STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY

Financial Audit
For the Year Ended June 30, 2016
Performed as Special Assistant Auditors
for the Auditor General, State of Illinois

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State of Illinois
Northern Illinois University
Financial Audit
For the Year Ended June 30, 2016

Table of Contents

	Page
Agency Officials	1
Financial Statement Report	
Summary	2
Independent Auditor's Report	3 - 5
Management's Discussion and Analysis (Unaudited)	6 - 17
Basic Financial Statements	
Statement of Net Position	18
Statement of Revenues, Expenses and Changes in Net Position	19
Statement of Cash Flows	20 - 21
Notes to the Basic Financial Statements	22 - 61
Required Supplementary Information	
Schedule of the University's Proportionate Share of the Net Pension Liability	62
Schedule of University Contributions	62 - 63

State of Illinois
Northern Illinois University

Agency Officials

Douglas D. Baker	President
Lisa C. Freeman	Executive Vice President and Provost
Mike Mann	Associate Vice President, State Government Relations & Board Liaison
Anne C. Kaplan	Vice President, Outreach, Engagement, and Regional Development
Brett Coryell	Vice President, Information Technology
Jerry Blazey	Interim Vice President, Research and Innovation Partnerships
Sean T. Frazier	Associate Vice President and Director, Intercollegiate Athletics
Eric A. Weldy	Vice President, Student Affairs and Enrollment Management
Vernese Edghill-Walden	Senior Associate Vice President, Academic Diversity & Chief Diversity Officer
Catherine Squires	Vice President, University Advancement
Harlan Teller	Interim Vice President, Marketing and Communications
Jerry D. Blakemore	Vice President and General Counsel
Danielle Schultz	Director of Internal Audit

Financial Staff

Alan Phillips	Vice President, Administration and Finance
Lawrence Pinkelton (incoming 10/16/15)	Associate Vice President, Budget and Finance
Shyree Sanan	Controller

NIU Office is located at:

300 Altgeld Hall
DeKalb, Illinois 60115

Financial Statement Report

Summary

The audit of the accompanying financial statements of Northern Illinois University (University) was performed by RSM US LLP.

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

RSM

RSM US LLP

Independent Auditor's Report

Honorable Frank J. Mautino
Auditor General
State of Illinois

and

Cherilyn G. Murer, Honorable Chair of the
Compliance, Audit, Risk Management, and Legal Affairs Committee

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 aggregate discretely presented component units of Northern Illinois University (University), a component unit of the State of Illinois, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component units described in Note 1 of the financial statements as of and for the year ended June 30, 2016. One hundred percent of the assets, revenues and net position of the aggregate discretely presented component units were audited by other auditors. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion on the financial statements, insofar as it relates to the amounts included for the component units, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

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

Emphasis of Matters

As discussed in Note 23 to the financial statements, Public Act 099-0524 granted the University Fiscal Year 2017 appropriations, totaling $48,293,000, which the University has used to pay Fiscal Year 2016 costs as allowed for by Public Act 099-0524. Even though this law was enacted on June 30, 2016, the University did not recognize this nonoperating appropriations revenue from the State of Illinois at June 30, 2016, in accordance with generally accepted accounting principles. Our opinions are not modified with respect to this matter.

Additionally, as discussed in Note 24 to the financial statements, the State of Illinois has not enacted an appropriations bill to fund the University's Fiscal Year 2017 operations. Our opinions are not modified with respect to this matter.

Other Matters

Report on Summarized Comparative Information

We have previously audited the University's June 30, 2015 financial statements, and we and the reports of the other auditors expressed unmodified audit opinions on the respective financial statements of the business-type activities and aggregate discretely presented component units of the University in our report dated February 3, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information such as the Management's Discussion and Analysis on pages 6-17 and the State University Retirement System (SURS) schedules on pages 62 and 63 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 and the other auditors 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2017 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

SIGNED ORIGINAL ON FILE

Schaumburg, Illinois
January 17, 2017

INTRODUCTION

The following management's discussion and analysis (MD&A) provides an overview of the financial position and activities of Northern Illinois University (the University) for the year ended June 30, 2016 with comparative information for the year ended June 30, 2015. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

USING THE FINANCIAL STATEMENTS

The University's financial report includes three financial statements: The Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position and the Statement of Cash Flows. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles, which establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a consolidated basis to focus on the University as a whole. The financial statements include the University and its discretely presented component units. Information regarding the component units is summarized in Note 22 to the basic financial statements. This MD&A focuses on the University excluding the discretely presented component units. MD&A for the component units is included in their separately issued financial statements.

FINANCIAL HIGHLIGHTS

Changes in net position represent the activity of the University, and are summarized for the years ended June 30, 2016 and 2015 as follows:

(in thousands)

	2016	2015
Total revenues	$ 533,361	$ 593,794
Total expenses	579,579	592,846
(Decrease) increase in net position	$ (46,218)	$ 948

STATEMENT OF NET POSITION

The Statement of Net Position presents the financial position of the University at the end of the fiscal year and includes all assets and liabilities of the University. The difference between total assets and total liabilities—net position—is one indicator of the current financial condition of the University, while the change in net position is an indicator of whether the overall financial condition has improved or worsened during the year. Assets and liabilities are generally measured using current values.

A summary of the University's assets, liabilities and net position at June 30, 2016 and 2015 is as follows:

(in thousands)

	2016	2015
Current assets	$ 116,107	$ 111,126
Noncurrent assets:		
Cash and investments	87,505	133,310
Capital assets, net	455,331	469,206
Other	12,411	13,330
Total assets	671,354	726,972
Deferred outflows	1,029	963
Current liabilities	63,972	67,071
Noncurrent liabilities	383,173	389,408
Total liabilities	447,145	456,479
Net position	$ 225,238	$ 271,456

CAPITAL AND DEBT ACTIVITIES

One of the critical factors in continuing the quality of the University's academic programs and student life is the development and renewal of its capital assets. The University continues to implement its long-range plan to modernize older classroom and research facilities, balanced with new construction.

Capital additions totaled $15.4 million in 2016. Capital additions primarily include renovation and new construction of academic, research and student service facilities, as well as significant investments in equipment, including information technology. Current year capital asset additions were funded with capital appropriations, grants from the State of Illinois and federal government, debt proceeds, gifts, and unrestricted net position which were designated for capital purposes. The University depreciates its capital assets on a straight-line basis, using estimated lives ranging from five to forty years.

Construction in-progress includes assets purchased that have not been placed into service. Major components include assets acquired under performance contracts not yet completed, renovations to existing facilities to meet unfunded State mandates not yet completed, and numerous small projects to any of the over 90 buildings that comprise the University.

The University has availed itself of Public Act 90-0486 to supplant funds available for use in capital projects. Public Act 90-0486 allows state universities to negotiate multi-year contracts for the evaluation, design and implementation of facility improvements that will be wholly funded by the energy or operational savings of the project. Additionally, the provider of the services to the University fully guarantees the savings over the life of the contract. The effect is that the University upgrades its facilities at no cost, and at no risk. Currently the University has five separate performance contracts outstanding, totaling $36.6 million. Performance guarantees are in place for each contract. The projects include upgrading of lighting and heating/air conditioning affecting approximately 70 buildings on campus. The University expects to continue to use performance contracts in the future.

The University takes seriously its role of financial stewardship and works hard to manage its financial resources effectively, including the prudent use of debt to finance capital projects. Bonds payable totaled $187.8 million at June 30, 2016. These bonds have been issued to finance construction of new non-academic facilities and improvements.

Certificates of participation payable total $13.3 million at June 30, 2016. They have been used to finance the acquisition of academic and administrative facilities. Capitalized leases payable totaled $131.2 million at June 30, 2016, and are considered to be installment purchases.

The following table summarizes the University's bonds payable, leases payable, certificates of participation payable and performance contracts payable outstanding on June 30, 2016 and 2015:

(in thousands)

	2016	2015
Revenue bonds payable	$ 187,774	$ 191,512
Leases payable	131,224	132,706
Certificates of participation payable	13,291	14,876
Performance contracts payable	36,640	33,514

NET POSITION

Net position represents the residual interest in the University's assets after liabilities are deducted. The University's net position at June 30, 2016 and 2015 are summarized as follows:

(in thousands)

	2016	2015
Net investment in capital assets	$ 114,845	$ 131,277
Restricted:		
Expendable	3,584	3,726
Unrestricted	106,809	136,453
Total net position	$ 225,238	$ 271,456

The University's net position decreased $46.2 million during fiscal year 2016. This decrease is primarily due to a significant reduction in State appropriations' funding and a reduction in the State MAP grant funding partially offset by a decrease in operating expenses.

Net investment in capital assets represents 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 restricted expendable net position is subject to externally imposed restrictions governing their use.

Although the unrestricted net position is not subject to externally imposed stipulations, substantially all of the University's unrestricted net position has been designated for various academic, research and public service programs and initiatives, as well as capital projects. Additionally, statutory requirements exist on these funds as outlined in the University Guidelines 1982, as amended in 1997.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

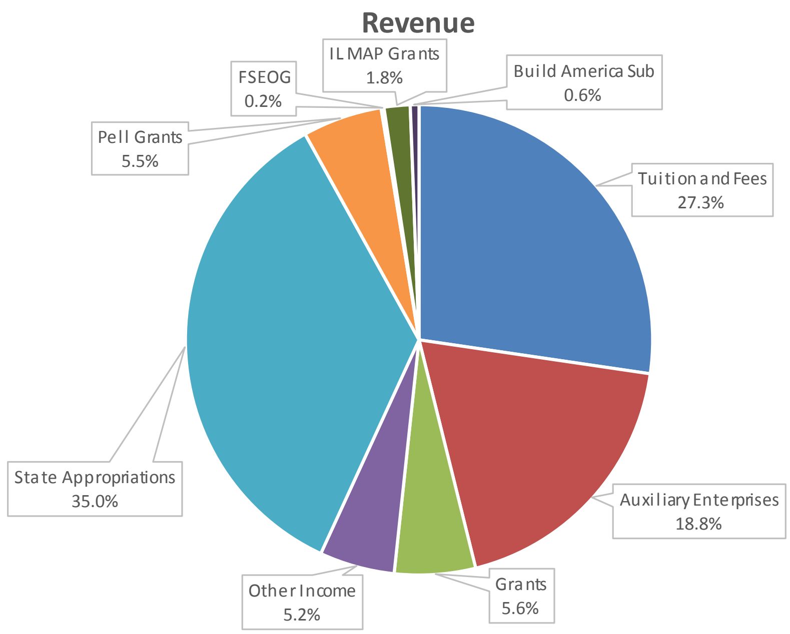
The Statement of Revenues, Expenses and Changes in Net Position presents the University's results of operations. Significant recurring sources of the University's revenues are considered nonoperating, as defined by GASB Statement No. 35. These significant nonoperating sources include state appropriations, Pell grants, State of Illinois MAP grants, and investment income. A summary of the University's revenues, expenses and changes in net position for the years ended June 30, 2016 and 2015 is as follows:

(in thousands)

	2016	2015
Operating revenues:		
Student tuition and fees	$ 196,136	$ 200,906
Less: scholarship allowances	(50,360)	(66,176)
Net student tuition and fees	145,776	134,730
Sponsored programs	29,958	31,898
Auxiliary enterprises	100,220	102,382
Other	25,064	26,667
	301,018	295,677
Operating expenses	(555,478)	(568,649)
Operating loss	(254,460)	(272,972)
Nonoperating revenues (expenses):		
State appropriations:		
General	26,424	91,006
Supplemental	158,477	143,272
Build America bonds subsidy	3,290	3,283
Pell grant	29,284	30,080
FSEOG	837	671
Illinois MAP Grants	9,760	19,970
Net investment income	1,612	692
Interest expense and other, net	(23,635)	(23,916)
Net nonoperating revenues	206,049	265,058
Other revenues and (losses):		
State appropiations - Capital	1,823	9,143
Gifts and contributions	836	-
Loss on disposal of capital assets	(466)	(281)
(Decrease) increase in net position	(46,218)	948
Net position, beginning of year, as restated*	271,456	270,508
Net position, end of year	$ 225,238	$ 271,456

*Effective July 1, 2014, the University adopted provisions of Governmental Accounting Standards Board Statements No. 68 ("GASB 68)", *Accounting and Financial Reporting for Pensions*. Pursuant to GASB 68, the University recognized their long-term pension obligations and retrospectively restated the net position of the governmental activities for the year 2014. For the year 2013 and prior, the net position has not been restated for purposes related to GASB 68 and is shown as originally reported or restated as a result of a past GASB implementation.

The following is a graphic illustration of revenues by source (both operating and nonoperating), which are used to fund the University's operating activities for the year ended June 30, 2016. Significant recurring sources of the University's revenues are considered nonoperating, as defined by GASB Statement No. 35.



Dollars in millions

$	145.8	Revenues from charges for tuition and fees, net of scholarship allowance of $50.4.
	100.2	Revenue from the operation of self-supporting activities such as residence halls, student union, stadium, and recreation center; intercollegiate athletics; parking; and university press.
	29.9	Revenue from federal, state, and private grants and contracts covering research, public service, educational services, and financial aid.
	25.1	Miscellaneous revenue consists primarily of income from sales and services of educational activities that include conferences and seminars
$	301.0	Total operating
$	186.7	Appropriations from State of Illinois general revenues for the current operations of the University and on-behalf payments for fringe benefits including insurance programs and retirement. Also includes appropriations for capital projects.
	0.8	Gifts and contributions
	29.3	Pell Grants
	0.8	FSEOG
	9.8	State of Illinois MAP Grants
	1.6	Investment income and changes in fair value of investments
	3.3	Build America Bond interest subsidy
$	232.3	Total non-operating
$	533.3	Total revenues

Tuition and state appropriations are the primary sources of funding for the University's academic programs. Gross revenue from tuition and fees decreased $4.8 million due to a decrease in enrollment. Net student tuition and fees increased $11.0 million during fiscal year 2016, primarily due to student tuition discounts given because of the reduction in the 2016 MAP state funding. Scholarship allowances decreased in fiscal year 2016, the majority of which was due to a decline in State of Illinois MAP funding (from $20.0 million in 2015 to $9.8 million in 2016).

General state appropriations decreased in fiscal year 2016 by $64.6 million. Supplemental state appropriations, payments made on-behalf of the University to Central Management Services (CMS) and the State Universities Retirement System (SURS), increased $15.2 million in fiscal year 2016 caused by an increase in state funding for employer required contributions to CMS and SURS.

Revenues for sponsored programs decreased $1.9 million during fiscal year 2016. The University receives revenues for sponsored programs from government and private sources, which normally provide for the recovery of direct and indirect costs.

Net investment income for the years ended June 30, 2016 and 2015 consisted of the following components:

(in thousands)

	2016	2015
Income	$ 1,544	$ 598
Net change in fair value of investments	68	94
	$ 1,612	$ 692

Capital appropriations received from the State in 2016 totaling $1.8 million, a decrease of $7.3 million from 2015, funded projects across the University. This 2016 reduction in State funding caused a slowdown in multiple capital projects at NIU.

A summary of the University's expenses for the years ended June 30, 2016 and 2015 is as follows:

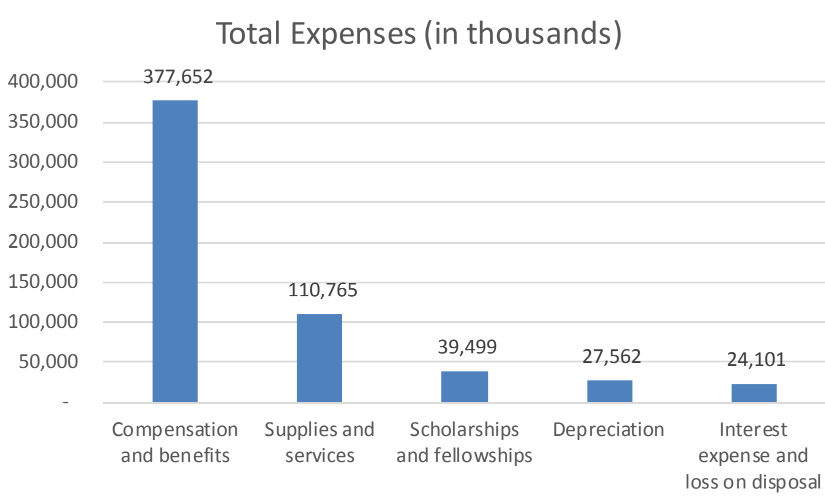
(in thousands)

	2016	2015
Operating:		
Compensation and benefits	$ 377,652	$ 381,993
Supplies and services	110,765	119,316
Depreciation	27,562	26,950
Scholarships and fellowships	39,499	40,390
	555,478	568,649
Nonoperating:		
Interest expense and loss on disposal	24,101	24,197
Total expenses	$ 579,579	$ 592,846

Included in the operating expenses are on-behalf payments made by the State of Illinois for employees of the University for contributions made into the State Universities Retirement System and Central Management Services Group Insurance. These contributions are recorded as staff benefits and are included in the compensation and benefits total in the above summary.

Total operating expenses declined by $13.2 million due to operating cost cutting initiatives in fiscal year 2016.

The following is a graphic illustration of total expenses for fiscal year 2016 by object:



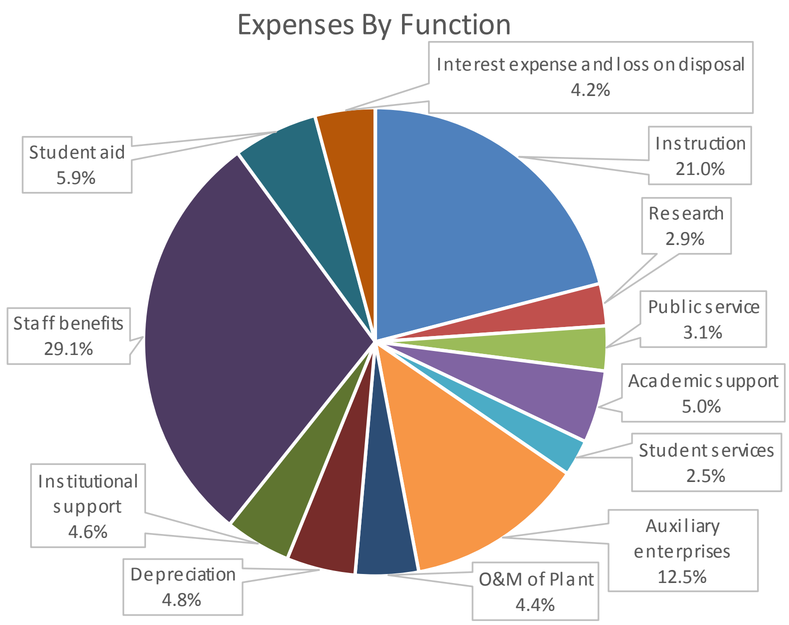
In addition to their natural (object) classification, it is also informative to review operating expenses by function. A summary of the University's expenses by functional classification for the years ended June 30, 2016 and 2015 is as follows:

(in thousands)

	2016	2015
Operating:		
Instruction	$ 121,964	$ 129,124
Research	17,010	14,480
Public service	18,035	21,489
Academic support	28,918	29,764
Student services	14,699	15,802
Auxiliary enterprises	72,432	78,015
Operations and maintenance of plant	25,573	29,893
Depreciation	27,562	26,950
Institutional support	26,592	36,630
Staff benefits	168,457	153,649
Student aid	34,236	32,853
Total operating expenses	555,478	568,649
Nonoperating:		
Interest expense and loss on disposal*	24,101	24,197
Total expenses	$ 579,579	$ 592,846

* Total operating expenses for fiscal year 2015 are $281,000 lower than the amount presented in fiscal year 2015's financial report due to the University choosing to present loss on disposal of assets as a non-operating expense in fiscal year 2016 and adjusting the 2015 column for the change to be comparative.

The following graphic illustrations present total expenses for fiscal year 2016 by function:



STATEMENT OF CASH FLOWS

The statement of cash flows provides additional information about the University's financial results, by reporting the major sources and uses of cash. A summary of the statement of cash flows for the years ended June 30, 2016 and 2015 is as follows:

(in thousands)

	2016	2015
Cash received from operations	$ 288,186	$ 296,837
Cash expended for operations	(372,273)	(399,350)
Net cash used in operating activities	(84,087)	(102,513)
Net cash provided by (used in) investing activities	55,939	(5,615)
Net cash used in capital and related financing activities	(35,561)	(47,776)
Net cash provided by noncapital financing activities	82,067	145,436
Net increase (decrease) in cash and cash equivalents	18,358	(10,468)
Cash and cash equivalents, beginning of year	24,567	35,035
Cash and cash equivalents, end of year	$ 42,925	$ 24,567

The University's cash and cash equivalents increased $18.4 million. The University's significant sources of cash provided by noncapital financing activities, as defined by GASB Statement No. 35, include state appropriations, Pell grants, FSEOG grants, and State of Illinois MAP grants used to fund operating activities, for which cash received totaled $83.2 million in fiscal 2016.

