STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY

FINANCIAL AUDIT
For the Year Ended June 30, 2017

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, 2017

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Related Report Published Under a Separate Cover

Northeastern Illinois University
Compliance Examination (In Accordance with the Uniform Guidance) for the Year Ended June 30, 2017

STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
FINANCIAL AUDIT
FOR THE YEAR ENDED JUNE 30, 2017

University Officials

President	
Interim (from October 1, 2016)	Dr. Richard Helldobler
(to September 30, 2016)	Dr. Sharon Hahs
Provost	
Acting (from October 1, 2017)	Dr. Wamucii Njogu
(from July 1, 2017 to September 30, 2017)	Vacant
Acting (from October 1, 2016 to June 30, 2017)	Dr. Victoria Roman-Lagunas
(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	
(from January 29, 2018)	Ms. Beni Ortiz
(from October 1, 2017 to January 28, 2018)	Vacant
(to September 30, 2017)	Ms. Fe Lenon
Director of Internal Audit	
(from September 11, 2017)	Ms. Rita Moore
(from April 1, 2017 to September 10, 2017)	Vacant
(from March 1, 2016 to March 31, 2017)	Mr. Glen Gustafson
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, 2017

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 a matter involving the University's internal control over financial reporting that they considered to be a significant deficiency. The significant deficiency is described in the accompanying Schedule of Findings on pages 62 through 64 of this report as item 2017-001 *Inadequate Controls over Financial Close and Reporting.*

Exit Conference

The University waived having an exit conference in a letter dated February 7, 2018, from Michael Pierick, Vice President for Finance and Administration/Treasurer.

The response to the recommendation was provided by Michael Pierick, Vice President for Finance and Administration/Treasurer, in a letter dated February 21, 2018.

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, 2017, 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

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

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, 2017, 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 14 to the financial statements, the financial statements have been restated as of July 1, 2016 for prior year errors. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the University's 2016 financial statements, and we expressed unmodified audit opinions on the respective financial statements of the business-type activities and discretely presented component unit of the University in our report dated January 10, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, 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 18 and pension information on pages 56 through 57 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 February 21, 2018 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
February 21, 2018

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, 2017 with comparative information for the fiscal year ended June 30, 2016. 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 generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB) which establish standards for external financial reporting and provide a consolidated perspective of the University's assets, deferred outflows of resources, liabilities, deferred inflows of resources, 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 nonoperating 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, 2017 are presented below:

- The University has total assets of $237.2 million, including current assets of $36.1 million and noncurrent assets of $201.1 million.

- The University has deferred outflows of resources of $1.0 million relating to pension expense for federal/trust/grant/other contributions.

- The University has total liabilities of $74.3 million, including current liabilities of $13.8 million and noncurrent liabilities of $60.5 million.

- The University has deferred inflows of resources of $32.4 million relating to capital assets constructed under service concession arrangement.

- The total net position of the University decreased by $8.7 million, including the effects of prior period adjustments of $0.5 million, from the prior year of $140.2 million to $131.5 million, with a decrease of $1.3 million in net investment in capital assets and a decrease of $8.5 million in unrestricted net position.

- The total operating revenues of the University were $78.8 million, including $49.4 million in student tuition and fees (net of scholarship allowances) and $22.1 million in federal, state, and nongovernmental grants and contracts.

- The total operating expenses of the University were $196.7 million, including $92.5 million for instruction.

- The operating loss of $117.9 million of the University was partially funded by nonoperating 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 $10.2 million before other revenues, expenses, gains and losses. This amount includes $7.0 million in depreciation expense.

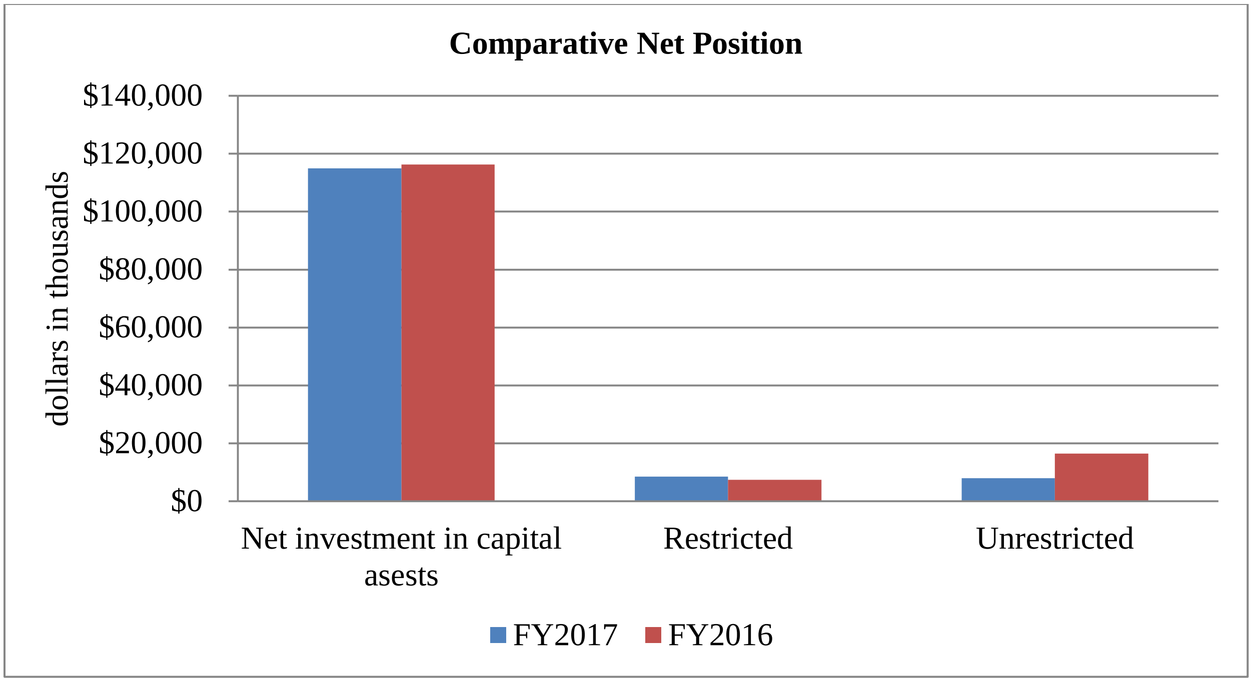
FINANCIAL ANALYSIS

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, 2017 and 2016
(dollars in thousands)

	2017	2016	Increase (Decrease)	Percent Change
ASSETS				
Current assets	$ 36,072	$ 45,271	($ 9,199)	(20.3%)
Noncurrent assets:				
Restricted cash and cash equivalents	2,035	578	1,457	252.1%
Student loan receivable, net	907	1,057	(150)	(14.2%)
Capital assets, net	197,271	167,404	29,867	17.8%
Other assets	890	890	–	–%
Total noncurrent assets	201,103	169,929	31,174	18.3%
Total assets	237,175	215,200	21,975	10.2%
DEFERRED OUTFLOWS OF RESOURCES	1,005	993	12	1.2%
LIABILITIES				
Current liabilities	13,769	13,339	430	3.2%
Noncurrent liabilities:				
Liability for compensated absences	5,836	5,954	(118)	(2.0%)
Revenue bonds payable, net	14,976	15,248	(272)	(1.8%)
Certificates of participation, net	39,538	41,220	(1,682)	(4.1%)
Installment purchases payable	164	244	(80)	(32.8%)
Total noncurrent liabilities	60,514	62,666	(2,152)	(3.4%)
Total liabilities	74,283	76,005	(1,722)	(2.3%)
DEFERRED INFLOWS OF RESOURCES	32,419	–	32,419	100%
NET POSITION				
Net investment in capital assets	114,945	116,256	(1,311)	(1.1%)
Restricted	8,512	7,448	1,064	14.3%
Unrestricted	8,021	16,484	(8,463)	(51.3%)
Total net position	$ 131,478	$ 140,188	($ 8,710)	(6.2%)

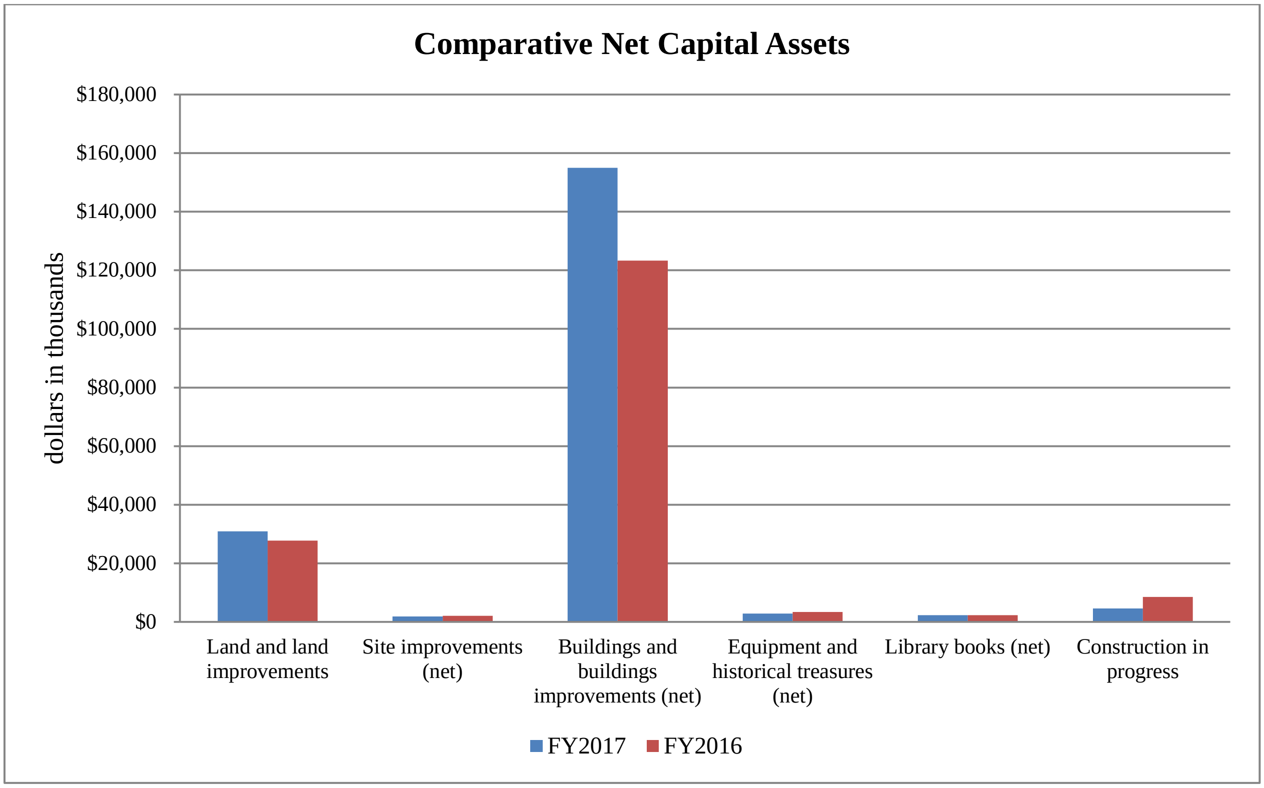
The following chart shows net position by classification and restriction:



