments, in integral multiples of $5,000 selected by lot by the Trustee, at a redemption price equal to 100% of the principal amount plus accrued interest to date fixed for redemption.

The Series 2015 Certificates mature in increasing principal amounts ranging from $840,000 due on July 1, 2016 to $1,090,000 due on July 1, 2025 at rates between 3.00% and 4.00%, with an average effective rate of approximately 3.200%. Future aggregate annual payments applicable to the certificates of participation at June 30, 2016 are:

Fiscal Year	Principal	Interest
2017	$ 840,000	$ 294,050
2018	855,000	268,625
2019	875,000	242,675
2020	905,000	215,975
2021	935,000	188,375
2022 - 2025	5,100,000	477,875
Total	$ 9,510,000	$ 1,687,575

Defeasance of Series 2006

The University defeased its outstanding Series 2006 Certificates through advance refunding on October 1, 2015. The proceeds from the sale of the Series 2015 Certificates, with additional funds provided by the University, were used to refund the outstanding Series 2006 Certificates in the principal amount of $10,230,000, and to pay accrued interest for $228,403 and pay costs of issuance of the Series 2015 Certificates for $127,339. As the result, the Series 2006 Certificates are considered defeased, and the liability for these certificates has been removed from the University's Statement of Net Position. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $50,268 which was charged to operations. Further, the advance refunding resulted to the University cash flows savings of $422,895 and economic gain of $254,231 over the next 10 years.

7. INSTALLMENT PURCHASES PAYABLE

The Board of Trustees of Northeastern Illinois University entered into an agreement dated June 24, 2015, with Bank of America Public Capital Corporation to lease and acquire certain copier equipment with an imputed interest rate of 1.8024%. As provided for in the agreement, title to the equipment was vested to the University upon the delivery and acceptance of the equipment, as such the University accounted for this transaction as an installment purchase. Future maturities at June 30, 2016 are as follows:

Fiscal Year	Principal	Interest
2017	$ 78,325	$ 5,801
2018	79,736	4,390
2019	81,174	2,953
2020	82,637	1,489
Total	$ 321,872	$ 14,633

8. NORTHEASTERN ILLINOIS UNIVERSITY FOUNDATION AGREEMENT

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

On July 1, 2005, the University entered into an agreement with the Foundation. Under the terms of the contract, the Foundation aids and assists the University in developing broader educational opportunities for students, alumni, and citizens of the State of Illinois by encouraging gifts of money, property, works of art, and historical and other material having educational, artistic and historical value. In turn, the University will furnish certain services necessary to the operation of the Foundation. The contract may be cancelled upon 90 days written notice by either party.

During Fiscal Year 2016, certain funds and in-kind services of the University with an estimated value of $108,544 were provided to the Foundation without charge. In turn, during Fiscal Year 2016, the Foundation gave the University $454,681 in funds considered unrestricted for purposes of the University Guidelines computation. In addition, the Foundation gave the University non-qualifying restricted and unrestricted funds of approximately $890,667 in Fiscal Year 2016 for scholarships and awards.

9. PENSION, COMPENSATED ABSENCES AND POST-EMPLOYMENT BENEFITS

Defined Benefit Pension Plans

General Information about the Pension Plan

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 (the State) makes substantially all actuarially determined required contributions on behalf of the participating employers. SURS was established on July 21, 1941 to provide retirement annuities and other benefits for staff members and employees of state universities, certain affiliated organizations, and certain other state educational and scientific agencies and for survivors, dependents, and other beneficiaries of such employees. SURS is considered a component unit of the State of Illinois' financial reporting entity and is included in the State's financial reports as a pension trust fund. SURS is governed by Chapter 40, Act 5, Article 15 of the *Illinois*

Compiled Statutes. SURS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by accessing the website at www.SURS.org.

Benefits Provided
A traditional benefit plan was established in 1941. Public Act 90-0448 enacted effective January 1, 1998, established an alternative defined benefit program known as the portable benefit package. The traditional and portable plan Tier 1 refers to members that began participation prior to January 1, 2011. Public Act 96-0889 revised the traditional and portable benefit plans for members who begin participation on or after January 1, 2011, and who do not have other eligible Illinois reciprocal system services. The revised plan is referred to as Tier 2. New employees are allowed 6 months after their date of hire to make an irrevocable election. A summary of the benefit provisions as of June 30, 2015 can be found in the System's comprehensive annual financial report (CAFR) Notes to the Financial Statements.