THE UNIVERSITY'S ECONOMIC OUTLOOK

State appropriations represent support provided by the Governor and General Assembly for University programs. The total appropriation to the University decreased in fiscal year 2016 due to a reduction in general appropriation made to the University by the State. The University's general appropriation funds provided to the University for use decreased $64.6 million in fiscal year 2016, after a 12-month State budget impasse. On-behalf payments totaled $158.5 million in fiscal year 2016 and were recorded as revenue from the state and expenditures for staff benefits. The University has an approved fiscal year 2017 general appropriation budget for six months, but it is uncertain when the balance of the budget will be passed due to the current State budget impasse. This has resulted in the narrowing of the University's liquidity which is one of many reasons cited by Moody's for the downgrade of the NIU'S Auxiliary Facility System Revenue Funds from Baa2 to Baa3 and its Certificates of Participation from Baa2 to Ba1 on June 30, 2016. This action may reduce NIU's ability in obtaining favorable credit.

Management has embraced this new reality and has taken actions to defuse liquidity concerns and further decline of credit ratings including reducing expenditures; identifying new revenue streams; and continued assessment of programmatic offerings to meet student demands and the workforce. Additionally, the University has a program prioritization plan which is a robust framework for reengineering operations that will yield efficient and effect activities coupled with the allocating of scarce resources towards mission critical activities.

Sponsored funds provide direct support for the University's research, artistry, service, and instructional programs and generates indirect revenue to maintain them. External funding is influenced by many factors including faculty funding cycles, competition for federal dollars, award spending schedules, and current funding portfolio. The University anticipates direct and indirect sponsored funding revenue to be consistent with or slightly below fiscal year 2016; however, strategic efforts across campus are underway to increase direct funding and indirect recovery.

Private gifts are an important source of funding for university operations, capital acquisition and construction, and a significant factor in expanding our academic units. With State support representing a diminishing percentage of the University's budget, private gifts are an important supplement to the University budget. With the help of the Northern Illinois University Foundation, the University continues to see growth in private support.

The University is continuing to pursue supplemental sources of revenue to continue its outstanding academic reputation. The University will be challenged but the Board of Trustees and management have committed to continuing the University's strong financial position and to uphold our mission of instruction, research, and public service.

STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY
STATEMENT OF NET POSITION
June 30, 2016 (in thousands)
(with Comparative Totals for 2015)

	University		Component Units	
	June 30, 2016	**June 30, 2015**	**June 30, 2016**	**June 30, 2015**
ASSETS				
Current assets				
Cash and cash equivalents	$ 24,733	$ 14,709	$ 4,650	$ 1,945
Investments	43,093	43,198	-	-
Accrued interest receivable	998	1,081	-	-
Accounts receivable - net	41,971	29,786	1,806	1,491
Appropriations receivable from state	21	16,965	-	-
Inventories	3,406	3,321	-	-
Agency	820	766	-	-
Due from component units	584	692	-	-
Other assets	481	608	500	604
Total current assets	116,107	111,126	6,956	4,040
Noncurrent assets				
Restricted cash and cash equivalents	18,192	9,858	-	-
Investments	54,798	101,932	89,510	94,472
Restricted investments and marketable securities	14,515	21,520	-	-
Student loans receivable - net	7,880	8,501	-	-
Due from component units	2,895	3,093	-	-
Other	1,636	1,736	2,177	2,733
Capital assets, net of accumulated depreciation	455,331	469,206	25,330	26,159
Total noncurrent assets	555,247	615,846	117,017	123,364
TOTAL ASSETS	**671,354**	**726,972**	**123,973**	**127,404**
Deferred Outflows of Resources				
Federal, trust, grant and other contributions - pensions	1,029	963	-	-
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	50,516	50,597	816	981
Accrued compensated absences	2,163	2,274	-	-
Student's deposits	329	352	-	-
Due to other state agencies	-	885	-	-
Due to NIU	-	-	584	692
Unearned tuition and fees	8,914	9,213	-	-
Unearned revenue and grants	2,050	3,750	-	-
Total current liabilities	63,972	67,071	1,400	1,673
Noncurrent liabilities				
Accounts payable and accrued liabilities	3,815	3,815	928	630
Due to NIU	-	-	2,895	3,093
Performance contracts payable	33,808	31,040	-	-
Accrued compensated absences	13,377	14,495	-	-
Government loan fund advances	7,422	7,931	-	-
Unearned revenue and grants	-	-	107	132
Revenue bonds payable	183,869	187,612	2,263	3,507
Leases payable	130,016	131,224	-	-
Notes and certificates of participation payable	10,866	13,291	105	144
Total noncurrent liabilities	383,173	389,408	6,298	7,506
TOTAL LIABILITIES	**447,145**	**456,479**	**7,698**	**9,179**
NET POSITION, AS RESTATED				
Net investment in capital assets	114,845	131,277	22,923	22,380
Restricted:				
Nonexpendable	-	-	58,565	64,555
Expendable	3,584	3,726	24,941	21,110
Unrestricted	106,809	136,453	9,846	10,180
TOTAL NET POSITION	**$ 225,238**	**$ 271,456**	**$ 116,275**	**$ 118,225**

See accompanying notes to the basic financial statements.

STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the year ended June 30, 2016 (in thousands)
(with Comparative Totals for 2015)

	University		Component Units	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
REVENUES				
Operating revenues				
Tuition and fees, net	$ 145,776	$ 134,730	$ -	$ -
Federal and state grants and other contracts	27,326	29,347	-	160
Private gifts, grants, and contracts	2,632	2,551	7,192	9,140
Sales and service of educational activities	18,963	19,835	-	-
Other sources	6,101	6,832	1,889	2,794
Auxiliary enterprises	100,220	102,382	-	-
Total operating revenues	301,018	295,677	9,081	12,094
EXPENSES				
Operating expenses				
Instruction	121,964	129,124	1,746	1,965
Research	17,010	14,480	70	96
Public service	18,035	21,489	1,153	1,079
Academic support	28,918	29,764	358	154
Student services	14,699	15,802	1,400	1,271
Operation and maintenance of plant	25,573	29,893	673	711
Depreciation	27,562	26,950	-	-
Institutional support	26,592	36,630	4,444	5,351
Staff benefits	168,457	153,649	-	-
Student aid	34,236	32,853	3,271	2,306
Auxiliary enterprises	72,432	78,015	-	-
Total operating expenses	555,478	568,649	13,115	12,933
Net operating loss	(254,460)	(272,972)	(4,034)	(839)
NONOPERATING REVENUES (EXPENSES)				
State appropriations - general	26,424	91,006	-	-
State appropriations - on-behalf payments	158,477	143,272	-	-
Build America Bonds subsidy	3,290	3,283	-	-
Federal and state grants and other contracts	-	-	381	467
Investment income	1,544	598	(105)	32
Expendable gifts and other	-	-	148	221
Pell grants	29,284	30,080	-	-
FSEOG	837	671	-	-
State of IL MAP	9,760	19,970	-	-
Net increase in fair value of investments	68	94	-	-
Interest expense	(23,635)	(23,916)	(6)	(4)
Net nonoperating revenues	206,049	265,058	418	716
Loss before other revenues, gains, or losses	(48,411)	(7,914)	(3,616)	(123)
OTHER REVENUES AND GAINS (LOSSES)				
State appropriations - capital	1,823	9,143	-	-
Gifts and contributions	836	-	-	-
Gain (loss) on disposal of capital assets	(466)	(281)	4	-
Gifts to permanent endowments	-	-	1,662	2,082
(DECREASE) INCREASE IN NET POSITION	(46,218)	948	(1,950)	1,959
NET POSITION, BEGINNING OF YEAR	271,456	270,508	118,225	116,266
NET POSITION, END OF YEAR	$ 225,238	$ 271,456	$ 116,275	$ 118,225

See accompanying notes to the basic financial statements.

STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY
STATEMENT OF CASH FLOWS
For the year ended June 30, 2016 (in thousands)
(with Comparative Totals for 2015)

	University	
	June 30, 2016	**June 30, 2015**
Cash flows from operating activities		
Student tuition and fees, net	$ 136,691	$ 132,577
Federal and state grants and other contracts	23,990	30,153
Private gifts, grants, and contracts	2,632	2,551
Sales and service of educational activities	17,414	20,359
Auxiliary enterprises	100,303	102,353
Payment to suppliers	(111,099)	(117,727)
Payment to employees	(220,680)	(240,156)
Payments for scholarships	(39,498)	(40,389)
Loans to students and employees	(996)	(1,078)
Collection of loans to students and employees	834	1,813
Other receipts, net	6,322	7,031
Net cash used in operating activities	(84,087)	(102,513)
Cash flows from noncapital financing activities		
State appropriations	43,368	93,829
Pell Grants	29,284	30,080
FSEOG	837	671
State of IL MAP	9,760	19,970
Operating transfer - in/(out) to other state agencies	(1,182)	886
Net cash provided by noncapital financing activities	82,067	145,436
Cash flows from capital and related financing activities		
Proceeds from issuance of debt	5,600	-
Purchase of capital assets	(11,494)	(19,368)
Principal payments on capital debt	(9,279)	(7,926)
Interest payments on capital debt	(23,678)	(23,765)
Build America Bond Subsidy	3,290	3,283
Net cash used in capital and related financing activities	(35,561)	(47,776)
Cash flows from investing activities		
Interest income on investments, net	1,393	486
Proceeds from sales and maturities of investments	208,902	221,807
Purchase of investments	(154,356)	(227,908)
Net cash provided by (used in) investing activities	55,939	(5,615)
Net increase (decrease) in cash and cash equivalents	18,358	(10,468)
Cash and cash equivalents, beginning of the year	24,567	35,035
Cash and cash equivalents, end of the year	$ 42,925	$ 24,567

See accompanying notes to the basic financial statements.

STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY
STATEMENT OF CASH FLOWS, CONTINUED
For the year ended June 30, 2016 (in thousands)
(with Comparative Totals for 2015)

	University	
	June 30, 2016	**June 30, 2015**
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$ (254,460)	$ (272,972)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense - non-Auxiliary enterprises	15,704	15,423
Depreciation expense - Auxiliary enterprises	11,858	11,527
On behalf payments for fringe benefits	158,477	143,254
State expenses for non-capitalized CDB projects	-	12
Changes in assets and liabilities		
Accounts receivable	(11,888)	(1,885)
Inventories	(85)	90
Student loans receivable	621	405
Investments and other assets	433	(246)
Accounts payable and accrued liabilities	(933)	1,388
Accrued compensated absences	(1,230)	(1,071)
Students' deposits	(23)	(47)
Unearned revenue and grants	(1,999)	1,081
Government loan fund advances	(509)	329
Agency	(53)	199
Net cash used in operating activities	$ (84,087)	$ (102,513)
Noncash investing, capital, noncapital and financing activities		
On-behalf payments for fringe benefits	$ 158,477	$ 143,272
Capital asset contribution	836	-
Loss on disposal of capital assets	466	281
Unpaid state appropriation revenue	21	16,965
Accretion of bond principal	162	384
Capitalized interest	134	170
Cost of capital assets not being depreciated included in accounts payable	3,649	3,885
Unrealized gain	302	133
State expenses for capitalized CDB projects	1,823	9,131

See accompanying notes to the basic financial statements.