Current Assets - Current assets total $36.1 million and consists primarily of cash and cash equivalents of $22.4 million and net receivables of $11.7 million. Total current assets decreased by $9.2 million from the prior year. This is primarily due to the decrease in cash and cash equivalents of $8.0 million and $1.3 million in receivables. The current assets of the University of $36.1 million were sufficient to cover the current liabilities of $13.8 million.

Noncurrent Assets - As of June 30, 2017, the University had total noncurrent assets of $201.1 million compared with $170.0 million at June 30, 2016. The net increase of $31.1 million was primarily due to the capitalization of the University's first student housing project reported as a service concession arrangement under the provisions of GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, as disclosed in Note 13 to the notes to the basic financial statements.

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



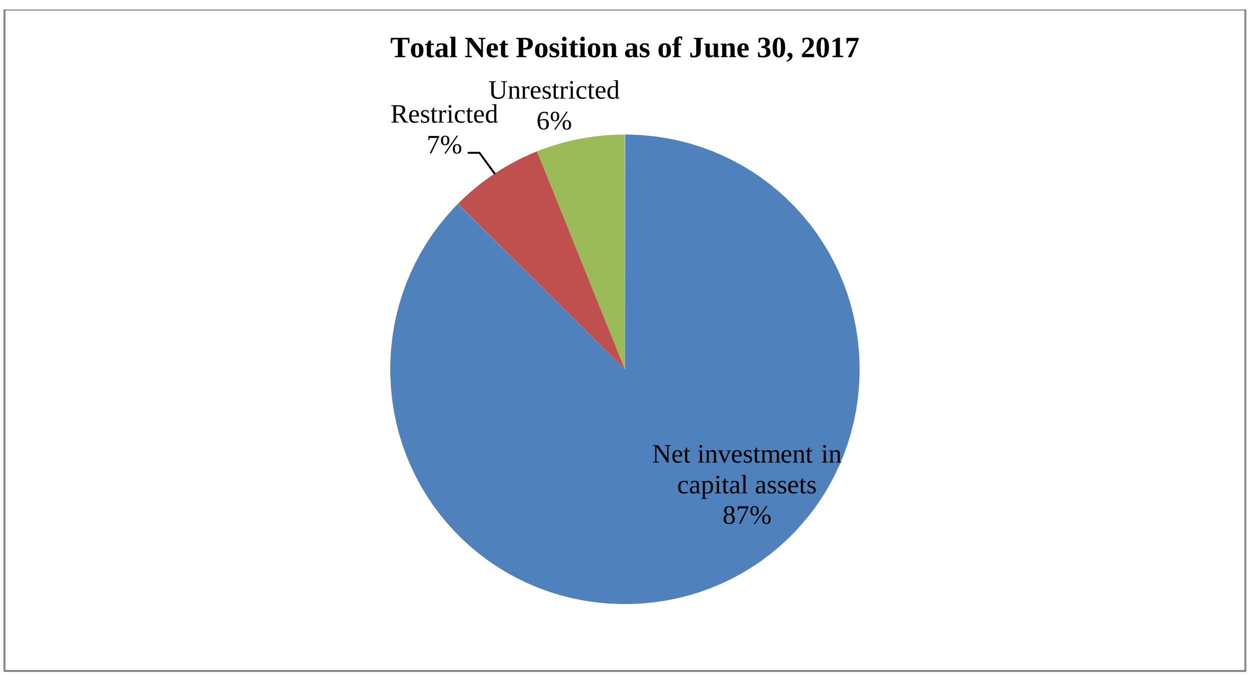
Current Liabilities - Current liabilities total $13.8 million and consist primarily of accounts payable and accrued liabilities of $9.2 million, unearned revenues from tuition and fees of $1.3 million, current portion of liability for compensated absences of $0.8 million, current portion of revenue bonds and certificates of participation of $2.0 million and funds held in custody others of $0.5 million.

Noncurrent Liabilities - Noncurrent liabilities total $60.5 million and 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. The decrease of $2.2 million is primarily due to the payment of currently maturing revenue bonds and certificates of participation.

The University's revenue bonds and certificates of participation payable consist of University Facility Revenue Bonds Series 2014, Certificates of Participation Series 2010, Certificates of Participation Series 2012 and Certificates of Participation Series 2015. In Fiscal Year 2017 principal repayments for the revenue bonds and the certificates of participation are as follows:

Debt Type	(dollars in thousands)
Revenue Bonds Series 2014	$ 235
Certificates of Participation Series 2010	225
Certificates of Participation Series 2012	515
Certificates of Participation Series 2015	840
Total Principal Paid	$ 1,815

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 $8.7 million, net of prior period adjustments of $0.5 million, over the prior year. This is a result of a $1.3 million decrease in net investment in capital assets, an increase of $1.1 million in restricted net position, and a $8.5 million decrease in unrestricted net position. The decrease in net investment in capital assets, was due mainly to the increase in depreciation of properties acquired in Fiscal Year 2016 starting in Fiscal Year 2017 and repayment of maturing revenue bonds and certificates of participation. The decrease in unrestricted net position is due to the insufficient State funding which forced the University to use its locally held funds for expenditures that would normally have been paid out of State appropriations.



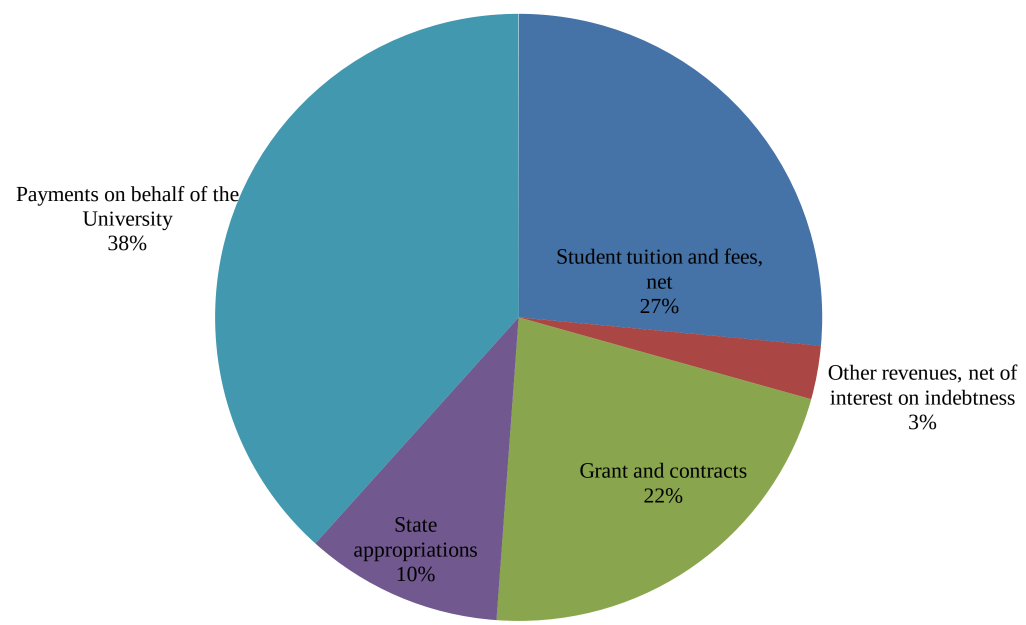
The following is a breakdown of restricted net position:

	(dollars in thousands)	
Restricted for:	Fiscal Year 2017	Fiscal Year 2016
Grants and contracts	$ 1,871	$ 1,766
Student loans	1,150	1,679
Debt service	1,688	1,630
Other	3,803	2,373
Total restricted net position	$ 8,512	$ 7,448

