

**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY**

**FINANCIAL AUDIT
For the Year Ended June 30, 2013**

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



CliftonLarsonAllen

**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
FINANCIAL AUDIT
For the Year Ended June 30, 2013**

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**STATE OF ILLINOIS
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FINANCIAL AUDIT
For the Year Ended June 30, 2013**

Agency Officials

President	Dr. Sharon Hahs
Vice President for Finance and Administration	Mr. Mark Wilcockson, CPA
Director of Financial Affairs/Controller	Ms. Peggy Ho
Director of Internal Audit	Mr. Ronald Cierny, CPA
Executive Director - Office of University Budgets	Ms. Ann McNabb

Agency offices are located at:

5500 North St. Louis Avenue
Chicago, Illinois 60625

**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
FINANCIAL AUDIT
For the Year Ended June 30, 2013

FINANCIAL STATEMENT REPORT**

Summary

The audit of the accompanying 2013 basic financial statements of Northeastern Illinois University (“University”) was performed by CliftonLarsonAllen LLP.

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

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

Summary of Findings

The auditors identified a matter involving the University’s internal control over financial reporting that they considered to be a significant deficiency. The significant deficiency is described in the accompanying Schedule of Findings on pages 54 to 56 of this report, as Finding 2013-001, *Failure to Identify and Refund Title IV Aid in a Timely Manner*.

Exit Conference

The University waived having an exit conference in correspondence dated December 2, 2013, from the University’s Vice President for Finance and Administration, Mark Wilcockson.

The responses to the recommendations were provided by Mark Wilcockson in correspondence dated November 25, 2013.



INDEPENDENT AUDITORS' REPORT

Honorable William G. Holland
Auditor General of the State of Illinois
and
Board of Trustees
Northeastern Illinois University

Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of Northeastern Illinois University ("University"), a component unit of the State of Illinois, as of and for the year ended June 30, 2013, 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 of the discretely presented component unit. Those statements were audited by another auditor whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based solely on the report of the other auditor. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

Honorable William G. Holland
Auditor General of the State of Illinois
and
Board of Trustees
Northeastern Illinois University

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

Opinions

In our opinion, based on our audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the University and its discretely presented component unit, as of June 30, 2013, 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.

Report on Summarized Comparative Information

We have previously audited the University's 2012 financial statements, and we expressed unmodified audit opinions on the respective financial statements of the business-type activities and discretely presented component unit of the University in our report dated January 16, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 6-18 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Honorable William G. Holland
Auditor General of the State of Illinois
and
Board of Trustees
Northeastern Illinois University

Other Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2013 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
December 6, 2013

**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2013**

This section of Northeastern Illinois University's (University) annual report presents management's discussion and analysis of the University's financial position and activities during the fiscal year ended June 30, 2013 with comparative information for the year ended June 30, 2012. The discussion and analysis is designed to focus on current activities and currently known facts. Please read it in conjunction with the University's financial statements and related footnote disclosures. This discussion and analysis is focused on the University. A discussion and analysis of the University's Component Unit can be found in the separately issued financial statements of the University's Foundation.

USING THIS ANNUAL REPORT

The University's annual report contains three financial statements: The Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows. These financial statements are prepared in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management Discussion and Analysis - for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements - and Management Discussion and Analysis - for Public Colleges and Universities*, as amended by GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. These statements establish standards for external financial reporting and provide a consolidated perspective of the University's assets, liabilities, net position, revenues, expenses, and cash flows.

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

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

**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2013**

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

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

FINANCIAL HIGHLIGHTS

Highlights of the University's financial position for the fiscal year ended June 30, 2013 are presented below:

- The University has total assets and deferred outflows of \$234.1 million, including current assets of \$91.7 million and noncurrent assets of \$142.4 million.
- The University has total liabilities of \$81.1 million, including current liabilities of \$13.5 million and noncurrent liabilities of \$67.6 million.
- The University's total net position increased over the prior year by \$8.8 million to \$152.9 million, including a decrease of \$12.3 million in net capital assets and an increase of \$20.9 million in unrestricted net position.
- The total operating revenues of the University were \$83.7 million, including \$54.8 million in student tuition and fees, net of scholarship allowances, and \$21.2 million in grants and contracts.
- The total operating expenses of the University were \$179.4 million, including \$83.0 million for instruction.
- The operating loss of \$95.6 million was completely funded by non-operating revenues, including State appropriations, payments on behalf of the University, Pell Grant revenue, investment income, and other non-operating revenues. As a result, net income before other revenues, expenses, gains and losses totaled \$8.1 million. This amount includes \$4.5 million in depreciation expense.

FINANCIAL ANALYSIS

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

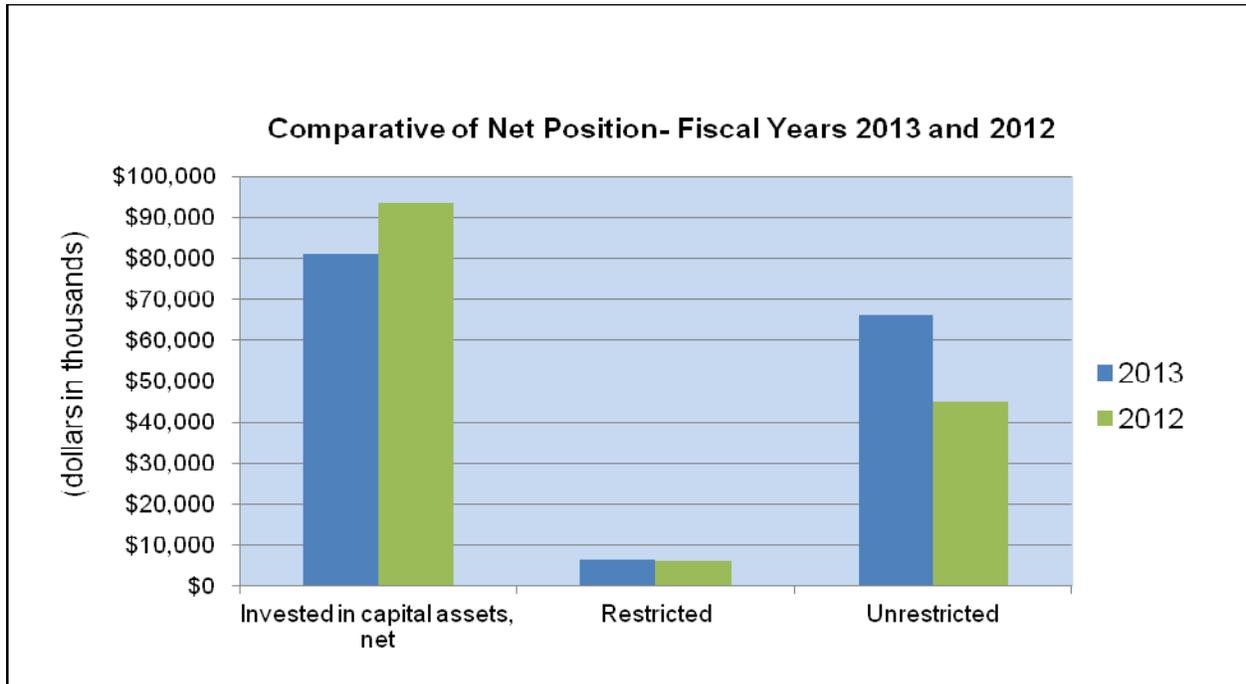
**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2013**

**Condensed Statement of Net Position
As of June 30, 2013 and 2012
(dollars in thousands)**

	<u>2013</u>	<u>2012</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
ASSETS				
Current assets	\$ 91,657	\$ 70,542	\$ 21,115	29.9
Noncurrent assets:				
Restricted cash and cash equivalents	15,885	2,945	12,940	439.4
Restricted investment	1,342	1,359	(17)	(1.3)
Receivables, net	2,454	2,418	36	1.5
Unamortized bond issue costs	1,353	680	673	99.0
Capital assets, net	120,847	119,292	1,555	1.3
Other assets	552	428	124	29.0
	<u>234,090</u>	<u>197,664</u>	<u>36,426</u>	<u>18.4</u>
LIABILITIES				
Current liabilities	13,530	14,007	(477)	(3.4)
Noncurrent liabilities:				
Liability for compensated absences	5,388	4,870	518	10.6
Revenue bonds payable	16,970	17,165	(195)	(1.1)
Certificates of Participation	45,286	17,475	27,811	159.1
	<u>81,174</u>	<u>53,517</u>	<u>27,657</u>	<u>51.7</u>
NET POSITION				
Invested in capital assets, net	80,857	93,185	(12,328)	(13.2)
Restricted	6,198	6,004	194	3.2
Unrestricted	65,861	44,958	20,903	46.5
TOTAL NET POSITION	<u>\$ 152,916</u>	<u>\$ 144,147</u>	<u>\$ 8,769</u>	<u>6.1</u>

**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2013**

The following chart shows net position by classification and restriction:

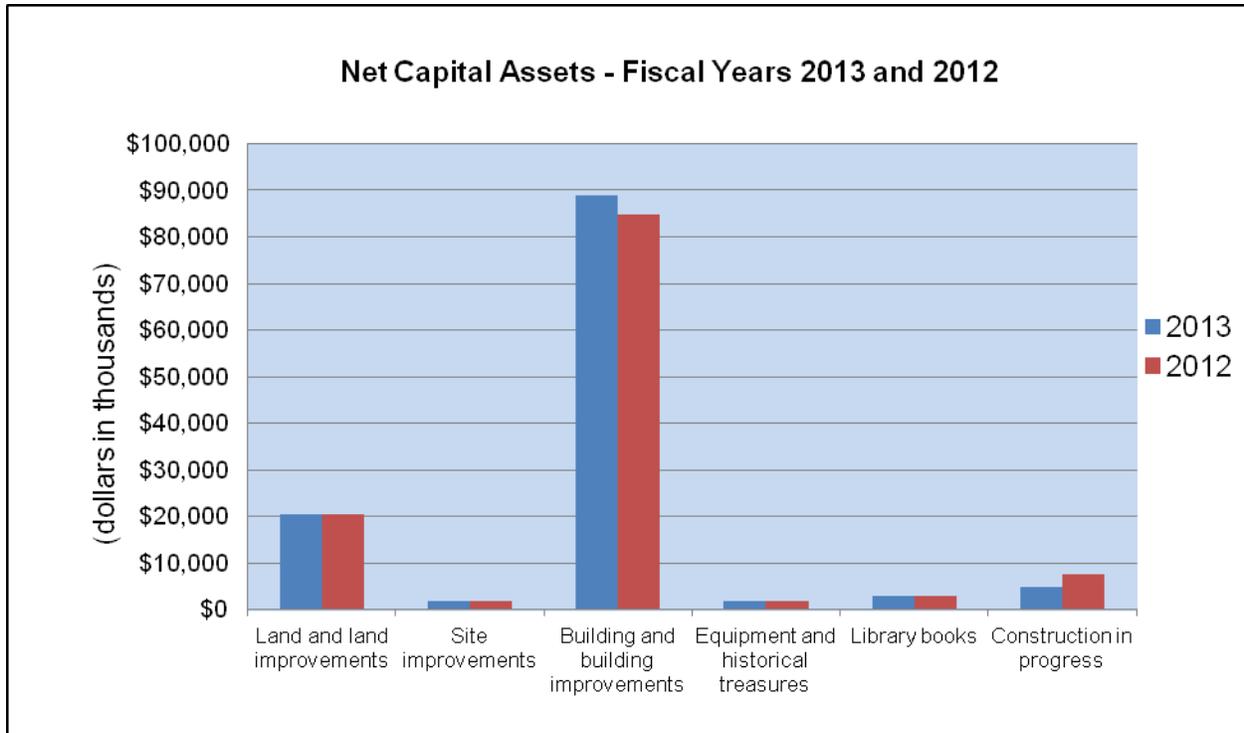


Current Assets - The majority of the Current Assets of the University consists of cash and cash equivalents of \$68.6 million, and net receivables of \$22.2 million, including \$5.0 million in grants receivables, \$3.9 million in tuition and fees receivables, and \$13.1 million in other receivables. Total current assets increased by \$21.1 million from the prior year. This is primarily the result of the \$19.3 million increase in cash and cash equivalents and the \$2.0 million increase in receivables. The increase in cash and cash equivalents can be attributable to the two factors. A reimbursement of \$12.4 million from the proceeds of the Certificates of Participation was issued in November 2012 (fiscal year 2013) for a purchase of land made in March 2012 (fiscal year 2012) for the construction of a new University El Centro Campus facility. An additional cash increase of \$8.0 million was generated through expenditure controls and conservative fiscal management.

Noncurrent Assets - As of June 30, 2013, the University had total noncurrent assets of \$142.4 million compared with \$127.1 million at June 30, 2012. This net increase of \$15.3 million was primarily due to the \$12.9 million increase in restricted cash and cash equivalents and \$1.6 million increase in capital assets. The increase in restricted cash and cash equivalents reflects the unspent proceeds from the 2012 Certificates of Participation. The increase in capital assets is primarily due to the construction of the El Centro campus.

**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2013**

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



Current Liabilities - Current liabilities consist primarily of accounts payable and accrued liabilities of \$8.8 million, unearned revenues for summer tuition and grants of \$2.1 million, and the current portion of the liability for compensated absences of \$1.4 million. Total current liabilities as of June 30, 2013 were \$13.5 million.

Noncurrent Liabilities - Noncurrent liabilities consist of long-term debt and other obligations for which the principal is due more than one year from the statement of net position date. Long-term debt totaled \$67.6 million at June 30, 2013 as compared to \$39.5 million at June 30, 2012. Long-term debt increased in November 2012 when the University issued \$28.5 million in Certificates of Participation to finance the new academic facility for the University's El Centro campus. The University's current revenue bonds and Certificates of Participation payable consist of University Facilities Revenue Bonds Series 1973, University Facilities System Revenue Bonds Series 2004, Certificates of Participation Series 2006, Certificates of Participation Series 2010 and Certificates of Participation Series 2012.

**STATE OF ILLINOIS
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MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2013**

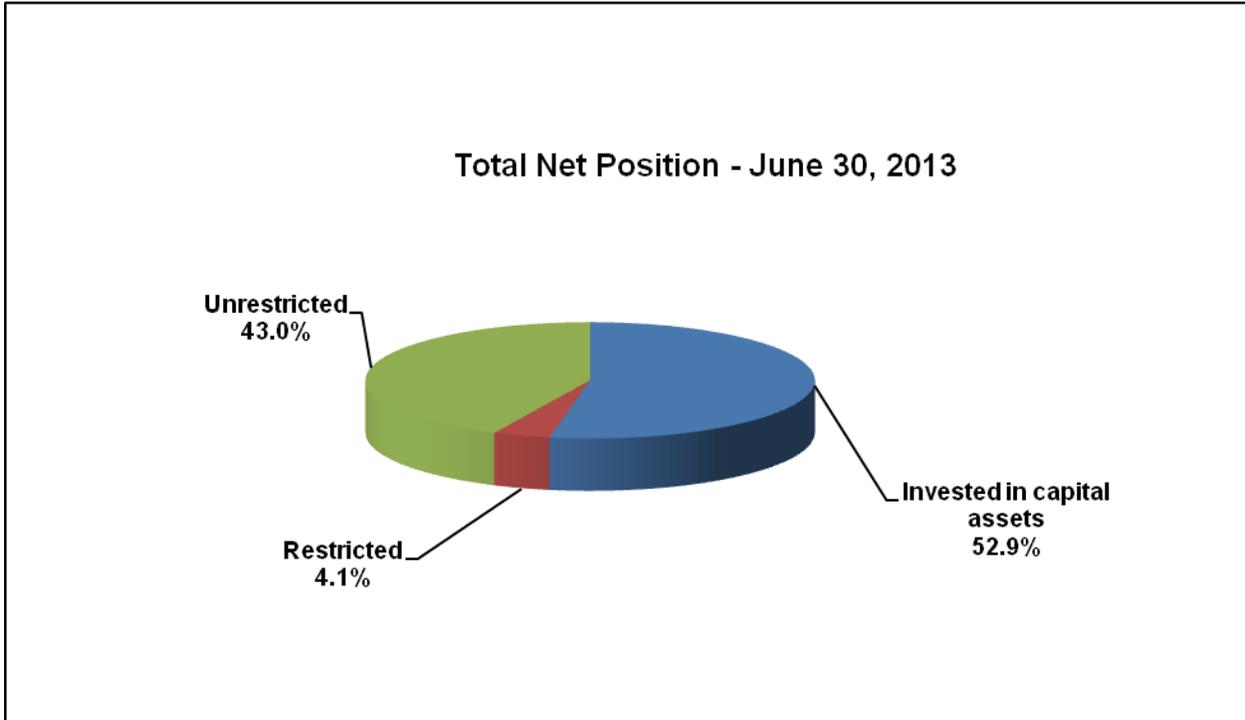
Fiscal year 2013 principal repayments for the two revenue bonds and the three Certificates of Participation are as follows:

<u>Debt Type</u>	Principal Paid in Fiscal Year 2013
Revenue Bonds Series 1973	\$ 185,000
Revenue Bonds Series 2004*	-
Certificates of Participation 2006	660,000
Certificates of Participation 2010	155,000
Certification of Participation 2012	-
TOTAL PRINCIPAL PAID	<u>\$ 1,000,000</u>

* No principal repayment until year 2014

Total Net Position - Net position is divided into three major categories as shown in the following chart. The first category, invested in capital assets, net of related debts, represent the University's capital assets net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. The second category, restricted net position, reports net positions that are owned by the University, but the use or purpose of the funds is restricted by an external source or entity. The third category is unrestricted net position, which is available to be used for any lawful purpose of the University. The total net position increased by \$8.8 million over the prior year. This is a result of a \$12.3 million decrease in invested in capital assets, net of related debt, and a \$20.9 million increase in unrestricted net position. The decrease in invested in capital assets, net of related debt, was due mainly to the offset of the related capital debt of \$12.4 million on the Certificates of Participation issued in fiscal year 2013 against assets capitalized in fiscal year 2012. The \$20.9 million increase in unrestricted net position was due to the reimbursement from the proceeds of the Certificates of Participation of \$12.4 million and the conservative fiscal management at all levels in the University resulting in additional unrestricted fund balance of \$8.0 million, as previously mentioned.

**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2013**



The following is a breakdown of the \$6.2 million restricted net position:

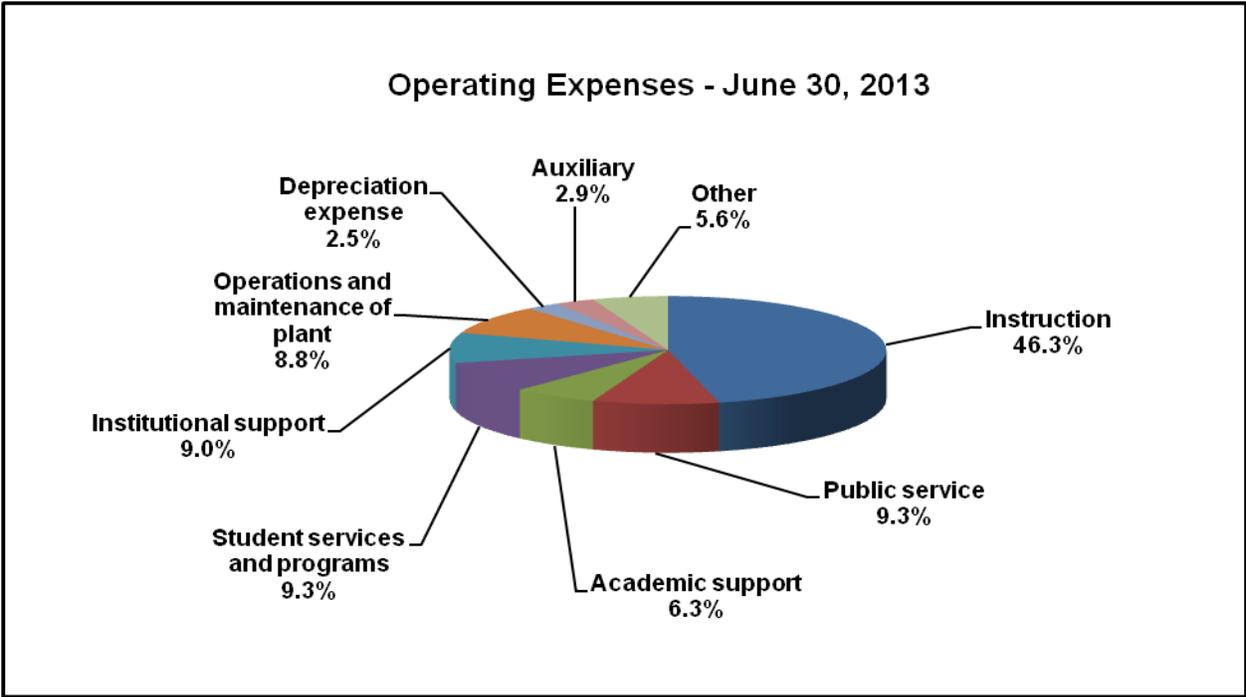
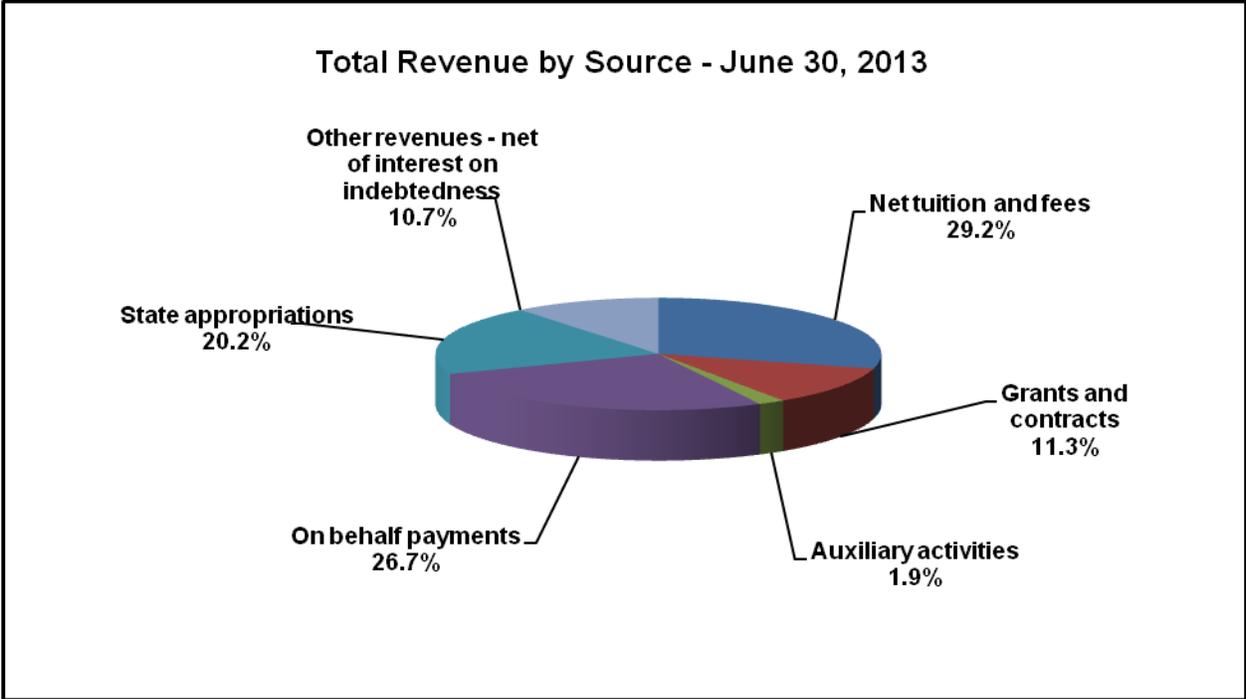
	<u>2013</u>	<u>2012</u>
Grants and contracts	\$ 402	\$ 336
Student loans	2,304	2,398
Debt service	2,145	2,101
Capital projects	(417)	-
Other	1,764	1,169
TOTAL RESTRICTED NET POSITION	<u><u>\$ 6,198</u></u>	<u><u>\$ 6,004</u></u>

**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2013**

**Condensed Statement of Revenues, Expenses, and Changes in Net Assets
For the Years Ended June 30, 2013 and 2012
(dollars in thousands)**

	<u>2013</u>	<u>2012</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
OPERATING REVENUES				
Net tuition and fees	\$ 54,805	\$ 56,277	\$ (1,472)	(2.6)
Grants and contracts	21,247	16,335	4,912	30.1
Auxiliary enterprises	3,597	3,743	(146)	(3.9)
Other	4,084	4,459	(375)	(8.4)
Total operating revenues	<u>83,733</u>	<u>80,814</u>	<u>2,919</u>	<u>3.6</u>
OPERATING EXPENSES				
Instruction	82,967	78,900	4,067	5.2
Public service	16,702	12,624	4,078	32.3
Academic support	11,253	10,569	684	6.5
Student services and programs	16,657	13,078	3,579	27.4
Institutional support	16,179	11,957	4,222	35.3
Operations and maintenance of plant	15,829	15,310	519	3.4
Depreciation expense	4,457	4,837	(380)	(7.9)
Auxiliary	5,267	4,999	268	5.4
Other	10,066	10,991	(925)	(8.4)
Total operating expenses	<u>179,377</u>	<u>163,265</u>	<u>16,112</u>	<u>9.9</u>
Operating loss	<u>(95,644)</u>	<u>(82,451)</u>	<u>(13,193)</u>	<u>16.0</u>
NON-OPERATING REVENUES (EXPENSES)				
State appropriations	37,808	40,229	(2,421)	(6.0)
Payments on behalf of the University	50,028	39,102	10,926	27.9
Pell Grant	17,775	18,719	(944)	(5.0)
Other non-operating revenues	347	257	90	35.0
Other non-operating expenses	(2,218)	(1,674)	(544)	32.5
Total non-operating revenues	<u>103,740</u>	<u>96,633</u>	<u>7,107</u>	<u>7.4</u>
NET INCOME (LOSS)	8,096	14,182	(6,086)	(42.9)
Gain/(loss) on disposal of capital assets	(9)	(21)	12	(57.1)
Capital additions provided by State of Illinois	682	-	682	100.0
CHANGES IN NET POSITION	8,769	14,161	(5,392)	(38.1)
NET POSITION, BEGINNING OF YEAR	<u>144,147</u>	<u>129,986</u>	<u>14,161</u>	<u>10.9</u>
NET POSITION, END OF YEAR	<u>\$ 152,916</u>	<u>\$ 144,147</u>	<u>\$ 8,769</u>	<u>6.1</u>

**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2013**



**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2013**

Operating Revenues - Total operating revenues increased by \$2.9 million. This is the result of the decrease in tuition and fees of \$1.5 million due to a modest decrease in student enrollment and the net increase in grant awards and contracts of \$4.9 million.

Operating Expenses - Instruction accounted for the largest portion of operating expenses at \$83.0 million. Public service and student services and programs are the next largest at \$16.7 million, each. These three areas, plus institutional support at \$16.2 million, operation and maintenance of the physical plant \$15.8 million and academic support at \$11.3 million, account for approximately 89% of the operating expenses of the University. Operating expenses increased by \$16.1 million. The increase is a result of three items: Employee salaries increased by \$1.8 million, supplies and services costs increased by \$4.1 million due to the increase in Federal grant awards; payments on behalf of the University for health insurance and retirement benefits increased by \$10.9 million, which reflects the rise in employee health insurance and retirement benefits costs financed by the State.

Non-operating Revenues (Expenses) - This consists of State appropriations, on behalf payments, Pell Grant revenue, investment income, and other non-operating revenues, less interest on indebtedness. Total non-operating revenues increased by \$7.1 million. This is the net result of the increase of \$10.9 million in payments on behalf of the University, the decrease of \$.9 million in Pell Grant and the decrease of \$2.4 million in State appropriations.

**Condensed Statement of Cash Flows
For the Years Ended June 30, 2013 and 2012
(dollars in thousands)**

	<u>2013</u>	<u>2012</u>
Cash received from operations	\$ 81,346	\$ 81,393
Cash expended for operations	<u>(124,930)</u>	<u>(121,306)</u>
Net cash used in operating activities	(43,584)	(39,913)
Net cash provided by noncapital financing activities	56,409	63,051
Net cash provided by (used in) capital financing activities	19,252	(21,363)
Net cash provided by investing activities	<u>189</u>	<u>174</u>
Net increase in cash	32,266	1,949
CASH, BEGINNING OF YEAR	<u>52,197</u>	<u>50,248</u>
CASH, END OF YEAR	<u><u>\$ 84,463</u></u>	<u><u>\$ 52,197</u></u>

**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2013**

The primary cash receipts from operating activities consist of tuition and fees of \$53.8 million, and grants and contracts of \$19.6 million. Cash outlays included payments to employees of \$81.2 million, payments for fringe benefits of \$5.9 million, and payments to suppliers of \$29.0 million.

The State appropriation of \$38.3 million is the primary source of noncapital financing activities. Accounting standards require the University to reflect this source of revenue as non-operating even though the University's budget depends on this funding to support operations.

The main capital financing activities included purchases of capital assets and construction costs of \$6.0 million, proceeds from capital debt of \$28.5 million and debt service payment of \$3.2 million.

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

The total net cash increased by \$32.3 million from fiscal year 2012, which is mainly due to the \$28.5 million proceeds received from the 2012 Certificates of Participation.

SIGNIFICANT FINANCIAL EVENTS IMPACTING FUTURE PERIODS

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

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

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

The fiscal climate in Illinois can best be described as uncertain. Since fiscal year 2002, the high-water mark for state support for the University appropriations have declined from \$45.4 million to \$37.8 million for fiscal year 2014. This is a total decrease of \$7.6 million, or 16.6%. From fiscal year 2010 to fiscal year 2014, funding has decreased \$5.6 million, an average annual decrease of 3.4%. Given Illinois' fiscal challenges, it is unlikely that this trend will change in the near future. In response to this trend, the University, and most higher education institutions in

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MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2013**

the nation, has increased tuition to compensate for both declining state support and to address the need for resources to meet increasing costs, implement new and innovative academic programs, and provide needed student support services. However, the Northeastern Illinois University board of trustees voted to hold tuition level for incoming freshmen in fiscal year 2013. Tuition for incoming freshmen in fiscal year 2014 was increased by 4.4%.