1. Summary of Significant Accounting Policies

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

The University is a component unit of the State of Illinois for financial reporting purposes. These financial statements include all funds and departments over which the University exercises oversight responsibility. Oversight responsibility is defined as including the following considerations: selection of governing authority, ability to significantly influence operations, accountability for fiscal matters, the scope of public services and/or special financing relationship. The financial balances and activities included in these financial statements are included in the State's comprehensive annual financial report.

The Northern Illinois University Foundation (the Foundation), the Northern Illinois University Alumni Association (the Association), and the Northern Illinois Research Foundation (the Research Foundation) are Illinois nonprofit corporations. The Foundation was established to promote and serve the interests and welfare of the University. The Association was established to build relationships between alumni and the University. The Research Foundation was established to benefit and support the teaching, research and service missions of the University. The Foundation, the Association, and the Research Foundation are "University Related Organizations," as defined under the University guidelines adopted by the State of Illinois Legislative Audit Commission in 1982, as amended in 1997, and are component units of the University for financial reporting purposes because of the significance of their operational relationships with the University. These component units are discretely presented in a separate column to emphasize that they are Illinois nonprofit organizations legally separate from the University.

Complete financial statements for the Foundation and the Association may be obtained by writing to the NIU Foundation Controller, Altgeld Hall 138, Northern Illinois University, DeKalb, Illinois 60115. Financial Statements for the Research Foundation may be obtained by writing to the Northern Illinois Research Foundation President, Lowden Hall 301, DeKalb, Illinois 60115.

The University first applies restricted resources when an expense or outlay is incurred for purposes for which both restricted and unrestricted resources are available.

The University uses 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 an obligation has been incurred. All significant intra-agency transactions have been eliminated.

The Statement of Revenues, Expenses, and Changes in Net Position classifies the University's fiscal year activity as operating and nonoperating. Operating revenues generally result from exchange transactions such as payments received for providing goods and services, including tuition and fees, net of scholarships and fellowships, certain grants and contracts, sales and services of educational activities, and auxiliary enterprise revenues.

Net tuition and fees are recognized as revenues in the fiscal year earned. The portion of Summer Session tuition and fees applicable to the following fiscal year are reported as unearned revenue. Scholarships allowance of $50,360,000 is netted against student tuition and fees.

Grant and contract revenues, 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. Advances are classified as unearned revenue.

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

Appropriations made from the State of Illinois General Revenue and Education Assistance Funds for the benefit of the University are recognized as nonoperating revenues when eligibility requirements are satisfied.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, the University and its component units reported a contribution of $158,477,000 made by the State of Illinois in fiscal year 2016 to the State Universities Retirement System (SURS) and Central Management Services Group Insurance (CMS) on behalf of the University's and its component units' employees. The State contribution is reported as revenue from State appropriations with an equal and offsetting amount reported as staff benefit expenditures. The on-behalf payments to SURS and CMS were $85,310,000 and $73,167,000, respectively, for fiscal year 2016.

The basic financial statements include prior year comparative information, which has been derived from the University's 2015 financial statements. Such information does not include all of the information required to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the University's financial statements for the year ended June 30, 2015.

Certain items in the June 30, 2015 financial statements have been reclassified to correspond to the June 30, 2016 presentation. This includes a restatement of the Northern Illinois Research Foundation's net position in the Component Unit column due to a prior year error. For more information, please see that component unit's fiscal year 2016 annual financial report.

The auxiliary enterprises are primarily composed of student housing, the student union, intercollegiate athletics, recreational facilities, and parking operations.

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 amount of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The University provides allowances for uncollectible accounts and loans receivable based upon management's best estimate considering type, age, collection history of receivables and any other factors as considered appropriate. Accounts and loans receivable are reported net of allowances at June 30, 2016.

Restricted cash and investments are for capital projects at the University, funded by an external debt issue.

The University accounts for its investments and marketable securities at fair value.

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.

Bond premiums and discounts, as well as prepaid insurance costs, are deferred and amortized over the life of the bonds using the straight line method, which approximates the interest method.

Capital assets are recorded at cost when purchased or fair value at the date of donation. The University follows the State of Illinois policy for capitalization with thresholds as follows: Infrastructure - $250,000; Land - $100,000; Land improvements - $25,000; Site improvements - $25,000; Buildings - $100,000; Building improvements - $25,000; Equipment - $5,000; and Works of art, historical treasures - $5,000. Depreciation is calculated on a straight-line basis over the estimated useful lives (five to forty years) of the respective assets. The interest costs associated with construction projects are capitalized and included as part of the project. Capitalization of interest ceases when the project is substantially complete. Interest costs capitalized on construction projects were $134,000 and $170,000 in fiscal year 2016 and 2015, respectively.

The assets associated with capital leases have been capitalized.

It is the policy of the University to accrue vacation pay as earned. As of June 30, 2016, the accrued liability for this benefit was $12,470,000, and is included in accrued compensated absences.

As a result of Illinois Public Act 83-976, the University is required to compensate certain employees, generally civil service and administrative professionals, for sick leave benefits earned after January 1, 1984. Sick leave earned by these employees after this date will accumulate without limit and are payable upon termination of employment for one-half of the unused amount. As of January 1, 1998 per 30 ILCS 105/14a, sick leave benefits earned after that date are no longer compensable upon termination of employment. All prior earned benefits will still be paid. As of June 30, 2016, the accrued liability of this benefit was $3,070,000, and is included in accrued compensated absences. The accrued compensated absences liability will be funded through future State of Illinois General Revenue Fund appropriations as the terminating employees leave the University.

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.

Employment Contracts

Employment contracts for certain academic personnel provide for twelve monthly salary payments, although the contractual services are rendered during a nine-month period. The liability for those employees who have completed their contracted services, but have not yet received final payment, was $5,096,000 at June 30, 2016 and is recorded in the accompanying financial statements as accrued payroll. This amount will be paid from amounts specifically included in State appropriations to the University for fiscal year 2017 rather than the unrestricted net position available at June 30, 2016.

New and Pending Accounting Pronouncements

GASB Statement No. 72, *Fair Value Measurement and Application*, provides guidance for determining a fair value measurement for financial reporting purposes, and also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The University implemented this Statement for the year ended June 30, 2016.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (Employer)*, will be effective for the University beginning with its year ended June 30, 2018. This statement outlines accounting and financial reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments.

GASB Statement No. 78, *Pensions Provided through Certain Multiple Employer Defined Benefit Pension Plans*, will be effective for the University beginning with its year ending June 30, 2017. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, addresses accounting and financial reporting for certain external investment pools and pool participants. The University implemented this Statement for the year ended June 30, 2016.

GASB Statement No. 80, *Blending Requirements for Certain Component Units, an amendment of GASB Statement No. 14*, will be effective for the University beginning with its year ending June 30, 2017. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, will be effective for the University beginning with its year ending June 30, 2018. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

GASB Statement No. 82, *Pension Issues – an amendment of GASB Statement No. 67, No. 68, and No. 73*, will be effective for the University beginning with its year ending June 30, 2017. The objective of this Statement is to address issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

GASB Statement No. 83, *Certain Asset Retirement Obligations*, will be effective for the University beginning with its year ending June 30, 2019. The objective of this Statement is to improve accounting and financial reporting for certain asset retirement obligations. A government that has legal obligations to perform future asset activities related to its tangible capital assets should recognize a liability based on the retirement guidance.

Perkins Loan Program

The Federal Perkins Loan Program, enacted under the Higher Education Act of 1965, ended on September 30, 2015 and was extended with the passing of the Higher Education Extension Act (H.R. 3594) by Congress on December 18, 2015. The act extends the program through September 30, 2017 and is designed to reduce the number of new loans by introducing new eligibility requirements and prohibiting the issuance of new loans determined to be the first disbursed after this date. The act includes options with respect to the Federal Perkins Revolving Loan fund administered by Institutions of Higher Learning such as NIU. NIU will need to have a plan of action in effect by March of 2018 to either assign the loan portfolio and the revolving fund to the Department of Education or to continue the management of the Perkins loan portfolio that excludes the act of issuing new loans. Management is vetting these options and has not made a final determination. It is anticipated that a plan of action will be implemented by March of 2018.

Management believes the elimination of the Perkins program will have minimal implications to student enrollment and retention rates. The Perkin Loans represents an average of one million dollars (1%) of the annual financial assistance for the University’s students that will not be available after the 2017 and 2018 academic year. However, management’s continued commitment to the students is to identify pathways to make the cost of education affordable that is inclusive of tuition and fee pricing and other sources of student financial assistance funding.

2. Cash and Cash Equivalents

The University considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. Cash equivalents consist principally of certificates of deposit, U.S. government securities, money market accounts, and money market fund accounts (excluding the Illinois Funds investment pool).

As of June 30, 2016, cash deposits (consisting of demand deposits and selected money market accounts) of $27,455,000 were held by the University and $15,470,000 in money market fund accounts. Cash deposits held by the University were insured or collateralized with securities held by the University or its custodian in the name of the University. The money market fund accounts are not covered by FDIC insurance, but are rated AAAm.

At June 30, 2016, the University held $9,998,000 in the Goldman Sachs Financial Square Government Fund, $4,821,000 in the Federated Government Obligations Fund, and $651,000 in the Dreyfus Institutional Cash Advantage Fund. Each fund values its holdings at amortized cost (2a7 like pool). Interest income is declared daily and paid monthly.

3. Investments

Policy - Investments and the investment process are governed by 30 ILCS 235, Public Funds Investment Act. The Board of Trustees maintains a formal Statement of Investment Policy, which addresses the governing provisions of the state law, as well as specifying additional guidelines for the investment process. The allowable investments per University policy mirror those specified in State statute. In general terms, these investments include instruments issued by the U.S. Government, federal agencies, high grade commercial paper, bank deposits, investment pools created under the State Treasurer's Act, and selected money market mutual funds. The University prohibits foreign investments.

It is the policy of the University to manage the University's cash and investments for the use and benefit of the University in a manner that will:

A. Preserve and maintain the real purchasing power of the principal.
B. Assure an optimal flow of cash to meet university obligations.
C. Produce a yield which, when compared to the current marketplace, would be described as acceptable by conservative investment managers, while maintaining consistency with applicable State Statutes, and/or bond indentures.