Contributions
The State of Illinois is primarily responsible for funding the System on behalf of the individual employers at an actuarially determined amount. Public Act 88-0593 provides a Statutory Funding Plan consisting of two parts: (i) a ramp-up period from 1996 to 2010 and (ii) a period of contributions equal to a level percentage of the payroll of active members of the System to reach 90% of the total Actuarial Accrued Liability by the end of Fiscal Year 2045. Employer contributions from "trust, federal, and other funds" are provided under Section 15-155(b) of the Illinois Pension Code and require employers to pay contributions which are sufficient to cover the accruing normal costs on behalf of applicable employees. The employer normal cost for Fiscal Year 2015 and Fiscal Year 2016, respectively, was 11.71% and 12.69% of employee payroll. The normal cost is equal to the value of current year's pension benefit and does not include any allocation for the past unfunded liability or interest on the unfunded liability. Plan members are required to contribute 8.0% of their annual covered salary. The contribution requirements of plan members and employers are established and may be amended by the Illinois General Assembly.

Participating employers make contributions toward separately financed specific liabilities under Section 15-139.5(e) of the Illinois Pension Code (relating to contributions payable due to the employment of "affected annuitants" or specific return to work annuitants) and Section 15-155(g) (relating to contributions payable due to earning increases exceeding 6% during the final rate of earnings period).

Pension Liabilities, Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Net Pension Liability
At June 30, 2015, SURS reported a net pension liability (NPL) of $23,756,361,087. The net pension liability was measured as of June 30, 2014.

Employer Proportionate Share of Net Pension Liability
The amount of the proportionate share of the net pension liability to be recognized for Northeastern Illinois University is $0. The proportionate share of the State's net pension liability associated with Northeastern Illinois University is $415,299,735 or 1.7482%. This amount should not be recognized in the financial statement. The net pension liability and total pension liability as of June 30, 2015 was determined based on the June 30, 2014 actuarial valuation rolled forward. The basis of allocation used in the proportionate share of net pension liability is the actual reported pensionable contributions made to SURS during Fiscal Year 2015.

Pension Expense
At June 30, 2015, SURS reported a collective net pension expense of $1,994,587,170.

Employer Proportionate Share of Pension Expense
The employer proportionate share of collective pension expense should be recognized similarly to on-behalf payments as both revenue and matching expenditure in the financial statements. The basis of allocation used in the proportionate share of collective pension expense is the actual reported pensionable contributions made to SURS during Fiscal Year 2015. As a result, Northeastern Illinois University recognized on-behalf revenue and pension expense of $34,868,620 for the fiscal year ended June 30, 2016.

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions
Deferred outflows of resources are the consumption of net position by the system that is applicable to future reporting periods.

SURS Collective Deferred Outflows and Deferred Inflows of Resources by Sources

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 27,312,043	$ –
Changes in assumption	609,393,909	–
Net difference between projected and actual earnings on pension plan investments	593,840,642	953,329,464
Total	$ 1,230,546,594	$ 953,329,464

SURS Collective Deferred Outflows and Deferred Inflows of Resources by Year to be recognized in Future Pension Expenses

Year Ending June 30	Net Deferred Outflows of Resources
2016	$ 154,951,326
2017	118,957,720
2018	(145,152,075)
2019	148,460,159
2020	–
Thereafter	–
Total	$ 277,217,130

Employer Deferral of Fiscal Year 2016 Pension Expense

Northeastern Illinois University paid $993,039 in federal, trust or grant contributions for the fiscal year ended June 30, 2016. These contributions were made subsequent to the pension liability date of June 30, 2015 and are recognized as Deferred Outflows of Resources as of June 30, 2016.

Assumptions and Other Inputs

Actuarial Assumptions

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period June 30, 2010-2014. The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Salary increases	3.75 to 12 percent, including inflation
Investment rate of return	7.25 percent beginning with the actuarial valuation as of June 30, 2014

Mortality rates were based on the RP2000 Combined Mortality Table, projected with Scale AA to 2017, sex-distinct, with rates multiplied by 0.80 for males and 0.85 for females.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return were adopted by the plan's trustees after considering input from the plan's investment consultant(s) and actuary(s). For each major asset class that is included in the pension plan target asset allocation as of June 30, 2015, these best estimates are summarized in the following table:

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return
U.S. Equity	23%	5.77%
Private Equity	6%	9.23%
Non-U.S. Equity	19%	6.69%
Global Equity	8%	6.51%
Fixed Income	19%	1.12%
Treasury-Inflation Protected Securities	4%	1.22%
Emerging Market Debt	3%	4.61%
Real Estate REITS	4%	5.85%
Direct Real Estate	6%	4.37%
Commodities	2%	4.06%
Hedged Strategies	5%	3.99%
Opportunity Fund	1%	6.80%
Total	100%	5.02%
Inflation		3.00%
Expected Arithmetic Return		8.02%

Discount Rate

A single discount rate of 7.120% was used to measure the total pension liability. This single discount rate was based on an expected rate of return on pension plan investments of 7.250% and a municipal bond rate of 3.80% (based on the weekly rate closest to but not later than the measurement date of the 20-Year Bond Buyer Index as published by the Federal Reserve). The projection of cash flows used to determine this single discount rate were the amounts of contributions attributable to current plan members and assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the statutory contribution rates under the System's funding policy. Based on these assumptions, the pension plan's fiduciary net position and future contributions were sufficient to finance the benefit payments through the year 2072. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2072, and the municipal bond rate was applied to all benefit payments after that date.