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

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

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

In response to these challenges, the University will continue to identify and implement cost savings measures, such as our current energy conservation project and the new voice-over-IP phone system. We will continue to be good stewards of the resources that we have and use those resources for the highest priorities within our strategic plan, focusing on student retention and success. We will look for new and creative ways to increase student enrollment and to bring additional resources to the University. We will continue to be accountable by self-assessing our progress in meeting our goals using key performance indicators and we will share those results, both good and areas for improvement, with our stakeholders. We will advocate for appropriate governmental appropriations and grants to support the operations of the University and to assure access to higher education for students with financial need. And finally, we will not let future financial events diminish the quality of the education we offer to our students as we prepare our graduates to be future leaders.

**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2013**

CONTACTING NEIU'S FINANCIAL MANAGEMENT

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

**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
STATEMENT OF NET POSITION**

	June 30,			
	2013		(Comparative Totals Only) 2012	
	University	Component Units	University	Component Units
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 68,579,084	\$ 1,294,427	\$ 49,252,846	\$ 227,747
Short-term investments	-	956,892	-	1,408,118
Receivables:				
Grants	5,014,395	-	3,477,360	-
Student loans (net of allowance for doubtful accounts of \$403,192 in 2013 and \$386,027 in 2012)	83,143	-	79,223	-
Tuition and fees (net of allowance for doubtful accounts of \$1,085,444 in 2013 and \$884,720 in 2012)	3,927,639	-	3,924,668	-
Other receivables (net of allowance for doubtful accounts of \$759,057 in 2013 and \$729,370 in 2012)	13,137,019	-	12,721,387	-
Inventories	6,397	-	6,914	-
Prepaid expenses	837,341	-	1,041,244	-
Other assets	72,381	66,853	38,596	7,215
Total current assets	<u>91,657,399</u>	<u>2,318,172</u>	<u>70,542,238</u>	<u>1,643,080</u>
Noncurrent assets:				
Restricted cash and cash equivalents	15,884,401	-	2,944,566	-
Restricted investments	1,342,265	6,306,915	1,358,686	5,002,517
Receivables:				
Student loans (net of allowance for doubtful accounts of \$380,595 in 2013 and \$406,577 in 2012)	1,719,562	-	1,840,134	-
Tuition and fees (net of allowance for doubtful accounts of \$4,061,640 in 2013 and \$3,142,907 in 2012)	734,767	-	578,026	-
Unamortized bond issue costs	1,353,236	-	679,506	-
Capital assets:				
Land and land improvements	20,596,474	-	20,416,597	-
Site improvements (net of accumulated depreciation of \$4,700,574 in 2013 and \$4,464,000 in 2012)	1,733,712	-	1,970,286	-
Buildings and building improvements (net of accumulated depreciation of \$53,576,626 in 2013 and \$50,618,729 in 2012)	89,020,863	-	84,655,760	-
Equipment (net of accumulated depreciation of \$12,315,053 in 2013 and \$ 12,267,937 in 2012)	1,774,192	-	1,714,839	-
Historical treasures and works of art	83,330	-	83,330	-
Library books (net of accumulated depreciation of \$21,117,445 in 2013 and \$20,354,134 in 2012)	2,834,672	-	2,847,989	-
Construction in progress	4,803,871	-	7,603,464	-
Other assets	551,447	8,000	428,248	8,000
Total noncurrent assets	<u>142,432,792</u>	<u>6,314,915</u>	<u>127,121,431</u>	<u>5,010,517</u>
TOTAL ASSETS	<u>234,090,191</u>	<u>8,633,087</u>	<u>197,663,669</u>	<u>6,653,597</u>

See accompanying notes to basic financial statements.

**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
STATEMENT OF NET POSITION**

	June 30,			
	2013		(Comparative Totals Only) 2012	
	University	Component Units	University	Component Units
DEFERRED OUTFLOW OF RESOURCES	-	-	-	-
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities	8,761,510	5,275	8,207,393	1,771
Unearned revenues	2,058,245	1,001,952	3,108,943	223,131
Liability for compensated absences	1,372,505	-	1,451,176	-
Revenue bonds payable	195,000	-	185,000	-
Certificates of Participation, net	856,194	-	810,284	-
Funds held in custody for others	286,768	-	244,579	-
Total current liabilities	<u>13,530,222</u>	<u>1,007,227</u>	<u>14,007,375</u>	<u>224,902</u>
Noncurrent liabilities:				
Liability for compensated absences	5,388,300	-	4,869,412	-
Revenue bonds payable	16,970,000	-	17,165,000	-
Certificates of Participation, net	45,286,060	-	17,475,301	-
Total noncurrent liabilities	<u>67,644,360</u>	<u>-</u>	<u>39,509,713</u>	<u>-</u>
TOTAL LIABILITIES	<u>81,174,582</u>	<u>1,007,227</u>	<u>53,517,088</u>	<u>224,902</u>
DEFERRED INFLOW OF RESOURCES	-	-	-	-
NET POSITION				
Net investment in capital assets	80,856,620	-	93,184,828	-
Restricted for:				
Nonexpendable:				
Scholarships and charitable trust	-	6,356,915	-	5,002,517
Expendable:				
Grants and contracts	402,346	-	335,855	-
Student loans	2,304,264	-	2,397,807	-
Debt service	2,144,950	-	2,101,010	-
Capital projects	(416,815)	-	-	-
Other	1,762,886	759,753	1,169,339	997,219
Unrestricted	<u>65,861,358</u>	<u>509,192</u>	<u>44,957,742</u>	<u>428,959</u>
TOTAL NET POSITION	<u>\$ 152,915,609</u>	<u>\$ 7,625,860</u>	<u>\$ 144,146,581</u>	<u>\$ 6,428,695</u>

See accompanying notes to basic financial statements.

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

	For the Year Ended June 30,			
	2013		(Comparative Totals Only) 2012	
	University	Component Units	University	Component Units
OPERATING REVENUES				
Student tuition and fees (net of scholarship allowances of \$15,300,655 in 2013 and \$15,256,148 in 2012)	\$ 54,804,774	\$ -	\$ 56,276,791	\$ -
Federal grants and contracts	18,572,471	-	13,005,164	-
State and local grants	1,959,867	-	2,272,522	-
Nongovernmental grants and contracts	714,533	-	1,057,662	-
Auxiliary enterprises	3,597,316	-	3,743,385	-
Other operating revenues	4,084,073	775,506	4,458,941	826,547
Total operating revenues	<u>83,733,034</u>	<u>775,506</u>	<u>80,814,465</u>	<u>826,547</u>
OPERATING EXPENSES				
Instruction	82,967,356	-	78,899,658	-
Research	977,984	-	1,031,275	-
Public service	16,701,833	-	12,623,930	-
Academic support	11,252,587	-	10,569,274	-
Student services and programs	16,657,338	-	13,077,999	-
Institutional support	16,179,347	-	11,957,194	-
Operation and maintenance of plant	15,828,556	-	15,309,594	-
Scholarships and fellowships	8,194,388	-	8,498,231	-
Auxiliary enterprises	5,266,697	-	4,999,239	-
Depreciation expense	4,456,619	-	4,836,851	-
Other operating expenses	893,777	955,515	1,462,165	859,285
Total operating expenses	<u>179,376,482</u>	<u>955,515</u>	<u>163,265,410</u>	<u>859,285</u>
Operating loss	<u>(95,643,448)</u>	<u>(180,009)</u>	<u>(82,450,945)</u>	<u>(32,738)</u>
NON-OPERATING REVENUES (EXPENSES)				
State appropriations - general revenue fund	37,807,600	-	40,228,500	-
Payments on behalf of the University	50,028,479	-	39,101,845	-
Pell Grant	17,775,249	-	18,719,529	-
Investment income	172,249	850,563	186,144	103,057
Interest on indebtedness	(2,218,518)	-	(1,673,942)	-
Other non-operating revenues	175,000	-	70,000	-
Net non-operating revenues	<u>103,740,059</u>	<u>850,563</u>	<u>96,632,076</u>	<u>103,057</u>
Income before other revenues, expenses, gains and losses	8,096,611	670,554	14,181,131	70,319
Additions to permanent endowments	-	526,611	-	377,829
Gain (loss) on disposal of capital assets	(9,268)	-	(20,750)	-
Capital additions provided by the State of Illinois	681,685	-	-	-
INCREASE IN NET POSITION	8,769,028	1,197,165	14,160,381	448,148
NET POSITION, BEGINNING OF YEAR	<u>144,146,581</u>	<u>6,428,695</u>	<u>129,986,200</u>	<u>5,980,547</u>
NET POSITION, END OF YEAR	<u>\$ 152,915,609</u>	<u>\$ 7,625,860</u>	<u>\$ 144,146,581</u>	<u>\$ 6,428,695</u>

See accompanying notes to basic financial statements.

