STATE OF ILLINOIS

NORTHERN ILLINOIS UNIVERSITY

FINANCIAL AUDIT

For the Year Ended June 30, 2017

Performed as Special Assistant Auditors
for the Auditor General, State of Illinois

CliftonLarsonAllen LLP

STATE OF ILLINOIS

NORTHERN ILLINOIS UNIVERSITY

FINANCIAL AUDIT

For the Year Ended June 30, 2017

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STATE OF ILLINOIS

NORTHERN ILLINOIS UNIVERSITY

UNIVERSITY OFFICIALS

Acting President (from July 1, 2017)	Dr. Lisa C. Freeman
President (through June 30, 2017)	Dr. Douglas D. Baker
Acting Executive Vice President and Provost (from July 1, 2017)	Christopher McCord
Executive Vice President and Provost (through June 30, 2017)	Dr. Lisa C. Freeman
Senior Associate Vice President for Human Resource Services	Laura Alexander
Vice President for Research and Innovation Partnerships	Gerald Blazey
Acting Vice President and General Counsel (from January 1, 2017)	Gregory A. Brady
Vice President and General Counsel (through December 31, 2016)	Jerry D. Blakemore
Vice President for Information Technology and Chief Information Officer	Brett Coryell
Senior Associate Vice President for Academic Diversity and Chief Diversity Officer	Vernese Edghill-Walden
Associate Vice President and Director of Intercollegiate Athletics	Sean Frazier
Associate Vice President for Facilities Management and Campus Services	John Heckmann
Vice President for Enrollment Management, Marketing and Communications (from June 19, 2017)	Sol Jensen
Vice President for Outreach, Engagement and Regional Development	Anne C. Kaplan
Vice President for Administration and Finance and Chief Financial Officer (from January 8, 2018)	Sarah McGill
Associate Vice President for Finance and Budget and Acting Chief Financial Officer (March 1, 2017 through January 7, 2018)	Lawrence Pinkelton
Vice President for Administration and Finance (through February 28, 2017)	Alan Phillips
Chief of Police, Department of Public Safety	Thomas Phillips
Director of Internal Audit	Danielle Schultz
Chief of Staff to the President, Liaison to the Board of Trustees (from May 5, 2017)	Matt Streb
Associate Vice President for State Government Relations, Liaison to the Board of Trustees (through May 4, 2017)	Mike Mann
Vice President for University Advancement	Catherine Squires
Vice President for Student Affairs and Enrollment Management (through December 31, 2016)	Eric A. Weldy
Associate Vice President for Student Affairs and Dean of Students	Kelly Wesener-Michael

Financial Staff

Controller	Shyree Sanan
Deputy Controller	Raul Garcia

NIU Office is located at:

300 Altgeld Hall

DeKalb, Illinois 60115

Summary

The audit of the accompanying financial statements of Northern Illinois University (University) was performed by CliftonLarsonAllen LLP, as special assistant auditors to the Illinois Office of the Auditor General.

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

CliftonLarsonAllen

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INDEPENDENT AUDITORS' REPORT

Honorable Frank J. Mautino
Auditor General
State of Illinois

and

Board of Trustees
Northern Illinois University

Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of Northern Illinois University (the University), a component unit of the State of Illinois, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements as of and for the year ended June 30, 2017 of the aggregate discretely presented component units described in Note 1 of the financial statements. 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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 of Northern Illinois University and its aggregate discretely presented component units as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 23 to the financial statements, Public Act 099-0524 granted the University fiscal year 2017 appropriations, totaling $48.3 million, 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 as of 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 23 to the financial statements, Public Act 100-0021, enacted on July 6, 2017, granted the University additional fiscal year 2017 appropriations for operational expenditures, totaling $42.7 million. These appropriations will be recognized as nonoperating revenues in fiscal year 2018 because the appropriation did not occur until after June 30, 2017. Our opinions are not modified with respect to this matter.

Other Matters

Report on Summarized Comparative Information

The financial statements of the University as of and for the year ended June 30, 2016 were audited by other auditors whose report dated January 17, 2017, expressed an unmodified opinion on those statements, prior to the identification of an error described in Note 1, *Summary of Significant Accounting Policies, Summarized Comparative Information*. Because the University reclassified all Auxiliary Facilities System net position to restricted-expendable from unrestricted as of June 30, 2016, we express no opinion on the University's summarized comparative information presented herein.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplemental information such as the Management's Discussion and Analysis on pages 6-18 and the Schedule of the University's Proportional Share of the Net Pension Liability and the Schedule of University Contributions on page 66 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 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 under separate cover our report dated February 26, 2018 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

Oak Brook, Illinois
February 26, 2018

INTRODUCTION

Northern Illinois University (NIU, or the University) is a comprehensive public institution of higher learning with approximately 18,000 students as of Fall 2017. The University offers a wide range of academic programs through its colleges and schools; and through its research enterprise has Illinois, national, and global impacts. The following discussion and analysis provides an overview of the financial position and activities of NIU for the year ended June 30, 2017 with comparative totals for the year ended June 30, 2016. This discussion is prepared by management and should be read in conjunction with the accompanying financial statements and the notes.

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. The financial statements include the University and its discretely presented component units. The financial statements and notes, along with Management's Discussion and Analysis (MD&A) have been prepared in accordance with generally accepted accounting principles as defined by the Governmental Accounting Standards Board (GASB) for public colleges and universities. The University is an agency of the State of Illinois and is included in the State's *Comprehensive Annual Financial Report* (CAFR).

The following MD&A presents condensed versions of the financial statements with financial information for fiscal year 2016 in order to illustrate increases and decreases from fiscal year 2017 data. This MD&A focuses on the University, excluding the discretely presented component units. Information regarding the component units is summarized in Note 22 to the basic financial statements. The MD&A for the component units is included in their separately issued financial statements.

FINANCIAL HIGHLIGHTS

As a premier, student-centered, research-focused public university in the Midwest, revenues from tuition and fees, auxiliary enterprises, and sponsored programs represent approximately 88% of NIU's operating revenue; these are supplemented by sales and services of educational activities, investment income, and other non-operating revenues. NIU continues to gain global recognition as a major research university, with grants and contracts comprising 10 percent of University operating revenue sources in fiscal year 2017. The most significant fiscal year 2017 expense categories were those directly related to the University's academic, research and public service missions. In light of external economic factors including a two-year State budget impasse and declining enrollment trends, the University's financial position as well as its continued strategic initiatives will allow it to operate well into the future.

The University has taken strategic measures through its Program Prioritization process to re-allocate resources in a way that will provide the most benefit for current and future students. For example, the Division of Enrollment Management, Marketing and Communications is better aligned to improve recruitment; process re-engineering has occurred across multiple divisions to reduce costs; and staffing and space utilization modeling is ongoing, all in an effort to maximize financial resources. The ongoing cost containment initiatives that have been implemented also helped to reduce controllable expenses during fiscal year 2017.

STATEMENT OF NET POSITION

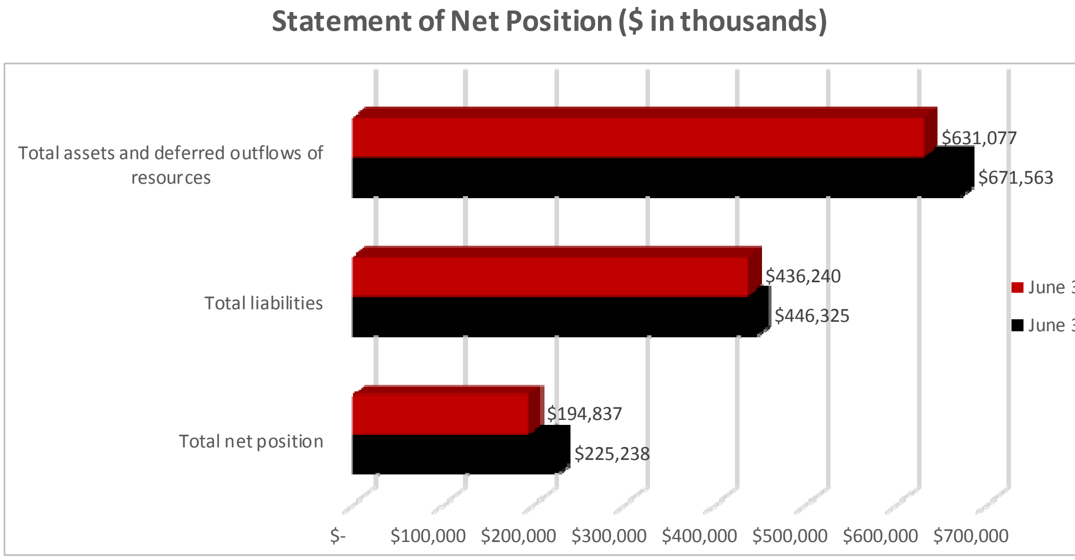
The Statement of Net Position presents the financial position of the University as of the end of the fiscal year and includes all assets and liabilities of the University. The difference between total assets and total liabilities—net position—is one indicator of the current financial condition of the 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 comparison of the University's assets, deferred outflows of resources, liabilities and net position at June 30, 2017, and June 30, 2016 follows.

Condensed Summary of Statement of Net Position ($ In Thousands)

	June 30, 2017	June 30, 2016	$ Change	% Change
Current assets	$ 73,270	$ 75,219	$ (1,949)	-2.6%
Noncurrent assets:				
Cash and investments	2,991	29,326	(26,335)	-89.8%
Restricted cash and investments	92,888	98,247	(5,359)	-5.5%
Capital assets, net	447,926	455,331	(7,405)	-1.6%
Other	12,108	12,411	(303)	-2.4%
Total assets	629,183	670,534	(41,351)	-6.2%
Deferred outflows	1,894	1,029	865	84.1%
Current liabilities	62,208	63,152	(944)	-1.5%
Noncurrent liabilities	374,032	383,173	(9,141)	-2.4%
Total liabilities	436,240	446,325	(10,085)	-2.3%
Total net position	$ 194,837	$ 225,238	$ (30,401)	-13.5%

The following chart summarizes the University's Statement of Net Position on June 30, 2017 and the previous fiscal year end:



Fiscal Year 2017 Compared to 2016

The University's net position decreased $30.4 million (-13.5%) during fiscal year 2017 compared to a $46.2 million decline the previous year. The current decrease is primarily due to a reduction in student tuition and related auxiliary revenues of $16.6 million, plus increased operating expenses of $11.8 million, both of which were favorably offset by a partial restoration in the State's general appropriations funding and increased on-behalf payments for staff benefits. Even though the State's general appropriations funding increased by $21.9 million in fiscal year 2017 to $48.3 million, the level of funding is now 53% of historical levels seen before the State budget impasse when annual amounts exceeded $90 million.