Sensitivity of the System's Net Pension Liability to Changes in the Discount Rate
Regarding the sensitivity of the net pension liability to changes in the single discount rate, the following presents the plan's net pension liability, calculated using a single discount rate of 7.12%, as well as what the plan's net pension liability would be if it were calculated using a single discount rate that is 1-percentage-point lower or 1-percentage-point higher:

1% Decrease 6.12%	Current Single Discount Rate Assumption 7.12%	1% Increase 8.12%
$ 28,929,333,917	$ 23,756,361,087	$ 19,470,982,362

Additional information regarding the SURS basic financial statements including the Plan Net Position can be found in the SURS comprehensive annual financial report by accessing the website at www.SURS.org.

Medicare

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

Tax-Sheltered Retirement Plans

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

Post-employment Benefits

The State provides health, dental, vision, and life insurance benefits for retirees and their dependents in a program administered by the Department of Central Management Services. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State sponsored pension plans. Health, dental, and vision benefits include basic benefits for annuitants and dependents under the State's self-insurance plan and insurance contracts currently in force. Annuitants may be required to contribute towards health, dental, and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants who retired prior to January 1, 1998, and who are vested in the State Employee's

Retirement System do not contribute towards health, dental, and vision benefits. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced 5% for each year of credited service with the State allowing those annuitants with 20 or more years of credited service to not have to contribute towards health, dental, and vision benefits. Annuitants also receive life insurance coverage equal to the annual salary of the last day of employment until age 60, at which time the benefit becomes $5,000.

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

A summary of post-employment benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the financial statements of the Department of Central Management Services. A copy of the financial statements may be obtained by writing to the Department of Central Management Services, 401 South Spring Street, Springfield, Illinois, 62706-4100.

10. OPERATING LEASES

The University leases various buildings and equipment under operating lease agreements. Total rental expense for the year ended June 30, 2016 under these agreements was $501,010. Minimum lease payments for the years ending June 30 are:

Fiscal Year	Amount
2017	$ 407,120
2018	346,565
2019	44,122
2020	19,955
2021	19,955
Total	$ 837,717

11. SELF-INSURANCE

The University has participated in the State University Risk Management Association (SURMA), a self-insurance pool. Through its participation in SURMA, Illinois Public Higher Education Consortium (IPHEC) and Midwest Higher Education Commission (MHEC), the University has contracted with commercial carriers to provide general liability insurance. The University's general liability coverage has a $250,000 self-insured retention level, which is covered by SURMA under the same coverage restrictions as the general liability coverage. In most cases, participant contributions to SURMA are based upon actuarial valuations. Additionally, the University purchases property insurance coverage for the replacement value of the University's property.

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

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

In Fiscal Year 2016, SURMA was terminated due to changes in the financial circumstances of its members. The University's share of the surplus funds distributed to the existing members amounted to $401,273.

12. BEVERAGE CONTRACT

The University has entered into a sponsorship contract with the Pepsi-Cola General Bottlers Ill, LLC (Vendor) to provide beverages for its employees, visitors, faculty, and students. This is a ten-year agreement commencing on December 18, 2007. Under the agreement, the University receives 50% of the total revenue derived by the Vendor from the vending machines installed and serviced at each respective University location. Such payments will be paid no less frequently than monthly and will be accompanied by appropriate documentation verifying the receipts and commission amounts. The commission received from the Vendor for Fiscal Year 2016 was $66,619. Under the contract, the Vendor extended terms made during its negotiations with the Illinois Department of Revenue regarding marketing monies due to the University on an annual basis. The Vendor agreed to allocate statewide $440,000 of marketing money. This University's share of the marketing money is 3.5948% of the total allocated statewide, or $15,817. Payment of these funds is due at the beginning of each year throughout the term of the contract. The University received its payment of $15,817 for the eight years of the agreement. The Vendor also agreed to honor the agreement made during negotiations with the Illinois Department of Revenue regarding the guaranteed annual vending commitment, which for the University is $13,631. This amount will increase in direct proportion to any price increases implemented by the Vendor during the life of this agreement.