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

	For the Year Ended June 30,			
	(Comparative Totals Only)			
	2013		2012	
	University	Component Units	University	Component Units
CASH FLOWS FROM OPERATING ACTIVITIES				
Tuition and fees	\$ 53,810,579	\$ -	\$ 55,371,941	\$ -
Grants and contracts	19,561,864	-	17,239,274	-
Payments to employees	(81,206,245)	-	(82,431,531)	-
Payments for fringe benefits	(5,895,125)	-	(5,858,340)	-
Payments to suppliers	(28,994,772)	(635,183)	(23,856,622)	(583,562)
Payments for scholarships and fellowships	(8,442,403)	-	(8,763,645)	-
Loans issued to students	(390,931)	-	(395,908)	-
Collections of loans from students	435,132	-	425,547	-
Auxiliary enterprises	3,556,532	-	3,740,059	-
Other receipts	3,981,660	764,231	4,616,214	686,030
Net cash provided by (used in) operating activities	<u>(43,583,709)</u>	<u>129,048</u>	<u>(39,913,011)</u>	<u>102,468</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State appropriations	38,312,777	-	45,290,779	-
Pell Grant	17,879,515	-	17,585,485	-
Agency transactions	42,189	-	105,119	-
Other noncapital financing activities	175,000	464,111	70,000	428,115
Net cash provided by noncapital financing activities	<u>56,409,481</u>	<u>464,111</u>	<u>63,051,383</u>	<u>428,115</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES				
Purchases of capital assets and construction	(6,022,856)	-	(18,948,534)	-
Proceeds from capital debt	28,500,000	-	-	-
Principal paid on capital debt and leases	(994,090)	-	(805,000)	-
Interest paid on capital debt and leases	(2,231,423)	-	(1,609,314)	-
Net cash provided by (used in) capital financing activities	<u>19,251,631</u>	<u>-</u>	<u>(21,362,848)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sales and maturities of investments	-	285,437	-	5,026,073
Interest on investments	172,249	850,563	186,144	-
Purchases of investments	16,421	(662,479)	(11,727)	(5,437,876)
Net cash provided by (used in) investing activities	<u>188,670</u>	<u>473,521</u>	<u>174,417</u>	<u>(411,803)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	32,266,073	1,066,680	1,949,941	118,780
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	52,197,412	227,747	50,247,471	108,967
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 84,463,485</u>	<u>\$ 1,294,427</u>	<u>\$ 52,197,412</u>	<u>\$ 227,747</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ (95,643,448)	\$ (180,009)	\$ (82,450,945)	\$ (32,738)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Payment on-behalf of the University	50,028,479	-	39,101,845	-
Unrealized loss (gain) on changes in market value of investments	-	(613,319)	-	155,217
Realized loss (gain) on sale of investments	-	(85,942)	-	(13,878)
Depreciation expense	4,456,619	-	4,836,851	-
Changes in assets and liabilities:				
Receivables, net	(2,605,170)	-	(730,604)	-
Prepaid expenses and other assets	(626,812)	2,862	119,258	(3,802)
Inventories	518	-	11,256	-
Accounts payable and accrued liabilities	1,340,866	3,504	570,637	(2,331)
Accrued salaries and wages	75,720	-	158,861	-
Liability for compensated absences	440,217	-	(1,974,595)	-
Unearned revenues	(1,050,698)	1,001,952	444,425	-
Net cash provided by (used in) operating activities	<u>\$ (43,583,709)</u>	<u>\$ 129,048</u>	<u>\$ (39,913,011)</u>	<u>\$ 102,468</u>
Noncash operating and capital financing activities:				
On-behalf payments for fringe benefits	\$ 50,028,479	\$ -	\$ 39,101,845	\$ -
Capital asset acquisition via capital appropriations	-	-	-	-
Receivable arising from sale of investments	-	-	-	-
Net noncash activities	<u>\$ 50,028,479</u>	<u>\$ -</u>	<u>\$ 39,101,845</u>	<u>\$ -</u>

See accompanying notes to basic financial statements.

**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

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

The Foundation is a University Related Organization as defined under University Guidelines adopted by the State of Illinois Legislative Audit Commission in 1982 and amended September 1997. The Foundation was formed for the purpose of providing fundraising and other assistance to the University in order to attract private gifts to support the University's instructional, research, and public service activities. In this capacity, the Foundation solicits, receives, holds, and administers gifts for the benefit of the University. An audit of the Foundation's financial statements, for the fiscal year ended June 30, 2013, was conducted by an independent certified public accountant. Complete financial statements for the Foundation may be obtained by writing to the NEIU Foundation, Vice President for Institutional Advancement, Northeastern Illinois University, 5500 North St. Louis Ave., Chicago, Illinois 60625.

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

Basis of Accounting

The financial statements of the University are prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of

**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013**

accounting, revenues are recognized when earned and expenses are recorded when incurred. All significant intra-agency transactions have been eliminated.

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

Management's Discussion and Analysis

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

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

- The Statement of Net Position details current assets/liabilities and noncurrent assets/liabilities. In general, current assets are those that are available to satisfy current liabilities. Current liabilities are those that will be paid within one year of the date of the Statement of Net Position. Other assets and liabilities due beyond one year are noncurrent. Net position is divided into three major categories: 1) Invested in capital assets, net of related debt, 2) Restricted, and 3) Unrestricted.
- The Statement of Revenues, Expenses, and Changes in Net Position provides operating and non-operating revenues and expenses, and displays the net income or loss from operations and total changes in net position.
- The Statement of Cash Flows details the change in the cash and cash equivalents balance for the fiscal year and is prepared using the direct method. Cash and cash equivalents include bank accounts and investments with original maturities of 90 days or less at the time of purchase, primarily U.S. Treasury bills and money market funds. This Statement provides information related to cash receipts and cash payments during the year. The statement also helps users evaluate the University's ability to meet financial obligations as they mature.

Notes to Basic Financial Statements

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

**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013**

Operating and Non-operating Revenues

Operating revenues of the University consist of student tuition and fees, grants and contracts, student union sales and services, parking revenues, and other operating revenues. Transactions relating to capital or financing activities, noncapital financing activities, investing activities, State appropriations, Pell Grant, and State on-behalf payments for retirement and health care costs are components of non-operating income. Restricted and unrestricted resources are used at the discretion of the University, within the proper guidelines. The University first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net positions are available.

Auxiliary Enterprises

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

Use of Estimates

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

Cash and Cash Equivalents

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

Investments and Marketable Securities

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

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

**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013**

Restricted Assets

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

Inventories

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

Unamortized Bond Issue Costs

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

Certificates of Participation

Certificates of Participation are stated at face value net of unamortized original issue discount.

Capital Assets

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

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

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

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NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013**

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

Revenue Recognition

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

Tuition and fees, except for the Summer Session, are recognized as revenues as they are assessed. Tuition and fees are reduced by scholarship discounts and allowances of \$15,300,655 for fiscal year 2013. The Summer Session tuition and fees are allocated between fiscal years based on when the revenue is earned. The portion of Summer Session tuition and fees applicable to the following fiscal year is deferred. The value of tuition and fee exemptions awarded to graduate assistants, staff members and others is calculated at the applicable tuition rates. These exemptions amounted to \$3,809,857 in fiscal year 2013.

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

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

In accordance with GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, the University reported on-behalf payments totaling \$50,028,479 representing \$25,294,215 and \$24,734,264, respectively, for health care and retirement costs. These on-behalf payments are reflected in Payments Made on Behalf of the University as non-operating revenues and offsetting amount allocated to each functional category under the Operating Expenses.

New Accounting Standards

In November 2010, the GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements, which are a type of public-private or public-public partnership. The requirements of this accounting standard are effective for periods beginning after December 15, 2011. The University has determined that there was no impact on the University's financial statements as a result of the adoption of GASB 60.

**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013**

In December 2010, the GASB issued Statement No. 61, *Financial Reporting Entity: Omnibus*. The objective of this Statement is to improve financial reporting for a governmental financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements. This standard is effective for financial statements for periods beginning after June 15, 2012. The University adopted the provisions of the Statement in fiscal year 2013. The University Foundation, which represents the primary component unit of the University is discretely presented. Additional information may be found in Note 7.

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance included in FASB pronouncements, which does not conflict with or contradict GASB pronouncements, and eliminates the criteria to apply post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. The University adopted the provisions of the Statement in fiscal year 2013. The University does not believe the adoption of Statement No. 62 will have retroactive or current year impact on its financial statements.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This standard provides financial reporting guidance for deferred inflows and outflows of resources. Concepts Statement No.4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the College/University that is applicable to a future reporting period, and an acquisition of net assets by the College/University that is applicable to a future reporting period, respectively. This Statement establishes a new statement of net position format that reports separately all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. The Statement requires deferred outflows of resources and deferred inflows of resources to be reported separately from assets and liabilities. The financial reporting impact resulting from the implementation of GASB 63 was the renaming of "Net Assets" to "Net Position", including changing the name of the financial statement from "Statement of Net Assets" to "Statement of Net Position". The provisions for this standard are effective for financial statements for periods beginning after December 15, 2011. The University adopted the provisions of the Statement in 2013.

In June 2011, The GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions - an Amendment of GASB No. 53*. This Statement establishes that when a government enters into a swap and the swap counterparty or counterparty credit support provider commits or experiences an act of default or a

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termination event, the government does not terminate hedge accounting if the counter party is replaced by another counter party and the rest of the terms of the swap remain the same. Thereby, the government continues to report changes in fair values of the swap as either deferred inflows or outflows and does not recognize an investment income or expense. The provisions for this standard are effective for financial statements for periods beginning after June 15, 2011. The University has determined that there was no impact on the University's financial statements as a result of the adoption of GASB 64.

2. CASH AND INVESTMENTS

The University uses the "pooled cash" method of accounting for substantially all of its operating cash and investments. The following table is a reconciliation of deposits and investments held by the University and University's Component Units as shown on the Statement of Net Position as of June 30, 2013:

	<u>University</u>	<u>Foundation</u>
Carrying amounts of deposits	\$ 83,441,352	\$ 1,294,427
Carrying amounts of investments	<u>2,364,398</u>	<u>7,263,807</u>
	<u>\$ 85,805,750</u>	<u>\$ 8,558,234</u>
Cash and cash equivalents	\$ 68,579,084	\$ 1,294,427
Restricted cash and cash equivalents	15,884,401	-
Short-term investments	-	956,892
Long-term investments	<u>1,342,265</u>	<u>6,306,915</u>
	<u>\$ 85,805,750</u>	<u>\$ 8,558,234</u>

Deposits

The University utilizes several different bank accounts for the various activities of the University. The book balance of such accounts is \$83,441,352 at June 30, 2013, while the bank balance was \$85,136,667. The difference between the above amounts primarily represents checks that have been issued but have not yet cleared the bank as of June 30, 2013.

Custodial credit risk for deposits exists when, in the event of the failure of a depository financial institution, the University's deposits may not be recovered. The University's policy for reducing its exposure to the risk is to require deposits in excess of the federally insured amount to be collateralized at 110%. As of June 30, 2013, the University's deposits were covered by the Federal Deposit Insurance Corporation (FDIC) and by collateral held by the financial institution in the University's name.

