

**STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY**

Financial Audit
For the Year Ended June 30, 2013
Performed as Special Assistant Auditors
for the Auditor General, State of Illinois



**State of Illinois
Northern Illinois University
Financial Audit
For the Year Ended June 30, 2013**

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State of Illinois Northern Illinois University

Agency Officials

John G. Peters	President, outgoing
Douglas D. Baker	President, incoming
Raymond W. Alden III	Executive Vice President and Provost
Steven D. Cunningham	Acting Executive Vice President, Business and Finance, and Chief of Operations
Anne C. Kaplan	Vice President, Outreach and Engagement and Information Technology
Michael P. Malone	Vice President, University Advancement
Kathryn Buettner	Vice President, University Relations
Jerry D. Blakemore	Vice President and General Counsel
Danielle Schultz	Director of Internal Audit

Financial Staff

Keith Jackson	Controller
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NIU Office is located at:

300 Altgeld Hall
DeKalb, Illinois 60115

**State of Illinois
Northern Illinois University**

Financial Statement Report

Summary

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

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



INDEPENDENT AUDITOR'S REPORT

Honorable William G. Holland
Auditor General
State of Illinois

and

Anthony A. Iosco, Honorable Chair of the
Legislation, Audit, External Affairs, and Compliance Committee

Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of Northern Illinois University (University), a component unit of the State of Illinois, as of and for the year ended June 30, 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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component units (the "University Related Organizations") as described in Note 1 of the financial statements as of and for the year ended June 30, 2013. Those statements were audited by other auditors whose report has been furnished to us, and our opinion on the financial statements, insofar as it relates to the amounts included for the University Related Organizations, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of Northern Illinois University, a component unit of the State of Illinois, 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.

Other Matters

Report on Summarized Comparative Information

We have previously audited the University's June 30, 2012 financial statements, and we and the report of the other auditors expressed unmodified audit opinions on the respective financial statements of the business-type activities and aggregate discretely presented component units of the University in our report dated January 11, 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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 6-14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the

information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 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.

McGladrey LLP

Schaumburg, Illinois
November 21, 2013

**STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013**

INTRODUCTION

The following management's discussion and analysis (MD&A) provides an overview of the financial position and activities of Northern Illinois University (the University) for the year ended June 30, 2013 with comparative information for the year ended June 30, 2012. This discussion and analysis has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

USING THE FINANCIAL STATEMENTS

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

FINANCIAL HIGHLIGHTS

Changes in net position represent the activity of the University, and are summarized for the years ended June 30, 2013 and 2012 as follows:

(in thousands)

	2013	2012
Total revenues	\$ 608,125	\$ 588,149
Total expenses	611,775	572,948
Increase (decrease) in net position	\$ (3,650)	\$ 15,201

STATEMENT OF NET POSITION

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

A summary of the University's assets, liabilities and net position at June 30, 2013 and 2012 is as follows:

(in thousands)

	2013	2012
Current assets	\$ 119,134	\$ 122,656
Noncurrent assets:		
Cash and investments	154,249	192,886
Capital assets, net	465,749	437,646
Other	15,453	15,082
Total assets	<u>754,585</u>	<u>768,270</u>
Current liabilities	73,506	82,910
Noncurrent liabilities	399,463	400,094
Total liabilities	<u>472,969</u>	<u>483,004</u>
Net position	<u>\$ 281,616</u>	<u>\$ 285,266</u>

CAPITAL AND DEBT ACTIVITIES

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

Capital additions totaled \$53.8 million in 2013. Capital additions primarily include renovation and new construction of academic, research and student service facilities, as well as significant investments in equipment, including information technology. Current year capital asset additions were funded with capital appropriations, grants from the State of Illinois and federal government, debt proceeds, gifts, and unrestricted net assets which were designated for capital purposes. The University depreciates its capital assets on a straight-line basis, using estimated lives ranging from five to forty years.

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

The University has availed itself of Public Act 90-0486 to supplant funds available for use in capital projects. Public Act 90-0486 allows state universities to negotiate multi-year contracts for the evaluation, design and implementation of facility improvements that will be wholly funded by the energy or operational savings of the project. Additionally, the provider of the services to the University fully guarantees the savings over the life of the contract. The effect is that the University upgrades its facilities at no cost, and at no risk. Currently the University has five separate performance contracts outstanding, totaling \$31.0 million. Performance guarantees are in place for each contract. The projects include upgrading of lighting and heating/air

conditioning affecting approximately 70 buildings on campus. The University expects to continue to use performance contracts in the future.

The University takes seriously its role of financial stewardship and works hard to manage its financial resources effectively, including the use of debt to finance capital projects. Bonds payable totaled \$198.2 million at June 30, 2013. These bonds have been issued to finance construction of new non-academic facilities and improvements.

Certificates of participation payable total \$2.9 million at June 30, 2013. They have been used to finance the acquisition of academic and administrative facilities. Capitalized leases payable totaled \$146.6 million at June 30, 2013, and are considered to be installment purchases.