13. RESIDENTIAL HALL PROJECT DEVELOPMENT, MANAGEMENT, FINANCING AND RELATED AGREEMENTS

On October 18, 2013, the design, development and management of student housing, was advertised by the University in the Illinois Public Higher Education Procurement Bulletin as a first step in implementing a student housing initiative. Following review of five responses and on-campus presentations by the finalists, the award was made to American Campus Communities (ACC) as a concession in accordance with 30 ILCS 500/53-25 of the Illinois Procurement Code on August 13, 2014. The Board of trustees was informed of ACC's selection at its September 18, 2014 meeting. The University entered into a $0 interim services agreement with ACC to conduct predevelopment activities for the student residence project, in preparation for ACC's role as developer for the project.

The concession arrangement is structured as a ground lease from the University, enabling the project to be financed through bonds issued by the Illinois Finance Authority (IFA), consistent with the Procurement Code. All net available cash flow of the project will be paid to the University as rent under the ground lease.

In conjunction with the award to ACC, Collegiate Housing Foundation (CHF), a 501(c)(3) organization, was identified as the entity (acting through a special purpose wholly owned subsidiary) to be the ground lessee under the ground lease. The ground lease provides that CHF will enter into a development agreement with ACC as developer for the planning, construction, equipping and furnishing of the project. The ground lease also provides that CHF will enter into a management agreement with ACC as manager of the operations of the completed project. The University has the right, under certain circumstances, to replace the manager.

CHF as ground lessee is the borrower under the project financing through bonds issued by the IFA. The project was presented at the March 10, 2015 IFA Board meeting and approved as part of its consent agenda. The approximate budget for the project is $41.8 million and the amount of the financing estimated not to exceed $45.0 million. In order for the bonds to achieve an investment grade credit rating, the University provided an up-front equity contribution to the project of $3.5 million from its income fund reserves and will provide on-going financial support, as needed, sufficient to cause the project to achieve a financial break-even point should revenues fail to cover debt service and operating expenses at a minimum of 1.00 debt service coverage ratio.

The Ground Lease Agreement was executed on May 7, 2015 between the Board of Trustees of Northeastern Illinois University, as Lessor, and CHF-Cook, LLC as Lessee. The lease will expire on the 40th anniversary of the commencement date, unless otherwise extended or sooner terminated in accordance with the provisions of the lease or by operation of law.

Upon the termination or expiration of the Ground Lease, all rights and interests of the Lessee shall immediately cease and terminate and the Premises, including all buildings, improvements, machinery, fixtures, equipment and all personal property attached to or within the premises shall thence forward constitute and belong to and be the absolute property of the Lessor.

The lease provides commitments and obligations for both the Lessor and Lessee. As part of the agreement, NEIU as Lessor is committed to (i) implement procedures to assist students in applying for residence at the Project, (ii) assist where possible in the collection of rents, (iii) where appropriate, facilitate the use of financial aid provided to students to pay for eligible housing expenses, (iv) permit the Lessee to advertise the Project on the University's campus and its website and to post reasonably sized advertising literature on bulletin boards in the Lessor's facilities that are available for public announcements, (v) permit the Lessee to maintain space on the University's campus at a site determined by the Lessor for a staffed leasing display, (vi) provide to the Lessee a mailing list of the Lessor's students that are seeking housing to the extent such list is maintained and the Lessor is permitted by law to disclose such information regarding its students to the Lessee.

Construction of the residence halls started in May 2015 and the residence halls opened for occupancy in fall of 2016. In accordance with generally accepted accounting principles, the University will report this transaction as a service concession arrangement effective Fiscal Year 2017.

In Fiscal Year 2016, the University completed the purchase of five properties on Bryn Mawr Avenue for a total price of $5,087,500. The purchase of these properties will support the University's strategic initiative to develop its second phase of student housing.

14. OPERATING EXPENSES BY NATURAL CLASSIFICATION

	Compensation and Benefits	Supplies and Services	Scholarships	Depreciation	Total
Instruction	$ 83,757,230	$ 3,434,113	$ 160,732	$ –	$ 87,352,075
Research	876,037	175,179	149,647	–	1,200,863
Public service	11,470,580	6,930,083	34,076	–	18,434,739
Academic support	8,724,567	1,341,769	–	–	10,066,336
Student services	11,287,017	5,204,989	45,733	–	16,537,739
Institutional support	15,305,357	2,930,782	–	–	18,236,139
Operation and maintenance of plant	12,779,938	3,563,635	–	–	16,343,573
Scholarship and fellowships	–	–	7,853,324	–	7,853,324
Auxiliary	3,164,685	1,890,595	–	–	5,055,280
Depreciation	–	–	–	5,560,519	5,560,519
Other operating expenses	70,776	1,204,838	–	–	1,275,614
Total operating expenses	$ 147,436,187	$ 26,675,983	$ 8,243,512	$ 5,560,519	$ 187,916,201

15. STATE ON-BEHALF PAYMENTS FOR FRINGE BENEFITS

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 $60,747,243 representing $25,878,623 for health care and $34,868,620 for retirement costs. These on-behalf payments are reflected in Payments Made on Behalf of the University as nonoperating revenues and offsetting amounts allocated to each functional category under the operating expenses.