Current assets and unrestricted cash and investments decreased $28.3 million at year-end (-92.4%), and was due primarily to the use of cash for operations, and the timing of State budget approval, which did not result in a new cash infusion until July 2017. To mitigate liquidity concerns, some proceeds from investment maturities during fiscal year 2017 were transferred to cash rather than reinvested, resulting in a corresponding decrease in non-current assets at year-end.

Current liabilities decreased $0.9 million at year-end (-1.5%) due to lower accounts payable and accrued liabilities from reduced operating costs and other cost containment initiatives employed by the University. Non-current liabilities decreased $9.1 million at year-end (-2.4%) as the University continued to make timely payments of its long-term debt while incurring no new debt, despite the State's budget impasse.

Capital Assets, Net and Debt Obligations

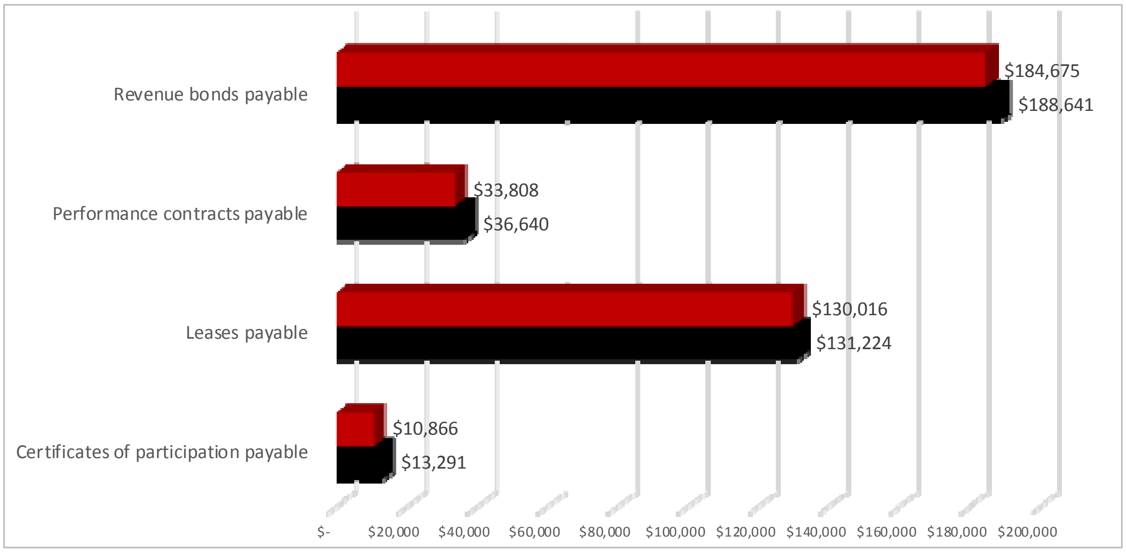
One of the critical factors in continuing the quality of the University's academic programs and student life is the development and renewal of its capital assets. Capital assets, net, represents the University's capital assets less accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

The decrease in capital assets, totaling $7.4 million (-1.6%), was a result of increased retirements in buildings and equipment, and current period depreciation. Capital asset additions totaled $19.4 million in 2017, and included 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's long-term debt obligations relate to the financing of capital asset additions, and no new long-term debt was issued in fiscal year 2017. At June 30, 2017, bonds payable totaled $184.7 million, which mostly financed construction of new non-academic facilities and improvements. Capitalized leases payable totaled $130.0 million, and are considered to be installment purchases. The University has five separate performance contracts outstanding, totaling $33.8 million, for the upgrading of lighting and heating/air conditioning affecting approximately 70 buildings on campus. Performance guarantees are in place for each contract. Certificates of participation payable totaled $10.9 million, and financed the acquisition of academic and administrative facilities.

The following chart summarizes the University's bonds payable, leases payable, certificates of participation payable, and performance contracts payable outstanding on June 30, 2017 and the previous fiscal year end:

Current and Long-term Debt Obligations ($ in thousands)



STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

The statement of revenue, expenses, and changes in net position presents the financial results of operations. A summary comparison of the University's activities for the year ended June 30, 2017, and June 30, 2016 follows.

Condensed Summary of Revenues, Expenses, and Changes in Net Position ($ In Thousands)

	2017	2016	$ Change	% Change
Operating revenues	$ 275,568	$ 292,962	$ (17,394)	-5.9%
Operating expenses	559,239	547,422	11,817	2.2%
Operating loss	(283,671)	(254,460)	(29,211)	-11.5%
Nonoperating revenues (expenses)	245,460	206,049	39,411	19.1%
Other revenues and changes in net position	7,810	2,193	5,617	256.1%
Increase (decrease) in net position	$ (30,401)	$ (46,218)	$ 15,817	34.2%

Summary of Revenues

The Summary of Revenues presents the University's results of operating, nonoperating, and other revenue earned during the fiscal year. NIU, and other public universities, depend on state appropriations, gifts, and financial aid grants, which are defined by GASB as nonoperating revenues to support core operations. Due to the required classification of these significant funding sources as nonoperating, operating expenses will typically exceed operating revenues for public universities, resulting in an operating loss. Nonoperating sources include state appropriations, Pell grants, State of Illinois Monetary Award Program (MAP) grants, gifts, and investment income.

A summary of the University's revenues for the fiscal year ended June 30, 2017, and changes with the previous fiscal year follows.

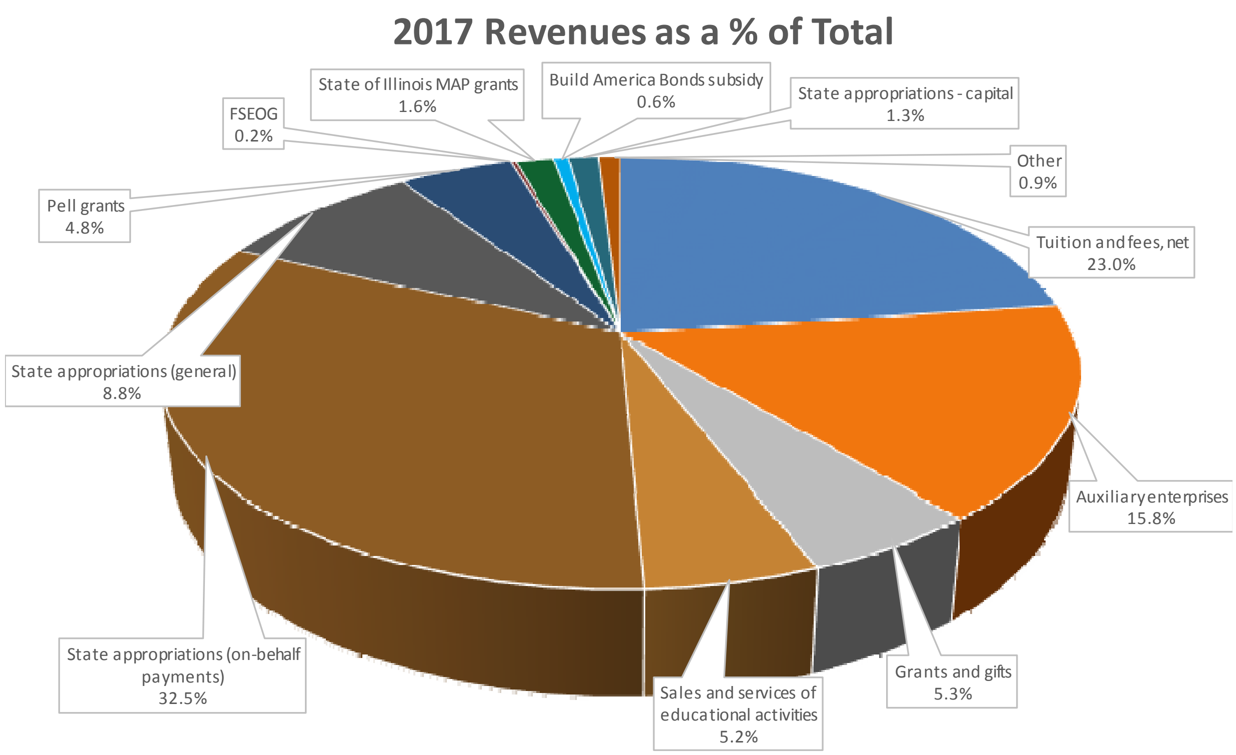
Summary of Revenues ($ In Thousands)

	2017	2016	$ Change	% Change
Operating revenues:				
Student tuition and fees, net	$ 127,256	$ 138,598	$ (11,342)	-8.2%
Auxiliary enterprises	87,173	92,460	(5,287)	-5.7%
Sponsored programs	29,363	29,959	(596)	-2.0%
Other	31,776	31,945	(169)	-0.5%
Operating revenues	275,568	292,962	(17,394)	-5.9%
Nonoperating revenues:				
State appropriations:				
General	48,316	26,424	21,892	82.8%
Supplemental (on-behalf payments)	179,204	158,477	20,727	13.1%
Pell grants	26,536	29,284	(2,748)	-9.4%
Illinois MAP Grants	8,660	9,760	(1,100)	-11.3%
Build America bonds subsidy	3,235	3,290	(55)	-1.7%
FSEOG	835	837	(2)	-0.2%
Net investment income	1,988	1,612	376	23.3%
Net nonoperating revenues	268,774	229,684	39,090	17.0%
Other revenues:				
State appropiations - capital	6,995	1,823	5,172	283.7%
Gifts and contributions	736	836	(100)	-12.0%
Gain on disposal of capital assets	79	-	79	100.0%
Other revenues	7,810	2,659	5,151	193.7%
Total revenues	$ 552,152	$ 525,305	$ 26,847	5.1%

Fiscal Year 2017 Compared to 2016

The University's total revenues increased by $26.8 million, or 5.1%, due primarily to an increase in State appropriations totaling $47.8 million for general, on-behalf payments, and capital projects. Operating revenues decreased by $17.4 million, or -5.9%, due primarily to declining student enrollment.