The following table summarizes the University's bonds payable, leases payable and certificates of participation payable outstanding on June 30, 2013 and 2012:

(in thousands)

	2013	2012
Revenue bonds payable	\$ 198,154	\$ 203,655
Leases payable	146,594	146,502
Certificates of participation payable	2,855	3,320

NET POSITION

Net position represents the residual interest in the University's assets after liabilities are deducted. The University's net position at June 30, 2013 and 2012 is summarized as follows:

(in thousands)

	2013	2012
Net investment in capital assets	\$ 154,273	\$ 154,695
Restricted: Expendable	3,634	3,518
Unrestricted	123,709	127,053
Total net position	\$ 281,616	\$ 285,266

The University's net position decreased \$3,650,000 during fiscal year 2013.

Net investment in capital assets represents the University's capital assets net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

The restricted expendable net position is subject to externally imposed restrictions governing their use.

Although the unrestricted net position is not subject to externally imposed stipulations, substantially all of the University's unrestricted net position has been designated for various academic, research and public service programs and initiatives, as well as capital projects.

Additionally, legislative restrictions exist on these funds as outlined in the University Guidelines 1982, as amended in 1997.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

The Statement of Revenues, Expenses and Changes in Net Position presents the University's results of operations. Significant recurring sources of the University's revenues are considered nonoperating, as defined by GASB Statement No. 35. These significant nonoperating sources include state appropriations, Pell grants, gifts, and investment income. A summary of the University's revenues, expenses and changes in net position for the years ended June 30, 2013 and 2012 is as follows:

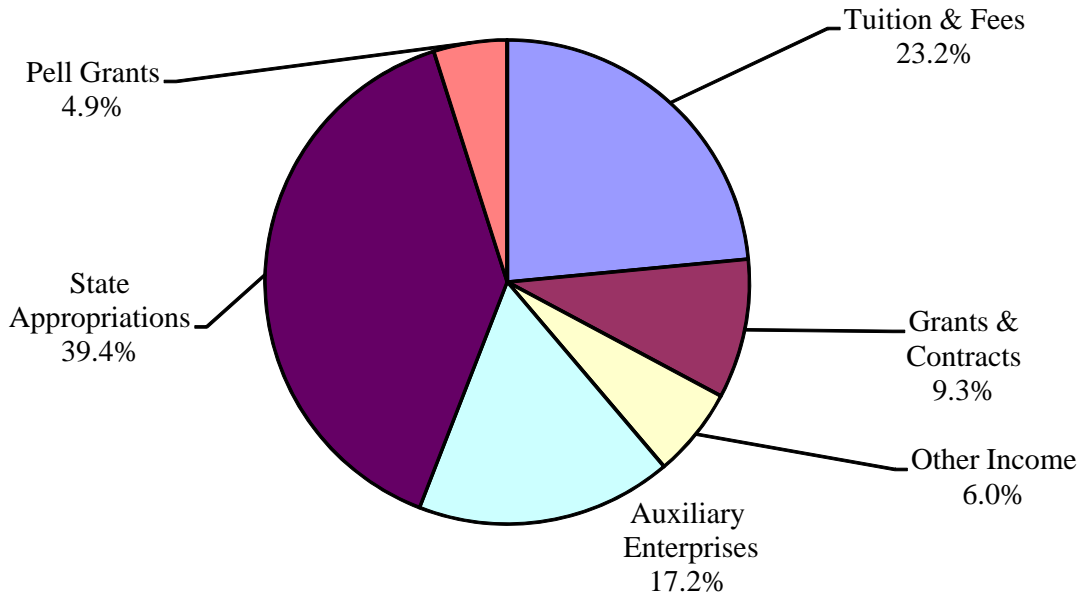
(in thousands)

	<u>2013</u>	<u>2012</u>
Operating revenues:		
Student tuition and fees	\$ 192,546	\$ 189,127
Less: scholarship allowances	<u>(51,317)</u>	<u>(50,598)</u>
Net student tuition and fees	141,229	138,529
Sponsored programs	56,249	64,709
Auxiliary enterprises	104,635	104,970
Other	<u>32,617</u>	<u>26,180</u>
	334,730	334,388
Operating expenses	<u>(588,848)</u>	<u>(556,222)</u>
Operating loss	<u>(254,118)</u>	<u>(221,834)</u>
Nonoperating revenues (expenses):		
State appropriations:		
General	93,490	99,595
Supplemental	143,057	111,223
Capital	2,824	8,069
Build America Bonds subsidy	4,410	3,539
Pell grants	29,808	30,680
Net investment income	(194)	655
Interest expense and other, net	<u>(22,927)</u>	<u>(16,726)</u>
Net nonoperating revenues	<u>250,468</u>	<u>237,035</u>
Increase (decrease) in net position	(3,650)	15,201
Net position, beginning of year	<u>285,266</u>	<u>270,065</u>
Net position, end of year	<u>\$ 281,616</u>	<u>\$ 285,266</u>

The following is a graphic illustration of revenues by source (both operating and nonoperating), which are used to fund the University's operating activities for the year ended June 30, 2013.

Significant recurring sources of the University’s revenues are considered nonoperating, as defined by GASB Statement No. 35.