Fair value of investments – The University categorizes its fair value measurements in accordance with the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the assets.

Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the Foundation has the ability to access as of the measurement date. Level 1 inputs would also include investments valued at prices in active markets that the Foundation has access to where transactions occur with sufficient frequency and volume to provide reliable pricing information.

Level 2 - Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 - Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

A description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

The University's investments are valued primarily through a multi-dimensional relational model including standard inputs such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, offers and reference data.

On June 30, 2016, Northern Illinois University has the following recurring fair value measurements for investments (000's):

		Fair Value Measurements		
Investments by Level	June 30, 2016	Level 1	Level 2	Level 3
U.S. Treasury Notes	$ 17,518	$ -	$ 17,518	$ -
U.S. Agency Notes	51,795	-	51,795	-
	$ 69,313	$ -	$ 69,313	$ -

The investments above exclude $43,093,000 held in the Illinois Funds which are valued at amortized cost. The State Treasurer maintains the Illinois Funds at amortized cost (2a7 like pool) through daily adjustment in the interest earnings. The State Treasurer also maintains the average duration of the pool at less than 25 days. The value of the University's investment in the funds is the same as the value of the pool shares. The pool is audited annually by an outside independent auditor and copies of the report are distributed to participants. All funds deposited in the pool are classified as investments even though some could be withdrawn on a day's notice. Although not subject to direct regulatory oversight, the fund is administered in accordance with the provision of the Illinois Public Investment Act, 30ILCS 235. The Illinois Funds is rated AAAm by Standard & Poor's.

Custodial credit risk - Custodial credit risk is the risk that when, in the event a financial institution or counterparty fails, the University would not be able to recover the value of investments or collateral securities that are in the possession of an outside party. As of June 30, 2016, the University was not subject to custodial credit risk as all of the University's investments were held in its name and its bank balances were either fully insured or collateralized with investments held by agents in the University's name.

Concentration of credit risk - Concentration risk is the risk of loss attributed to the magnitude of an entity's investment in a single issuer, other than the U.S. Government. The University is considered to have a concentration of credit risk if its investments in any one single issuer, other than securities explicitly guaranteed by the U.S. government, are greater than 5% of total investments. The University's investments in federal agencies not explicitly guaranteed by the U.S. government which comprise more than 5% of investments are ($000's):

Investment	Total
FFCB	$ 21,984
FHLB	11,310
FNMA	15,999

Foreign currency risk – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The University does not have any investments with foreign currency risk exposure.

Credit risk - Credit risk is the risk that an issuer or other counterparty to a debt investment will not fulfill its obligations. The University's policy is to invest in high grade investments. The University's investments are summarized by current Standard & Poor's (Illinois Funds Money Market) and Moody's (U.S. Treasury and U.S. Agency) credit ratings below ($000's):

	Illinois Funds Money Market	U.S. Treasury	U.S. Agency	Total
AAA	$ -	$ 17,518	$ 51,795	$ 69,313
AAAm	43,093	-	-	43,093
Total	$ 43,093	$ 17,518	$ 51,795	$ 112,406

Interest rate risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The following table shows the University's investments categorized by maturity ($000's):

Segmented Time Distribution	Illinois Funds Money Market	U.S. Treasury	U.S. Agency	Total
0 - 1 year	$ 43,093	$ 17,518	$ 11,492	$ 72,103
1 - 3 years	-	-	33,992	33,992
3 - 5 years	-	-	6,311	6,311
Total	$ 43,093	$ 17,518	$ 51,795	$ 112,406

Component Units

The Foundation considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2016, cash equivalents consisted primarily of demand deposit bank accounts and money market and similar funds.

The Board of Directors of the Foundation is responsible for the management of the Foundation's investments. The Board has delegated authority to the Finance Committee to formulate an investment policy for funds and assets of the Foundation. The Finance Committee submits that policy to the Board for approval, periodically recommends changes in policy as appropriate, interprets the policy to the Foundation's investment managers and oversees implementation of that policy. Investment performance is reviewed monthly by the Finance Committee and reported to the Board of Directors quarterly.

The policy indicates the intended use for funds and determines how they will be invested. There are two primary investment strategies that are executed in different investment pools. Endowed funds and funds initially received as expendable but acting as endowment are invested with a long-term horizon. Based upon historical patterns of usage, expendable gift funds are invested with an intermediate-term strategy.

If a donor has not provided specific instructions, state law permits the Board of Directors to authorize for expenditure the net appreciation, both realized and unrealized, of the endowment fund investments; however, the Foundation's current endowment management policy suspends spending below historic gift value unless a donor specifically directs.

The Finance Committee recommended and the Board of Directors adopted a policy for fiscal year 2016 of distributing four percent of the three year moving average of the endowment investments' fair value for the three preceding years.

The Foundation's permissible investment categories include:

1) Equities
2) Fixed income securities
3) Cash equivalents
4) Venture capital/private equity
5) Equity real estate
6) Hedge funds
7) Real assets

In fulfilling its responsibilities, the Board has contracted with an independent investment advisory firm as well as 40 investment management firms to execute the strategy it has established.

The Foundation invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and those changes could materially affect the investment balance reported in the statement of net position.

<u>Custodial Credit Risk</u>
Custodial credit risk is the potential for a financial institution or counterparty to fail such that the Foundation would not be able to recover the value of deposits, investments or collateral securities that are in the possession of an outside party. The Foundation's policy does not formally address custodial credit risk; however the Finance Committee does consider this in its practices. All of the Foundation's deposits and marketable security investments are insured or collateralized with securities held in the Foundation's name.

<u>Concentration Risk</u>
Concentration risk is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. The Foundation is considered to have concentration risk if it holds 5% or more of its investments in a single issuer excluding investments specifically guaranteed by the U.S. Government and investments in mutual funds, external investment pools, and other pooled investments. The Foundation does not have investments in any single issuer representing five percent or more of the Foundation's investments.

<u>Credit Risk</u>
Credit risk is the risk that an issuer or other counterparty to a debt investment will not fulfill its obligations. The Foundation's policy calls for managers to maintain an overall credit rating of AA or better by Moody's or AA or better by Standard & Poor's and to hold no more than 15% of the portfolio in below investment grade issues (below Baa/BBB).

Fixed income securities are held through mutual funds. Foundation assets subject to credit risk are shown with a current credit rating below (000's):

Credit Risk Quality Rating	Fixed Income Mutual Funds
AAA	$ 2,026
AA	4,282
A+	3,886
A	1,537
BBB-	957
BB+	4,032
BB	1,024
B	987
Total	$ 18,731

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Foundation's investment policy calls for individual international managers to maintain an appropriate diversification with respect to currency and country risks. The Foundation's investments at June 30, 2016 were distributed among the following currencies (000's):

U.S. Dollar Equivalent		Currency
$ 78,062	83.3 %	United States Dollar
1,773	1.9	Japanese Yen
1,496	1.6	Euro Current Unit
1,392	1.5	British Pound
1,237	1.3	Indian Rupee
999	1.1	Taiwan Dollar
997	1.1	South Korean Won
871	0.9	Chinese Yuan Renminbi
640	0.7	Brazil Real
585	0.6	Hong Kong
555	0.6	South African Rand
551	0.6	Swiss Franc
537	0.6	Canadian Dollar
3,984	4.2	Other currencies, individually less than 5% of deposits and investments
$ 93,679	100.0 %	Total Currencies

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The investment policy statement indicates that each manager shall maintain a duration +/- 20% of the effective duration of its benchmark index.

The same assets as detailed with respect to credit risk above are subject to interest rate risk as detailed below (000's):

Weighted Average Duration (years)	Fixed Income Mutual Fund
8.1	$ 1,014
6.3	1,012
5.8	4,282
5.6	2,455
4.0	13
3.9	957
3.4	1,577
2.9	3,873
1.2	1,537
0.3	987
0.2	1,024
Total	$ 18,731

GASB standards have established a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The fair value hierarchy is as follows:

Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the Foundation has the ability to access as of the measurement date. Level 1 inputs would also include investments valued at prices in active markets that the Foundation has access to where transactions occur with sufficient frequency and volume to provide reliable pricing information.

Level 2 - Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 - Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

A description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

Investments: Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would include highly liquid government bonds, exchange-traded equities and mutual funds.

If quoted market prices are not available, then the fair values are estimated by using pricing models, quoted prices of securities with similar characteristics and other valuation methodologies. Level 2 securities would include mortgage-backed agency securities, certain corporate securities and other certain securities. These securities are valued primarily through a multi-dimensional relational model including standard inputs such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, offers and reference data.

In certain cases where there is limited activity or less transparency around inputs to the valuation, including alternative investments, securities are classified within Level 3 of the valuation hierarchy and may include equity and/or debt securities issued by private entities.

The following table summarizes assets measured at fair value on a recurring basis as of June 30, 2016, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value (000's):

Fair Value Measurements at June 30, 2016

	Level 1	Level 2	Level 3
U.S. Treausry bond and bills	$ -	$ 1,012	$ -
Common stock, domestic	254	-	-
Equity exchange traded funds and products	6,519	-	-
Bond mutual fund			
Core	10,649	-	-
Multi-strategy	13	-	-
U.S. Treasury inflation protected securities	1,014	-	-
Bank loans	987	-	-
Credit sensitive	2,455	-	-
High yield	1,577	-	-
Global	1,024	-	-
Tactical allocation mutual funds	2,636	-	-
Equity mutual funds			
Core	1,654	-	-
Multi-strategy	49	-	-
U.S. large cap	7,168	-	-
U.S. small cap	365	-	-
International developed	11,464	-	-
Emerging markets	6,032	-	-
Hedged equity	1,038	-	-
Real asset mutual funds	2,644	-	-
Diversifying strategy mutual funds	1,944	-	-
Money market mutual funds	3,355	-	-
Trusts held by others	-	2,043	-
Cash surrender value of life insurance	-	20	-
	$ 62,841	$ 3,075	$ -

The investments above exclude $26,949,000 of investments where values are based on net asset value (NAV) per share (or its equivalent).

There were no transfers between Level 1 or 2 of the fair value hierarchy during the year ended June 30, 2016.

The following table sets forth additional disclosure of the Foundation's investments whose fair value is estimated using NAV per share (or its equivalent) as of June 30, 2016 (000's):

Fair Value Estimated Using NAV (or its equivalent)

	Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Hedged/alternative investments (A)	$ 13,150	$ -	(A)	(A)
Private equity (B)	13,799	4,594	(B)	(B)
	$ 26,949	$ 4,594		

(A) The partnerships in this category consist of funds that invest in multiple-limited partnerships with various investment strategies and long and short positions in equity securities of companies within the United States of America (USA) and outside of the USA. Each are valued at NAV per share (or its equivalent) as reported by the general partner. These funds can be redeemed daily, monthly, quarterly, annually or bi-annually depending on the partnership agreement within redemption notice periods of one to four months.