The following is a graphic illustration of revenues by source (both operating and non-operating), as a percentage of total revenues, which are used to fund the University's operating activities for the year ended June 30, 2017:



Notable changes in operating revenues during fiscal year 2017 compared to 2016 included:

- Tuition and Fees, net, decreased $11.3 million in fiscal year 2017, or -8.2%, due to a decline in student enrollment, offset by a corresponding decline in student tuition discounts and 2017 State of Illinois MAP funding.

- Auxiliary enterprise revenues from the operation of self-supporting activities such as the student residence halls, intercollegiate athletics, bookstore sales, conferences services, parking fees, and University Press publications, declined $5.3 million in fiscal year 2017, or -5.7%, consistent with the overall decline in student enrollment. Specifically, food operations declined by $1.9 million and student residence hall revenues declined by $3.2 million over the prior fiscal year.

- The University was awarded $26.5 million in Pell grants in fiscal 2017, a decline of -9.4%, and $8.7 million in Illinois MAP grants, a decline of -11.3%. Although the Pell Grant decline was attributed to the overall decline in student enrollment, the MAP grant decline was due to a timing difference and the required accounting treatment of State appropriations.

- The largest component of other revenues, capital appropriations received from the State in 2017, totaled $7.0 million, an increase of $5.2 million from 2016, and funded specific capital projects at the University, primarily the ongoing work to renovate and expand the Stevens Building.

- State appropriations increased $42.6 million in total during fiscal 2017 to $227.5 million. Included in this total was general appropriations which increased $21.9 million in fiscal year 2017 to $48.3 million, and supplemental State appropriations, or payments made on-behalf of the University to the Illinois Department of Central Management Services (DCMS) and the State Universities Retirement System (SURS), which increased $20.7 million in fiscal year 2017 to $179.2 million. The supplemental increase was due primarily to an increase in state funding for employer required contributions to DCMS Group Health Insurance and SURS. The University does not participate in the design, selection of vendors, or implementation of either the retirement or group insurance plans for employees. Accordingly, attempts to control the rising trend of national healthcare costs is dependent upon DCMS' annual negotiations with the State's American Federation of State, County and Municipal Employees (AFSCME) union on premiums and other costs.

Summary of Expenses

The Summary of Expenses presents the University's results of expenses incurred by functional classification during the fiscal year. In prior years, State contributions for DCMS and SURS were recorded as staff benefits and presented separately on this statement. Beginning in fiscal year 2017, staff benefits were instead allocated across the various functional expense categories shown below. Accordingly, 2016 expenses have been reclassified to be consistent with the 2017 presentation.

A comparative summary of the University's expenses (both operating and nonoperating) for the fiscal year ended June 30, 2017, and June 30, 2016 follows.

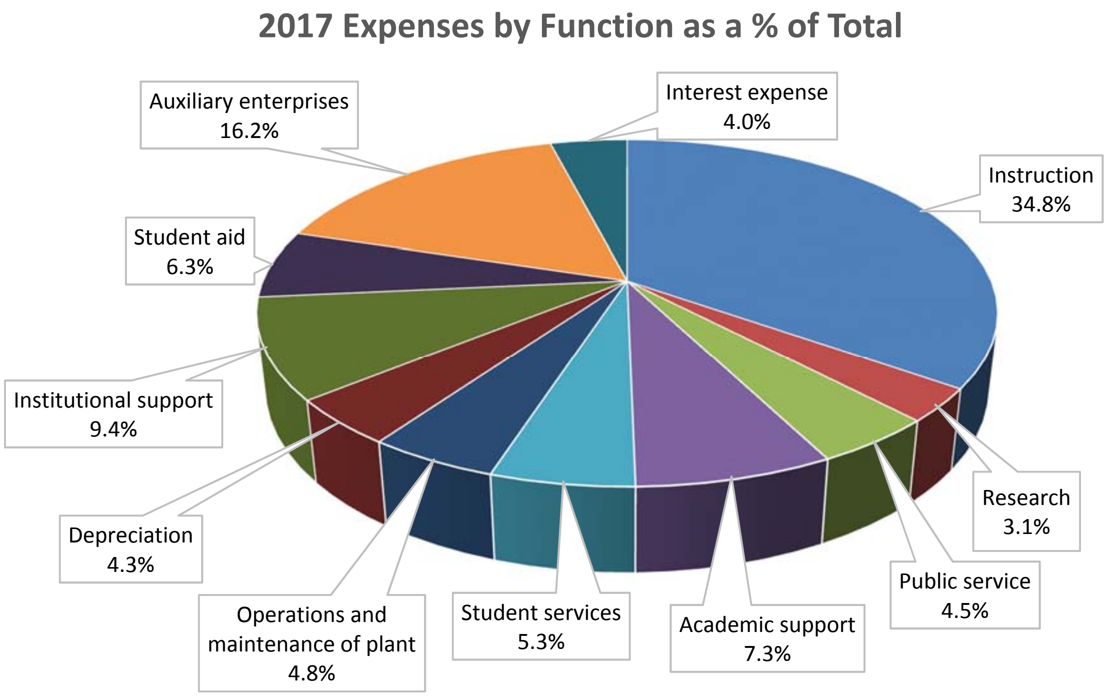
Summary of Expenses ($ In Thousands)

	2017	2016	$ Change	% Change
Operating:				
Instruction	$ 202,903	$ 197,293	$ 5,610	2.8%
Research	18,198	18,614	(416)	-2.2%
Public service	26,122	23,600	2,522	10.7%
Academic support	42,486	42,570	(84)	-0.2%
Student services	31,039	24,514	6,525	26.6%
Operations and maintenance of plant	28,123	29,399	(1,276)	-4.3%
Depreciation	25,052	27,562	(2,510)	-9.1%
Institutional support	54,720	47,685	7,035	14.8%
Student aid	36,865	39,145	(2,280)	-5.8%
Auxiliary enterprises	93,731	97,040	(3,309)	-3.4%
Operating expenses	559,239	547,422	11,817	2.2%
Nonoperating:				
Interest expense	23,314	23,635	(321)	-1.4%
Loss of disposal of capital assets	-	466	(466)	-100.0%
Nonoperating expenses	23,314	24,101	(787)	-3.3%
Total expenses	$ 582,553	$ 571,523	$ 11,030	1.9%

Fiscal Year 2017 Compared to 2016

The University's total operating expenses increased $11.8 million to $559.2 million during the year ended June 30, 2017 from $547.4 during the year ended June 30, 2016, an increase of 2.2%. This total includes benefit expenses for the on-behalf payments made by the State for university employee contributions into DCMS and SURS, which are recorded as both non-operating revenues from the State and operating expenditures for staff benefits. When considering the aforementioned $20.7 million increase in on-behalf payments, the portion representing controllable operating expenses actually decreased $8.9 million during the year as a result of the University's cost reduction initiatives to control spending.

The following is a graphic illustration of functional expenses, as a percentage of total expenses, for the year ended June 30, 2017:



Notable changes in operating expenses during fiscal year 2017 compared to 2016 included:

Public service expenses, which provide non-instructional services beneficial to the community and external groups including public broadcasting, increased $2.5 million in total during fiscal 2017, or 10.7%. Approximately $1.6 million of this amount was from spending on a five-year training grant from the U.S. Department of Education to train master's-level school psychologists in the area of bullying assessment, prevention, and intervention.

Student services, which includes expenses related to admissions and records, health and financial aid, and social and cultural development activities, increased $6.5 million in total during fiscal 2017, or 26.6%. The largest portion of this increase was from employee benefit costs which were up $6.0 million, offset by a $1.1 million decrease in intercollegiate and intramural athletics, also part of this category, and student health services which declined by $0.5 million.

Depreciation expense on capital assets decreased $2.5 million in total during fiscal 2017, or -9.1%, related to an overall drop in depreciable assets.

Institutional support, which includes expenses related to the management and long-range planning for the University, increased $7.0 million in total during fiscal 2017, or 14.8%, primarily as a result of the following:

- Efforts by Enrollment Management, Communications, and Marketing staff to promote the University's brand and grow enrollment totaling $1.0 million;
- A $2.1 million increase by the Division of Information Technology as a result of a change in funding strategy and better identification of institutional support expenses provided to the University; and
- Increased employee benefit costs of $1.8 million.

Student aid expenses, which includes scholarships and fellowships provided as financial aid, declined $2.3 million in total during fiscal 2017, or -5.8%, as a result of the aforementioned declining student enrollment trends.

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 and cash equivalents. A summary comparison of cash flows for the University's fiscal year 2017 and fiscal year 2016 activities follows:

Condensed Statement of Cash Flows ($ In Thousands)

	2017	2016	$ Change	% Change
Net cash used in operating activities	$ (82,341)	$ (84,087)	$ 1,746	2.1%
Net cash provided by noncapital financing activities	84,460	82,067	2,393	2.9%
Net cash used in capital and related financing activities	(40,588)	(35,561)	(5,027)	-14.1%
Net cash provided by investing activities	45,370	55,939	(10,569)	-18.9%
Net increase in cash and cash equivalents	6,901	18,358	(11,457)	-62.4%
Cash and cash equivalents, beginning of year	42,925	24,567	18,358	74.7%
Cash and cash equivalents, end of year	$ 49,826	$ 42,925	$ 6,901	16.1%

Fiscal Year 2017 Compared to 2016

Cash flows from operating activities present the net cash generated or used by the operating activities of the University. Due to the categorization of operating and nonoperating revenues and expenses by GASB, cash flows from operating expenses are typically a net cash use. Major operating funding sources include student tuition and fees, governmental grants and contracts, and auxiliary enterprises revenues. Notable changes in cash flows during fiscal year 2017 compared to 2016 included:

- Net cash used in operating activities decreased $1.7 million in fiscal 2017, or -2.1%, due primarily to a decrease in payments to employees totaling $13.8 million offset by an increase in payments to suppliers totaling $6.3 million and a decrease in cash flows from auxiliary enterprises totaling $3.6 million.