Revenues



Dollars in millions

\$141.2	Revenue from charges for tuition and fees, net of scholarship allowance of \$51.3.
104.6	Revenue from the operation of self-supporting activities such as residence halls, student union, stadium, and recreation center; intercollegiate athletics; parking; and university press.
56.2	Revenue from federal, state, and private grants and contracts covering research, public service, educational services, financial aid.
<u>32.7</u>	Miscellaneous revenue consists primarily of income from sales and services of educational activities that include conferences and seminars.
<u>\$334.7</u>	Total operating
\$239.4	Appropriations from State of Illinois general revenues for the current operations of the University and on-behalf payments for fringe benefits including insurance programs and retirement. Also includes appropriations for capital projects.
\$ 29.8	Pell Grants.
(.2)	Investment income, and change in fair value of investments.
<u>4.4</u>	Build America Bond Interest subsidy.
<u>\$273.4</u>	Total nonoperating
<u>\$608.1</u>	Total revenues

Tuition and state appropriations are the primary sources of funding for the University’s academic programs. Student tuition and fees increased \$2.7 million during fiscal year 2013, primarily due to a tuition increase necessitated by the continued decrease in state appropriations and the requirements imposed upon the University by Truth-in-Tuition legislation that requires the University to guarantee tuition rates over a four-year span. General state appropriations decreased \$6.1 million in fiscal year 2013. Supplemental state appropriations, payments made

on-behalf of the University to Central Management Services (CMS) and the State Universities Retirement System (SURS), increased \$31.8 million in fiscal year 2013. This increase is caused by growth in state funding for employer required contributions to CMS and SURS.

Revenues for sponsored programs decreased \$8.5 million during fiscal year 2013. The University receives revenues for sponsored programs from government and private sources, which normally provide for the recovery of direct and indirect costs.

Net investment income for the years ended June 30, 2013 and 2012 consisted of the following components:

(in thousands)

	<u>2013</u>	<u>2012</u>
Income, net	\$ 834	\$ 760
Net change in the fair value of investments	<u>(1,028)</u>	<u>(105)</u>
	<u>\$ (194)</u>	<u>\$ 655</u>

Investment income has remained low as a result of the decrease in market rates available.

Capital appropriations received from the State in 2013 totaling \$2.8 million, a decrease of \$5.3 million from 2012, funded projects across the University.

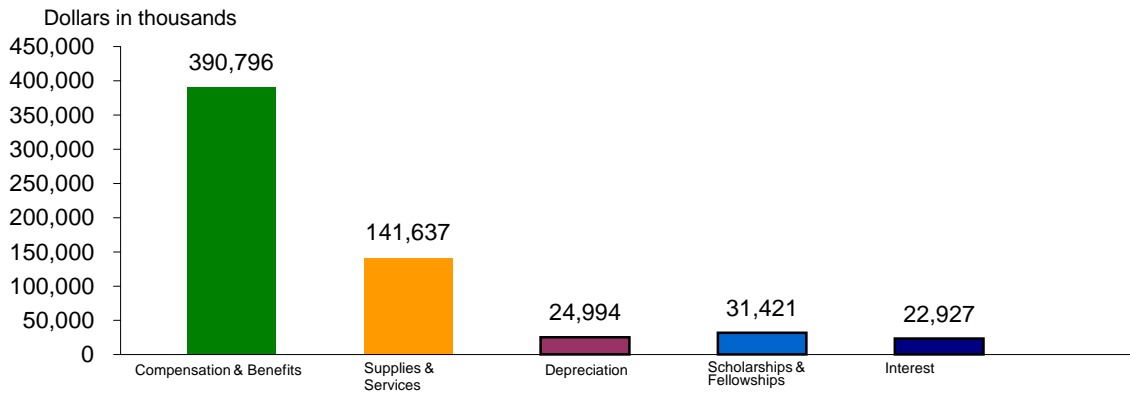
A summary of the University's expenses for the years ended June 30, 2013 and 2012 is:

(in thousands)

	<u>2013</u>	<u>2012</u>
Operating:		
Compensation and benefits	\$ 390,796	\$ 358,370
Supplies and services	141,637	148,219
Depreciation	24,994	21,298
Scholarships and fellowships	<u>31,421</u>	<u>28,335</u>
	588,848	556,222
Nonoperating:		
Interest and other	<u>22,927</u>	<u>16,726</u>
Total expenses	<u>\$ 611,775</u>	<u>\$ 572,948</u>

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

The following is a graphic illustration of total expenses for fiscal year 2013 by object:



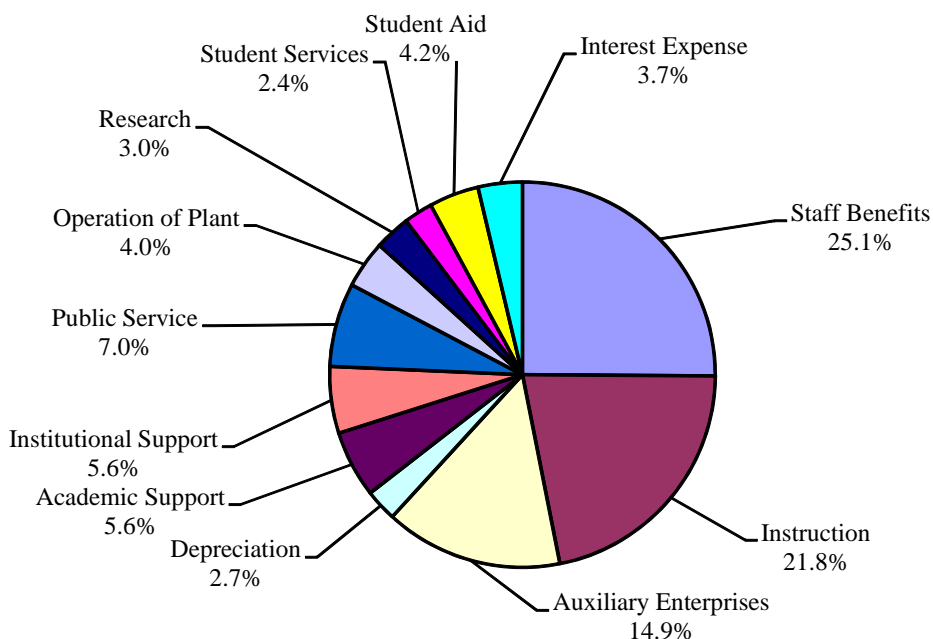
In addition to their natural (object) classification, it is also informative to review operating expenses by function. A summary of the University's expenses by functional classification for the years ended June 30, 2013 and 2012 is as follows:

(in thousands)

	2013	2012
Operating:		
Instruction	\$ 133,355	\$ 136,867
Research	18,564	17,296
Public service	42,988	51,265
Academic support	34,119	32,198
Student services	14,531	14,781
Auxiliary enterprises	90,992	85,651
Operations and maintenance of plant	24,507	27,320
Depreciation	16,504	15,926
Institutional support	34,002	30,817
Staff benefits	153,712	121,732
Student aid	25,574	22,369
Total operating expenses	<u>588,848</u>	<u>556,222</u>
Nonoperating:		
Interest expense	<u>22,927</u>	<u>16,726</u>
Total expenses	<u>\$ 611,775</u>	<u>\$ 572,948</u>

The following graphic illustrations present total expenses for fiscal year 2013 by function:

Expenses By Function



STATEMENT OF CASH FLOWS

The statement of cash flows provides additional information about the University's financial results, by reporting the major sources and uses of cash. A summary of the statement of cash flows for the years ended June 30, 2013 and 2012 is as follows:

(in thousands)

	2013	2012
Cash received from operations	\$ 331,448	\$ 325,205
Cash expended for operations	(419,442)	(411,415)
Net cash used in operating activities	(87,994)	(86,210)
Net cash provided by (used in) investing activities	30,493	(1,748)
Net cash used in capital and related financing activities	(74,141)	(36,403)
Net cash provided by noncapital financing activities	121,479	143,195
Net (decrease) increase in cash and cash equivalents	(10,163)	18,834
Cash and cash equivalents, beginning of year	60,889	42,055
Cash and cash equivalents, end of year	\$ 50,726	\$ 60,889

The University's cash and cash equivalents decreased \$10.2 million. The University's significant sources of cash provided by noncapital financing activities, as defined by GASB Statement No. 35, include state appropriations, Pell grants, and private gifts used to fund operating activities, for which cash received totaled \$121.5 million in fiscal 2013.

THE UNIVERSITY'S ECONOMIC OUTLOOK

State appropriations represent support provided by the Governor and General Assembly for University programs. The total appropriation to the University increased in fiscal year 2013 due to the impact of payments made on-behalf of the University by the State. On-behalf payments totaled \$143,057,000 in fiscal year 2013 and were recorded as revenue from the state and expenditures for staff benefits. The University's general appropriation, funds provided to the University, decreased over \$6,000,000 in fiscal year 2013. The University's fiscal year 2014 budgeted general appropriation is below the fiscal year 2013 level.

To mitigate the impact of the decrease in state support, the University raised tuition rates 2.0% for new students covered by Truth-in-Tuition. Enrollment projections continue to be steady.

The University's institutional funds include revenues from sponsored projects to fund indirect administrative and facilities costs. The University anticipates that this revenue will increase slightly from fiscal year 2013 to fiscal year 2014 based on sponsored projects awarded.