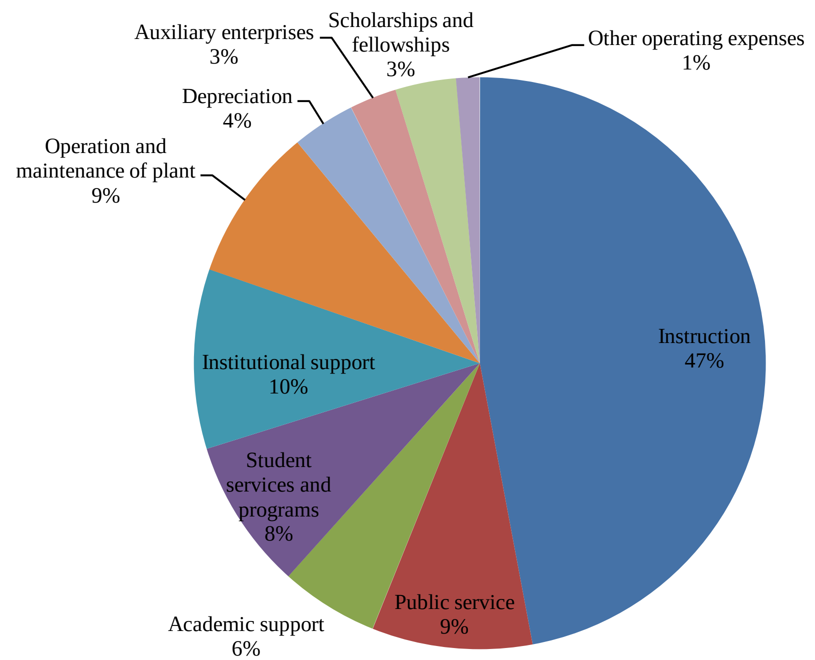
Condensed Statement of Revenues, Expenses, and Changes in Net Position
for the Years Ended June 30, 2017 and 2016
(dollars in thousands)

	2017	2016	Increase (Decrease)	Percent Change
OPERATING REVENUES				
Student tuition and fees, net	$ 49,430	$ 48,852	$ 578	1.2%
Grants and contracts	22,066	22,594	(528)	(2.3%)
Auxiliary enterprises	2,954	2,892	62	2.1%
Other operating revenues	4,373	4,193	180	4.3%
Total operating revenues	78,823	78,531	292	0.4%
OPERATING EXPENSES				
Instruction	92,541	87,352	5,189	5.9%
Public service	17,839	18,435	(596)	(3.2%)
Academic support	10,914	10,066	848	8.4%
Student services and programs	16,739	16,538	201	1.2%
Institutional support	19,973	18,236	1,737	9.5%
Operation and maintenance of plant	17,092	16,344	748	4.6%
Depreciation	7,018	5,560	1,458	26.2%
Auxiliary enterprises	5,250	5,055	195	3.9%
Other operating expenses	9,363	10,330	(967)	(9.4%)
Total operating expenses	196,729	187,916	8,813	4.7%
Operating loss	(117,906)	(109,385)	(8,521)	(7.8%)
NONOPERATING REVENUES (EXPENSES)				
State appropriations	19,562	10,695	8,867	82.9%
Payments on behalf of the University	71,524	60,747	10,777	17.7%
Federal grants - Pell and SEOG	15,421	16,060	(639)	(4.0%)
State grants - MAP	3,249	3,420	(171)	(5.0%)
Investment income	130	19	111	584.2%
Interest on indebtedness	(2,166)	(2,319)	153	6.6%
Net nonoperating revenues	107,720	88,622	19,098	21.5%
LOSS BEFORE OTHER REVENUES, EXPENSES, GAINS AND LOSSES	(10,186)	(20,763)	10,577	50.9%
Gain on disposal of capital assets	16	2	14	700.0%
Capital additions provided by State of Illinois	221	255	(34)	(13.3%)
Other capital additions	786	–	786	100.0%
DECREASE IN NET POSITION	(9,163)	(20,506)	11,343	55.3%
NET POSITION, BEGINNING OF YEAR				
Net position, beginning of year, as previously reported	140,188	160,694	(20,506)	(12.8%)
Prior period adjustments	453	–	453	100.0%
Net position, beginning of year, as restated	140,641	160,694	(20,053)	(12.5%)
NET POSITION, END OF YEAR	$ 131,478	$ 140,188	($ 8,710)	(6.2%)

Total Revenue by Source as of June 30, 2017



Total Operating Expenses as of June 30, 2017



Operating Revenues - Total operating revenues for Fiscal Year 2017 totaled $78.8 million. The most significant sources of operating revenues were tuition and fees, and grants and contracts at $71.5 million or 90.7%.

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 financial statement and has displayed the natural categories in the notes to the basic financial statements. The operating expenses for Fiscal Year 2017, including depreciation of $7.0 million, totaled $196.7 million. Under the functional classifications, $120.2 million or 61.1% was used for instruction, student services and programs, and academic support; $20.0 million or 10.2% was used for institutional support; $17.1 million or 8.7% was used for operations and maintenance of plant; $17.8 million or 9.0% was used for public service; $6.8 million or 3.4% was used for scholarships and fellowships; $5.2 million or 2.7% was used for auxiliary services; and $2.6 million or 1.3% was used for research and other operating expenses.

Under the natural classifications, $157.2 million or 80.0% was used for compensation and benefits; $25.4 million or 12.9% was used for supplies and services; $7.1 million or 3.6% was used for scholarships and $7.0 million or 3.5% 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 increased by $19.1 million. This was mainly the result of an increase of $8.9 million in State appropriations, a decrease of $0.8 million in grants, and an increase in payments on behalf of the University of $10.8 million.

Condensed Statement of Cash Flows
For the Years Ended June 30, 2017 and 2016
(dollars in thousands)

	2017	2016	Increase (Decrease)	Percent Change
Cash received from operations	$ 80,351	$ 76,587	$ 3,764	4.9%
Cash expended for operations	(119,515)	(122,049)	2,534	2.1%
Net cash used in operating activities	(39,164)	(45,462)	6,298	13.9%
Net cash provided by noncapital financing activities	38,290	37,674	616	1.6%
Net cash used in capital financing activities	(5,767)	(13,959)	8,192	58.7%
Net cash provided by investing activities	130	19	111	584.2%
Net decrease in cash and cash equivalents	(6,511)	(21,728)	15,217	70.0%
Cash and cash equivalents - beginning of year	30,953	52,681	(21,728)	(41.2%)
Cash and cash equivalents - end of year	$ 24,442	$ 30,953	($ 6,511)	(2.1%)

The primary cash receipts from operating activities consist of student tuition and fees of $49.9 million, and grants and contracts of $23.0 million. Cash outlays included payments to employees of $81.3 million, payments for fringe benefits of $5.3 million, and payments to suppliers of $25.7 million.

The State appropriation of $19.6 million, State MAP grants of $3.2 million and Federal Pell and SEOG grants of $15.4 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 $1.7 million and debt service payments of $4.0 million.

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

The total net cash decrease of $6.5 million from Fiscal Year 2016 was mainly due to insufficient financial support received from the State resulting in implementation of longer employee furlough days and cancellation of classes to save funds and keep its operations.

SIGNIFICANT FINANCIAL EVENTS IMPACTING FUTURE PERIODS

In September 2008, the Board of Trustees endorsed the University's strategic planning priorities that include six major goals and underlying action steps to accomplish each of the goals. The goals are ensuring student success, enhancing academic excellence and innovation, providing urban leadership in Chicago and the region, investing in exemplary faculty and staff, enhancing University operations and facilities, and strengthening the financial position of the University. The strategic plan's goals and action steps were updated in Fall of 2014 and 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 their strategic goals. Through the indicators, areas are identified to which additional resources, financial and staffing, should be allocated to make progress in attaining goals. These goals will continue to guide the University through at least Fiscal Year 2018.

The fiscal climate in Illinois remains uncertain. Since Fiscal Year 2002, the high-water mark for State support for the University appropriations has declined from $45.4 million to $19.6 million for Fiscal Year 2017. This is a total decrease of $25.8 million, or 56.8%. On July 6, 2017, the General Assembly passed SB0006, Public Act 100-021 providing additional appropriations of $17.3 million for Fiscal Year 2017, and $33.2 million for Fiscal Year 2018. Given Illinois' fiscal challenges, it is unlikely this trend toward lower State revenues will change in the near future.

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. However, the Northeastern Illinois University Board of Trustees voted to hold tuition level for incoming freshmen in Fiscal Year 2013. Unfortunately, because of the Illinois 4-year/6-year Guaranteed Tuition Program, that one-year tuition freeze cost the University millions of dollars in tuition revenues. Tuition for incoming freshmen for Fiscal Year 2017 and Fiscal Year 2018 increased by 8.5% and 8.0%, respectively.

A further complication is pension funding. Discussions continue at the state level on options to address the pension challenges, and the State began shifting pension obligations to the University in Fiscal Year 2018. The solution to the State's underfunded pension system will likely have some financial effect on the University.

Another result of decreasing government support for education, at both the state and national levels, is less financial aid grant funding to allow students with few financial resources to attend college. This trend also is likely to continue in future periods. In response, many colleges and universities, including the University, are allocating a portion of operating funds for institutional need-based student aid programs. Future cuts in federal spending likely will decrease available grant funding that has been used at the University for student support services (e.g., veterans and transfer students) and certain facility renovations (e.g., science lab renovations). Further, proposed changes in the 2018 federal tax restructuring would impact graduate students, federal student loan programs, and university endowments therefore affecting scholarship programs.

Given these trends, significant financial events impacting future periods will likely be as follows: State and federal support for the University and 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 saving measures, such as the elimination of over 150 non-instructional staff positions in Summer 2017, approximately two-thirds involving layoffs. The University also eliminated about 90 temporary positions. The University will continue to be good stewards of the resources and use those resources for the highest priorities within the University's strategic plan, focusing on student retention and success. The University will look for new and creative ways to increase student enrollment and to bring additional resources. For example, the University implemented an early alert application in Fall 2017 to support student retention efforts. The University will advocate for appropriate governmental appropriations and grants to support its operations and to assure access to higher education for students with financial need.