- Net cash provided by noncapital financing activities increased $2.4 million in fiscal 2017, or 2.9%, due primarily to increased cash flows from State appropriations totaling $4.9 million, offset by a decline in cash flows from Pell grants totaling $2.9 million.

- Net cash used in capital and related financing activities increased $5.0 million in fiscal 2017, or 14.1%, as no new debt was issued in the fiscal year, which encompassed a $5.6 million inflow in fiscal year 2016.

- Net cash provided by investing activities decreased $10.6 million in fiscal 2017, or -18.9%, due to a reduced investment portfolio as maturing investments created the necessary liquidity to fund operations, during the time the State was attempting to resolve its budget impasse.

THE UNIVERSITY'S ECONOMIC OUTLOOK

Subsequent to year-end, the University's cash position strengthened significantly as monies were received from fiscal year 2017 State appropriations totaling $12.1 million, fiscal year 2017 Monetary Award Program (MAP) appropriation totaling $19.2 million, tuition and fees related to the Summer session and Fall semesters totaling $50.3 million, plus $12 million from fiscal year 2018 State appropriations. The University has an approved fiscal year 2018 general appropriation budget (enacted on July 6, 2017) of $81.9 million, which represents a 10% reduction from fiscal year 2017. In addition, Management has responded to State budget reductions and has initiated actions to enhance liquidity and mitigate against additional declines in the University's credit ratings. A brief summary of those steps would include identifying new revenue streams, reducing expenditures, and continued assessment of programmatic offerings to meet student demands and the workforce at large. Additionally, the University has a program prioritization plan which is a robust framework for reengineering operations that will yield efficient and effective activities coupled with the allocating of scarce resources towards mission critical activities. These efforts are expected to grow operations and reduce the University's dependency on State appropriations.

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 2017; 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 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 enhance 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, 2017 (In Thousands)
(With Summarized Comparative Information for 2016)

	University		Component Units	
	June 30, 2017	**June 30, 2016**	**June 30, 2017**	**June 30, 2016**
ASSETS				
Current assets				
Cash and cash equivalents	$ 81	$ 14,076	$ 6,305	$ 4,650
Restricted cash and cash equivalents	14,775	4,821	-	-
Investments	8,320	-	-	-
Restricted investments and marketable securities	-	8,861	-	-
Accrued interest receivable	791	998	-	-
Accounts receivable - net	43,312	41,971	918	1,806
Appropriations receivable from state	23	21	-	-
Inventories	2,941	3,406	-	-
Due from component units	1,283	584	-	-
Other assets	1,744	481	362	500
Total current assets	73,270	75,219	7,585	6,956
Noncurrent assets				
Cash and cash equivalents	2,991	5,836	-	-
Restricted cash and cash equivalents	31,979	18,192	-	-
Investments	-	23,490	99,906	89,510
Restricted investments and marketable securities	60,909	80,055	-	-
Student loans receivable - net	7,467	7,880	-	-
Due from component units	3,101	2,895	-	-
Other	1,540	1,636	1,773	2,177
Capital assets, net of accumulated depreciation	447,926	455,331	24,554	25,330
Total noncurrent assets	555,913	595,315	126,233	117,017
TOTAL ASSETS	**629,183**	**670,534**	**133,818**	**123,973**
Deferred Outflows of Resources				
Deferred loss on bond refunding	731	-	-	-
Federal, trust, grant, and other contributions - pensions	1,163	1,029	-	-
Total deferred outflows of resources	1,894	1,029	-	-
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	40,317	45,420	1,168	816
Accrued compensated absences	1,843	2,163	-	-
Students' deposits	280	329	-	-
Due to NIU	-	-	1,283	584
Agency	6,650	4,276	-	-
Unearned tuition and fees	11,262	8,914	-	-
Unearned revenue and grants	1,856	2,050	47	-
Total current liabilities	62,208	63,152	2,498	1,400
Noncurrent liabilities				
Accounts payable and accrued liabilities	3,532	3,815	883	928
Due to NIU	-	-	3,101	2,895
Performance contracts payable	31,045	33,808	-	-
Accrued compensated absences	13,760	13,377	-	-
Government loan fund advances	6,960	7,422	-	-
Unearned revenue and grants	-	-	82	107
Revenue bonds payable	180,538	183,869	1,184	2,263
Leases payable	128,486	130,016	-	-
Notes and certificates of participation payable	9,711	10,866	64	105
Total noncurrent liabilities	374,032	383,173	5,314	6,298
TOTAL LIABILITIES	**436,240**	**446,325**	**7,812**	**7,698**
NET POSITION, AS RESTATED				
Net investment in capital assets	115,432	114,845	22,752	22,923
Restricted:				
Nonexpendable	767	1,361	65,803	58,565
Expendable	82,746	85,043	25,415	24,941
Unrestricted	(4,108)	23,989	12,036	9,846
TOTAL NET POSITION	**$ 194,837**	**$ 225,238**	**$ 126,006**	**$ 116,275**

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, 2017 (In Thousands)
(With Summarized Comparative Information for 2016)

	University		Component Units	
	2017	**2016**	**2017**	**2016**
REVENUES				
Operating revenues				
Tuition and fees, net	$ 127,256	$ 138,598	$ -	$ -
Federal and state grants and other contracts	24,770	25,090	-	-
Private gifts, grants, and contracts	4,593	4,869	18,384	7,192
Sales and service of educational activities	28,805	29,676	-	-
Other sources	2,971	2,269	1,554	1,889
Auxiliary enterprises	87,173	92,460	-	-
Total operating revenues	275,568	292,962	19,938	9,081
EXPENSES				
Operating expenses				
Instruction	202,903	197,293	1,948	1,746
Research	18,198	18,614	44	70
Public service	26,122	23,600	1,240	1,153
Academic support	42,486	42,570	292	358
Student services	31,039	24,514	1,183	1,400
Operation and maintenance of plant	28,123	29,399	657	673
Depreciation	25,052	27,562	-	-
Institutional support	54,720	47,685	4,621	4,444
Student aid	36,865	39,145	2,997	3,271
Auxiliary enterprises	93,731	97,040	-	-
Total operating expenses	559,239	547,422	12,982	13,115
Net operating (loss) gain	(283,671)	(254,460)	6,956	(4,034)
NONOPERATING REVENUES (EXPENSES)				
State appropriations - general	48,316	26,424	-	-
State appropriations - on-behalf payments	179,204	158,477	-	-
Build America Bonds subsidy	3,235	3,290	-	-
Federal and state grants and other contracts	-	-	220	381
Net Investment income	1,988	1,612	321	(105)
Expendable gifts and other	-	-	172	148
Pell grants	26,536	29,284	-	-
Federal Supplemental Educational Opportunity Grant (FSEOG)	835	837	-	-
State of IL Monetary Award Program (MAP)	8,660	9,760	-	-
Interest expense	(23,314)	(23,635)	(5)	(6)
Net nonoperating revenues	245,460	206,049	708	418
Loss before other revenues, gains, or losses	(38,211)	(48,411)	7,664	(3,616)
OTHER REVENUES AND GAINS (LOSSES)				
State appropriations - capital	6,995	1,823	-	-
Gifts and contributions	736	836	-	-
Gain (loss) on disposal of capital assets	79	(466)	4	4
Gifts to permanent endowments	-	-	2,063	1,662
(DECREASE) INCREASE IN NET POSITION	(30,401)	(46,218)	9,731	(1,950)
NET POSITION, BEGINNING OF YEAR	225,238	271,456	116,275	118,225
NET POSITION, END OF YEAR	$ 194,837	$ 225,238	$ 126,006	$ 116,275

See accompanying notes to the basic financial statements.

See accompanying Notes to the Basic Financial Statements.

STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2017 (In Thousands)
(With Summarized Comparative Information for 2016)

	University	
	2017	**2016**
Cash flows from operating activities		
Student tuition and fees, net	$ 126,387	$ 129,513
Federal and state grants and other contracts	23,351	21,754
Private gifts, grants, and contracts	4,111	4,869
Sales and service of educational activities	28,850	28,127
Auxiliary enterprises	88,935	92,543
Payment to suppliers	(92,333)	(85,104)
Payment to employees	(230,706)	(244,527)
Payments for scholarships	(36,938)	(33,590)
Loans to students and employees	(905)	(996)
Collection of loans to students and employees	629	834
Other receipts, net	6,278	2,490
Net cash used in operating activities	(82,341)	(84,087)
Cash flows from noncapital financing activities		
State appropriations	48,314	43,368
Pell Grants	26,357	29,284
Federal Supplemental Educational Opportunity Grant (FSEOG)	832	837
State of IL Monetary Award Program (MAP)	8,660	9,760
Operating transfer - in/(out) to other state agencies	297	(1,182)
Net cash provided by noncapital financing activities	84,460	82,067
Cash flows from capital and related financing activities		
Proceeds from issuance of debt	-	5,600
Purchase of capital assets	(9,800)	(11,494)
Principal payments on capital debt	(10,274)	(9,279)
Interest payments on capital debt	(23,749)	(23,678)
Build America Bond Subsidy	3,235	3,290
Net cash used in capital and related financing activities	(40,588)	(35,561)
Cash flows from investing activities		
Interest income on investments, net	2,259	1,393
Proceeds from sales and maturities of investments	147,956	208,902
Purchase of investments	(104,845)	(154,356)
Net cash provided by investing activities	45,370	55,939
Net increase in cash and cash equivalents	6,901	18,358
Cash and cash equivalents, beginning of the year	42,925	24,567
Cash and cash equivalents, end of the year	$ 49,826	$ 42,925

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, 2017 (In Thousands)
(With Summarized Comparative Information for 2016)

	University	
	2017	**2016**
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$ (283,671)	$ (254,460)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense - non-Auxiliary enterprises	10,327	15,704
Depreciation expense - Auxiliary enterprises	14,725	11,858
On behalf payments for fringe benefits	179,204	158,477
Changes in assets and liabilities		
Accounts receivable	(1,647)	(11,888)
Inventories	465	(85)
Student loans receivable	414	621
Investments and other assets	(2,203)	433
Accounts payable and accrued liabilities	(4,225)	(933)
Accrued compensated absences	63	(1,230)
Students' deposits	(49)	(23)
Unearned revenue and grants	2,344	(1,999)
Government loan fund advances	(462)	(509)
Agency	2,374	(53)
Net cash used in operating activities	$ (82,341)	$ (84,087)
Noncash investing, capital, noncapital, and financing activities		
On-behalf payments for fringe benefits	$ 179,204	$ 158,477
Capital asset contribution	736	836
Loss on disposal of capital assets	-	466
Unpaid state appropriation revenue	23	21
Accretion of bond principal	-	162
Capitalized interest	39	134
Cost of capital assets not being depreciated included in accounts payable	765	3,649
Unrealized gain	295	302
State expenses for capitalized CDB projects	6,995	1,823

See accompanying Notes to the Basic Financial Statements.