16. FEDERAL PERKINS LOAN

On February 17, 2016, a Dear Colleague Letter (DCL) Gen-16-05 notifies schools that the Federal Perkins Loan Program Extension Act of 2015 (Public Law 114-105), enacted on December 18, 2015, extends the Perkins Loan Program through September 30, 2017. The Extension Act establishes new eligibility requirements for undergraduate and graduate students to receive Perkins Loans. The grandfathering guidance is no longer applicable to the Perkins Loan Program. Schools participating in the Perkins Loan Program may make Perkins Loan through September 30, 2017 (undergraduate students) and September 30, 2016 (graduate students). The University plans to award Perkins Loan subsequently as long as the initial disbursement was made on or before those dates.

17. COMMITMENTS AND CONTINGENCIES

The University purchased several properties under eminent domain. Under the terms of the agreements, certain parties are entitled to relocation assistance benefits under the Relocation Assistance Program. The University estimates that it will incur between $2.1 million to $2.4 million in expenses to comply with the agreements and complete these relocations.

The University is from time to time subject to various claims and legal actions related to the University or the actions of its employees. Although it is difficult to quantify the potential impact of these claims, management believes that the ultimate cost of these matters will not adversely affect the University's future financial condition or results of operations.

18. SUBSEQUENT EVENTS

State of Illinois Budget

On June 30, 2016, the General Assembly passed SB2047, Public Act 099-0524 that included a 6-month stop-gap budget for universities. The University received Fiscal Year 2017 appropriations of $19,562,000 from the Education Assistance Fund.

Article 74 of the Public Act states that except for those appropriations for Personal Services, State Contributions to State Employers' Retirement System and State Contributions to Social Security, Fiscal Year 2017 appropriations maybe used to pay prior year costs. The

University fully spent the Fiscal Year 2017 appropriation from the Education Assistance Fund for the Fiscal Year 2016 costs. However, this appropriation will be recognized as revenue in Fiscal Year 2017 because the period to which the appropriation applied has not begun as of June 30, 2016, as noted in GASB Statement No. 33, Paragraph 74.

As of the date of the financial statements, the State of Illinois has not officially adopted a budget for either Fiscal Year 2016 or Fiscal Year 2017. The University finds itself in a very challenging financial situation as it faces the uncertainty of State funding, the State budget impasse, and reduced appropriations, forcing the University to use its locally held funds for expenditures that would normally have been paid by appropriations.

Bond Ratings

On July 29, 2016, S&P Global Ratings downgraded the University's ratings to BB from BBB+ on the University's Facilities System Revenue Bonds Series 2014 and Certificates of Participation, Series 2010, Series 2012, and Series 2015.

STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
REQUIRED SUPPLEMENTARY INFORMATION – PENSION (UNAUDITED)
JUNE 30, 2016

Schedule of Employer's Proportionate Share of Net Pension Liability

	Fiscal Year 2015	Fiscal Year 2014
(a) Proportion Percentage of the Collective Net Pension Liability	0%	0%
(b) Proportion Amount of the Collective Net Pension Liability	$ –	$ –
(c) Portion of Nonemployer Contribution Entities' Total Proportion of Collective Net Pension Liability associated with Employer	$ 415,299,735	$ 390,904,472
Total (b) + (c)	$ 415,299,735	$ 390,904,472
Employer Defined Benefit Covered Payroll	$ 77,227,757	$ 77,829,513
Proportion of Collective Net Pension Liability associated with Employer as a percentage of Defined Benefit Covered Payroll	537.76%	502.26%
SURS Plan Net Position as a Percentage of Total Pension Liability	42.37%	44.39%

Schedule of Contributions

	Fiscal Year 2014	Fiscal Year 2015	Fiscal Year 2016
Federal, Trust, Grant and Other contribution	$ 893,135	$ 891,325	$ 993,039
Contribution in relation to required contribution	$ 893,135	$ 891,325	$ 993,039
Contribution deficiency (excess)	$ –	$ –	$ –
Employer Covered Payroll	$ 10,013,144	$ 8,073,594	$ 9,495,538
Contributions as a percentage of covered payroll	8.92%	11.04%	10.46%

Note: The System implemented GASB Statement No. 68 in Fiscal Year 2015. The information above is presented for as many as available. The Schedule is intended to show information for 10 years**.**

Notes to the Required Supplementary Information

1. **Changes of Benefit Terms**
   There were no benefit changes recognized in the Total Pension Liability as of June 30, 2015.