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

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

**STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY
STATEMENT OF NET POSITION
June 30, 2013 (in thousands)
(with Comparative Totals for 2012)**

	University		Component Units	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
ASSETS				
Current assets				
Cash and cash equivalents	\$ 18,556	\$ 38,426	\$ 2,397	\$ 5,721
Investments	36,241	19,227	-	-
Accrued interest receivable	955	313	-	-
Accounts receivable - net	31,873	32,890	1,307	2,583
Appropriations receivable from state	28,137	28,359	-	-
Inventories	3,320	3,307	-	-
Other assets	52	134	167	32
Total current assets	<u>119,134</u>	<u>122,656</u>	<u>3,871</u>	<u>8,336</u>
Noncurrent assets				
Restricted cash and cash equivalents	32,170	22,463	-	-
Investments	95,064	98,778	80,496	71,727
Restricted investments	27,015	71,645	-	-
Student loans receivable - net	8,679	8,718	-	-
Due from component units	3,351	2,752	-	-
Unamortized debt discount	3,423	3,612	-	97
Other	-	-	3,727	5,192
Capital assets, net of accumulated depreciation	465,749	437,646	23,703	21,293
Total noncurrent assets	<u>635,451</u>	<u>645,614</u>	<u>107,926</u>	<u>98,309</u>
TOTAL ASSETS	<u>754,585</u>	<u>768,270</u>	<u>111,797</u>	<u>106,645</u>
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	58,458	60,587	3,722	2,355
Accrued compensated absences	1,827	3,415	-	-
Students' deposits	307	315	-	-
Deferred tuition and fees	8,658	8,749	-	-
Deferred revenue and grants	3,201	9,643	-	-
Agency	1,055	201	-	-
Total current liabilities	<u>73,506</u>	<u>82,910</u>	<u>3,722</u>	<u>2,355</u>
Noncurrent liabilities				
Accounts payable and accrued liabilities	4,097	-	133	147
Due to the University	-	-	3,351	2,752
Performance contracts payable	28,766	31,025	-	-
Accrued compensated absences	16,725	15,231	-	-
Government loan fund advances	8,014	8,172	-	-
Revenue bonds payable	194,424	197,360	1,957	2,551
Leases payable	145,067	145,451	-	-
Certificates of participation payable	2,370	2,855	-	-
Total noncurrent liabilities	<u>399,463</u>	<u>400,094</u>	<u>5,441</u>	<u>5,450</u>
TOTAL LIABILITIES	<u>472,969</u>	<u>483,004</u>	<u>9,163</u>	<u>7,805</u>
NET POSITION				
Net investment in capital assets	154,273	154,695	21,472	18,111
Restricted:				
Nonexpendable	-	-	55,073	45,711
Expendable	3,634	3,518	16,467	26,339
Unrestricted	123,709	127,053	9,622	8,679
TOTAL NET POSITION	<u>\$ 281,616</u>	<u>\$ 285,266</u>	<u>\$ 102,634</u>	<u>\$ 98,840</u>

See accompanying notes to the basic financial statements.

STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the year ended June 30, 2013 (in thousands)
(with Comparative Totals for 2012)

	<u>University</u>		<u>Component Units</u>	
	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>June 30, 2013</u>	<u>June 30, 2012</u>
REVENUES				
Operating revenues				
Tuition and fees, net	\$ 141,229	\$ 138,529	\$ -	\$ -
Federal and state grants and other contracts	54,093	62,925	75	1,132
Private gifts, grants, and contracts	2,156	1,784	7,215	15,220
Sales and service of educational activities	20,497	19,447	-	-
Other sources	12,120	6,733	8,852	2,139
Auxiliary enterprises	104,635	104,970	-	-
Total operating revenues	<u>334,730</u>	<u>334,388</u>	<u>16,142</u>	<u>18,491</u>
EXPENSES				
Operating expenses				
Instruction	133,355	136,867	2,435	1,906
Research	18,564	17,296	36	33
Public service	42,988	51,265	1,239	588
Academic support	34,119	32,198	102	194
Student services	14,531	14,781	755	1,113
Operation and maintenance of plant	24,507	27,320	796	886
Depreciation	16,504	15,926	-	-
Institutional support	34,002	30,817	4,979	4,534
Staff benefits	153,712	121,732	-	-
Student aid	25,574	22,369	1,732	1,256
Auxiliary enterprises	90,992	85,651	-	-
Total operating expenses	<u>588,848</u>	<u>556,222</u>	<u>12,074</u>	<u>10,510</u>
Net operating income (loss)	<u>(254,118)</u>	<u>(221,834)</u>	<u>4,068</u>	<u>7,981</u>
NONOPERATING REVENUES (EXPENSES)				
State appropriations - general	93,490	99,595	-	-
State appropriations - on-behalf payments	143,057	111,223	-	-
Build America Bonds subsidy	4,410	3,539	-	-
Investment income	834	760	295	87
Expendable gifts and other	-	-	285	263
Pell grants	29,808	30,680	-	-
Impairment of capital assets	-	-	(4,226)	-
Net decrease in fair value of investments	(1,028)	(105)	-	-
Interest expense	(22,927)	(16,726)	-	(5)
Net nonoperating revenues	<u>247,644</u>	<u>228,966</u>	<u>(3,646)</u>	<u>345</u>
Income (loss) before other revenues, expenses, gains, or losses	(6,474)	7,132	422	8,326
Capital appropriations	2,824	8,069	-	-
Gifts to permanent endowments	-	-	3,372	5,161
INCREASE (DECREASE) IN NET POSITION	<u>(3,650)</u>	<u>15,201</u>	<u>3,794</u>	<u>13,487</u>
NET POSITION, BEGINNING OF YEAR	<u>285,266</u>	<u>270,065</u>	<u>98,840</u>	<u>85,353</u>
NET POSITION, END OF YEAR	<u>\$ 281,616</u>	<u>\$ 285,266</u>	<u>\$ 102,634</u>	<u>\$ 98,840</u>

See accompanying notes to the basic financial statements.

STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY
STATEMENT OF CASH FLOWS
For the year ended June 30, 2013 (in thousands)
(with Comparative Totals for 2012)

	University	
	June 30, 2013	June 30, 2012
Cash flows from operating activities		
Student tuition and fees	\$ 141,131	\$ 139,385
Federal and state grants and other contracts	47,651	61,295
Private gifts, grants, and contracts	2,156	1,784
Sales and service of educational activities	21,910	11,066
Auxiliary enterprises	104,239	104,774
Payment to suppliers	(138,760)	(132,322)
Payment to employees	(247,755)	(249,604)
Payments for scholarships	(31,421)	(28,335)
Loans to students and employees	(1,506)	(1,154)
Collection of loans to students and employees	1,387	1,339
Other receipts, net	12,974	5,562
Net cash used in operating activities	<u>(87,994)</u>	<u>(86,210)</u>
Cash flows from noncapital financing activities		
State appropriations	91,671	112,515
Pell Grants	29,808	30,680
Net cash provided by noncapital financing activities	<u>121,479</u>	<u>143,195</u>
Cash flows from capital and related financing activities		
Proceeds from issuance of debt	1,345	132,267
State appropriations	2,041	4,029
Purchase of capital assets	(53,765)	(131,799)
Principal payments on capital debt	(10,468)	(28,868)
Interest payments on capital debt	(17,704)	(15,571)
Build America Bonds subsidy	4,410	3,539
Net cash used in capital and related financing activities	<u>(74,141)</u>	<u>(36,403)</u>
Cash flows from investing activities		
Interest income on investments, net	192	771
Proceeds from sales and maturities of investments	528,689	454,457
Purchase of investments	(498,388)	(456,976)
Net cash provided by (used in) investing activities	<u>30,493</u>	<u>(1,748)</u>
Net increase (decrease) in cash and cash equivalents	(10,163)	18,834
Cash and cash equivalents, beginning of the year	<u>60,889</u>	<u>42,055</u>
Cash and cash equivalents, end of the year	<u>\$ 50,726</u>	<u>\$ 60,889</u>

See accompanying notes to the basic financial statements.

STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY
STATEMENT OF CASH FLOWS, CONTINUED
For the year ended June 30, 2013 (in thousands)
(with Comparative Totals for 2012)

	University	
	June 30, 2013	June 30, 2012
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (254,118)	\$ (221,834)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense - non-Auxiliary enterprises	16,504	15,926
Depreciation expense - Auxiliary enterprises	8,490	5,372
Loss on disposal of capital assets	668	282
On-behalf payments for fringe benefits	143,057	111,223
State expenses for non-capitalized CDB projects	2,824	8,069
Changes in assets and liabilities		
Accounts receivable	1,017	(8,519)
Inventories	(13)	(198)
Student loans receivable	39	300
Investments and other assets	(516)	2
Accounts payable and accrued liabilities	(7)	7,583
Accrued compensated absences	(94)	(2,296)
Students' deposits	(8)	(8)
Deferred revenue and grants	(6,532)	(824)
Government loan fund advances	(159)	(117)
Agency	854	(1,171)
Net cash used in operating activities	\$ (87,994)	\$ (86,210)
Noncash investing, capital, noncapital and financing activities		
On-behalf payments for fringe benefits	\$ 143,057	\$ 111,223
Unpaid state appropriation revenue	28,137	28,359
Accretion of bond principal	794	965
Cost of capital assets not being depreciated		
included in accounts payable	2,285	2,875
Unrealized loss	(1,028)	(105)
State expenses for non-capitalized CDB projects	2,041	4,040
Total noncash activities	\$ 175,286	\$ 147,357

See accompanying notes to the basic financial statements.

State of Illinois

Northern Illinois University

Notes to the Basic Financial Statements

1. Summary of Significant Accounting Policies

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

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

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

Complete financial statements for the Foundation and the Association may be obtained by writing to the NIU Foundation Controller, Altgeld Hall 138, Northern Illinois University, DeKalb, Illinois 60115. Financial statements for the Research Foundation may be obtained by writing to the Northern Illinois Research Foundation President, 2700 International Drive, Suite 100, West Chicago, Illinois 60185.

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.

The University uses the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

State of Illinois
Northern Illinois University
Notes to the Basic Financial Statements, continued

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

Student tuition and fees, presented net of scholarships and fellowships of \$51,317,000 for fiscal year 2013, are applied to student accounts, while stipends and other payments made directly to students are reported as scholarship and fellowship expense. Net tuition and fees, except for Summer Session, are recognized as revenues as they are assessed. The portion of Summer Session tuition and fees applicable to the following fiscal year is deferred.