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 campus of the University. Following review of five responses, the contract was awarded on August 13, 2014 to American Campus Communities (ACC) as a concession under the Illinois Procurement Code. Fifteen months after the groundbreaking, the University's first residence hall opened on August 19, 2016. Starting Fall 2017, the residence hall was at 87% capacity, exceeding the University's second year target by 4%. By demonstrating a great need for student housing in only its second year, the University will begin to explore future student housing options. The University expects that student housing options increases its opportunities for the recruitment of students from other states and nations.

In Fiscal Year 2016, the University completed the purchase of five properties on Bryn Mawr Avenue to support the University's strategic initiative to develop the expansion phase of its student housing.

In response to the changing fiscal climate in Illinois, the Northeastern community of hundreds of faculty, staff, students, alumni and friends came together in Spring 2017 for a series of University-wide dialogues called Forward 150, which is designed to help the University position itself for the next 150 years. The result of these initial discussions was the creation of two distinct planning paths for the University that began in Fall 2017:

- Budget Process Improvements: The Budget Task Force is reviewing the structures, processes, and methods by which the University does its budgeting. The Task Force will provide recommendations to assure the following in its budgeting: consistency with the strategic plan, mission, vision, values, responsiveness to financial changes, and fluctuations in revenue, maximum financial impact for available revenues, support investment and growth opportunities, and results-driven accountability.

- Program Prioritization: All University functions, from academic departments to student support programs to administrative offices, will undergo a comprehensive review to determine whether the area should grow, maintain, consolidate or contract. The results of these initiatives could have considerable impact on future financial events as this could lead to restructuring, and growing or eliminating programs.

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; or Craig Duetsch, Assistant Vice President for Business Services; all located at 5500 North St. Louis Avenue, Chicago, Illinois 60625.

STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
STATEMENT OF NET POSITION

	JUNE 30,			
	2017		(Comparative totals only) 2016	
	University	Component Unit	University	Component Unit
ASSETS				
Current assets:				
Cash and cash equivalents	$ 20,770,367	$ 863,634	$ 28,734,042	$ 587,810
Restricted cash and cash equivalents	1,637,633	-	1,641,054	-
Short-term investments	-	1,781,122	-	1,780,530
Receivables:				
Grants	4,843,872	-	5,790,886	-
Student loans (net of allowance for doubtful accounts of $452,341 in 2017 and $446,413 in 2016)	99,282	-	117,919	-
Tuition and fees (net of allowance for doubtful accounts of $14,194,573 in 2017 and $10,826,833 in 2016)	6,776,586	-	7,228,506	-
Other receivables (net of allowance for doubtful accounts of $1,088,003 in 2017 and $991,891 in 2016)	817,673	-	742,296	-
Inventories	12,374	-	8,192	-
Prepaid expenses	1,072,566	-	1,006,647	-
Other assets	42,003	159,714	1,051	201,224
Total current assets	36,072,356	2,804,470	45,270,593	2,569,564
Noncurrent assets:				
Restricted cash and cash equivalents	2,034,620	-	578,420	-
Restricted investments	-	9,750,641	-	8,186,073
Assets held under split-interest agreements	-	446,586	-	416,532
Student loans receivable (net of allowance for doubtful accounts of $201,090 in 2017 and $234,037 in 2016)	907,238	-	1,056,571	-
Capital assets:				
Land and land improvements	30,869,025	-	27,728,507	-
Site improvements (net of accumulated depreciation of $5,786,864 in 2017 and $5,487,701 in 2016)	1,827,551	-	2,126,714	-
Buildings and building improvements (net of accumulated depreciation of $70,061,710 in 2017 and $64,068,261 in 2016)	154,927,063	-	123,310,162	-
Equipment (net of accumulated depreciation of $11,491,393 in 2017 and $10,799,068 in 2016)	2,734,429	-	3,287,435	-
Historical treasures and works of art	83,330	-	83,330	-
Library books (net of accumulated depreciation of $23,819,619 in 2017 and $23,213,021 in 2016)	2,274,449	-	2,282,887	-
Construction in progress	4,554,756	-	8,584,892	-
Other assets	890,229	8,000	890,229	8,000
Total noncurrent assets	201,102,690	10,205,227	169,929,147	8,610,605
TOTAL ASSETS	237,175,046	13,009,697	215,199,740	11,180,169
DEFERRED OUTFLOWS OF RESOURCES	1,005,214	-	993,039	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	238,180,260	13,009,697	216,192,779	11,180,169

See accompanying notes to the basic financial statements.

STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
STATEMENT OF NET POSITION

	JUNE 30,			
	2017		(Comparative totals only) 2016	
	University	Component Unit	University	Component Unit
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities	9,189,462	61,241	8,956,104	10,795
Obligations under split-interest agreements	-	15,547	-	15,162
Unearned revenues	1,256,565	-	1,207,772	-
Liability for compensated absences	842,676	-	849,106	-
Revenue bonds payable, net	271,286	-	266,286	-
Certificates of participation, net	1,681,802	-	1,616,802	-
Funds held in custody for others	447,150	382,797	364,279	423,000
Installment purchases payable	79,736	-	78,325	-
Total current liabilities	13,768,677	459,585	13,338,674	448,957
Noncurrent liabilities:				
Obligations under split-interest agreements	-	270,754	-	284,754
Liability for compensated absences	5,835,652	-	5,954,438	-
Revenue bonds payable, net	14,976,210	-	15,247,496	-
Certificates of participation, net	39,538,649	-	41,220,451	-
Installment purchases payable	163,810	-	243,547	-
Total noncurrent liabilities	60,514,321	270,754	62,665,932	284,754
TOTAL LIABILITIES	74,282,998	730,339	76,004,606	733,711
DEFERRED INFLOWS OF RESOURCES	32,419,294	-	-	-
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	106,702,292	730,339	76,004,606	733,711
NET POSITION				
Net investment in capital assets	114,945,427	-	116,255,840	-
Restricted for:				
Nonexpendable:				
Scholarships and memorials	-	10,197,228	-	8,602,604
Expendable:				
Grants and contracts	1,870,646	-	1,765,638	-
Student loans	1,150,484	-	1,679,126	-
Debt service	1,687,500	-	1,630,000	-
Other	3,802,545	1,340,332	2,373,631	1,179,251
Unrestricted	8,021,366	741,798	16,483,938	664,603
TOTAL NET POSITION	$ 131,477,968	$ 12,279,358	$ 140,188,173	$ 10,446,458

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,			
	2017		(Comparative totals only) 2016	
	University	Component Unit	University	Component Unit
OPERATING REVENUES				
Student tuition and fees (net of scholarship allowances of $21,934,130 in 2017 and $20,220,825 in 2016)	$ 49,430,541	$ -	$ 48,851,607	$ -
Federal grants and contracts	19,538,483	-	19,697,354	-
State and local grants	1,608,400	-	1,895,321	-
Nongovernmental grants and contracts	919,199	-	1,001,507	-
Auxiliary enterprises	2,954,003	-	2,891,708	-
Other operating revenues	4,372,542	1,404,271	4,193,423	1,168,735
Total operating revenues	78,823,168	1,404,271	78,530,920	1,168,735
OPERATING EXPENSES				
Instruction	92,540,544	-	87,352,075	-
Research	2,136,674	-	1,200,863	-
Public service	17,838,794	-	18,434,739	-
Academic support	10,914,041	-	10,066,336	-
Student services and programs	16,739,240	-	16,537,739	-
Institutional support	19,973,247	-	18,236,139	-
Operation and maintenance of plant	17,092,183	-	16,343,573	-
Scholarships and fellowships	6,754,998	-	7,853,324	-
Auxiliary enterprises	5,250,333	-	5,055,280	-
Depreciation	7,018,475	-	5,560,519	-
Other operating expenses	471,365	1,295,381	1,275,614	1,738,662
Total operating expenses	196,729,894	1,295,381	187,916,201	1,738,662
Operating income (loss)	(117,906,726)	108,890	(109,385,281)	(569,927)
NONOPERATING REVENUES (EXPENSES)				
State appropriations	19,562,103	-	10,694,997	-
Payments on behalf of the University	71,523,784	-	60,747,243	-
Federal grants - Pell and SEOG	15,421,315	-	16,059,826	-
State grants - Monetary Award Program (MAP)	3,249,086	-	3,419,612	-
Investment income (loss)	130,012	1,210,071	19,431	(444,589)
Interest on indebtedness	(2,166,228)	-	(2,318,862)	-
Net nonoperating revenues (expenses)	107,720,072	1,210,071	88,622,247	(444,589)
Income (loss) before other revenues, expenses, gains and losses	(10,186,654)	1,318,961	(20,763,034)	(1,014,516)
Additions to permanent endowments	-	513,939	-	474,399
Gain on disposal of capital assets	16,420	-	1,861	-
Capital additions provided by State of Illinois	221,353	-	255,757	-
Other capital additions	785,490	-	-	-
INCREASE (DECREASE) IN NET POSITION	(9,163,391)	1,832,900	(20,505,416)	(540,117)
NET POSITION, BEGINNING OF YEAR				
Net positon, beginning of year, as previously reported	140,188,173	10,446,458	160,693,589	10,986,575
Prior period adjustments	453,186	-	-	-
Net positon, beginning of year, as restated	140,641,359	10,446,458	160,693,589	10,986,575
NET POSITION, END OF YEAR	$ 131,477,968	$ 12,279,358	$ 140,188,173	$ 10,446,458

See accompanying notes to the basic financial statements.

STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
STATEMENT OF CASH FLOWS

	FOR THE YEAR ENDED JUNE 30,			
	2017		(Comparative Totals Only) 2016	
	University	Component Unit	University	Component Unit
CASH FLOWS FROM OPERATING ACTIVITIES				
Student tuition and fees	$ 49,910,801	$ -	$ 48,289,752	$ -
Grants and contracts	23,053,243	-	21,299,443	-
Payments to employees	(81,300,172)	-	(81,179,010)	-
Payments for fringe benefits	(5,260,214)	-	(5,372,070)	-
Payments to suppliers	(25,735,671)	(1,119,358)	(27,101,073)	(1,468,073)
Payments for scholarships and fellowships	(7,095,871)	-	(8,249,704)	-
Loans issued to students	(123,204)	-	(147,685)	-
Collections of loans from students	296,517	-	387,618	-
Auxiliary enterprises	2,942,814	-	3,017,348	-
Other receipts	4,148,096	975,074	3,592,837	1,238,558
Net cash used in operating activities	(39,163,661)	(144,284)	(45,462,544)	(229,515)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State appropriation	19,568,580	-	18,000,795	-
Federal grants - Pell and SEOG	15,389,469	-	16,149,573	-
State grants - Monetary Award Program (MAP)	3,249,086	-	3,552,116	-
Agency transactions	82,871	-	(28,284)	-
Other noncapital financing activities	-	513,939	-	474,399
Net cash provided by noncapital financing activities	38,290,006	513,939	37,674,200	474,399
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES				
Purchases of capital assets and construction	(1,733,670)	-	(10,180,236)	-
Proceeds from bond refinance	-	-	9,818,921	-
Principal paid on capital debt and leases	(1,861,722)	-	(11,145,000)	-
Interest paid on capital debt and leases	(2,171,862)	-	(2,452,800)	-
Net cash used in capital financing activities	(5,767,254)	-	(13,959,115)	-
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sales and maturities of investments	-	1,499,229	-	2,055,617
Interest on investments	130,012	-	19,431	-
Purchases of investments	-	(1,593,060)	-	(3,353,609)
Net cash provided by (used in) investing activities	130,012	(93,831)	19,431	(1,297,992)
Net increase (decrease) in cash and cash equivalents	(6,510,897)	275,824	(21,728,028)	(1,053,108)
Cash and cash equivalents - beginning of year	30,953,516	587,810	52,681,544	1,640,918
Cash and cash equivalents - end of year	$ 24,442,619	$ 863,634	$ 30,953,516	$ 587,810
Reconciliation of operating income (loss) to net cash used in operating activities:				
Operating income (loss)	$ (117,906,726)	$ 108,890	$ (109,385,281)	$ (569,927)
Adjustments to reconcile operating income (loss) to net cash used in operating activities:				
Payments on-behalf of the University	71,523,784	-	60,747,243	-
Realized gain on sale and changes in market value of investments	-	301,230	-	320,444
Loss on split-interest agreement	-	(30,418)	-	169,308
Donated stock	-	(514,307)	-	-
Depreciation	7,018,475	-	5,560,519	-
Changes in assets and liabilities:				
Receivables, net	1,516,896	41,510	(1,845,075)	8,145
Prepaid expenses and other assets	(119,046)	-	(430,426)	584
Inventories	(4,182)	-	(2,695)	-
Accounts payable and accrued liabilities	(1,116,439)	50,446	564,493	10,795
Obligations under split-interest agreements	-	(20,888)	-	(19,047)
Liability for compensated absences	(125,216)	-	(343,264)	-
Unearned revenues	48,793	(80,747)	(328,058)	(149,817)
Net cash used in operating activities	$ (39,163,661)	$ (144,284)	$ (45,462,544)	$ (229,515)
Noncash operating and capital financing activities:				
On-behalf payments for fringe benefits	$ 71,523,784	$ -	$ 60,747,243	$ -
Capital asset acquisition through capital appropriations	$ 221,353	$ -	$ 255,757	$ -
Unpaid capitalized cost of land	$ 2,300,000	$ -	$ -	$ -

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, 2017, 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. 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 Monetary Award Program (MAP) grants and payments of the State for retirement and health care costs on-behalf of the University 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.*

The student housing facility is depreciated over the remaining term of the Ground Lease agreement of 38 years and 9 months.

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

Revenue Bonds and Certificates of Participation (COP) 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 certain 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. The deferred inflow of resources reported by the University relates to a service concession arrangement as explained in Note 13 to the basic financial statements. 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 10 to the basic financial statements.

Revenue Recognition

Appropriations made from the State of Illinois General Revenue, Capital Development and Education Assistance 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 Term, are recognized as revenues as they are assessed. Tuition and fees are reduced by scholarship discounts and allowances of $21,934,130 for Fiscal Year 2017. The Summer Term tuition and fees are allocated between fiscal years based on when the revenue is earned, since the Summer Term begins in one fiscal year and ends in the next. The portion of Summer Term 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 $4,115,451 in Fiscal Year 2017.

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.

The University relies on certain revenue sources to provide funding for operations, including State appropriations, payments on-behalf of the University, State 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 Pronouncements

The University adopted the provisions of GASB Statements 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,* No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* No. 77, *Tax Abatement Disclosures,* No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans,* No. 80, *Blending Requirements for Certain Component Units–an Amendment to GASB Statement No. 14,* and No. 82, *Pension Issues an Amendment of GASB Statements No. 67, No. 68, and No. 73* during the fiscal year ended June 30, 2017. GASB Statement No. 73 seeks to improve financial reporting by establishing a single framework for the presentation of information about pensions, which will enhance the comparability of pension-related information reported by employers and non-employer contributing entities. GASB Statement No. 74 seeks to improve the usefulness of information about postemployment benefits other than pensions. GASB Statement No. 77 requires the University to disclose information about the nature and magnitude of tax abatements. GASB Statement No. 78 amends the scope and applicability of Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan. It establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for such pensions. GASB Statement No. 80 seeks to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. GASB Statement No. 82 addresses certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and 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*. The impact of adoption of these statements has been deemed to be minimal to the reporting of the University. In addition, the University will be required to implement GASB Statements No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* No. 81, *Irrevocable Split-Interest Agreements,* No. 85, *Omnibus 2017,* and No. 86, *Certain Debt Extinguishment Issues* in Fiscal Year 2018. The University has not yet evaluated the impact of adopting future pronouncements 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 Position as of June 30, 2017:

	University	Foundation
Carrying amounts of deposits	$ 14,879,221	$ 863,634
Carrying amounts of investments	9,556,699	11,978,349
	$ 24,435,920	$ 12,841,983

	University	Foundation
Cash and cash equivalents	$ 20,763,667	$ 863,634
Restricted cash and cash equivalents - current	1,637,633	–
Restricted cash and cash equivalents - noncurrent	2,034,620	–
Short-term investments	–	1,781,122
Long-term investments	–	10,197,227
	$ 24,435,920	$ 12,841,983

The University also had cash on hand of $6,700 as of June 30, 2017.

Deposits

The University utilizes multiple bank accounts for the various activities of the University. The book balance of such accounts was $14,879,221 at June 30, 2017, while the bank balance was $16,458,117. The difference between the above amounts primarily represents checks that have been issued but have not yet cleared the bank as of June 30, 2017.

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 policy for reducing its exposure to the risk is to require deposits in excess of the federally insured amount to be collateralized at 100%. As of June 30, 2017, the University's deposits were covered by the Federal Deposit Insurance Corporation (FDIC) and by collateral held by the financial institution in the University's name.

The Foundation maintains its cash in several separate accounts at two different institutions. These accounts are insured by the FDIC up to $250,000 at each financial institution. As of June 30, 2017, the combined uninsured balance was $564,815. The Foundation has not experienced any loss in these accounts. The Foundation believes it is not exposed to any significant credit risk on its cash balance.

University 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 fair value of the University investments as of June 30, 2017 is as follows:

Investments:	Fair Value	Maturity	S&P/Moody's
Illinois Fund	$ 7,991,072	< 1 year	AAAm
U.S. Treasury Notes	1,565,627	< 1 year	AAAm/Aaa-mf
	$ 9,556,699		

The fair value of the investments is further categorized by levels depending on the type of inputs used for their valuation.

- Level 1 - Unadjusted quoted prices for identical assets in active markets that are accessible at the date of measurement.
- Level 2 - Quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the assets.

- Level 3 - Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (that is, the inputs are supported by little or no market activity).

Investments:	Fair Value	Level 1	Level 2	Level 3
Illinois Fund	$ 7,991,072	$ 7,991,072	$ –	$ –
U.S. Treasury Notes	1,565,627	1,565,627	–	–
	$ 9,556,699	$ 9,556,699	$ –	$ –

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.

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.

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, 2017, 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.

Foundation Investments

The fair value and valuations of the Foundation investments as of June 30, 2017 is as follows:

Investments:	Fair Value	Level 1	Level 2	Level 3
Mutual Funds	$ 11,902,287	$ –	$ 11,902,287	$ –
Certificate of Deposit	76,062	–	76,062	–
	$ 11.978,349	$ –	$ 11,978,349	$ –

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. As a means of limiting its exposure to fair value losses arising from rising interest rates, as long-term guideline, the Foundation investments will normally constitute 80% equity investments and 20% fixed-income securities. Interest rate risk is managed according to the purpose of the investments and the projected timeframe for the use of these assets. Foundation investments in bond mutual funds as of June 30, 2017 have an average maturity of 6.17 years.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Foundation's investment policy limits investments in corporate securities rated "Baa" or higher.