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Investments

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

The University has pooled its investments, except for certain funds that are required by bond resolution to be in separate accounts. Investments are stated at fair value. Net income from investments of pooled funds is allocated and credited to the original sources of the funds or is remitted to the University's Income Fund. The following table presents the fair value of investments held by the University and the University's Component Units at June 30, 2013:

<u>Investment Type</u>	<u>University</u>	<u>Foundation</u>
Illinois funds	\$ 1,022,134	\$ -
U.S. Treasury notes	1,097,776	-
Certificate of deposit	244,488	-
Mutual funds	-	7,263,807
Total	<u>\$ 2,364,398</u>	<u>\$ 7,263,807</u>

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the susceptibility of its fair value to changes in market interest rates. The University's policy for reducing its exposure to the risk is to structure the University's portfolio so that securities mature to meet the University's cash requirements for ongoing operations. Also, the investment returns are evaluated and tracked monthly against appropriate performance benchmarks and reported quarterly to the Vice President for Finance and Administration/ Board Treasurer. As of June 30, 2013, the University had the following investments subject to Interest Rate Risk:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity</u>		<u>Weighted Average Maturity (Years)</u>
		<u>Less than 1 Year</u>	<u>1 - 5 Years</u>	
Illinois funds	\$ 1,022,134	\$ 1,022,134	\$ -	0.11
U.S. Treasury notes	1,097,776	-	1,097,776	1.71
Certificate of deposit	244,488	244,488	-	-
Total	<u>\$ 2,364,398</u>	<u>\$ 1,266,622</u>	<u>\$ 1,097,776</u>	

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Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The University's policy for managing its exposure to the risk is to limit investments to those allowable by the Illinois Public Funds Investment Act. As of June 30, 2013, the University had quality ratings as shown in the table below:

<u>Investment Type</u>	<u>Total</u>	<u>Standard & Poor's</u>	<u>Moody's</u>	<u>Fitch</u>
Certificate of deposit	\$ 244,488	AA-	Aa2	-
Illinois Fund	1,022,134	AAA	-	-

Concentration of Credit Risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The University's policy for mitigating the risk is to diversify the investment portfolio so that the failure of any one issue will not place an undue financial burden on the University. As of June 30, 2013, the University does not have any investments representing 5% or more of total assets in any single issuer other than the U.S. Government, its agencies or sponsored corporations.

Custodial Credit Risk for investments is the risk that, in the event of a failure of the counterparty, the University will not be able to recover the value of the investments that are in the possession of an outside party. The University minimizes its custodial credit risk by establishing limitations on the types of investments held with qualifying institutions. As of June 30, 2013, the University's investment in the U.S. Treasury was registered with securities in the University's name. Investments in external investment pools are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. The University therefore, has no custodial credit risk in its investment portfolio.

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3. CAPITAL ASSETS

Details of the University's investment in capital assets at June 30, 2013 are as follows:

	<u>July 1, 2012</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>June 30, 2013</u>
Cost:					
Land and land improvements	\$ 20,416,597	\$ 179,877	\$ -	\$ -	\$ 20,596,474
Site improvements	6,434,286	-	-	-	6,434,286
Building and building improvements	135,274,489	812,631	6,510,369	-	142,597,489
Equipment	13,982,776	575,027	-	468,558	14,089,245
Non-depreciable historical treasures and works of art	83,330	-	-	-	83,330
Library books	23,202,123	750,065	-	71	23,952,117
Construction in progress	7,603,464	3,710,776	(6,510,369)	-	4,803,871
Total	<u>206,997,065</u>	<u>6,028,376</u>	<u>-</u>	<u>468,629</u>	<u>212,556,812</u>
Less accumulated depreciation:					
Site improvements	4,464,000	236,574	-	-	4,700,574
Building and building improvements	50,618,729	2,957,897	-	-	53,576,626
Equipment	12,267,937	498,766	-	451,650	12,315,053
Library books	20,354,134	763,382	-	71	21,117,445
Total	<u>87,704,800</u>	<u>4,456,619</u>	<u>-</u>	<u>451,721</u>	<u>91,709,698</u>
Capital assets net	<u>\$ 119,292,265</u>	<u>\$ 1,571,757</u>	<u>\$ -</u>	<u>\$ 16,908</u>	<u>\$ 120,847,114</u>

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4. LONG-TERM DEBT AND OTHER LIABILITIES

Long-term debt and other liabilities consist of the following as of June 30, 2013:

<u>Investment Type</u>	<u>July 1, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2013</u>
Compensated absences	\$ 6,320,588	\$ 968,370	\$ 528,153	\$ 6,760,805
Revenue Bonds Series 1973	380,000	-	185,000	195,000
Revenue Bonds Series 2004	16,970,000	-	-	16,970,000
Certificates of Participation (COP):				
Series 2006	12,290,000	-	660,000	11,630,000
Certificates of Participation (COP):				
Series 2010	6,060,000	-	155,000	5,905,000
COP Discount	(64,415)	-	(4,716)	(59,699)
Certificates of Participation (COP):				
Series 2012	-	28,500,000	-	28,500,000
COP Premium	-	170,893	3,940	166,953
Subtotal	41,956,173	<u>\$ 29,639,263</u>	<u>\$ 1,527,377</u>	70,068,059
Less current portion	2,446,460			2,423,699
Total noncurrent liabilities	<u>\$ 39,509,713</u>			<u>\$ 67,644,360</u>

5. UNIVERSITY FACILITIES SYSTEM REVENUE BONDS

Revenue Bonds Payable and Interest Subsidy

At June 30, 2013, bonds payable consist of University Facilities Revenue Bond Series 1973, and University Facilities System Revenue Bond Series 2004.

Series 1973

The University Facilities Revenue Bonds Series of 1973 were sold during 1974 in the amount of \$3,075,000, (\$195,000 of which are outstanding at June 30, 2013) and were used to finance the construction of the University's Student Union Building. The bonds and related interest are not general obligations of the University since they are payable from and secured by a first lien on and the pledge of net revenues to be derived from certain student fees and operations of the University's Student Union, pledged fees and tuition, and funds held in the Bond Reserve Account. The restricted fund balances are legally restricted under the University Facilities Revenue Bonds indenture.

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The bonds will reach its maturity on July 1, 2013. After the principal payment of \$195,000 due on July 1, 2013, the University Facilities Revenue Bonds Series of 1973 will be fully retired.

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2014	<u>\$ 195,000</u>	<u>\$ 6,045</u>

The U.S. Department of Housing and Urban Development has made a grant under which it has guaranteed to pay an annual debt service subsidy on the bonds subject to its audit and approval. During the year ended June 30, 2013, \$175,000 of such subsidy was accrued in other non-operating revenues.

Series 2004

The University Facilities System Revenue Bond Series 2004, dated April 1, 2004, were sold in April 2004, in the amount of \$16,970,000, all of which were outstanding at June 30, 2013. The proceeds from the sale of the bonds were used to finance the construction of a multi-level parking structure on the University's campus, fund a deposit to the Bond Reserve Account, provide capitalized interest on the bonds through January 1, 2005, and pay certain expenses incurred in connection with the issuance of the bonds. The bonds are obligations of the Board payable only in accordance with the term of the indenture and are not obligations of the State of Illinois. The 2004 Bonds were issued as Parity Bonds to the 1973 Bonds and 1997 Bonds, and are secured by a pledge of lien on the Net Revenues of the System, the pledged fees and tuition, and the funds held in the Bond Reserve Account.

The Bonds mature in increasing principal amounts ranging from \$215,000 due on July 1, 2014 to \$1,255,000 due on July 1, 2035. Interest is payable semi-annually, on January 1 and July 1, at rates between 3.450% and 4.500%, with an average effective rate of approximately 4.166%. Future aggregate annual payments applicable to the Series 2004 Bonds at June 30, 2013 are:

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<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ -	\$ 726,790
2015	215,000	723,081
2016	220,000	715,412
2017	230,000	707,198
2018	235,000	698,478
2019-2023	3,330,000	3,147,824
2024-2028	4,080,000	2,376,526
2029-2033	5,055,000	1,385,904
2034-2036	3,605,000	247,775
Total	<u><u>\$ 16,970,000</u></u>	<u><u>\$ 10,728,988</u></u>

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

Operation of the Project

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

Revenue Fund Account

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

Operation and Maintenance Account

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

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Bond Accounts

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

Bond Reserve Accounts

The bond reserve accounts are to be used solely to pay bond principal and interest when there would otherwise be a default. At June 30, 2013, the maximum funding requirements have been met.

Renewal and Replacement Reserve Account

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

During 2013, \$50,000 was credited to the renewal and replacement reserve account. At June 30, 2013, the fund balance in this account was \$295,922.

Non-Instructional Facilities (Development) Reserve Account

On or before the close of each fiscal year, the treasurer will, from the funds remaining in the revenue fund, credit to the non-instructional facilities reserve account such funds, or such portion thereof as is available for transfer, as have been approved by the board for expenditure or planned for expenditure for new space or construction in, or in addition to, a facility constituting a part of the system, and contiguous real estate thereto, consistent with the purpose and mission of that facility. Monies or investments to the credit of such accounts are not pledged as security for the payment of the bonds or parity bonds. At June 30, 2013, the fund balance in this account was \$0.

Equipment Reserve Account

On or before the close of each fiscal year, the treasurer will, from the funds remaining in the revenue fund, credit to the equipment reserve account such funds as have been approved by the board for expenditures in connection with the acquisition of movable equipment to be installed in the facilities constituting the system. Monies or investments to the credit of the equipment reserve account are not pledged as security for the payment of the bonds or parity bonds. At June 30, 2013, the fund balance in this account was \$302,719.

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

**Northeastern Illinois University
University Facilities Revenue Bonds Funds
Statement of Net Position
June 30, 2013**

ASSETS	
Current Assets	
Cash and cash equivalents	\$ 3,779,577
Receivables:	
Tuition and fees - net	157,577
Parking fines - net	199,572
Other receivables - net	172,393
Inventories	863
Other assets	18,823
Total current assets	<u>4,328,805</u>
Noncurrent Assets	
Restricted cash and cash equivalents	1,524,291
Investments	1,097,776
Tuition and fees - net	29,479
Unamortized bond issue costs	395,290
Capital assets:	
Site improvements - net	1,257,688
Buildings - net	15,596,304
Equipment - net	62,472
Construction in progress	434,514
Total noncurrent assets	<u>20,397,814</u>
Total assets	<u>24,726,619</u>
DEFERRED OUTFLOWS OF RESOURCES	
	<u>-</u>
LIABILITIES	
Current Liabilities	
Accounts payables and accrued liabilities	877,537
Unearned revenues	96,423
Liability for compensated absences	72,357
Revenue bonds payable	195,000
Total current liabilities	<u>1,241,317</u>
Noncurrent Liabilities	
Liability for compensated absences	432
Revenue bonds payable	16,970,000
Total noncurrent liabilities	<u>16,970,432</u>
Total liabilities	<u>18,211,749</u>
DEFERRED INFLOWS OF RESOURCES	
	<u>-</u>
NET POSITION	
Net investment in capital assets	600,091
Restricted for:	
Expendable:	
Capital projects	1,011,121
Debt service	1,486,532
Unrestricted	3,417,126
TOTAL NET POSITION	<u>\$ 6,514,870</u>

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**University Facilities Revenue Bonds Funds
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2013**