Grant and contract revenues from external sources, are recognized as revenues to the extent of related expenses or satisfaction of eligibility requirements on the accrual basis. Advances are classified as deferred revenue.

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

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

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, the University and its component units reported a contribution of \$143,057,000 made by the State of Illinois in fiscal year 2013 to the State Universities Retirement System (SURS) and Central Management Services Group Insurance (CMS) on behalf of the University's and its component units' employees. The State contribution is reported as revenue from State appropriations with an equal and offsetting amount reported as staff benefit expenditures. The on-behalf payments to SURS and CMS were \$68,609,000 and \$74,448,000, respectively, for fiscal year 2013.

The basic financial statements include prior year comparative information, which has been derived from the University's 2012 financial statements. Such information does not include all of the information required to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the University's financial statements for the year ended June 30, 2012.

Certain items in the June 30, 2012 financial statements have been reclassified to correspond to the June 30, 2013 presentation.

State of Illinois
Northern Illinois University
Notes to the Basic Financial Statements, continued

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

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

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

The University accounts for its investments at fair value.

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

Amortization of unamortized debt discount is calculated on a straight-line basis over the term of the related debt. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method, which approximates the interest method.

Capital assets are recorded at cost when purchased or fair value at the date of donation. The University follows the State of Illinois policy for capitalization with thresholds as follows: Infrastructure - \$250,000; Land - \$100,000; Land improvements - \$25,000; Site improvements - \$25,000; Buildings - \$100,000; Building improvements - \$25,000; Equipment - \$5,000; and Works of art, historical treasures - \$5,000. Depreciation is calculated on a straight-line basis over the estimated useful lives (five to forty years) of the respective assets. The interest costs associated with construction projects are capitalized and included as part of the project. Capitalization of interest ceases when the project is substantially complete. Interest costs capitalized on construction projects were \$1,544,000 and \$671,000 in fiscal 2013 and 2012, respectively.

The assets associated with long-term leases have been capitalized.

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 \$12,939,000, and is included in accrued compensated absences.

As a result of Illinois Public Act 83-976, the University is required to compensate certain employees, generally civil service and administrative professionals, for sick leave benefits earned after January 1, 1984. Sick leave earned by these employees after this date will accumulate without limit and are payable upon termination of employment for one-half of the unused amount. As of January 1, 1998, per 30 ILCS 105/14a, sick leave benefits earned

State of Illinois
Northern Illinois University
Notes to the Basic Financial Statements, continued

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 \$5,613,000, and is included in accrued compensated absences. The accrued compensated absences liability will be funded through future State of Illinois General Revenue Fund appropriations as the terminating employees leave the University.

New and Pending Accounting Pronouncements

Statement No. 65, *Items Previously Reported as Assets and Liabilities* establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations. The University is required to implement this Statement for the year ending June 30, 2014.

Statement No. 68, *Accounting and Financial Reporting for Pensions* requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information (RSI). The University is required to implement this Statement for the year ending June 30, 2015.

Management has not determined the impact of the pending pronouncements not yet adopted on its financial statements, however the adoption of Statement No. 68 may have a material impact on the University's financial statements.

2. Cash and Cash Equivalents

The University considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. Cash equivalents consist principally of certificates of deposit and U.S. government securities.

As of June 30, 2013, cash deposits (consisting of demand deposits and money market accounts) of \$20,759,000 were held by the University. Bank deposits held by the University were insured or collateralized with securities held by the University or its custodian in the name of the University.

3. Investments

State of Illinois
Northern Illinois University
Notes to the Basic Financial Statements, continued

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

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

- A. Preserve and maintain the real purchasing power of the principal.
- B. Assure an optimal flow of cash to meet University obligations.
- C. Produce a yield which, when compared to the current marketplace, would be described as acceptable by conservative investment managers.

while maintaining consistency with applicable State statutes, and/or bond indentures.

Custodial credit risk - Custodial credit risk is the risk that when, in the event a financial institution or counterparty fails, the University would not be able to recover value of investments or collateral securities that are in the possession of an outside party. All of the University’s investments are held in the University’s name and are not subject to creditors of the custodial institution.

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

Investment	Total
Federal Farm Credit Banks	\$ 30,111
Federal Home Loan Bank	13,938
Federal Home Loan Mortgage Corporation	28,476
Federal National Mortgage Corporation	28,067

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

Credit risk - Credit risk is the risk that an issuer or other counterparty to a debt investment will not fulfill its obligations. The University’s policy is to invest in high grade investments. The University’s investments are summarized by current credit ratings below (\$000’s):

State of Illinois
Northern Illinois University
Notes to the Basic Financial Statements, continued

Quality rating	Money Market	Commercial Paper	U.S. Agency	Total
AAA	\$ -	\$ -	\$ 125,079	\$ 125,079
AAAm	63,208	-	-	63,208
Total	<u>\$ 63,208</u>	<u>\$ -</u>	<u>\$ 125,079</u>	<u>\$ 188,287</u>