(B) The partnerships in this category consist of funds that invest in the following types of investments in the USA and outside of the USA: venture capital partnerships, buyout partnerships, mezzanine/subordinated debt partnerships, restructuring/distressed debt partnerships and special situation partnerships, and real estate. These investments cannot be redeemed during the life of the partnership, which can be up to 12 years; however, they can be transferred to another eligible investor. Distributions will be received as the underlying investments of the funds are liquidated over time. The fair value of this investment has been estimated using the NAV provided by the fund manager and an adjustment determined by management for the time period between the date of the last available NAV from the investment manager and June 30, 2016.

Below is a summary of how cash and investments are valued at June 30, 2016 (000's):

	Total	Bank and Custodian Demand Deposit Accounts	Fair Value	Net Asset Value
Cash and cash equivalents	$ 4,650	$ 1,295	$ 3,355	$ -
Investments	89,510	-	62,561	26,949

4. Receivables

The University and its component units report accounts receivable net of the allowance for uncollectible and includes the following ($000's):

	University	Component Units
Student accounts	$ 46,150	$ -
Customer accounts	3,361	-
Grants receivable	8,598	-
Others	-	1,955
Gross receivables	58,109	1,955
Less: allowance for uncollectible accounts	(16,138)	(149)
Net accounts receivable	$ 41,971	$ 1,806

Student loans made through the Federal Perkins Loan Program comprise substantially all of student loans receivable at June 30, 2016 totaling $7,930,000 and are reported net of an allowance for uncollectible accounts of $50,000.

5. Capital Assets

Capital assets activity for the year ended June 30, 2016 is summarized as follows:

University ($000's)	Balance 6/30/15	Additions	Retirements	Transfers	Balance 6/30/16
Capital assets not being depreciated:					
Land	$ 19,281	$ -	$ -	$ -	$ 19,281
Construction in progress	33,895	7,312	(1,267)	(2,283)	37,657
Total capital assets not being depreciated	53,176	7,312	(1,267)	(2,283)	56,938
Capital assets being depreciated:					
Land improvements	81,891	-	-	1,526	83,417
Buildings	670,066	-	-	757	670,823
Equipment	186,571	8,061	(2,350)	-	192,282
Other assets	3,820	-	-	-	3,820
Total capital assets being depreciated:	942,348	8,061	(2,350)	2,283	950,342
Less: accumulated depreciation	(526,318)	(27,562)	1,931	-	(551,949)
Total capital assets being depreciated, net	416,030	(19,501)	(419)	2,283	398,393
Total capital assets, net	$ 469,206	$ (12,189)	$ (1,686)	$ -	$ 455,331

Component Units ($000's)	Balance 6/30/15	Additions	Retirements	Transfers	Balance 6/30/16
Capital assets not being depreciated:					
Land	$ 3,829	$ -	$ -	$ -	$ 3,829
Construction in progress	-	-	-	-	-
Total capital assets not being depreciated	3,829	-	-	-	3,829
Capital assets being depreciated:					
Buildings	24,598	-	-	-	24,598
Furniture	1,193	32	(24)	-	1,201
Total capital assets being depreciated:	25,791	32	(24)	-	25,799
Less: accumulated depreciation	(3,461)	(839)	2	-	(4,298)
Total capital assets being depreciated, net	22,330	(807)	(22)	-	21,501
Total capital assets, net	$ 26,159	$ (807)	$ (22)	$ -	$ 25,330

6. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities as of June 30, 2016 are as follows ($000's):

	University	Component Units
Payable to vendors/suppliers	$ 33,388	$ 777
Accrued payroll	6,617	-
Current portion of noncurrent liabilities:		
Performance contracts payable	2,832	-
Revenue bonds payable	3,905	-
Leases payable	1,208	-
Notes and certificates of participation payable	2,425	39
Other liabilities	141	-
Total current accounts payable and accrued liabilities	50,516	816
Noncurrent accounts payable and accrued liabilities	3,815	928
Total accounts payable and accrued liabilities	$ 54,331	$ 1,744

7. Performance Contracts Payable

The University has entered into multiple performance contracts, as defined by Public Act 90-0486, passed by the State Legislature in 1997. The Public Act allows State universities to negotiate multi-year contracts for the evaluation, design and implementation of facility improvement measures that will pay for themselves via guaranteed energy and/or operational savings over the life of the contract. The University is guaranteed by the provider that the annual energy and/or operational savings realized as a result of the implementation and servicing of the energy conservation measures will equal or exceed the annual expenditures for the term of the financed installation. Sufficient bonding must be posted by the provider to further protect the long-term interests of the University. The underlying assets in the performance contracts have been capitalized.

Performance contracts payable activity and outstanding balances at June 30, 2016 are as follows ($000's):

Performance Contract	Beginning Balance	Issued	Retired	Ending Balance	Current Portion
Energy Infrastructure Improvements	$ 332	$ -	$ 163	$ 169	$ 169
Energy Infrastructure Improvement - Phase 10B	9,565	-	634	8,931	660
Energy Infrastructure Improvements - Refinance	15,555	-	1,246	14,309	1,278
Energy Infrastructure Improvements - Phase 11	8,062	-	431	7,631	447
Energy Infrastructure Improvements - Phase 11A	-	5,600	-	5,600	278
Total	$ 33,514	$ 5,600	$ 2,474	$ 36,640	$ 2,832

Future minimum payments on these performance contracts payable are ($000's):

Year Ending June 30,	Principal	Interest	Total
2017	$ 2,832	$ 1,180	$ 4,012
2018	2,763	1,073	3,836
2019	2,851	986	3,837
2020	2,942	895	3,837
2021	3,036	801	3,837
2022-2026	16,698	2,485	19,183
2027-2031	5,518	409	5,927
Total	$ 36,640	$ 7,829	$ 44,469

Interest rates range from 2.48% to 4.16%. The guaranteed savings will be recognized as a reduction of expense over the life of the contract as expenditures are made.

8. Accrued Compensated Absences

Accrued compensated absences includes employee earned but unused vacation and sick leave days and the changes in balance are as follows ($000):

Balance, beginning of year	$ 16,769
Additions/(Deductions)	(1,229)
Balance, end of year	15,540
Less: current portion	2,163
Balance, end of year, noncurrent portion	$ 13,377

Amounts reported as current are based upon historical trends. The employer portion of Medicare taxes related to accrued compensated absences is $223,000.

9. Unearned Revenue and Grants

Unearned revenue and grants represents funds received in advance on grants not yet expended and the changes in balances are as follows ($000):

Balance, beginning of year	$ 3,750
Additions/(Deductions)	(1,700)
Balance, end of year	$ 2,050

10. Government Loan Fund Advances

Government loan fund advances represents money received from the federal government for student loan programs and the changes in balances are as follows ($000):

Balance, beginning of year	$ 7,931
Deductions	(509)
Balance, end of year	$ 7,422

11. Revenue Bonds Payable

Revenue bonds activity and outstanding as of June 30, 2016 are as follows ($000's):

Issue	Beginning Balance	Issued/ Accreted	Retired/ Defeased	Ending Balance	Current Portion	Future Revenues Pledged	Debt Service to Pledged Revenue (Current Year)
Series 1992(B)	$ 4,277	$ 162	$ 3,730	$ 709	$ 720	$ 720	10%
Series 2010	126,025	-	-	126,025	-	325,514	5%
Series 2011	61,210	-	170	61,040	3,185	83,900	2%
	$ 191,512	$ 162	$ 3,900	$ 187,774	$ 3,905	$ 410,134	
Component Unit	$ 3,507	$ -	$ 1,244	$ 2,263	$ -		

The Auxiliary Facilities Revenue Bonds, Series 1992 (B), original issue $14,498,000, matures serially at varying amounts from fiscal years 2005 through 2017, and pays no current interest. The University records the annual increase in the principal amount of these bonds as interest expense and accretion on bonds payable.   The interest ranges from 6.15% to 6.55%.

In December 2010, the University issued $126,025,000 of taxable Auxiliary Facilities Systems Revenue Bonds (Series 2010) under the Build America Program. Taxable interest rates range from 7.75% to 8.15%, with the University receiving an amount up to 35% of the interest expense back from the United States Treasury. The bonds mature at varying amounts from 2028 through 2041. Interest payments are due semi-annually.

In January 2011, the University issued $67,135,000 of Auxiliary Facilities System Revenue Bonds (Series 2011). Stated interest rates range from 3.0% to 5.50%. The bonds mature at varying amounts from 2012 through 2028. Interest payments are due semi-annually.

The Series 1992 bonds are payable from and secured by the net revenues of the System and pledged fees, which equaled $37,787,000 in the current year. The Series 2010 and Series 2011 bonds are also payable from and secured by the net revenues of the System and pledged fees, subject to the prior claim of the Series 1992 bonds. The Series 2010 and Series 2011 bonds are further secured by a pledge of and lien on pledged tuition, which equaled $146,948,000 in the current year. All bond series are also secured by non-cancelable policies of municipal bond insurance.

Aggregate payments required on the bonds for the next five years and in later years are as follows ($000's):

Year Ending June 30,	Principal	Accretion	Interest	Total
2017	$ 3,894	$ 11	$ 13,288	$ 17,193
2018	4,065	-	13,129	17,194
2019	4,265	-	12,926	17,191
2020	4,480	-	12,713	17,193
2021	4,705	-	12,488	17,193
2022-2026	27,445	-	58,513	85,958
2027-2031	35,465	-	49,898	85,363
2032-2036	45,570	-	34,909	80,479
2037-2041	57,885	-	14,485	72,370
Total	$ 187,774	$ 11	$ 222,349	$ 410,134

Component Units ($000's)

Year Ending June 30,	Principal	Accretion	Interest	Total
2017	$ -	$ -	$ 37	$ 37
2018	1,080	-	36	1,116
2019	360	-	19	379
2020	366	-	13	379
2021	457	-	7	464
Total	$ 2,263	$ -	$ 112	$ 2,375

12. Capitalized Leases

Certain leases, in which the University's governing board is the lessee, are considered to be equivalent to installment purchases for accounting presentation. The assets recorded under these leases have been capitalized at the present value of future lease payments, measured at lease inception date. These assets totaled $117,932,000, net of accumulated depreciation of $16,570,000 at June 30, 2016.