Credit quality ratings are not required for U.S. Government securities that are explicitly guaranteed by the U.S. Government. The Foundation's holdings as rated by Morningstar as of June 30, 2017 are as follows:

Five Stars	$ 6,640,736
Four Stars	3,761,318
Three Stars	1,500,233
	$ 11,902,287

Country/Regional risk is the risk that domestic events – such as political upheaval, financial troubles, or natural disasters – will weaken a country's or region's securities markets. Foreign Currency risk is the risk that the value of a foreign investment, measured in U.S. dollars, will decrease because of unfavorable changes in currency exchange rates. The Foundation's investment policy limits investments in an international portfolio to 25%. An international portfolio may contain equities issued by companies operating in emerging markets which should not represent more than 5% of all Foundation assets invested in equities. The Foundation's investments were distributed among the following currencies:

Currency:	
U.S. Dollar	$ 8,374,353
Japanese Yen	835,698
Chinese Yuan	615,465
Euro	1,558,022
Other Currencies, Individually Less Than 5% of Fund Portfolio	518,749
	$ 11,902,287

3. CAPITAL ASSETS

Details of the University's investment in capital assets at June 30, 2017 are as follows:

	Balance June 30, 2016	Additions	Transfers	Reductions	Balance June 30, 2017
Capital assets not being depreciated:					
Land and land improvements	$ 27,728,507	$ 3,177,587	($ 37,069)	$ –	$ 30,869,025
Nondepreciable historical treasures and works of art	83,330	–	–	–	83,330
Construction in progress	8,584,892	633,326	(4,419,167)	(244,295)	4,554,756
Total capital assets not being depreciated	36,396,729	3,810,913	(4,456,236)	(244,295)	35,507,111
Capital assets being depreciated:					
Site improvements	7,614,415	–	–	–	7,614,415
Buildings and building improvements	187,378,423	33,154,114	4,456,236	–	224,988,773
Equipment	14,086,503	207,416	–	(68,097)	14,225,822
Library books	25,495,908	600,517	–	(2,357)	26,094,068
Total capital assets being depreciated	234,575,249	33,962,047	4,456,236	(70,454)	272,923,078
Less accumulated depreciation:					
Site improvements	5,487,701	299,163	–	–	5,786,864
Buildings and building improvements	64,068,261	5,993,449	–	–	70,061,710
Equipment	10,799,068	760,422	–	(68,097)	11,491,393
Library books	23,213,021	608,955	–	(2,357)	23,819,619
Total accumulated depreciation	103,568,051	7,661,989	–	(70,454)	111,159,586
Capital assets, net	$ 167,403,927	$30,110,971	$ –	($ 244,295)	$ 197,270,603

As of June 30, 2017, accumulated depreciation for building and building improvements includes adjustment for impairment loss of $643,514 as discussed in Note 14 to the basic financial statements.

4. LONG-TERM DEBT AND OTHER LIABILITIES

Long-term debt and other liabilities at June 30, 2017 are as follows:

	Balance June 30, 2016	Additions	Reductions	Balance June 30, 2017	Amounts Due Within One Year
Compensated absences	$ 6,803,544	$ 646,362	$ 771,578	$ 6,678,328	$ 842,676
Revenue bonds:					
Series 2014	14,935,000	–	235,000	14,700,000	240,000
Premium	578,782	–	31,286	547,496	31,286
Certificates of participation:					
Series 2010	5,345,000	–	225,000	5,120,000	250,000
Certificates of participation:					
Series 2012	27,555,000	–	515,000	27,040,000	540,000
Premium	149,224	–	5,910	143,314	5,910
Certificates of participation:					
Series 2015	9,510,000	–	840,000	8,670,000	855,000
Premium	278,029	–	30,892	247,137	30,892
Installment purchases payable	321,872	–	78,326	243,546	79,736
Subtotal	65,476,451	$ 646,362	$ 2,732,992	63,389,821	$ 2,875,500
Less current portion	2,810,519			2,875,500	
Total noncurrent liabilities	$ 62,665,932			$ 60,514,321	

5. COMPENSATED ABSENCES

It is the policy of the University to accrue vacation pay as earned. As of June 30, 2017, the accrued liability for this benefit was $5,494,591 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, 2017, the accrued liability of this benefit was $1,183,737 and is included in the liability for compensated absences.

6. 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 of Trustees of Northeastern Illinois University (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 $240,000 due on July 1, 2017 to $1,060,000 due on July 1, 2034. Interest is payable on January 1 and July 1 each year, at rates between 3.00% and 5.00%, with an average effective rate of approximately 3.983%. Future aggregate annual payments applicable to the Series 2014 Bonds at June 30, 2017 are:

Fiscal Year	Principal	Interest
2018	$ 240,000	$ 591,000
2019	585,000	575,700
2020	600,000	552,000
2021	625,000	530,625
2022	645,000	508,350
2023 - 2027	3,825,000	2,117,600
2028 - 2032	4,880,000	1,172,225
2033 - 2035	3,300,000	200,760
Total	$ 14,700,000	$ 6,248,260

The Series 2014 Bonds are 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.

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	$ 20,948,260	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.***

7. 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 of Trustees of Northeastern Illinois University (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 U.S. Bank National Association (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 $250,000 due on October 1, 2017 to $645,000 due on October 1, 2028 at rates between 4.125% and 6.000%, with an average effective rate of approximately 5.240%. Future aggregate annual payments applicable to the certificates of participation at June 30, 2017 are:

Fiscal Year	Principal	Interest
2018	$ 250,000	$ 270,925
2019	275,000	259,581
2020	300,000	246,269
2021	330,000	230,894
2022	365,000	213,291
2023 - 2027	2,360,000	721,065
2028 - 2029	1,240,000	75,528
Total	$ 5,120,000	$ 2,017,553

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 of Trustees of Northeastern Illinois University (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 U.S. Bank National Association (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 $540,000 due on October 1, 2017 to $1,815,000 due on October 1, 2041 at rates between 3.000% and 4.100%, with an average effective rate of approximately 3.598%. Future aggregate annual payments applicable to the certificates of participation at June 30, 2017 are:

Fiscal Year	Principal	Interest
2018	$ 540,000	$ 1,000,025
2019	575,000	983,300
2020	610,000	965,525
2021	645,000	946,700
2022	685,000	926,750
2023 - 2027	4,055,000	4,265,398
2028 - 2032	5,350,000	3,447,221
2033 - 2037	6,545,000	2,298,376
2038 - 2042	8,035,000	859,970
Total	$ 27,040,000	$ 15,693,265

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 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 of Trustees of Northeastern Illinois University (Board) under an Installment Purchase Contract with U.S. Bank National Association (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 $855,000 due on July 1, 2017 to $1,090,000 due on July 1, 2025 at rates between 3.00% and 4.00%, with an average effective rate of approximately 3.222%. Future aggregate annual payments applicable to the certificates of participation at June 30, 2017 are:

Fiscal Year	Principal	Interest
2018	$ 855,000	$ 268,625
2019	875,000	242,675
2020	905,000	215,975
2021	935,000	188,375
2022	955,000	160,025
2023 - 2025	4,145,000	317,850
Total	$ 8,670,000	$ 1,393,525

8. 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, 2017 are as follows:

Fiscal Year	Principal	Interest
2018	$ 79,736	$ 4,390
2019	81,174	2,953
2020	82,636	1,489
Total	$ 243,546	$ 8,832

9. 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 September 15, 2016, the University entered into a memorandum of understanding (MOU) with the Foundation. The MOU supersedes the Master Contract between the University and the Foundation approved by the University Board of Trustees on September 22, 2005. Under the terms of the MOU, in serving as the official private gift-procurement arm of the University, the Foundation, in partnership with the University, develops fundraising programs and makes known the opportunities where private support can assist in fulfilling the University's goals. The Foundation undertakes responsibilities for planning, coordinating, and implementing fundraising activities on behalf of the University. The Foundation is dedicated to assisting the University in the building of an endowment and in addressing, through financial support, the long-term academic, research, service goals and other priorities of the University. 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 2017, certain funds and in-kind services of the University with an estimated value of $176,883 were provided to the Foundation without charge. In turn, during Fiscal Year 2017, the Foundation gave the University $537,673 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 $611,684 in Fiscal Year 2017 for scholarships and awards.

10. PENSION 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, 2016 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 2016 and Fiscal Year 2017, respectively, was 12.69% and 12.53% 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 6.0% 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
The net pension liability (NPL) was measured as of June 30, 2016. At June 30, 2016, SURS reported an NPL of $25,965,271,744.

Employer Proportionate Share of Net Pension Liability
The amount of the proportionate share of the net pension liability to be recognized for the University is $0. The proportionate share of the State's net pension liability associated with the University is $456,612,715 or 1.7586%. This amount should not be recognized

in the financial statement. The net pension liability and total pension liability as of June 30, 2016 was determined based on the June 30, 2015 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 2016.

Pension Expense

At June 30, 2016, SURS reported a collective net pension expense of $2,566,164,865.

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 2016. As a result, the University recognized on-behalf revenue and pension expense of $45,127,335 for the fiscal year ended June 30, 2017.

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	$ 14,215,882	$ 2,298,574
Changes in assumption	655,463,758	–
Net difference between projected and actual earnings on pension plan investments	795,528,330	–
Total	$ 1,465,207,970	$ 2,298,574

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
2017	$ 539,536,680
2018	275,426,885
2019	401,520,624
2020	246,425,207
2021	–
Thereafter	–
Total	$ 1,462,909,396

Employer Deferral of Fiscal Year 2017 Pension Expense

The University paid $1,005,214 in federal, trust or grant contributions for the fiscal year ended June 30, 2017. These contributions were made subsequent to the pension liability date of June 30, 2016 and are recognized as Deferred Outflows of Resources as of June 30, 2017.