NOTES TO THE BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Financial Reporting Entity and Component Unit Disclosures

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 a 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 (Foundation), the Northern Illinois University Alumni Association (Association), and the Northern Illinois Research Foundation (Research Foundation) are Illinois non-profit 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 non-profit corporations, 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.

Basis of Accounting

For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities, as defined by GASB Statement No. 35. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services. Accordingly, the University's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenue is recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Restricted Cash and Investments

Restricted cash and investments are for capital projects and the auxiliary facilities system at the University, funded by an external debt issuance. The University accounts for its investments and marketable securities at fair value.

Accounts and Loans Receivable

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, 2017.

Inventories

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

Capital Assets

Capital assets are recorded at cost when purchased or fair value at the date of donation. Depreciation is calculated on a straight-line basis over the estimated useful lives (noted below) of the respective assets. 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. 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 $39,000 and $134,000 in fiscal year 2017 and 2016, respectively. The assets associated with long-term leases have been capitalized. Estimated Useful lives for capital assets are as follows:

	Useful life (in years)		Useful life (in years)
Site improvements	20	Equipment:	
Buildings	40	Computer and peripherals	5
Building improvements	20	Library books	7
Art work and historical treasures	20	Motor vehicles	5 - 10
Intangible assets	5	Furniture and machines	5 - 10
		Other equipment	5 - 10

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Unearned Revenue

Unearned revenue includes amounts received for Summer tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. These revenues 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. Unearned revenue also includes amounts received from grants and contracts sponsors that have not yet been earned or for which the University has not yet met the eligibility requirements.

Compensated Absences

It is the policy of the University to accrue vacation pay as earned. As of June 30, 2017, the accrued liability for this benefit was $13,012,000 and is included in accrued compensated absences.

Accrued compensated absences includes employee earned but unused vacation and sick leave days. In accordance with 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, 2017, the accrued liability of this benefit was $2,591,000, 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.

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 $5,029,000 at June 30, 2017, and is recorded in the accompanying financial statements as accrued liabilities. This amount will be paid from amounts specifically included in State appropriations to the University for fiscal year 2018 rather than the unrestricted net position available at June 30, 2017.

Premiums, Discounts, and Prepaid Insurance

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

On-Behalf Payments for Fringe Benefits

In accordance with GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, the University and its component units reported a contribution of $179,204,000 made by the State of Illinois in fiscal year 2017 to the State Universities Retirement System (SURS) and Department of Central Management Services (DCMS) Group Insurance 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 DCMS were $108,341,000 and $70,863,000, respectively, for fiscal year 2017.

Pensions

For purposes of measuring the net pension liability, deferred outflows 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 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.

Classification of Revenue

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 (which are primarily comprised of student housing, the student union, intercollegiate athletics, recreational facilities, and parking operations).

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Classification of Revenue (continued)

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.

Scholarship Discount and Allowances

Student tuition and fee revenues are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses, and Changes in Net Position using the National Association of College and University Business Officers' Advisory Report 2000-05's alternative method calculation. Stipends and other payments made directly to students are reported as scholarship and fellowship expense. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University, and the amount paid by the students (and/or third parties on the students' behalf). Certain governmental grants and other Federal, State, or nongovernmental programs are recorded as either operating or nonoperating revenue in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees, the University has recorded a scholarship discount and allowance. In fiscal year 2017, a scholarships allowance of $41,479,000 is netted against student tuition and fees.

Use of Estimates in Preparing the Financial Statements

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.

Summarized Comparative Information

The basic financial statements include prior year comparative information, which has been derived from the University's 2016 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, 2016.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Summarized Comparative Information (continued)

Certain items in the June 30, 2016 financial statements have been reclassified to correspond to the June 30, 2017 presentation.

The University has chosen to reclassify certain prior year amounts related to all Auxiliary Facilities System net position and the related assets from unrestricted net position to restricted-expendable net position to conform to current year presentations in reporting restricted assets and net position.

New and Pending Accounting Pronouncements

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Other Than Pension Plans.* The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits (OPEB)). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The University has not yet determined the impact of this Statement. It is required to be adopted with the June 30, 2018, financial statements.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. 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. The University has not yet determined the impact of this Statement. It is required to be adopted with the June 30, 2018, financial statements.

GASB Statement No. 83, *Certain Asset Retirement Obligations*. The objective of this Statement is to address accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the Guidance in this Statement. The University has not yet determined the impact of this Statement. It is required to be adopted with the June 30, 2019, financial statements.

GASB Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The University has not yet determined the impact of this Statement. It is required to be adopted with the June 30, 2020, financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and Pending Accounting Pronouncements (continued)

GASB Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues relating to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits (OPEB)). The University has not yet determined the impact of this Statement. It is required to be adopted with the June 30, 2018, financial statements.

GASB Statement No. 86, *Certain Debt Extinguishment Issues*. The objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources (resources other than the proceeds of refunding debt) are placed in an irrevocable trust for the sole purpose of extinguishing debt. This statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to the financial statements for debt that is defeased in substance. The University has not yet determined the impact of this Statement. It is required to be adopted with the June 30, 2018, financial statements.

GASB Statement No. 87, *Leases.* The objective of this Statement is to improve accounting and financial reporting for leases by governments. This Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The University has not yet determined the impact of this Statement. It is required to be adopted with the June 30, 2021, financial statements.

2. CASH AND CASH EQUIVALENTS

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

2. CASH AND CASH EQUIVALENTS (continued)

As of June 30, 2017, cash deposits (consisting of demand deposits and selected money market accounts) with a bank balance of $43,201,000 and a carrying value of $40,894,000 were held by the University. 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.

At June 30, 2017, the University held $8,932,000 in money market mutual funds. $8,648,000 was held in the Goldman Sachs Financial Square Government Fund, and the remaining $284,000 in the Federated Government Obligation Fund. Each fund values its holdings at amortized cost (2a7 like pool). Interest income is declared daily and paid monthly. These money market fund accounts are not covered by Federal Deposit Insurance Corporation (FDIC) insurance, but are rated AAAm.

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 specifies 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; and
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.

3. INVESTMENTS (continued)

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 inputs are quoted prices for identical investments in active markets, Level 2 inputs are other observable inputs, and Level 3 inputs are unobservable. The University has only Level 2 investments which 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. There have been no significant changes in valuation techniques.

On June 30, 2017, Northern Illinois University has the following recurring fair value measurements for investments ($000's):

	Fair Value Measurements			
Investments by Level	Total	Level 1	Level 2	Level 3
U.S. Treasury Notes	$ 29,983	$ -	$ 29,983	$ -
U.S. Agency Notes	30,926	-	30,926	-
	$ 60,909	$ -	$ 60,909	$ -

The investments above exclude $8,320,000 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, 30 ILCS 235. The Illinois Funds are rated AAAm by Standard & Poor's.

3. INVESTMENTS (continued)

Below is a summary of how cash and investments are valued as of June 30, 2017 ($000's):

	Total	Bank and Custodian Demand Deposit Accounts	Fair Value	Net Asset Value
Cash and cash equivalents	$ 49,826	$ 40,894	$ -	$ 8,932
Investments	69,229	-	60,909	8,320

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, 2017, 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
Federal Farm Credit Bank (FFCB)	$ 4,987
Federal Home Loan Bank (FHLB)	10,976
Federal Home Loan Mortgage Corporation (FHLMC)	3,990
Federal National Mortgage Association (FNMA)	10,973

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.

3. INVESTMENTS (continued)

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 credit ratings below ($000's):

	Illinois Funds Money Market	U.S. Treasury	U.S. Agency	Total
AAA	$ -	$ 29,983	$ -	$ 29,983
AA+	-	-	30,926	30,926
AAAm	8,320	-	-	8,320
Total	$ 8,320	$ 29,983	$ 30,926	$ 69,229

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	$ 8,320	$ 26,475	$ 28,433	$ 63,228
1 - 3 years	-	3,508	2,493	6,001
Total	$ 8,320	$ 29,983	$ 30,926	$ 69,229

Component Units

The Foundation considers all liquid investments with original maturities of three months or less to be cash equivalents. As of June 30, 2017, 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 Foundation's Board of Directors quarterly.

3. INVESTMENTS (continued)

Component Units (continued)

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 2017 of distributing four percent of the three year moving average of the endowment investments' fair value for the three preceding years, limited to the amount fair market value exceeds historic gift value.

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.

3. INVESTMENTS (continued)

Component Units (continued)

Custodial Credit Risk – 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.

Concentration Risk – The Foundation's policy prohibits investment purchases that would cause a position in the portfolio to exceed five percent of the outstanding voting shares of the company or invest with the intent of controlling management. The Foundation does not have investments in any single issuer representing five percent or more of the outstanding voting shares of such companies.

Credit Risk – 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 primarily 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	U.S. Treasury Bills and Bonds	Total
AAA	$ 1,006	$ 970	$ 1,976
AA	4,263	-	4,263
AA-	10	-	10
A+	4,245	-	4,245
A	1,576	-	1,576
BBB-	1,035	-	1,035
BB+	4,336	-	4,336
BB	1,130	-	1,130
B	1,058	-	1,058
Total	$ 18,659	$ 970	$ 19,629

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, 2017 were distributed among the following currencies ($000's):

3. INVESTMENTS (continued)

Component Units (continued)

Currency	U.S. Dollar Equivalent	Percentage
United States Dollar	$ 87,090	82.2 %
Euro Current Unit	2,809	2.7
Japanese Yen	2,164	2.0
Chinese Yuan Renminbi	1,640	1.6
British Pound	1,524	1.4
South Korean Won	1,455	1.4
Indian Rupee	1,437	1.4
Taiwan Dollar	1,291	1.2
Brazil Real	675	0.6
Canadian Dollar	638	0.6
Other currencies, individually less than 5% of deposits and investments	5,177	4.9
Total Currencies	$ 105,900	100.0 %

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.