Capital leases activity and outstanding principal balances as of June 30, 2016 are as follows ($000's):

	Beginning Balance	Additions	Payments	Ending Balance	Current Portion
IASBO Building	$ 499	$ -	$ 45	$ 454	$ 48
CHF - DeKalb Northern View	18,984	-	124	18,860	167
Oracle	572	-	572	-	-
CHF - DeKalb First Year Residence	112,651	-	741	111,910	993
Net Present Value	$ 132,706	$ -	$ 1,482	$ 131,224	$ 1,208

Future minimum lease payments for the above assets under capital leases at June 30, 2016 on originally scheduled minimum payments and estimated interest are ($000's):

Year Ending June 30,	Principal	Interest	Total
2017	$ 1,208	$ 8,759	$ 9,967
2018	1,530	8,697	10,227
2019	1,822	8,618	10,440
2020	2,221	8,525	10,746
2021	2,334	8,411	10,745
2022-2026	13,694	39,887	53,581
2027-2031	18,555	34,816	53,371
2032-2036	25,805	27,573	53,378
2037-2041	35,975	17,400	53,375
2042-2044	28,080	3,947	32,027
Total	$ 131,224	$ 166,633	$ 297,857

During fiscal year 2007, the University entered into an agreement with CHF – DeKalb, L.L.C. to develop, finance, design, construct, equip and operate an approximately 240 bed student housing facility. The Northern View Community opened in the fall of 2007 replacing the existing University Family Apartments. The facility is owned by CHF, but managed by NIU Housing and Dining. The agreement required no capital outlay from the University but Generally Accepted Accounting Principles require the University to report the transaction as a capital lease. The facility and offsetting capital lease were recorded at $19,400,000. In fiscal year 2011, the University entered into another agreement with CHF, with two separate components. The first was to refinance the existing Northern View capital lease. The second was to build and equip New Residence Hall, an approximate 1,008 bed student housing facility consisting of two five-story residential buildings and a community center and dining hall. New Residence Hall was recorded as an asset and as a capital lease upon its substantial completion during fiscal year 2012, with payments starting in fiscal year 2014.

13. Notes and Certificates of Participation Payable

Certificates of participation and notes payable activity and outstanding principal balances as of June 30, 2016 are as follows ($000's):

Issue	Beginning Balance	Issued	Retired	Ending Balance	Current Portion
Certificates of Participation/Notes Payable:					
Series 1993 - Hoffman Estates Facility	$ 1,855	$ -	$ 550	$ 1,305	$ 1,305
Series 2014 - Capital Improvement Project	11,975	-	940	11,035	1,025
	13,830	-	1,490	12,340	2,330
Unamortized Debt Premium	1,046	-	95	951	95
Total	$ 14,876	$ -	$ 1,585	$ 13,291	$ 2,425
Component Unit	$ 181	$ -	$ 37	$ 144	$ 39

Series 1993 – Hoffman Estate Facility: In August 1993, the University issued $8,485,000 of certificates of participation to refinance an educational center occupied by Northern Illinois University in Hoffman Estates, Illinois, payable through installments commencing in 1994, for a period of twenty-three years. The interest is 5%.

Series 2014 – Capital Improvement Project: On April 22, 2014, the University issued Certificates of Participation (Capital Improvement Projects) in the amount of $11,975,000 at a premium of $1,140,000. The proceeds were used to refinance a 113,000 square foot facility located on the campus of and for use of Northern Illinois University by redeeming all of the Illinois Development Finance Authority Lease Revenue Bonds (Northern Illinois Naperville Project) Series 1999 in the amount of $11,630,000 and prepaying an Installment Payment Contract between the Board and Energy Systems Group, LLC in the amount of $1,182,000. This resulted in approximate savings of $916,000 in future debt service payments on the old debt. The Series 2014 COPs are payable through installments commencing in 2015, for a period of eleven years. The interest is 4%-5%.

Future minimum payments on these notes and certificates of participation payable are ($000's):

Year Ending June 30,	Principal	Interest	Total
2017	$ 2,330	$ 522	$ 2,852
2018	1,060	446	1,506
2019	1,105	402	1,507
2020	1,150	357	1,507
2021	1,200	304	1,504
2022-2026	5,495	571	6,066
Total	12,340	2,602	14,942
Unamortized premium	951	-	951
Total	$ 13,291	$ 2,602	$ 15,893

Component Units ($000's):

Year Ending June 30,	Principal	Interest	Total
2017	$ 39	$ 5	$ 44
2018	41	3	44
2019	42	2	44
2020	22	-	22
Total	$ 144	$ 10	$ 154

14. Net Position

The University's net position is classified for accounting and reporting purposes into one of three categories according to the nature of the restrictions, if any, imposed on usage. The following tables include detail of the net position balances for the University and the Component Units:

University Net Position ($000's):

Net investment in capital assets	$ 114,845
Restricted:	
Expendable	3,584
Unrestricted	106,809
Total	$ 225,238

Component Units Net Position ($000's):

Net investment in capital assets	$ 22,923
Restricted:	
Nonexpendable	58,565
Expendable	24,941
Unrestricted	9,846
Total	$ 116,275

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 restricted – nonexpendable classification represents endowment funds, where the donor has provided a gift for which the principal must remain invested in perpetuity and only the income may be utilized to support the restricted purpose the donor indicated.

The restricted – expendable classification represents resources with legal or contractual obligations to spend in accordance with restrictions imposed by external third parties.

The unrestricted classification is not subject to externally imposed stipulations; however, substantially all of the University's unrestricted funds have been designated for various academic, research and public service programs and initiatives, as well as capital projects. Additionally, legislative restrictions exist on these funds as outlined in the University Guidelines 1982, as amended in 1997.

15. Transactions with Component Units

During fiscal year 2016, the University engaged the Foundation, under contract, to provide fundraising services. As provided by the contract agreement, the University paid $630,000 for fundraising services. Additionally, the University provided services to the Foundation valued at $643,000. As required by the contract, the Foundation fully repaid the University for the services provided, using funds considered unrestricted. The University engaged the Research Foundation, under contract, to provide services to aid the University in its economic development, public service, research and educational missions. As provided by the contract, the University paid the Research Foundation $280,000 for these services during fiscal year 2016 with an additional $73,000 payable at year-end.

Summary of transactions with Component Units ($000's):

	Foundation	Alumni Assocation	Research Foundation
Unrestricted funds:			
Totally unrestricted administrative services	$ 659	$ -	$ 188
Support for University programs and departments	5,263	340	1,080
Provided for library books, equipment and property improvements	20	-	-
Administrative and office expense	862	-	-
Total unrestricted funds	6,804	340	1,268
Restricted funds:			
Provided for scholarship and awards	2,785	25	-
Provided for library books, equipment and property improvements	41	-	-
Restricted fund	1,255	-	-
Endowment fund	597	-	-
Total restricted funds	4,678	25	-
Total funds provided to the University	$ 11,482	$ 365	$ 1,268

The University entered into a ten-year lease with the Foundation for the rental of space in the Jeffrey and Kimberly Yordon Center in 2007. The building houses state of the art strength and conditioning facilities, academic and tutoring support, coach's offices, locker rooms, and medical treatment and rehabilitation services. The lease calls for the University to be responsible for insurance and maintenance of the building. The lease amount is included in the Operating Lease disclosure. Lease payments ended August 2016.

The University entered into an 89-month lease with the Foundation for the rental of space in the Kenneth and Ellen Chessick Practice Center in 2013. The center features an artificial turf field with full NCAA football playing field dimensions, a four-lane sprint track, batting cages, and long jump pits. The facilities serve 16 intercollegiate teams and a variety of intramural sports at NIU. The lease calls for the University to be responsible for insurance and maintenance of the building. The lease amount is included in the Operating Lease disclosure.

The University entered into a Master Intellectual Property Agreement with the Research Foundation as of the 11th day of September, 2014 to assist with the development of NIU Intellectual Property. The Research Foundation will assist NIU faculty, staff, and students to engage in research which could result in commercialization benefitting NIU, students and the public. For the year ended June 30, 2016, NIU is due license fee revenue in the amount of $13,000 from the Research Foundation.

16. Operating Leases

The University leases various buildings under operating lease agreements. Total rental expense for the year ended June 30, 2016, under these agreements was $1,084,000.

Future minimum lease payments are ($000's):

Year Ending June 30,	Amount
2017	$ 448
2018	451
2019	436
2020	759
2021	-
Total	$ 2,094

17. Retirement Plan

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 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 July 21, 1941 to provide retirement annuities and other benefits for staff members and employees of state universities, certain affiliated organizations, and certain other state educational and scientific agencies and for survivors, dependents, and other beneficiaries of such employees. SURS is considered a component unit of the State of Illinois' financial reporting entity and is included in the state's financial reports as a pension trust fund. SURS is governed by Chapter 40, Act 5, Article 15 of the *Illinois Compiled Statutes*. SURS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by accessing the website at www.SURS.org.

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

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

Participating employers make contributions toward separately financed specific liabilities under Section 15.139.5(e) of the Illinois Pension Code (relating to contributions payable due to the employment of "affected annuitants" or specific return to work annuitants) and Section 15.155(g) (relating to contributions payable due to earning increases exceeding 6% during the final rate of earnings period).

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

Net Pension Liability. At June 30, 2016, the State reported a net pension liability (NPL) of $23,756,361,000 related to SURS. The net pension liability was measured as of June 30, 2015.

University's Proportionate Share of Net Pension Liability. The amount of the proportionate share of the net pension liability to be recognized by the University is $0. The proportionate share of the State's net pension liability associated with the University is $1,016,084,000 or 4.2771%. This amount is not recognized in the financial statements due to the special funding situation described in footnote one. The net pension liability and total pension liability as of June 30, 2015 was determined based on the June 30, 2014 actuarial valuation rolled forward. The basis of allocation used to determine the University's proportionate share of net pension liability is the actual reported pensionable contributions made to SURS during fiscal year 2015.

Pension Expense. For the year ended June 30, 2016 the State reported a collective net pension expense of $1,994,587,000.

University's Proportionate Share of Pension Expense. The University's proportionate share of collective pension expense is recognized similarly to on-behalf payments as both revenue and matching expenditure in the financial statements. The basis of allocation used in the proportionate share of collective pension expense is the actual reported pensionable contributions made to SURS during fiscal year 2015. As a result, the University recognized on-behalf revenue and pension expense of $85,310,000 for the fiscal year ended June 30, 2016.

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. Deferred outflows of resources are the consumption of net position by the system that is applicable to future reporting periods (000's).

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 27,312	$ -
Change in assumptions	609,394	-
Net difference between projected and actual earnings on pension plan investments	593,841	953,329
Total	$ 1,230,547	$ 953,329

SURS collective deferred outflows and deferred inflows of resources by year to be recognized in future pension expenses (000's):

Year Ending June 30,	Net Deferred Outflows of Resources
2016	$ 154,951
2017	118,958
2018	(145,152)
2019	148,460
Total	$ 277,217

University's Deferral of Fiscal Year 2016 Pension Expense. The University recorded $1,029,000 in federal, trust or grant contributions for the fiscal year ended June 30, 2016. These contributions were made subsequent to the pension liability measurement date of June 30, 2015 and are recognized as Deferred Outflows of Resources as of June 30, 2016.