OPERATING REVENUES

Student fees	\$ 1,402,457
Vending services	125,991
Rental and use fees	5,005
Bookstore commission	318,421
Parking revenue	2,412,353
Other operating revenues	8,353
Total operating revenues	<u>4,272,580</u>

OPERATING EXPENSES

Personal services	1,132,882
Contractual services	846,861
Commodities and supplies	55,590
Vending cost of sales	9,359
Telecommunications	5,707
Depreciation	697,351
Other operating expenses	495,236
Total operating expenses	<u>3,242,986</u>
Operating income	<u>1,029,594</u>

NON-OPERATING REVENUES (EXPENSES)

Investment income	41,133
Interest on indebtedness	(738,880)
Federal grants - HUD	175,000
Net non-operating expenses	<u>(522,747)</u>

Income before other revenues, expenses, gains, and losses	506,847
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GAIN ON DISPOSAL OF CAPITAL

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Total increase in net position	506,847
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NET POSITION, BEGINNING OF YEAR	<u>6,008,023</u>
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NET POSITION, END OF YEAR	<u><u>\$ 6,514,870</u></u>
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**University Facilities Revenue Bonds Funds
Statement of Cash Flows
For the Year Ended June 30, 2013**

CASH FLOWS FROM OPERATING ACTIVITIES	
Student fees	\$ 1,377,604
Payment for salaries and benefits	(1,136,648)
Payment for suppliers	(1,207,034)
Vending services	120,727
Rental and use fees	5,005
Bookstore commission	284,319
Parking revenue	2,344,949
Other revenues	8,353
Other payments	(51,007)
Net cash provided by operating activities	<u>1,746,268</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Federal grants - HUD	<u>175,000</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Proceeds from sale of capital assets	-
Purchases of capital assets and construction	(434,726)
Principal paid on capital debt	(185,000)
Interest paid on capital debt	(738,880)
Net cash used in capital financing activities	<u>(1,358,606)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	260,910
Interest on investments	41,133
Net cash provided by investing activities	<u>302,043</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	864,705
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>4,439,163</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 5,303,868</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 1,029,594
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	697,351
Changes in assets and liabilities:	
Receivables - net	(64,853)
Inventories	41
Deferred charges	263
Unamortized bond issue cost	18,824
Accounts payable and accrued liabilities	123,090
Accrued liability for compensated absences	(1,874)
Deferred revenues	(56,168)
Net cash provided by operating activities	<u>\$ 1,746,268</u>

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Pledged Revenues and Debt Service Requirements

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

PLEGGED REVENUES					
Bond Issues	Purpose	Source of Revenue Pledged	Future Revenues Pledged	Term of Commitment	Debt Service to Pledged Revenues (Current Year)
Facilities Revenue Bonds Series 1973	Construction of the University/s Student Union Building	Net revenues of the University Facilities System*, student tuition and fees	\$ 201,045	2014	100.00%
Facilities Revenue Bonds Series 2004	Construction of a multi-level parking structure	Net revenues of the University Facilities System*, student tuition and fees	<u>27,698,987</u>	2036	100.00%
Total future revenues pledged			<u><u>\$27,900,032</u></u>		

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

6. CERTIFICATES OF PARTICIPATION

Series 2006

On March 1, 2006, the University issued Certificates of Participation Series 2006, in the amount of \$15,060,000 with an original issue discount of \$94,315, to finance the acquisition, development and implementation of an enterprise resource planning system. The board is obligated to make installment payments on an annual basis either from funds derived from State appropriations or from legally available non-appropriated funds. The board's obligation to pay installment payments is subject to termination 60 days after the board certifies to the trustee that: 1) the General Assembly of the State has made a determination not to appropriate requested funds necessary to make the installment payments from State-appropriated funds, and 2) the board has determined that there are not sufficient legally available non-appropriated funds to pay the installment payments. The Certificates are subject to mandatory redemption, in whole, at the redemption prices set forth below, plus accrued interest to the date fixed for redemption, on the following dates, if the board notifies

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the trustee not less than 60 days prior thereto that it is exercising its option to terminate the purchase contract:

<u>Redemption Date</u>	<u>Redemption Price</u>
October 1, 2010	110%
On or after October 1, 2015	100%

The Certificates mature in increasing principal amounts ranging from \$685,000 due on October 1, 2013 to \$1,155,000 due on October 1, 2025 at rates between 4.00% and 4.75%, with an average effective rate of approximately 4.365%. Future aggregate annual payments applicable to the Certificates of Participation at June 30, 2013 are:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 685,000	\$ 499,106
2015	715,000	471,106
2016	740,000	442,006
2017	775,000	411,222
2018	805,000	378,131
2019-2023	4,600,000	1,319,375
2024-2026	<u>3,310,000</u>	<u>240,825</u>
Total	<u><u>\$11,630,000</u></u>	<u><u>\$ 3,761,771</u></u>

Series 2010

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

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plus accrued interest to the date fixed for redemption, in whole or in part, and if in part, by lot. Such redemption shall be at the option of the board, upon at least 35 days prior written notice from the board to the trustee.

The Certificates mature in increasing principal amounts ranging from \$170,000 due on October 1, 2013 to \$645,000 due on October 1, 2028 at rates between 2.375% and 6.000%, with an average effective rate of approximately 4.688%. Future aggregate annual payments applicable to the Certificates of Participation at June 30, 2013 are:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 170,000	\$ 298,287
2015	185,000	293,725
2016	205,000	287,850
2017	225,000	280,300
2018	250,000	270,925
2019-2023	1,665,000	1,143,602
2024-2028	2,560,000	583,675
2029	645,000	19,350
Total	<u>\$ 5,905,000</u>	<u>\$ 3,177,714</u>

Series 2012

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

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The Certificates mature in increasing principal amounts ranging from \$460,000 due on October 1, 2014 to \$1,815,000 due on October 1, 2041 at rates between 3.000% and 4.100%, with an average effective rate of approximately 3.534%. Future aggregate annual payments applicable to the certificates of participation at June 30, 2013 are:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ -	\$ 1,051,925
2015	460,000	1,045,025
2016	485,000	1,030,850
2017	515,000	1,015,850
2018	540,000	1,000,025
2019-2023	3,240,000	4,727,513
2024-2028	4,245,000	4,125,623
2029-2033	5,660,000	3,243,370
2034-2038	6,745,000	2,034,765
2039-2042	<u>6,610,000</u>	<u>561,970</u>
Total	<u><u>\$ 28,500,000</u></u>	<u><u>\$ 19,836,916</u></u>

7. NORTHEASTERN ILLINOIS UNIVERSITY FOUNDATION AGREEMENT

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

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

During fiscal year 2013, certain funds and in-kind services of the University with an estimated value of \$313,967 were provided to the Foundation without charge. In turn, during

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fiscal year 2013, the Foundation gave the University \$452,213 in funds considered unrestricted for purposes of the University Guidelines computation. In addition, the Foundation gave the University non-qualifying restricted and unrestricted funds of approximately \$189,335 in fiscal year 2013 for scholarships and awards.

8. PENSION, COMPENSATED ABSENCES AND POST-EMPLOYMENT BENEFITS

State Universities Retirement System

Plan Description

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

Funding Policy

Plan members are required to contribute 8.0% of their annual covered salary and substantially all employer contributions are made by the State of Illinois on behalf of the individual employers at an actuarially determined rate. The current rate is 35.20% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the Illinois General Assembly. The University's contributions to SURS for the years ended June 30, 2013, 2012, and 2011 were \$25,632,154, \$18,517,588 and \$14,376,041, respectively, equal to the required contributions for each year.

Medicare

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

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Tax-Sheltered Retirement Plans

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

Compensated Absences

It is the policy of the University to accrue vacation pay as earned. As of June 30, 2013, the accrued liability for this benefit was \$4,721,711 and is reported as liability for compensated absences.

As a result of Illinois Public Act 83-976, the University is required to compensate certain employees for sick leave benefits earned after January 1, 1984. Sick leave earned by these employees after this date will accumulate without limit and are payable upon termination of employment for one-half of the unused amount. As of January 1, 1998 per 30 ILCS 105/14a, sick leave benefits earned after that date are no longer compensable upon termination of employment. All prior earned benefits will still be paid. As of June 30, 2013, the accrued liability of this benefit was \$2,039,094 and is included in the liability for compensated absences.

Post-employment Benefits

The State provides health, dental, vision, and life insurance benefits for retirees and their dependents in a program administered by the Department of Central Management Services. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State sponsored pension plans. Health, dental, and vision benefits include basic benefits for annuitants and dependents under the State's self-insurance plan and insurance contracts currently in force. Annuitants may be required to contribute towards health, dental, and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants who retired prior to January 1, 1998, and who are vested in the State Employee's Retirement System do not contribute towards health, dental, and vision benefits. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced 5% for each year of credited service with the State allowing those annuitants with 20 or more years of credited service to not have to contribute towards health, dental, and vision benefits. Annuitants also receive life insurance coverage equal to the annual salary of the last day of employment until age 60, at which time the benefit becomes \$5,000.

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

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

9. OPERATING LEASES

The University leases various buildings and equipment under operating lease agreements. Total rental expense for the year ended June 30, 2013 under these agreements was \$708,144. Minimum lease payments for the years ending June 30 are:

<u>Fiscal Year</u>	<u>Principal</u>
2014	\$ 809,058
2015	541,757
2016	345,016
2017	291,181
2018	290,000
2019	<u>24,167</u>
Total	<u>\$ 2,301,179</u>

10. SELF-INSURANCE

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

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Additionally, the University purchases property insurance coverage for the replacement value of the University's property.

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

According to the SURMA's bylaw, in the event of termination, if there are surplus funds available, such surplus shall be distributed to the then existing members in the same proportion that each existing member's contributions over the immediately previous five years were in proportion to the contributions of all members. Similar provisions also apply to members who elect to withdraw (subject to the approval by the remaining members) prior to the termination of SURMA. In accordance with GASB Interpretation No. 4, *Accounting and Financial Reporting for Capitalization Contributions to Public Entity Risk Pools*, the University has recorded the capital contributions to SURMA as an asset on the books. The University's share of the excess capital contributions to SURMA was \$440,006 as of June 30, 2013.