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3. INVESTMENTS (continued)

Component Units (continued)

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	U.S. Treasury Bills and Bonds	Total
8.0	$ 1,006	$ -	$ 1,006
6.1	4,263	-	4,263
5.3	2,685	-	2,685
5.2	-	970	970
4.7	10	-	10
4.1	4,245	-	4,245
3.5	1,651	-	1,651
3.4	1,035	-	1,035
1.3	1,576	-	1,576
0.3	1,058	-	1,058
0.3	1,130	-	1,130
Total	$ 18,659	$ 970	$ 19,629

Fair Value of Investments – Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of input that may be used to measure fair value:

Level 1 – Quoted prices (unadjusted) in active markets for an identical asset or liability that a government can access at the measurement date.

Level 2 – Inputs other than quoted prices included in Level 1 that are observable for an asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs supported by little or no market activity for an asset or liability.

3. INVESTMENTS (continued)

Component Units (continued)

Where quoted prices are available in an active market, the Foundation classifies the securities as Level 1 investments. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified by the Foundation as Level 2 investments. In cases where Level 1 or Level 2 inputs are unavailable, the Foundation classifies the investment as Level 3. There were no Level 3 investments held by the Foundation at June 30, 2017 and there have been no significant changes in valuation techniques used during the year. The following table summarizes assets measured at fair value on a recurring basis as of June 30, 2017, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value.

	Total	Level 1	Level 2
U.S. Treasury bonds and bills	$ 970	$ -	$ 970
Common stock, domestic	336	336	-
Equity exchange traded funds and products	2,112	2,112	-
Bond mutual funds	-	-	-
Core	11,119	11,119	-
Multi-strategy	10	10	-
U.S. Treasury inflation-protected securities	1,006	1,006	-
Bank loans	1,058	1,058	-
Credit sensitive	2,685	2,685	-
High yield	1,651	1,651	-
Global	1,130	1,130	-
Tactical allocation mutual funds	3,229	3,229	-
Equity mutual funds	-	-	-
Core	1,655	1,655	-
Multi-strategy	47	47	-
U.S. large cap	13,787	13,787	-
U.S. small cap	4,293	4,293	-
International developed markets	11,653	11,653	-
Emerging markets	7,157	7,157	-
Hedged equity	1,135	1,135	-
Real asset mutual funds	1,203	1,203	-
Diversifying strategy mutual funds	2,311	2,311	-
Money market mutual funds	3,597	3,597	-
Trusts held by others	2,197	-	2,197
Cash surrender value of life insurance	20	-	20
	$ 74,361	$ 71,174	$ 3,187

3. INVESTMENTS (continued)

Component Units (continued)

The investments above exclude $28,940,000 of investments where values are based on net asset value per share (NAV) (or its equivalent). There were no transfers between Level 1 or 2 of the fair value hierarchy during the year ended June 30, 2017. 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, 2017 ($000s):

Fair Value Estimated Using NAV (or its equivalent)

	Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Hedged/alternative investments (A)	$ 15,600	$ -	(A)	(A)
Private equity (B)	13,340	4,579	(B)	(B)
	$ 28,940	$ 4,579		

(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. 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, buy-out 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, 2017.

3. INVESTMENTS (continued)

Component Units (continued)

Below is a summary of how cash and investments are valued at June 30, 2017 ($000s):

	Total	Bank and Custodian Demand Deposit Accounts	Fair Value	Net Asset Value
Cash and cash equivalents	$ 6,305	$ 2,910	$ 3,395	$ -
Investments	99,906	-	70,966	28,940
	$ 106,211	$ 2,910	$ 74,361	$ 28,940

4. RECEIVABLES

Accounts Receivable

The University and its component units report accounts receivable net of the allowance for uncollectible accounts and includes the following:

	Gross Receivables	Allowance for Uncollectible Accounts	Net Receivables
UNIVERSITY ($000s)			
Student accounts	$ 56,296	$ (25,192)	$ 31,104
Customer accounts	3,315	(687)	2,628
Grants receivable	9,580	-	9,580
	$ 69,191	$ (25,879)	$ 43,312
COMPONENT UNIT ($000s)			
Others	$ 918	$ -	$ 918

University Student Loans Receivable

Student loans made through the Federal Perkins Loan Program comprise substantially all of student loans receivable at June 30, 2017 totaling $7,505,000 and are reported net of an allowance for uncollectible accounts of $38,000.

5. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2017 is summarized as follows:

University ($000's)	Balance 6/30/16	Additions	Retirements	Transfers	Balance 6/30/17
Capital assets not being depreciated:					
Land	$ 19,281	$ -	$ -	$ -	$ 19,281
Construction in progress	37,657	14,435	(145)	(1,566)	50,381
Total capital assets not being depreciated	56,938	14,435	(145)	(1,566)	69,662
Capital assets being depreciated:					
Land improvements	83,417	-	-	234	83,651
Leasehold improvements	-	398	-	33	431
Buildings	670,823	-	(3,233)	1,299	668,889
Equipment	192,282	4,595	(5,879)	-	190,998
Other assets	3,820	-	-	-	3,820
Total capital assets being depreciated:	950,342	4,993	(9,112)	1,566	947,789
Less: accumulated depreciation	(551,949)	(25,052)	7,476	-	(569,525)
Total capital assets being depreciated, net	398,393	(20,059)	(1,636)	1,566	378,264
Total capital assets, net	$ 455,331	$ (5,624)	$ (1,781)	$ -	$ 447,926

Component Units ($000's)	Balance 6/30/16	Additions	Retirements	Transfers	Balance 6/30/17
Capital assets not being depreciated:					
Land	$ 3,829	$ 32	$ -	$ -	$ 3,861
Construction in progress	-	-	-	-	-
Total capital assets not being depreciated	3,829	32	-	-	3,861
Capital assets being depreciated:					
Buildings	24,598	-	-	-	24,598
Equipment	1,201	21	(2)	-	1,220
Total capital assets being depreciated:	25,799	21	(2)	-	25,818
Less: accumulated depreciation	(4,298)	(828)	1	-	(5,125)
Total capital assets being depreciated, net	21,501	(807)	(1)	-	20,693
Total capital assets, net	$ 25,330	$ (775)	$ (1)	$ -	$ 24,554

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2017 are as follows ($000s):

	University	Component Units
Payable to vendors/suppliers	$ 23,830	$ 614
Accrued payroll	6,761	-
Current portion of noncurrent liabilities:		
Performance contracts payable	2,763	-
Revenue bonds payable	4,137	513
Leases payable	1,530	-
Notes and certificates of participation payable	1,155	41
Other liabilities	141	-
Total current accounts payable and accrued liabilities	40,317	1,168
Noncurrent accounts payable and accrued liabilities	3,532	883
Total accounts payable and accrued liabilities	$ 43,849	$ 2,051

7. PERFORMANCE CONTRACTS PAYABLE

The University has entered into multiple performance contracts, in accordance with Public Act 90-0486, passed by the State Legislature in 1997. This 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 expenditure in the performance contracts have been capitalized in accordance with the University capitalization policy.

7. PERFORMANCE CONTRACTS PAYABLE (continued)

Performance contracts payable activity and outstanding balances are as follows ($000s):

Performance Contract	Beginning Balance	Issued	Retired	Ending Balance	Current Portion
Energy Infrastructure Improvements	$ 169	$ -	$ (169)	$ -	$ -
Energy Infrastructure Improvement - Phase 10B	8,931	-	(660)	8,271	687
Energy Infrastructure Improvements - Refinance	14,309	-	(1,277)	13,032	1,309
Energy Infrastructure Improvements - Phase 11	7,631	-	(447)	7,184	463
Energy Infrastructure Improvements - Phase 11A	5,600	-	(279)	5,321	304
Total	$ 36,640	$ -	$ (2,832)	$ 33,808	$ 2,763

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

Year Ending June 30,	Principal	Interest	Total
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	3,132	704	3,836
2023-2027	15,598	1,960	17,558
2028-2031	3,486	230	3,716
Total	$ 33,808	$ 6,649	$ 40,457

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 ($000s):

Balance, beginning of year	$	15,540
Additions/(Deductions)		63
Balance, end of year		15,603
Less: current portion		(1,843)
Balance, end of year, noncurrent portion	$	13,760

Amounts reported as current are based upon historical trends. The employer portion of Medicare taxes related to accrued compensated absences is $200,000.

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 ($000s):

Balance, beginning of year	$	2,050
Additions/(Deductions)		(194)
Balance, end of year	$	1,856

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 ($000s):

Balance, beginning of year	$	7,422
Additions/(Deductions)		(462)
Balance, end of year	$	6,960

11. REVENUE BONDS PAYABLE

Revenue bonds activity and outstanding as of June 30, 2017 are as follows ($000s):

Issue	Beginning Balance	Issued/ Accreted	Retired/ Defeased	Ending Balance	Current Portion	Future Revenues Pledged	Debt Service to Pledged Revenue (Current Year)
Series 1992(B)	$ 709	$ -	$ (709)	$ -	$ -	$ -	1.65%
Series 2010	126,025	-	-	126,025	-	315,392	5.53%
Series 2011	61,040	-	(3,185)	57,855	4,065	77,548	3.47%
	187,774	-	(3,894)	183,880	4,065	392,940	
Unamortized Premium	867	-	(72)	795	72	N/A	
Total	$ 188,641	$ -	$ (3,966)	$ 184,675	$ 4,137	$ 392,940	
Component Units	$ 2,263	$ -	$ (566)	$ 1,697	$ 513	$ -	

The Auxiliary Facilities Revenue Bonds, Series 1992 (B), original issue $14,498,000, matured serially at varying amounts from fiscal years 2005 through 2017, and paid no current interest. The University recorded the annual increase in the principal amount of these bonds as interest expense and accretion on bonds payable until fiscal year 2017 when the bond series fully matured. The interest ranged 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 U.S. 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(B) bonds were payable from and secured by the net revenues of the System and pledged fees, which equaled $43,520,000 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(B) bonds. The Series 2010 and Series 2011 bonds are further secured by a pledge of and lien on pledged tuition, which equaled $139,438,000 in the current year. All bond series are also secured by non-cancelable policies of municipal bond insurance.