2. **Changes of Assumptions**
   In accordance with Illinois Compiled Statutes, an actuarial review is to be performed at least once every three years to determine the reasonableness of actuarial assumptions regarding the retirement, disability, mortality, turnover, interest and salary of the members and benefit recipients of SURS. An experience review for the years June 30, 2010 to June 30, 2014 was performed in February 2015, resulting in the adoption of new assumptions as of June 30, 2015.

   - Mortality rates. Change from the RP 2000 Mortality table projected to 2017, sex distinct, to the RP-2014 mortality tables with projected generational mortality improvement. Change to a separate mortality assumption for disabled participants.
   - Salary increase. Change assumption to service-based rates, ranging from 3.75 percent to 15.00 percent based on years of service, with underlying wage inflation of 3.75 percent.
   - Normal retirement rates. Change to retirement rates at ages younger than 60, age 66, and ages 70-79 to reflect observed experiences.
   - Early retirement rates. Change to a slight increase in the rates at ages 55 and 56.
   - Turnover rates. Change to produce lower expected turnover for members with less than 10 years of service and higher turnover for members with more than 10 years of service than the currently assumed rates.
   - Disability rates. Decrease rates and have separate rates for males and females to reflect observed experience.
   - Dependent assumption. Maintain the current assumption on marital status that varies by age and sex and the assumption that males are three years older than their spouses.

3. **Covered Payroll**
   The definition of covered payroll has been redefined in GASB Statement No. 82, *Pension Issues - An Amendment of GASB Statements Number 67, Number 68 and Number 73*. Below are the definitions from the glossaries of each statement.

   GASB Statement No. 67, *Covered-Employee Payroll*. The payroll of employees who are provided with pensions through the pension plan.

   GASB Statement No. 82, *Covered Payroll*. All elements included in compensation paid to active employees on which contributions to a pension plan are based.

Insurance in Force (Unaudited)

Type of Coverage	Required Coverage	Coverage in Force (a)
Fire and lightning, extended coverage	Not stipulated	$100,000,000 Primary
Use and occupancy insurance (business interruption)	None (b)	Actual sustained within policy limits (c)
General liability insurance	$100,000/person $300,000/accident	$10,650,000/occurrence $19,650,000/aggregate
Corporate surety bonds	$4,242,500 (d)	$5,000,000 (e)
Each University employee blanket crime policy	None	$2,000,000

Notes:

(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, 2016 over cash and short-term investments in the Bond Account and Bond Reserve at June 30, 2016.

(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.

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 2012, students enrolling at the University pay a fee of $6.75 per credit hour for the right to use the University's Student Union.

STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
SUPPLEMENTARY INFORMATION
UNIVERSITY FACILITIES SYSTEM REVENUE BOND FUNDS (UNAUDITED)
JUNE 30, 2016

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, 2016 is as follows:

	Balance of Assets Reserved	Deposits Required to Date	Maximum Reserve Requirement
Bond account (a)	$ 535,825	$ 535,825	$ 535,825
Renewal and replacement reserve account (b)	$ 432,166	$ 2,050,000	$ 500,000
Non-instructional facilities reserve account	$ –	$ –	$ –
Equipment reserve account (c)	$ 146,253	$ 146,253	$ 146,253

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 July 1, 2016.

(b) Total expenditures for extraordinary repairs, as defined in the bond indenture, as of June 30, 2016, amounted to $2,490,887. Amounts used in this manner are to be replaced in the reserve by extending the periodic payments until the maximum is accumulated.

(c) The balance of the equipment reserve account reflects amounts transferred to the equipment reserve bank account as of June 30, 2016. In addition to these funds, $300,000 has been reserved by the University but has yet to be transferred to the reserve bank account as of June 30, 2016.

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

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable Frank J. Mautino
Auditor General
State of Illinois

and

The Board of Trustees
Northeastern Illinois University

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Northeastern Illinois University (University) and its discretely presented component unit, collectively a component unit of the State of Illinois, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated January 10, 2017. Our report includes a reference to other auditors who audited the financial statements of the University's discretely presented component unit, as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a

333 SOUTH DES PLAINES STREET, SUITE 2-N CHICAGO, IL 60661 tel: 312.876.1900 fax: 312.876.1911

combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings as items 2016-001, 2016-002, and 2016-003 that we consider to be significant deficiencies.