11. BEVERAGE CONTRACT

The University has entered into a sponsorship contract with the Pepsi-Cola General Bottlers III, LLC (Vendor) to provide beverages for its employees, visitors, faculty, and students. This is a ten-year agreement commencing on December 18, 2007. Under the agreement, the University receives 50% of the total revenue derived by the Vendor from the vending machines installed and serviced on each respective University campus. Such payments will be paid no less frequently than monthly and will be accompanied by appropriate documentation verifying the receipts and commission amounts. The commission received from the Vendor for fiscal year 2013 was \$56,476. Under the contract, the Vendor extended terms made during its negotiations with the Illinois Department of Revenue regarding marketing monies due to the University on an annual basis. The Vendor agreed to allocate statewide \$440,000 of marketing money. This University's share of the marketing money is 3.5948% of the total allocated statewide, or \$15,817. Payment of these funds is due at the beginning of each year throughout the term of the contract. The University received its payment of \$15,817 for the sixth year of the agreement. The Vendor also agreed to honor the agreement made during negotiations with the Illinois Department of Revenue regarding the guaranteed annual vending commitment, which for the University is \$13,631. This amount will increase in direct proportion to any price increases implemented by the Vendor during the life of this agreement.

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12. OPERATING EXPENSES BY NATURAL CLASSIFICATION

Operating expenses by natural classification for the year ended June 30, 2013 are summarized as follows:

	<u>Compensation and Benefits</u>	<u>Supplies and Services</u>	<u>Scholarships</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$ 78,816,502	\$ 4,080,775	\$ 70,079	\$ -	\$ 82,967,356
Research	645,436	227,458	105,090	-	977,984
Public service	9,646,174	6,998,209	57,450	-	16,701,833
Academic support	8,569,278	2,669,159	14,150	-	11,252,587
Student services	10,335,096	6,295,951	26,291	-	16,657,338
Institutional support	13,284,850	2,894,497	-	-	16,179,347
Operation and maintenance of plant	12,405,892	3,422,664	-	-	15,828,556
Scholarships and fellowships	-	-	8,194,388	-	8,194,388
Auxiliary	3,367,898	1,898,799	-	-	5,266,697
Depreciation	-	-	-	4,456,619	4,456,619
Other operating expenses	54,293	839,484	-	-	893,777
TOTAL	\$ 137,125,419	\$ 29,326,996	\$ 8,467,448	\$ 4,456,619	\$ 179,376,482

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

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

- (a) This statement is prepared from the policies and is intended only as a descriptive summary. The auditors do not express an opinion as to the adequacy of the coverage.
- (b) Excess of debt service requirements for the year ended June 30, 2013 over cash and short-term investments in the Bond Account and Bond Reserve at June 30, 2013.
- (c) Estimate of coverage is directly related to loss of fee income.
- (d) The sum of the amounts established to be deposited in the Revenue Fund Account during the succeeding fiscal year.
- (e) This is a combination of bond and crime policies.

**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
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**UNIVERSITY FACILITIES REVENUE BOND FUNDS
RATES AND CHARGES
(Unaudited)**

The Board of Trustees of Northeastern Illinois University is responsible for establishing rates and charges for the use of the University's Student Union. This income is pledged for payment of the University's Student Union operating expenses and making reserve deposits and bond payments in accordance with the bond indenture.

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

**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
June 30, 2013**

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

The comparison of the maximum reserve requirements with the actual amounts transferred to the bond account and the three reserve accounts established under the bond indenture as of June 30, 2013 is as follows:

	Balance of Assets <u>Reserved</u>	Deposits Required to <u>Date</u>	Maximum Reserve <u>Requirement</u>
Bond account ^(a)	\$ 696,624	\$ 564,440	\$ 564,440
Bond reserve account	1,376,868	1,376,868	1,312,020
Renewal and replacement reserve account ^(b)	382,166	1,900,000	500,000
Non-instructional facilities reserve account	-	-	-
Equipment reserve account	134,885	134,885	134,885

Notes:

- (a) The amounts required for the deposit in the bond account were remitted from the revenue fund account to the Trustee, U.S. Bank National Association, for payment of the bond principal and interest installments coming due on July 1, 2013.
- (b) Total expenditures for extraordinary repairs, as defined in the bond indenture, as of June 30, 2013, amounted to \$2,178,969. Amounts used in this manner are to be replaced in the reserve by extending the periodic payments until the maximum is accumulated.



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

Honorable William G. Holland
Auditor General of the State of Illinois
and
Board of Trustees
Northeastern Illinois University

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Northeastern Illinois University ("University") and its discretely presented component unit, collectively a component unit of the State of Illinois, as of and for the year ended June 30, 2013, which collectively comprise the University's basic financial statements and have issued our report thereon dated December 6, 2013. Our report includes a reference to another auditor who audited the financial statements of the University's discretely presented component unit, as described in our report on the University's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by that auditor.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or

Honorable William G. Holland
Auditor General of the State of Illinois
and
Board of Trustees
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significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings as item 2013-001 that we consider to be a significant deficiency.

Compliance and Other Matters

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

Northeastern Illinois University's Response to Findings

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

Purpose of this Report

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

A handwritten signature in cursive script that reads "Clifton Larson Allen LLP".

Oak Brook, Illinois
December 6, 2013

**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
For the Year Ended June 30, 2013**

SCHEDULE OF FINDINGS

CURRENT FINDING - GOVERNMENT AUDITING STANDARDS

Finding 2013-001 - Failure to Identify and Refund Title IV Aid in a Timely Manner

Northeastern Illinois University (the "University") did not properly identify all students who withdrew from the University. The University also did not determine or return the unearned portion of Title IV aid provided to all students who withdrew from the University resulting in inaccuracies in the amounts reported in its financial statements and noncompliance with federal regulations.

In our testing of unofficial withdrawal determinations over students receiving Title IV aid and who failed to receive a passing grade in any of their classes (703 students), we noted one student that received Title IV aid and should have been considered to have unofficially withdrawn from the University, but for which the University had not made this determination.

Furthermore, in our testing of the withdrawal date determination for students receiving Title IV aid and who withdrew from the University after completing 60% or more of the payment period, we noted that the University relied on the date that the student last logged into the University's online learning portal for 161 students who received a total of \$576,919 of Title IV aid during the payment period. Since the University had not documented the students actively participated in an academic activity at their last login, the login date cannot be used to determine the withdrawal date. Therefore, the mid-point of the semester should have been used as the students' withdrawal date for the unearned Title IV refund calculation. Consequently, the University should have calculated and returned the unearned Title IV aid disbursed to these students based on the student having earned 50% of their Title IV aid rather than considering the aid to have been 100% earned.

In response to our testing and inquiries, the University is in the process of calculating the unearned Title IV aid which should have been refunded to the Department of Education ("ED") and for which the University has recourse against the students for payment.

Since the liability to ED had not been identified timely, the University's financial statements understated current liabilities for refundable grant revenues and also understated student receivables, net of an allowance for doubtful accounts. Since the maximum understatement totals \$289,154, the University's financial statements were not considered to be materially misstated as a result of these errors.

ED requires (Dear Colleague Letter DCL GEN 04-03 Revised) that an institution must have a procedure for determining whether a Title IV aid recipient who began attendance during a period completed the period or should be treated as a withdrawal. If a student who began attendance and has not officially withdrawn fails to earn a passing grade in at least one course offered over an entire period, the institution must assume, for Title IV purposes, that the student has unofficially withdrawn, unless the institution can document that the student completed the period.

**STATE OF ILLINOIS
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SCHEDULE OF FINDINGS

CURRENT FINDING - GOVERNMENT AUDITING STANDARDS (continued)

Finding 2013-001 - Failure to Identify and Refund Title IV Aid in a Timely Manner
(continued)

Furthermore, federal regulations require that when a recipient of Title IV grant or loan assistance withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance, the institution must determine the amount of Title IV grant or loan assistance that the student earned as of the student's withdrawal date and refund the unearned portion to ED (34 CFR 668.22).

The withdrawal date for a student who ceases attendance without providing notice at an institution that is not required to take attendance is the later of (1) the mid-point of the payment period or; (2) the student's last date of attendance at an academically-related activity provide that the institution documents that the activity is academically related and documents the student's attendance at the activity (34 CFR 668.22(c)).

Federal regulations specify that a student logging into an online class without active participation does not meet the definition of attendance at an academically-related activity (34 CFR 668.22 (l)(7)).

The percentage of Title IV grant or loan assistance that has been earned by the student is equal to the percentage of the payment period that the student completed or 100% if the student's withdrawal date occurs after completion of 60% of the payment period that is measured in credit hours (34 CFR 668.22 (e)(2)).

OMB Circular A-110 requires nonfederal entities receiving federal awards establish and maintain internal controls designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure that the amount of Title IV aid earned by students is calculated accurately and that unearned portions are returned in a timely manner.

Generally accepted accounting principles require the proper identification, valuation and reporting of assets and liabilities. Additionally, the Fiscal Control and Internal Auditing Act (ILCS 30 10/ Since the liability to ED had not been identified timely, the University's financial 3001), requires the University to establish and maintain a system, or systems, of internal fiscal and administrative controls, which shall provide assurance that revenues, expenditures, and transfers of assets, resources or funds applicable to operations are properly accounted for to permit the preparation of accounts and reliable financial reports.

In regard to the one student with unearned Title IV aid which should have been returned to the ED, there was an oversight during the awarding process whereby the zero award was not locked to prevent aid awarding. This one incident was a processing oversight.

**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
For the Year Ended June 30, 2013**

SCHEDULE OF FINDINGS

CURRENT FINDING - GOVERNMENT AUDITING STANDARDS (continued)

Finding 2013-001 - Failure to Identify and Refund Title IV Aid in a Timely Manner
(continued)

With regard to withdrawal date determination, the University relied on past practices whereby participating in the Learning Management System was determined to be actively participating in academic activity. The University was not aware of the revised interpretation that this is no longer being interpreted as active participation. Because of this new interpretation, the University did not return funds for students who did not meet the new active participation criteria.

Failure to perform accurate and complete refund calculations and timely remittances of unearned Title IV funds resulted in inaccurate financial reporting and may jeopardize future federal funding. (Finding Code 2013-001, 12-1, 11-1, 10-5).

Recommendation

We recommend that the University implement procedures to ensure that refunds are processed timely and accurately in order to facilitate accurate financial reporting and to be in compliance with federal regulations.

University's Response

The University concurs with this finding and recommendation.

**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
For the Year Ended June 30, 2013**

SCHEDULE OF FINDINGS

PRIOR FINDINGS NOT REPEATED – *GOVERNMENT AUDITING STANDARDS*

None.