11. REVENUE BONDS PAYABLE (continued)

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

University ($000s)

Year Ending June 30,	Principal	Interest	Total
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	4,960	12,230	17,190
2023-2027	28,880	57,081	85,961
2028-2032	37,290	47,457	84,747
2033-2037	47,935	31,267	79,202
2038-2041	47,300	9,769	57,069
Total	$ 183,880	$ 209,060	$ 392,940

Component Units ($000s)

Year Ending June 30,	Principal	Interest	Total
2018	$ 514	$ 27	$ 541
2019	360	19	379
2020	366	13	379
2021	457	7	464
Total	$ 1,697	$ 66	$ 1,763

As a requirement of issuing certain revenue bonds, the University is subject to specific covenants. The University monitors its compliance with these covenants.

11. REVENUE BONDS PAYABLE (continued)

During the time period, beginning January 2012 through June 2017, the University transferred $2,560,000 (net) from the University's Auxiliary Facilities System to the University's segregated accounts related to its Public Private Partnership with CHF-DeKalb II, LLC. During fiscal year 2018, it was determined the non-capital assets associated with the University's Auxiliary Facilities System should have been classified as restricted assets not subject to transfer for Public Private Partnership activities. As such, the associated cash within the University's financial statements was reclassified to eliminate these transfers, resulting in the return of funds to the System. These transfers were recorded in the University's financial statements as having occurred during fiscal year 2017. With consideration given to the return of the funds to the System during fiscal year 2018 and in consultation with bond counsel, it was determined that the University was not in default as of June 30, 2017.

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 $114,480,000, net of accumulated depreciation of $19,143,000, at June 30, 2017.

Capital leases activity and outstanding principal balances as of June 30, 2017 are as follows ($000s):

	Beginning Balance	Additions	Payments	Ending Balance	Current Portion
IASBO Building	$ 454	$ -	$ (48)	$ 406	$ 50
CHF - DeKalb Northern View	18,860	-	(167)	18,693	213
CHF - DeKalb First Year Residence	111,910	-	(993)	110,917	1,267
Net Present Value	$ 131,224	$ -	$ (1,208)	$ 130,016	$ 1,530

12. CAPITALIZED LEASES (continued)

Future minimum lease payments for the above assets under capital leases at June 30, 2017 on originally scheduled minimum payments and estimated interest are ($000s):

Year Ending June 30,	Principal	Interest	Total
2018	$ 1,530	$ 8,697	$ 10,227
2019	1,823	8,618	10,441
2020	2,221	8,525	10,746
2021	2,334	8,411	10,745
2022	2,457	8,291	10,748
2023-2027	14,477	39,029	53,506
2028-2032	19,815	33,557	53,372
2033-2037	27,575	25,803	53,378
2038-2042	38,449	14,927	53,376
2043-2044	19,335	2,016	21,351
Total	$ 130,016	$ 157,874	$ 287,890

During fiscal year 2007, the University entered 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 approximately 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 future payments beginning in fiscal year 2014.

13. NOTES AND CERTIFICATES OF PARTICIPATION PAYABLE

Certificates of participation, notes payable activity, and outstanding principal balances as of June 30, 2017 are as follows ($000s):

Issue	Beginning Balance	Issued	Retired	Ending Balance	Current Portion
Certificates of Participation/Notes Payable:					
Series 1993 - Hoffman Estates Facility	$ 1,305	$ -	$ (1,305)	$ -	$ -
Series 2014 - Capital Improvement Project	11,035	-	(1,025)	10,010	1,060
	12,340	-	(2,330)	10,010	1,060
Unamortized Debt Premium	951	-	(95)	856	95
Total	$ 13,291	$ -	$ (2,425)	$ 10,866	$ 1,155
Component Unit	$ 144	$ -	$ (39)	$ 105	$ 41

Series 1993 – Hoffman Estates 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 rate is 5%. The Series 1993 Certificates of Participation were paid in full in September 2016.

Series 2014 – Capital Improvement Project: On April 22, 2014, the University issued Certificates of Participation (COPs) 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 rate is 4%-5%.

13. NOTES AND CERTIFICATES OF PARTICIPATION PAYABLE (continued)

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

University ($000s)

Year Ending June 30,	Principal	Interest	Total
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	1,260	243	1,503
2023-2026	4,235	328	4,563
Total	$ 10,010	$ 2,080	$ 12,090

Component Units ($000s)

Year Ending June 30,	Principal	Interest	Total
2018	$ 41	$ 3	$ 44
2019	42	2	44
2020	22	-	22
Total	$ 105	$ 5	$ 110

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. University policy is to apply restricted resources first when an expense or outlay is incurred for purposes for which both restricted and unrestricted resources are available. The following tables include detail of the net position balances for the University and the Component Units:

14. NET POSITION (continued)

University Net Position ($000s)

Net investment in capital assets	$	115,432
Restricted:		
Nonexpendable		767
Expendable:		
Auxiliary Facilities System		79,645
Endowments		3,101
Unrestricted		(4,108)
Total	$	194,837

Component Units Net Position ($000s)

Net investment in capital assets	$	22,752
Restricted:		
Nonexpendable		65,803
Expendable		25,415
Unrestricted		12,036
Total	$	126,006

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.

Restricted-nonexpendable net position 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. It also includes the University's capital contributions to the Perkins Loan Program fund.

Restricted-expendable net position 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 2017, 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 $519,000. 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 Research Foundation provided $188,000 of services during fiscal year 2017, of which $44,000 was payable from the University at year-end.

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

	Foundation	Alumni Association	Research Foundation
Unrestricted funds:			
Unrestricted administrative services	$ 644	$ -	$ 220
Support for University programs and departments	5,173	186	891
Provided for library books, equipment, and property improvements	77	-	-
Administrative and office expense	1,045	-	-
Total unrestricted funds	6,939	186	1,111
Restricted funds:			
Provided for scholarship and awards	2,670	25	-
Provided for library books, equipment, and property improvements	38	-	-
Restricted fund	1,348	-	-
Endowment fund	665	-	-
Total restricted funds	4,721	25	-
Total funds provided on behalf of the the University	$ 11,660	$ 211	$ 1,111

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, coaches' 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 Leases disclosure (Footnote 16). Lease payments ended August 2016.

15. TRANSACTIONS WITH COMPONENT UNITS (continued)

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 facility serves 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 Leases disclosure (Footnote 16).

The University, with its discretely presented component units, are presented within the State's Comprehensive Annual Financial Report (CAFR) as a consolidated discretely presented component unit. As the transactions and balances between the University and its UROs are not eliminated as presented in the statement of net position and statement of revenues, expenses, and changes in net position, additional disclosure identifying the eliminating entries necessary for presentation in the State's CAFR follows.

As of and for the year ended June 30, 2017, the University and its Foundations had the following inter-entity transactions ($000s):

Northern Illinois University	NIU Foundation				Alumni Association	Research Foundation	
	Operating revenues	Operating expenses	Current liabilities	Noncurrent liabilities		Operating revenues	Current assets
Operating revenues	-	3,442	-	-	-	-	-
Operating expenses	383	-	-	-	-	188	-
Other nonoperating revenues	-	772	-	-	-	-	-
Current assets	-	-	1,283	-	-	-	-
Noncurrent assets	-	-	-	3,101	-	-	-
Current liabilities	-	-	-	-	-	-	44

16. OPERATING LEASES

The University leases various buildings under operating lease agreements. Total rental expense under these agreements for the year ended June 30, 2017 was $834,000.

16. OPERATING LEASES (continued)

Future minimum lease payments are ($000s):

Year Ending June 30,	Amount
2018	$ 645
2019	594
2020	610
2021	530
2022	50
Total	$ 2,429

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, effective January 1, 1998, established an alternative defined benefit program known as the portable benefit package. The traditional and portable plan Tier 1 refers to members that began participation prior to January 1, 2011. Public Act 96-0889 revised the traditional and portable benefit plans for members who begin participation on or after January 1, 2011, and who do not have other eligible Illinois reciprocal system services. The revised plan is referred to as Tier 2. New employees are allowed 6 months after their date of hire to make an irrevocable election. A summary of the benefit provisions as of June 30, 2016 can be found in the System's comprehensive annual financial report (CAFR), Notes to the Financial Statements.

17. RETIREMENT PLAN (continued)

General Information about the Pension Plan (continued)

Contributions. The State of Illinois is primarily responsible for funding the System on behalf of the individual employers at an actuarially determined amount. Public Act 88-0593 provides a Statutory Funding Plan consisting of two parts: (i) a ramp-up period from 1996 to 2010, and (ii) a period of contributions equal to a level percentage of the payroll of active members of the System to reach 90% of the total Actuarial Accrued Liability by the end of Fiscal Year 2045. Employer contributions from "trust, federal, and other funds" are provided under Section 15-155(b) of the Illinois Pension Code and require employers to pay contributions which are sufficient to cover the accruing normal costs on behalf of applicable employees. The employer normal cost for fiscal year 2016 and 2017, respectively, was 12.69% and 12.53% of employee payroll. The normal cost is equal to the value of current year's pension benefit and does not include any allocation for the past unfunded liability or interest on the unfunded liability. Plan members are required to contribute 8.0% of their annual covered salary. The contribution requirements of plan members and employers are established and may be amended by the Illinois General Assembly.

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

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

Net Pension Liability. The net pension liability (NPL) was measured as of June 30, 2016. At June 30, 2016, SURS reported a net pension liability (NPL) of $25,965,272,000.

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 $1,096,228,000, or 4.2219%. This amount is not recognized in the financial statements. The net pension liability and total pension liability as of June 30, 2016 was determined based on the June 30, 2015 actuarial valuation rolled forward. The basis of allocation used to determine the University's proportionate share of net pension liability is the actual reported pensionable contributions made to SURS during fiscal year 2016.

17. RETIREMENT PLAN (continued)

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

Pension Expense. For the year ended June 30, 2016, SURS reported a collective net pension expense of $2,566,165,000.