Assumptions and Other Inputs

Actuarial Assumptions
The actuarial assumptions used in the June 30, 2016 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, 2016 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 15 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 RP2014 Combined Mortality Table with projected generational mortality and a separate mortality assumption for disabled participants.

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, 2016, 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%	6.08%
Private Equity	6%	8.73%
Non-U.S. Equity	19%	6.95%
Global Equity	8%	6.78%
Fixed Income	19%	1.17%
Treasury-Inflation Protected Securities	4%	1.41%
Emerging Market Debt	3%	4.44%
Real Estate REITS	4%	5.75%
Direct Real Estate	6%	4.62%
Commodities	2%	4.23%
Hedged Strategies	5%	4.00%
Opportunity Fund	1%	6.54%
Total	100%	5.09%
Inflation		2.75%
Expected Arithmetic Return		7.84%

Discount Rate

A single discount rate of 7.010% 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 2.85% (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 2073. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2073, 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 7.01%, 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 6.01%	Current Single Discount Rate Assumption 7.01%	1% Increase 8.01%
$ 31,348,831,631	$ 25,965,271,744	$ 21,502,421,700

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.

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.

11. OPERATING LEASES

The University leases various buildings and equipment under operating lease agreements. Total rental expense for the year ended June 30, 2017 under these agreements was $470,850. Minimum lease payments for the years ending June 30 are:

Fiscal Year	Amount
2018	$ 346,398
2019	43,955
2020	19,788
2021	19,788
Total	$ 429,929

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 2017 was $52,710. Under the contract, the Vendor extended terms made during its negotiations with the Illinois Department of Revenue regarding marketing monies due to the University on an annual basis. The Vendor agreed to allocate statewide $440,000 of marketing money. The University's share of the marketing money is 3.5948% of the total allocated statewide, or $16,617. Payment of these funds is due at the beginning of each year throughout the term of the contract. The University received its payment of $16,617 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.

On December 6, 2017, the University renewed its contract with the Vendor. The contract will expire upon the alter of December 5, 2020, and may be extended for up to two additional one year terms upon the mutual agreement of both parties.

13. SERVICE CONCESSION ARRANGEMENTS FOR STUDENT HOUSING

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 of Northeastern Illinois University (Board) 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 of Trustees 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, 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. The University reported this transaction as a service concession arrangement effective Fiscal Year 2017 under the provisions of GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. The University recorded the student housing facility under building and building improvement at acquisition value of $36,433,432, inclusive of the capitalized portion of the upfront equity contributed by the University of $3,228,618. A corresponding deferred inflow of resources of $33,204,784 is recognized pursuant to GASB Statement No. 60. The deferred inflow of resources is to be amortized over the remaining term of the Ground Lease Agreement. In Fiscal Year 2017, the amortization amounted to $785,490.

14. PRIOR PERIOD ADJUSTMENTS

In Fiscal Years 2013 to 2016, the University acquired parcels of land and buildings to support the University's strategic initiative to construct student housing. This initiative is on its preliminary stage of planning and development, and involve demolition of existing buildings, including the Bernard Office building (BOB) which is currently being used as an office building. As a result, the University recognized an impairment loss on the BOB building due to the change in the manner or expected duration of use of the capital asset. The University reduced the useful life of the BOB building and adjusted its net book value due to impairment loss by $643,514. This impairment loss should have been recognized in Fiscal Year 2013 when University management began to plan and identify this site as location of the student housing. As a result, the net position at July 1, 2016 decreased by $643,514.

In addition, the University reversed the accrual of their share in group health, dental and life insurance for Fiscal Year 2016 as allocated and estimated by the Department of Central Management Services amounting to $1,096,700. As a result, the net position at July 1, 2016 increased by $1,096,700.

15. OPERATING EXPENSES BY NATURAL CLASSIFICATION

Details of the University's operating expenses by natural classification as June 30, 2017 are as follows:

	Compensation and Benefits	Supplies and Services	Scholarships	Depreciation	Total
Instruction	$ 89,468,595	$ 2,950,100	$ 121,849	$ –	$ 92,540,544
Research	1,384,035	567,046	185,593	–	2,136,674
Public service	11,964,809	5,840,956	33,029	–	17,838,794
Academic support	8,886,980	2,027,061	–	–	10,914,041
Student services and programs	11,569,972	5,168,866	402	–	16,739,240
Institutional support	17,084,058	2,889,189	–	–	19,973,247
Operation and maintenance of plant	13,456,761	3,635,422	–	–	17,092,183
Scholarship and fellowships	–	–	6,754,998	–	6,754,998
Auxiliary enterprises	3,331,803	1,918,530	–	–	5,250,333
Depreciation	–	–	–	7,018,475	7,018,475
Other operating expenses	76,769	394,596	–	–	471,365
Total operating expenses	$ 157,223,782	$ 25,391,766	$ 7,095,871	$ 7,018,475	$ 196,729,894

16. 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 $71,523,784 representing $26,396,449 for health care and $45,127,335 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.

17. 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.

18. SEGMENT INFORMATION

A segment is an identifiable activity for which one or more revenue bonds or other revenuebacked debt instruments are outstanding. A segment has a specific, identifiable revenue stream pledged in support of the revenue bonds and has related expenses, gains and losses, assets and liabilities that can be identified.

The University Facilities System was created in July 1973. It consists of buildings such as student union, multi-level parking and other structures, that have been constructed and improved with funding provided from the issuance of revenue bonds. Its revenues mainly include student union fees, parking user fees and parking violation fines, campus improvement fees, and commission from vending operations and concession fees from bookstore operations. Its operating expenses mainly include personnel costs, repairs, maintenance and other contractual services, and depreciation.

The following are the condensed financial statements for the University Facility System. These financial statements have been prepared to satisfy the requirements of the Revenue Bond Resolution. The financial balances and activities of the University Facilities System are included in the University financial statements.

Condensed Statement of Net Position	June 30, 2017
Assets:	
Current assets	
Unrestricted	$ 1,642,618
Restricted	537,300
Noncurrent assets:	
Capital assets, net	16,784,436
Restricted other noncurrent assets	2,034,620
Total assets	20,998,974
Liabilities:	
Current liabilities	823,267
Noncurrent liabilities	14,976,210
Total liabilities	15,799,477
Net position:	
Net investment in capital assets	1,536,941
Restricted - expendable:	
Capital projects	2,034,620
Debt service	240,000
Unrestricted	1,387,936
Total net position	$ 5,199,497

Condensed Statement of Revenues, Expenses, and Changes in Net Position	For the year ended June 30, 2017
Operating revenues:	
Student tuition and fees, net	$ 1,649,938
Auxiliary enterprises	2,006,018
Total operating revenues	3,655,956
Operating expenses:	
Depreciation	805,426
Other operating expenses	2,312,528
Total operating expenses	3,117,954
Operating income	538,002
Nonoperating revenues (expenses):	
Investment income	85
Interest on indebtedness	(594,600)
Net nonoperating expenses	(594,515)
Decrease in net position	(56,513)
Net position, beginning of year	5,256,010
Net position, end of year	$ 5,199,497

Condensed Statement of Cash Flows		For the year ended June 30, 2017
Net cash provided by (used in):		
Operating activities	$	1,269,674
Capital financing activities		(829,600)
Investing activity		85
Net increase in cash and cash equivalents		440,159
Cash and cash equivalents, beginning of year		3,414,416
Cash and cash equivalents, end of year	$	3,854,575

19. FOUNDATION ENDOWMENT FUNDS

The Board of Directors of the Foundation have interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), as adopted by the State of Illinois as requiring the preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

a. The duration and preservation of the fund
b. The purposes of the Foundation and the donor-restricted endowment fund
c. General economic conditions
d. The possible effect of inflation and deflation
e. The expected total return from income and the appreciation of investments
f. Other sources of the Foundation
g. The investment policies of the Foundation

The donors to the various endowment funds of the Foundation allow that on occasion, the value of the respective funds may drop below historical value due to the realized and unrealized investment losses with the expectation that all efforts are made to restore historical value when market conditions improve and that, in accordance with policy, no distributions may be made from the funds in order to allow for this restoration.

The Foundation endowment fund activity at June 30, 2017 is as follows:

Investment Return		
Gain on Investments	$	1,290,496
Contribution Received		513,939
Amounts Appropriated for Expenditure		(240,859)
Total Change in Endowment Funds	$	1,563,576

Gifts of cash, cash equivalents, securities or other assets that are received by the Foundation for its use in perpetuity, without specific restrictions, are carried and accounted for the Foundation's long-term investment funds. Assets in this classification are considered to be an important part of the Foundation's long-term capital and are invested in accordance with prudent and appropriated investment objectives. Non-cash assets are to be held as long as practicable; cash assets are to be invested in a diversified portfolio of fixed income an equity securities that meet the expected long-term needs of the Foundation.

The primary investment objectives of the funds are to provide a stable source of perpetual financial support, and to preserve the real purchasing power of the principal. The Finance Committee of the Foundation, subject to annual review and rebalancing as necessary, will determine the allocation of assets, recognizing that returns on investments in this category can vary on a year-to-year basis because of the higher risk associated with higher expected long-term returns.

Payout shall be based on a donor's specific direction if made. In the absence of donor direction, a distribution rate of 4% - 6% for a particular fiscal year as approved by the Finance Committee of the Foundation may be considered, but not to exceed the actual earnings for the fiscal year, combine with accumulated, realized earnings from prior periods.

20. COMMITMENTS AND CONTINGENCIES

In prior years, the University purchased properties for the University's initiative to construct new student housing or expand its existing student housing facilities. Under the terms of the agreements, certain parties are entitled to relocation assistance benefits under various federal and state relocation assistance programs.