Compliance and Other Matters

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

Northeastern Illinois University's Responses to Findings

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

Purpose of this Report

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

SIGNED ORIGINAL ON FILE

Chicago, Illinois
January 10, 2017

Schedule of Findings

Current Findings – *Government Auditing Standards*

Finding 2016-001 Inadequate Controls over Recording of Bond Issuance Costs

Northeastern Illinois University (University) has not established adequate internal controls over recording of bond issuance costs.

During fiscal year 2016, the University issued Certificates of Participation (COP) Series 2015 in the amount of $9,510,000 as a result of refunding all the outstanding COP Series 2006. During testing, auditors noted the University incorrectly recorded a bond discount of $201,582, composed of underwriters' discounts of $152,332 and a bond insurance premium of $49,250. The bond discount is presented as a reduction in COP Series 2015 in the University's originally submitted financial statements. The University also has recorded an amortization of the bond discount of $20,158 during fiscal year 2016.

Further, in fiscal year 2015 when the University issued Revenue Bond Series 2014, the auditors noted that the University also incorrectly recorded a bond discount of $300,020 for Revenue Bond Series 2014, composed of underwriters' discounts of $266,570 and a bond insurance premium of $33,450. The bond discount is presented as a reduction in Revenue Bond Series 2014 in the University's prior year financial statements. The University recorded an amortization of bond discount for Revenue Bond Series 2014 of $7,501 and $15,001 in fiscal years 2015 and 2016, respectively.

The auditors proposed audit adjustments to correct the matters described above. University management reviewed and accepted the proposed adjustments; however, the University recorded the entire unamortized amount of $458,942 to expense during the current fiscal year since the adjustment to beginning net position and prepaid expenses was determined to be immaterial in relation to the financial statements.

Generally Accepted Accounting Principles (GAAP) for governmental entities is promulgated by the Governmental Accounting Standards Board (GASB). GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* paragraph 15, establishes that debt issuance costs, defined as all costs incurred to issue debt, including but not limited to insurance costs (net of rebates from the old debt, if any), financing costs (such as rating agency fees), and other related costs (such as printing, legal, administrative, and trustee expenses) should be recognized as an expense in the period incurred, except for any portion related to prepaid insurance costs. Prepaid insurance costs should be reported as an asset and recognized as an expense in a systematic and rational manner over the duration of the related debt.

Schedule of Findings

Current Findings – *Government Auditing Standards* (continued)

Finding 2016-001 Inadequate Controls over Recording of Bond Issuance Costs (continued)

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

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

University management stated that current understaffing and subsequent re-arranging of staff duties caused the University to mistakenly misclassify the bond issuance costs.

Failure to maintain accounting records and present financial reports in accordance with accounting principles generally accepted in the United States of America may result in material misstatement of the financial statements. (Finding Code No. 2016-001)

Recommendation

We recommend the University implement procedures to ensure bond related costs are properly identified and recorded in the University's accounting records in order to facilitate accurate financial reporting.

University's Response

The University agrees with the recommendation and believes the oversight to be an isolated incident and will continue to implement procedures that are in place for adequate review of complete and accurate financial data.

Schedule of Findings

Current Findings – *Government Auditing Standards* (continued)

Finding 2016-002 Inadequate Controls over Monitoring of Deposits and Investments

Northeastern Illinois University (University) did not have adequate controls over deposits and investments to comply with its investment policy.

The University utilizes several different banks for its various activities. As of June 30, 2016, the University has a total deposit of $31,741,514 in one of its banks. The total bank deposits in excess of the $250,000 Federal Deposit Insurance Corporation (FDIC) coverage amounted to $31,491,514. During our review of the University's compliance with its investment policy, it was noted that the bank provided pledge collateral of U.S. Treasury Notes with a total market value of $33,548,733 as of June 30, 2016 (106% of the total bank deposits in excess of FDIC coverage).

Further, we also noted the University did not perform a review of the adequacy of collateral coverage on a regular basis during the fiscal year.

Section IV of the University Statement of Investment Policy states that at all times in order to meet the objective of safety capital, the Treasurer will require deposits in excess of the federally insured amount to be collateralized to the extent of one hundred and ten percent (110%) and evidenced by an approved written agreement. It further requires the ratio of fair market value of collateral to the amount of funds secured shall be reviewed weekly and additional collateral will be requested when the ratio declines below the level required.

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

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

Schedule of Findings

Current Findings – *Government Auditing Standards* (continued)

Finding 2016-002 Inadequate Controls over Monitoring of Deposits and Investments (continued)

University management stated the condition noted was the result of an inconsistency between the University's investment policy of 110% collateralization for certain deposits (those above federally insured amount) and the actual compliance level required by the University's bank of 100%. Management stated that review of the adequacy of collateral coverage was not performed due to oversight.