Assumptions and Other Inputs

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

Inflation	2.75 percent
Salary increases	3.75 to 12.00 percent, including inflation
Investment rate of return	7.25 percent beginning with the actuarial valuation as of June 30, 2014

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

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

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

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

Sensitivity of the System's Net Pension Liability to Changes in the Discount Rate. Regarding the sensitivity of the net pension liability to changes in the single discount rate, the following presents the plan's net pension liability, calculated using a single discount rate of 7.12%, as well as what the plan's net pension liability would be if it were calculated using a single discount rate that is 1-percentage- point lower or 1-percentage-point higher (000's):

1% Decrease 6.12%	Current Single Discount Rate Assumption 7.12%	1% Increase 8.12%
$28,929,334	$23,756,361	$19,470,982

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.

18. Postemployment Benefits

The State Employees Group Insurance Act of 1971 (Act), as amended, authorizes the State to provide health, dental, vision, and life insurance benefits for certain retirees and their dependents in a program administered by the Department of Central Management Services. Substantially all State and university employees become eligible for these other postemployment benefits (OPEB) if they eventually become annuitants of one of the State sponsored pension plans. The portions of the Act related to OPEB establish a cost-sharing multiple-employer defined OPEB plan with a special funding situation in which the State funds substantially all nonparticipant contributions. The plan does not issue a stand-alone financial report but is included as a part of the State's financial statements.

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 Employees' 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 five percent for each year of credited service with the State allowing those annuitants with twenty 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 postemployment 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 actuarial accrued liability and the total costs incurred for health, dental, vision, and life insurance benefits are not determined by or allocated to departments or component units for annuitants and their dependents nor active employees and their dependents.

19. Operating Expenses by Natural Classification

Operating expenses by natural classification for the year ended June 30, 2016 are summarized as follows:

University
($000's)

	Compensation and Benefits	Supplies and Services	Scholarships and Fellowships	Depreciation	Total
Instruction	$ 106,790	$ 13,767	$ 1,407	$ -	$ 121,964
Research	10,475	5,912	623	-	17,010
Public Service	11,186	6,654	195	-	18,035
Academic Support	18,973	9,867	78	-	28,918
Student Services	10,280	4,379	40	-	14,699
O&M	3,913	21,660	-	-	25,573
Depreciation	-	-	-	27,562	27,562
Inst. Support	20,314	6,274	4	-	26,592
Staff Benefits	168,457	-	-	-	168,457
Student Aid	926	539	32,771	-	34,236
Auxiliary Enterprises	26,338	41,713	4,381	-	72,432
Total	$ 377,652	$ 110,765	$ 39,499	$ 27,562	$ 555,478

Component Units
($000's)

	Compensation and Benefits	Supplies and Services	Scholarships and Fellowships	Depreciation	Total
Instruction	$ 816	$ -	$ 930	$ -	$ 1,746
Research	25	45	-	-	70
Public Service	663	490	-	-	1,153
Academic Support	104	254	-	-	358
Student Services	176	1,224	-	-	1,400
O&M	-	54	-	619	673
Inst. Support	1,316	2,907	-	221	4,444
Student Aid	65	-	3,206	-	3,271
Total	$ 3,165	$ 4,974	$ 4,136	$ 840	$ 13,115

20. Insurance

The University participates in a cooperative known as the Illinois Public Higher Education Cooperative (IPHEC). Through IPHEC, the University has contracted with commercial carriers to provide various excess liability insurance coverages, including educators' legal and other general liability insurance. The University's liability coverages have a general $350,000 deductible per occurrence, which may be partially funded by a self-insurance fund authorized by the NIU Board of Trustees. Additionally, the University purchases property insurance coverage for replacement value of University real property and in certain instances, contents. Settled claims have not exceeded commercial coverages in any of the three preceding years.

The University is afforded coverage by the State for general liability, automobile liability, worker's compensation and employers' liability, and employee indemnity by a number of State of Illinois Self-Insured Plans administered by the Department of Central Management Services. Contract and tort claims are also subject to the Illinois Court of Claims Act, under which proven claims may be satisfied by appropriations by the General Assembly to the Secretary of State.

21. Commitments and Contingencies

At June 30, 2016, the University had commitments on various grants, construction projects and contracts for repairs and renovations of facilities of approximately $13.9 million.

Grants and Contracts

The University receives monies from federal and state government agencies under grants and contracts for research and other activities. The costs, both direct and indirect, charged to these grants and contracts are subject to audit and disallowance by the granting agency. The University administration believes that any disallowance or adjustment would not have a material effect on the University's financial position.

Legal Action

Although the University is a defendant in various lawsuits, most of the actions are personnel or administrative related and the University's legal exposure is either limited or virtually non-existent. University officials are of the opinion, based on advice of legal counsel, that any ultimate liability which could result from such litigation would not have a material adverse effect on the University's financial position or its future operations.

The federal and state investigations, which were a result of a search warrant served on the NIU Department of Police and Public Safety by various federal agencies and the Illinois State Police on March 6, 2013 are now complete. No charges or arrests were made as a result of the investigations. In early January 2016, the University was informed by the U.S. Attorney's Office that they were closing their investigation, and no finding of wrongdoing was made. The University was not exposed to any kind of liability, and this matter is now considered closed.

22. University Related Organizations

The entity's financial statements include the activity of the University Related Organizations which represent the discretely presented component units. Below are condensed financial statements by organization. ($000's)

	Foundation	Alumni Association	Northern IL Research Foundation
Condensed Statement of Net Position			
ASSETS:			
Current assets			
Cash and cash equivalents	$ 4,189	$ -	$ 461
Accounts receivable	1,694	-	112
Due from Foundation	-	152	-
Other current assets	57	4	439
Noncurrent assets	-	-	-
Capital assets, net of accumulated depreciation	24,960	-	370
Investments administered by NIU Foundation	89,510	2,305	-
Other noncurrent assets	2,177	-	-
TOTAL ASSETS	$ 122,587	$ 2,461	$ 1,382
LIABILITIES:			
Current liabilities			
Accounts payable and accrued liabilities	$ 350	$ 212	$ 254
Due to NIU	571	-	13
Noncurrent liabilities			
Deposits held for NIU Alumni Association	2,457	-	-
Unearned revenue	-	-	107
Accounts payable and accrued liabilities	928	-	-
Deposits held for NIU	2,895	-	-
Bonds and notes payable	2,263	-	105
TOTAL LIABILITIES	9,464	212	479
NET POSITION:			
Invested in capital assets	22,697	-	226
Restricted			
Nonexpendable	58,446	119	-
Expendable	24,243	233	465
Unrestricted	7,737	1,897	212
Total net position	113,123	2,249	903
TOTAL LIABILITIES AND NET POSITION	$ 122,587	$ 2,461	$ 1,382
Condensed Statement of Revenues, Expenses and Changes in Net Position			
Operating revenues	$ 8,398	$ 79	$ 604
Operating expenses	11,482	365	1,268
Operating loss	(3,084)	(286)	(664)
Nonoperating revenue	1,662	43	379
Decrease in net position	(1,422)	(243)	(285)
Net position, beginning of year	114,545	2,492	1,188
Net position, end of year	$ 113,123	$ 2,249	$ 903

23. Budget Impasse

Article 74 of Public Act 99-0524, enacted June 30, 2016, authorized the University to pay Fiscal Year 2016 costs using the University's Fiscal Year 2017 appropriations for operational expenditures, totaling $48.3 million. The University submitted vouchers to the State Comptroller for Fiscal Year 2016 operating costs in July 2016. This appropriation, however, will be recognized as revenue in Fiscal Year 2017 because the period to which the appropriation applied had not begun as of June 30, 2016. This accounting treatment is in accordance with GASB Statement No. 33, Paragraph 74. As of November 30, 2016, the State Comptroller had disbursed $38.2 million of this appropriation to the University.

24. Subsequent Events

The Governor's Office of Management and Budget of the State of Illinois reported $8.071 billion of outstanding bills at the end of June 2016, an increase of $3.668 billion from the end of June 2015. Additionally, the State has not acted on an appropriation bill to fund higher education through fiscal year 2017. With the downside outlook in State funding, the University will continue with its planned operating framework for managing liquidity, cost curtailment initiatives, and strengthening operations with an emphasis on mission critical resource allocation. The University's preliminary fiscal year 2017 budget is reflective of this plan and calls for continued satisfaction of the University's obligations.

Required Supplementary Information

State of Illinois
Northern Illinois University

Required Supplementary Information

Schedule of the University's Proportionate Share of the Net Pension Liability

State Universities Retirement System (000's)

Last 10 Fiscal Years*

	Fiscal Year 2016	Fiscal Year 2015
(a) Proportion Percentage of the Collective Net Pension Liability	0.00%	0.00%
(b) Proportion Amount of the Collective Net Pension Liability	$ -	$ -
(c) Portion of Nonemployer Contributing Entities' Total Proportion of Collective Net Pension Liability associated with Employer	$ 1,016,084	$ 994,334
Total (b) + (c)	$ 1,016,084	$ 994,334
Employer Covered-employee payroll	$ 240,385	$ 248,100
Proportion of Collective Net Pension Liability associated with Employer as a percentage of covered-employee payroll	423%	401%
SURS Plan Net Position as a Percentage of Total Pension Liability	42.37%	44.39%

Schedule of University Contributions (000's)

Last 10 Fiscal Years*

	Fiscal Year 2016	Fiscal Year 2015
Federal, Trust, Grant and Other contribution	$ 1,029	$ 963
Contribution in relation to required contribution	$ 1,029	$ 963
Contribution deficiency (excess)	$ -	$ -
Employer Covered-employee payroll	$ 240,385	$ 248,100
Contributions as a percentage of covered-employee payroll	0.43%	0.39%

*Information is presented for as many years as is available. The University implemented GASB Statement No. 68 in fiscal year 2015 with a measurement date of June 30, 2014.

Changes of benefit terms. There were no benefit changes recognized in the Total Pension Liability as of June 30, 2015.

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 to 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.

Covered payroll. The definition of covered payroll has been redefined in GASB Statement Number 82, *Pension Issues – An Amendment of GASB Statements Number 67, Number 68 and Number 73*. Below are the definitions from the glossaries of each statement.

GASB 67 Covered-Employee Payroll. The payroll of employees that are provided with pensions through the pension plan.

GASB 82 Covered Payroll. All elements included in compensation paid to active employees on which contributions to a pension plan are based.