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.

21. SUBSEQUENT EVENTS

State of Illinois Budget

On July 6, 2017, the General Assembly passed SB0006, Public Act 100-0021 that included appropriations for Fiscal Year 2017 and Fiscal Year 2018. For Fiscal Year 2017, the University has been appropriated $4,872,900 from the Educational Assistance Fund and $12,463,900 from the General Revenue Fund. These appropriations may be used to pay Fiscal Year 2017 costs. For Fiscal Year 2018, the University has been appropriated $33,209,000 from the Education Assistance Fund.

Under the provision of GASB Statement No. 33, eligibility requirements relating to non-exchange transactions, the University did not record a receivable from the State of Illinois at June 30, 2017 for the Fiscal Year 2017 appropriations as set forth in Public Act 100-0021.

Bond Ratings

On July 24, 2017, S&P Global Ratings upgraded the University's ratings from "B" to "B+" on its University Facilities System Revenue Bonds and Certificates of Participation.

Commitment

On December 7, 2017, the University reached a negotiated settlement with a tenant of a property purchased by the University in prior year. The settlement commits the University to providing $1 million within 15 days of the receipt of certificate of insurance and endorsements by the tenant. Subsequently, the University is committed to providing $325,000 each upon removal of 25%, 50%, 75%, and 100% of personal property. Altogether, the University's commitment will be $2.3 million.

REQUIRED SUPPLEMENTARY INFORMATION

STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
REQUIRED SUPPLEMENTARY INFORMATION - PENSION (UNAUDITED)

Schedule of Employer's Proportionate Share of Net Pension Liability (Unaudited)

	Fiscal Year 2014	Fiscal Year 2015	Fiscal Year 2016
(a) Proportion Percentage of the Collective Net Pension Liability	0%	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	$390,904,472	$415,299,735	$456,612,715
Total (b) + (c)	$390,904,472	$415,299,735	$456,612,715
Employer Defined Benefit Covered Payroll	$65,041,857	$63,636,133	$ 63,473,858
Proportion of Collective Net Pension Liability associated with Employer as a percentage of Defined Benefit Covered Payroll	601.00%	652.62%	719.37%
SURS Plan Net Position as a Percentage of Total Pension Liability	44.39%	42.37%	39.57%

Schedule of Contributions (Unaudited)

	Fiscal Year 2014	Fiscal Year 2015	Fiscal Year 2016	Fiscal Year 2017
Federal, Trust, Grant and Other contribution	$893,135	$891,325	$993,039	$1,005,214
Contribution in relation to required contribution	$893,135	$891,325	$993,039	$1,005,214
Contribution deficiency (excess)	$–	$–	$–	$–
Employer Covered Payroll	$10,013,144	$8,073,594	$9,495,538	$10,465,666
Contributions as a percentage of covered payroll	8.92%	11.04%	10.46%	9.60%

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**.**

Fiscal Year 2017 Total Define Benefit (DB) Contributions: $5,001,458

Fiscal Year 2017 Total Self-Managed Plan (SMP) Contributions: $1,084,897

1. Changes of Benefit Terms

There were no benefit changes recognized in the Total Pension Liability as of June 30, 2016.

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.

SUPPLEMENTARY INFORMATION

STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
SUPPLEMENTARY INFORMATION
UNIVERSITY FACILITIES SYSTEM REVENUE BOND FUNDS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2017

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, 2017 over cash and short-term investments in the Bond Account and Bond Reserve at June 30, 2017.

(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.

Enrollment at the University (Unaudited)

Term	Academic Year 2016-2017
Fall	9,538
Spring	8,696
Summer	4,175

STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
SUPPLEMENTARY INFORMATION
UNIVERSITY FACILITIES SYSTEM REVENUE BOND FUNDS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2017

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 and Facilities System. 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 in Fall 2016, students enrolling at the University pay a fee of $7.75 per credit hour for the right to use the University's Student Union which is the heart of the activity program on-campus, a fee of $2.50 per credit hour for a campus improvement to support current and future long-term investments in capital facilities and technology infrastructure, and a $10 parking fee, which can be waived.

Summary of Each Fund and Account under the Bond Resolution (Unaudited)

	Balance of Assets Reserved as of June 30, 2017	
Bond account (a)	$	537,300
Repair and replacement reserve account	$	1,893,533
Non-instructional facilities (development) reserve account	$	–
Equipment reserve account	$	141,087

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, 2017.

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, 20177, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated February 21, 2018. 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 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 a certain deficiency in internal control, described in the accompanying schedule of findings as item 2017-001 that we consider to be a significant deficiency.

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 Response to the Finding

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

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
February 21, 2018

Schedule of Findings

Current Finding - *Government Auditing Standards*

2017-001. **FINDING** (Inadequate Controls over Financial Close and Reporting)

Northeastern Illinois University (University) did not have adequate controls over financial close and reporting to allow management or employees in the normal course of performing their assigned functions to prevent or detect financial statement misstatements timely.

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

- The University misclassified its student receivables and related allowance for doubtful accounts totaling $11,241,739 and $9,602,549, respectively, as noncurrent assets instead of current assets on the University's financial statements.

- The University erroneously categorized a portion of its student receivable aged over 365 days in the 91 to 180 days category resulting in an understatement of bad debts and allowance for doubtful accounts of $753,828.

- The University misclassified the allocated health, dental, and life insurance expenses of operation and maintenance plant program to the institutional support program totaling $2,616,441.

- The University classified its revenues from student and staff services and public service activities as revenues of auxiliary enterprises instead of other operating revenues totaling $324,863 on the University's financial statements.

- The University did not remove the University's share of Excess Liquid Capital totaling $165,518 from the University's Federal Perkins Loan Revolving Fund after the return of federal share to the Department of Education. As such, the restricted net position for student loans and unrestricted net position were overstated and understated, respectively.

- The University did not consistently ensure noncapital assets are reported as restricted when constraints upon the use of the associated net positions, externally imposed by creditors, change the availability of the assets. As such, an adjustment to reclassify noncapital assets totaling $1,404,363 from unrestricted to restricted classification was necessary.

- The University misclassified the net position of funds restricted for repair and replacement of the auxiliary system totaling $412,480, as unrestricted.

The University subsequently made the necessary adjustments in the financial statements.

Schedule of Findings

Current Finding - *Government Auditing Standards* (continued)

2017-001. **FINDING** (Inadequate Controls over Financial Close and Reporting) (continued)

Governmental Accounting Standards Board Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, Paragraph 30, states that for accounting and financial reporting purposes, the term current assets is used to designate cash and other assets or resources commonly identified as those that are reasonably expected to be realized in cash or sold or consumed within a year.

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.

Governmental Accounting Standards Board Statement No. 34, Paragraph 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, requires net position should be reported as restricted when constraints imposed upon the use of the net position are externally imposed by creditors, such as through debt covenants. Further, Governmental Accounting Standards Board Statement No. 34, Paragraph 99, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, requires the reporting of restricted assets when constraints imposed upon the use of the net position are externally imposed by creditors which change the nature or normal understanding of the availability of the asset, such as assets that cannot be used to extinguish liabilities outside of those allowed by the bond covenants.

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.

Schedule of Findings

Current Finding - *Government Auditing Standards* (continued)

2017-001. **FINDING** (Inadequate Controls over Financial Close and Reporting) (continued)

University officials stated student receivables which are more than one year old have historically been classified as noncurrent assets in its financial statements and this practice has been in place for several years. University officials also stated with respect to the calculation of bad debt and allowance for doubtful accounts, misclassification of some expense and revenue accounts, and University's share of Excess Liquid Capital, these were due to administrative oversight and errors in recording transactions and the financial close and reporting process.

Failure to establish and implement proper internal control procedures over financial reporting may result in a material misstatement in the University's financial statements. (Finding Code No. 2017-001)

RECOMMENDATION

We recommend the University review its current process for the preparation and review of the annual financial statements to ensure financial information is complete, accurate, and prepared in accordance with GAAP.

UNIVERSITY'S RESPONSE

The University accepts the recommendation, and as noted, subsequently made the necessary adjustments in the financial statements. The University's new Controller will oversee a review of the current process for preparation and review of the annual financial statements to ensure financial information is accurate, complete, and prepared in full accordance with GAAP.

Schedule of Findings

Prior Findings Not Repeated - *Government Auditing Standards*

A. **FINDING:** Inadequate Controls over Recording of Bond Issuance Costs

During the prior audit, Northeastern Illinois University (University) did not establish adequate internal controls over recording of bond issuance costs. The University incorrectly recorded underwriters' discounts and bond insurance premium as bond discounts.

During the current audit, the University did not incur underwriters' discounts and bond insurance premium during the fiscal year. (Finding Code No. 2016-001)

B. **FINDING:** Inadequate Controls over Monitoring of Deposits and Investments

During the prior audit, the University did not establish adequate internal controls over deposits and investments to comply with its policy and did not perform a review of the adequacy of collateral coverage on a regular basis.

During the current audit, the University reviewed and amended its investment policy to conform to its practice of 100% collateral in excess of the federally insured amounts from the requirement of 110% collateral in prior year. Our sample testing did not disclose noncompliance with the University current investment policy. (Finding Code No. 2016-002)

C. **FINDING:** Inadequate Controls over Allowance for Doubtful Accounts and Monitoring of Construction Projects

During the prior audit, the 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 in projects.

During the current audit, our testing disclosed the University has established a methodology to determine the estimated amount of receivable that will not be collected based on evaluation of past and current transactions. In addition, the University has established a process to monitor the progress of construction projects. (Finding Code No. 2016-003)