Failure to obtain adequate collateral coverage and regular review of the adequacy of collateral coverage resulted in noncompliance with the University's investment policy. (Finding Code No. 2016-002)

Recommendation

We recommend the University establish and implement procedures to improve controls over monitoring of its deposits and investments to ensure compliance with University investment policy.

University's Response

The University agrees with the recommendation and is now in the process of reviewing and updating its investment policy and the collateral agreement with the bank to improve procedures in monitoring its deposits and investments and ensure compliance with policy.

Schedule of Findings

Current Findings – *Government Auditing Standards* (continued)

Finding 2016-003 Inadequate Controls over Allowance for Doubtful Accounts and Monitoring of Construction Projects

Northeastern Illinois University (University) did not establish an adequate process to evaluate the estimated allowance for doubtful accounts receivable and did not have adequate controls in place to monitor the completion of its construction projects.

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

- The University estimated the allowance for doubtful accounts of the student accounts receivable to be $10,826,833 (60%) of the gross student accounts receivable balance of $18,055,339 at June 30, 2016. The allowance for doubtful accounts was calculated by applying estimated percentages of allowance for doubtful accounts to the outstanding receivables based on aging categories. The University has not recently evaluated its process to determine the reasonableness of the estimated percentages and could not provide auditors with any substantive basis for the percentages used that were available for review. As such, we could not test the information used by management to develop the estimates.

  University management stated that at one time the University established a 'baseline' allowance for different aging categories of student accounts, and has continued to use this baseline with slight variation. The condition noted occurred because the University has not recently completed an updated analysis to determine whether this baseline remains an accurate and reasonable representation of receipts to be collected.

- The University's capital assets as of June 30, 2016 included construction in progress (CIP) account totaling $8,584,892. During our testing, there were 10 CIP projects as of June 30, 2016; however, the University could not provide the percentage of completion for three CIP projects totaling $1,766,623. Although the University provided a listing of CIP projects with accumulated costs incurred as of June 30, 2016, the University could not provide the percentage of completion for said projects.

  University management stated the inadequate tracking of construction in progress was the result of a vacancy position in the Director of Planning and Construction who is responsible for keeping a Project Execution Plan which tracked project status.

Schedule of Findings

Current Findings – *Government Auditing Standards* (continued)

Finding 2016-003 Inadequate Controls over Allowance for Doubtful Accounts and Monitoring of Construction Projects (continued)

According to Generally Accepted Accounting Principles (GAAP), the allowance for doubtful accounts should represent management's best estimate of the amount of receivables that will not be collected. The allowance for doubtful accounts is a significant estimate that requires proper analysis and evaluation of past and current events as well as assumptions used. Typically, organizations will perform a retrospective review to determine if the methodology used in developing the estimate compares to the actual results achieved in a subsequent period.

Good internal controls require costs incurred during construction of assets and percentage of completion of the project be monitored until such time as the project is determined to be completed for its intended use or to determine possible impairment.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the University to establish and maintain a system of internal fiscal and administrative controls to ensure resources are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

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

Failure to have a sound methodology to establishing the estimated percentages of the allowance for doubtful accounts and sufficient documentation to support the data used in determining and analyzing the estimated allowance increases the likelihood of material misstatement of the financial statements. Ongoing monitoring of construction projects will ensure accurate status of capital projects. (Finding Code No. 2016-003)

Recommendation

We recommend the University accumulate relevant, sufficient and reliable data for analysis and adjust its methodology for calculating the allowance for doubtful accounts, as necessary. The University should also perform a retrospective review of the estimate developed in the preceding year to determine if the estimate was reasonable based upon actual results in the

Schedule of Findings

Current Findings – *Government Auditing Standards* (continued)

Finding 2016-003 Inadequate Controls over Allowance for Doubtful Accounts and Monitoring of Construction Projects (continued)

subsequent period. We also recommend the University implement procedures to ensure CIP projects are properly and regularly monitored to facilitate accurate financial reporting.

University's Response

The University agrees with the recommendations. The University will put in place procedures for a regular review and adjustments, if necessary, of its methodology for establishing percentages of allowance for doubtful accounts and will also look into improving its process with the facilities management office to monitor status of CIP projects.

Schedule of Findings

Prior Finding Not Repeated – *Government Auditing Standards*

A. Inadequate Journal Entry and Bank Reconciliation Controls

During the prior period, Northeastern Illinois University (University) did not have adequate internal controls over the review and approval of journal entries and bank reconciliations.

Disposition: During the current period, our sample testing disclosed journal entries were reviewed and approved by another individual prior to entry into the University's accounting system and bank reconciliations were reviewed and approved by a person independent of the preparer in a timely manner. (Finding Code No. 2015-001)