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 2016. As a result, the University recognized on-behalf revenue and pension expense of $108,341,000 for the fiscal year ended June 30, 2017.

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

SURS's Collective Deferred Outflows and Deferred Inflows of Resources by Sources ($000s)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 14,216	$ 2,299
Change in assumptions	655,464	-
Net difference between projected and actual earnings on pension plan investments	795,528	-
Total	$ 1,465,208	$ 2,299

SURS Collective Deferred Outflows and Deferred Inflows of Resources by Year to be Recognized in Future Pension Expenses ($000s):

Year Ending June 30,	Net Deferred Outflows of Resources
2017	$ 539,537
2018	275,427
2019	401,521
2020	246,424
Total	$ 1,462,909

17. RETIREMENT PLAN (continued)

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

University's Deferral of Fiscal Year 2017 Pension Expense. The University paid $1,163,000 in federal, trust or grant contributions for the fiscal year ended June 30, 2017. These contributions were made subsequent to the pension liability measurement date of June 30, 2016 and are recognized as Deferred Outflows of Resources as of June 30, 2017.

Assumptions and Other Inputs

Actuarial assumptions. The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period June 30, 2010 – 2014. The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Salary increases	3.75 to 15.00 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 RP2014 Combined Mortality Table, with projected generational mortality and a separate mortality assumption for disabled participants.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return were adopted by the plan's trustees after considering input from the plan's investment consultant(s) and actuary(s). For each major asset class that is included in the pension plan's target asset allocation as of June 30, 2016, these best estimates are summarized in the following table:

17. RETIREMENT PLAN (continued)

Assumptions and Other Inputs (continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	23%	6.08%
Private Equity	6%	8.73%
Non-U.S. Equity	19%	6.95%
Global Equity	8%	6.78%
Fixed Income	19%	1.17%
Treasury-Inflation Protected Securities	4%	1.41%
Emerging Market Debt	3%	4.44%
Real Estate REITS	4%	5.75%
Direct Real Estate	6%	4.62%
Commodities	2%	4.23%
Hedged Strategies	5%	4.00%
Opportunity Fund	1%	6.54%
Total	100%	5.06%
Inflation		2.75%
Expected Geometrical Normal Return		7.81%

Discount Rate. A single discount rate of 7.01% 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 7.25% and a municipal bond rate of 2.85% (based on the weekly rate closest to but not later than the measurement date of the 20-Year Bond Buyer Index as published by the Federal Reserve). The projection of cash flows used to determine this single discount rate were the amounts of contributions attributable to current plan members and assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the statutory contribution rates under 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 2073. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2073, and the municipal bond rate was applied to all benefit payments after that date.

17. RETIREMENT PLAN (continued)

Assumptions and Other Inputs (continued)

Sensitivity of SURS's Net Pension Liability to Changes in the Discount Rate. Regarding the sensitivity of the net pension liability to changes in the single discount rate, the following presents the plan's net pension liability, calculated using a single discount rate of 7.01%, as well as what the plan's net pension liability would be if it were calculated using a single discount rate that is 1-percentage- point lower or 1-percentage-point higher ($000s):

1% Decrease 6.01%	Current Single Discount Rate Assumpton 7.01%	1% Increase 8.01%
$31,348,832	$25,965,272	$21,502,422

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 Universities 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

18. POSTEMPLOYMENT BENEFITS (continued)

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.

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19. OPERATING EXPENSES BY NATURAL CLASSIFICATION

Operating expenses by natural classification for the year ended June 30, 2017 are summarized as follows ($000s):

	Compensation and Benefits	Supplies and Services	Scholarships and Fellowships	Depreciation	Total
University ($000's)					
Instruction	$ 189,201	$ 13,702	$ -	$ -	$ 202,903
Research	15,155	3,043	-	-	18,198
Public service	20,660	5,462	-	-	26,122
Academic support	36,276	6,210	-	-	42,486
Student services	23,431	7,608	-	-	31,039
O&M	14,003	14,120	-	-	28,123
Depreciation	-	-	-	25,052	25,052
Inst. support	42,599	12,121	-	-	54,720
Student aid	-	-	36,865	-	36,865
Auxiliary enterprises	79,476	14,255	-	-	93,731
Total	$ 420,801	$ 76,521	$ 36,865	$ 25,052	$ 559,239

Component Units ($000's)

	Compensation and Benefits	Supplies and Services	Scholarships and Fellowships	Depreciation	Total
Instruction	$ 851	$ -	$ 1,096	$ -	$ 1,947
Research	21	22	-	-	43
Public service	660	580	-	-	1,240
Academic support	87	205	-	-	292
Student services	148	1,035	-	-	1,183
O&M	-	1,392	-	-	1,392
Inst. support	733	2,890	-	208	3,831
Student aid	52	62	2,885	-	2,999
Total	$ 2,552	$ 6,186	$ 3,981	$ 208	$ 12,927

20. INSURANCE

The University participates in an insurance 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, workers' compensation, employers' liability, and employee indemnity by a number of State of Illinois Self-Insured Plans administered by the Illinois 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, 2017, the University had commitments on various services, products, grants, projects, and contracts for repairs and renovations of facilities of approximately $16.7 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 Actions

Although the University is a defendant in various lawsuits, most of the actions are personnel or administrative in nature, and the University's legal exposure is either limited or virtually non-existent. University officials are of the opinion, based upon the 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.

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 as and for the year ended June 30, 2017. ($000s)

	Foundation	Alumni Association	Northern IL Research Foundation	Eliminations	Combined Totals
Condensed Statement of Net Position					
ASSETS:					
Current assets					
Cash and cash equivalents	$ 6,014	$ 152	$ 291	$ (152)	$ 6,305
Accounts receivable	832	10	76	-	918
Due from Foundation	-	-	-	-	-
Other current assets	87	1	274	-	362
Noncurrent assets					
Capital assets, net of accumulated depreciation	24,393	-	161	-	24,554
Investments administered by NIU Foundation	99,906	2,628	-	(2,628)	99,906
Other noncurrent assets	1,773	-	-	-	1,773
TOTAL ASSETS	$ 133,005	$ 2,791	$ 802	$ (2,780)	$ 133,818
LIABILITIES:					
Current liabilities					
Accounts payable and accrued liabilities	$ 1,028	$ 193	$ 146	$ (152)	$ 1,215
Due to NIU	1,283	-	-	-	1,283
Noncurrent liabilities	-	-	-	-	-
Deposits held for NIU Alumni Association	2,628	-	-	(2,628)	-
Unearned revenue	-	-	82	-	82
Accounts payable and accrued liabilities	883	-	-	-	883
Deposits held for NIU	3,101	-	-	-	3,101
Bonds and notes payable	1,184	-	64	-	1,248
TOTAL LIABILITIES	10,107	193	292	(2,780)	7,812
NET POSITION:					
Invested in capital assets	$ 22,696	-	56	-	$ 22,752
Restricted	-	-	-	-	-
Nonexpendable	65,684	119	-	-	65,803
Expendable	24,988	265	162	-	25,415
Unrestricted	9,530	2,214	292	-	12,036
Total net position	122,898	2,598	510	-	126,006
TOTAL LIABILITIES AND NET POSITION	$ 133,005	$ 2,791	$ 802	$ (2,780)	$ 133,818
Condensed Statement of Revenues, Expenses, and Changes in Net Position					
Operating revenues	$ 19,372	$ 67	$ 499	$ -	$ 19,938
Operating expenses	11,660	211	1,111	-	12,982
Operating gain (loss)	7,712	(144)	(612)	-	6,956
Nonoperating revenue	2,063	493	219	-	2,775
Increase (decrease) in net position	9,775	349	(393)	-	9,731
Net position, beginning of year	113,123	2,249	903	-	116,275
Net position, end of year	$ 122,898	$ 2,598	$ 510	$ -	$ 126,006

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, is being 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 June 30, 2017, the State Comptroller had disbursed $44.7 million of this appropriation to the University and $3.6 million on behalf of the University.

Article 8 of Public Act 100-0021, enacted July 6, 2017, authorized additional fiscal year 2017 appropriations for operational expenditures, totaling $42.7 million. This appropriation, however, will be recognized as revenue in fiscal year 2018 because the appropriation did not exist as of fiscal year-end, as required by GASB Statement No. 33, Paragraph 74.

24. SUBSEQUENT EVENTS

The Governor's Office of Management and Budget of the State of Illinois reported $14.6 billion of outstanding bills at the end of June 2017, an increase of $6.5 billion from the end of June 2016. The State acted on a stop-gap appropriation bill which yielded additional funding for fiscal year 2017. With the downside future 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 2018 budget is reflective of this plan and calls for continued satisfaction of the University's obligations.

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 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 2018.

24. SUBSEQUENT EVENTS (continued)

Perkins Loan Program (continued)

Management believes the elimination of the Perkins program will have minimal impact to student enrollment and retention rates. The Perkins Loans represents an average of $1 million dollars (1%) of the annual financial assistance for the University's students that will not be available after the 2017-2018 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.

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

Last 10 Fiscal Years*

	Fiscal Year 2016	Fiscal Year 2015	Fiscal Year 2014
(a) Proportion percentage of the collective net pension liability	0.00%	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	$ 1,096,228	$ 1,016,084	$ 994,334
Total (b) + (c)	$ 1,096,228	$ 1,016,084	$ 994,334
Employer defined benefit covered-employee payroll	$ 152,243	$ 154,994	$ 164,728
Proportion of collective net pension liability associated with employer as a percentage of covered-employee payroll	720%	656%	604%
SURS plan net position as a percentage of total pension liability	39.57%	42.37%	44.39%

Schedule of University Contributions

Last 10 Fiscal Years*

	Fiscal Year 2017	Fiscal Year 2016	Fiscal Year 2015	Fiscal Year 2014
Federal, trust, grant and other contribution	$ 1,163	$ 1,029	$ 963	$ 945
Contribution in relation to required contribution	1,163	1,029	963	945
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Employer covered payroll	$ 148,710	$ 152,243	$ 154,994	$ 164,728
Contributions as a percentage of covered-employee payroll	0.78%	0.68%	0.62%	0.57%

*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.

Notes to Required Supplementary Information

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

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.

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