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

Segmented Time Distribution	Money Market	Commercial Paper	U.S. Agency	Total
0 – 1 year	\$ 63,208	\$ -	\$ 27,539	\$ 90,747
1 – 3 years	-	-	41,967	41,967
3 – 5 years	-	-	55,573	55,573
Total	<u>\$ 63,208</u>	<u>\$ -</u>	<u>\$ 125,079</u>	<u>\$ 188,287</u>

Component Units (\$000's)

Quality rating	Mutual Funds	Stock	Limited Partnership s	Other	Total
AA+	\$ 1,892	\$ -	\$ -	\$ -	\$ 1,892
AA-	5,605	-	-	-	5,605
A+	3,053	-	-	-	3,053
BBB	1,423	-	-	-	1,423
BBB-	7,814	-	-	-	7,814
B	1,531	-	-	-	1,531
Not rated	46,318	301	12,448	111	59,178
Total	<u>\$ 67,636</u>	<u>\$ 301</u>	<u>\$ 12,448</u>	<u>\$ 111</u>	<u>\$ 80,496</u>

Weighted Average Duration	Mutual Funds
.4 year	\$ 1,531
1.6 years	1,423
3.3 years	1,432
3.5 years	6,156
3.7 years	10
5.3 years	2,616
5.8 years	2,492
6.5 years	3,766
6.7 years	1,892
Total	<u>\$ 21,318</u>

The Component Units' permissible investment categories include equities, fixed income securities, cash equivalents, venture capital/private equity, equity real estate and hedge funds. In fulfilling their responsibilities, the Component Units contracted with an independent investment advisory firm as well as 23 investment management firms to execute the strategy they have established.

4. Receivables

State of Illinois
Northern Illinois University
Notes to the Basic Financial Statements, continued

Accounts receivable are reported net of an allowance for uncollectible accounts of \$11,652,000 at June 30, 2013. The composition of accounts receivable at June 30, 2013 is summarized as follows (\$000's):

	<u>University</u>	<u>Component Units</u>
Student accounts	\$ 30,236	\$ -
Customer accounts	2,459	-
Grants receivable	10,830	-
Others	-	1,449
Gross receivables	<u>43,525</u>	<u>1,449</u>
Less: allowance for uncollectible accounts	(11,652)	(142)
Net accounts receivable	<u>\$ 31,873</u>	<u>\$ 1,307</u>

Student loans made through the Federal Perkins Loan Program comprise substantially all of student loans receivable at June 30, 2013 totaling \$8,679,000 and are reported net of an allowance for uncollectible accounts of \$74,000.

State of Illinois
Northern Illinois University
Notes to the Basic Financial Statements, continued

5. Capital Assets

Capital assets activity for the year ended June 30, 2013 is summarized as follows:

University (\$000's)	Balance June 30, 2012	Additions	Retirements	Transfers	Balance June 30, 2013
Capital assets not being depreciated:					
Land	\$ 19,281	\$ -	\$ -	\$ -	\$ 19,281
Construction in progress	137,102	47,921	-	(159,866)	25,157
Total capital assets not being depreciated	156,383	47,921	-	(159,866)	44,438
Capital assets being depreciated:					
Land improvements	69,691	-	-	2,662	72,353
Buildings	491,424	-	-	157,204	648,628
Equipment	181,751	5,895	(4,495)	-	183,151
Other assets	3,820	-	-	-	3,820
Total capital assets being depreciated	746,686	5,895	(4,495)	159,866	907,952
Less: accumulated depreciation	(465,423)	(24,994)	3,776	-	(486,641)
Total capital assets being depreciated, net	281,263	(19,099)	(719)	159,866	421,311
Total capital assets, net	\$ 437,646	\$ 28,822	\$ (719)	\$ -	\$ 465,749

Component Units (\$000's)	Balance June 30, 2012	Additions	Retirements	Transfers	Balance June 30, 2013
Capital assets not being depreciated:					
Land	\$ 3,829	\$ -	\$ -	\$ -	\$ 3,829
Collections	332	-	(332)	-	-
Construction in-progress	4,810	8,485	(4,226)	-	9,069
Total capital assets not being depreciated	8,971	8,485	(4,558)	-	12,898
Capital assets being depreciated:					
Buildings	11,871	-	-	-	11,871
Furniture	2,952	-	(2,039)	-	913
Total capital assets being depreciated	14,823	-	(2,039)	-	12,784
Less: accumulated depreciation	(2,501)	(576)	1,098	-	(1,979)
Total capital assets, net	\$ 21,293	\$ 7,909	\$ (5,499)	\$ -	\$ 23,703

State of Illinois
Northern Illinois University
Notes to the Basic Financial Statements, continued

6. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities as of June 30, 2013 are as follows (\$000's):

	<u>University</u>	<u>Component Units</u>
Payable to vendors/suppliers	\$ 43,071	\$ 3,448
Accrued payroll	7,246	-
Current portion of noncurrent liabilities:		
Performance contracts payable	2,258	-
Revenue bonds payable	3,730	274
Leases payable	1,527	-
Notes payable	485	-
Other liabilities	141	-
Total current accounts payable and accrued liabilities	<u>58,458</u>	<u>3,722</u>
Noncurrent accounts payable and accrued liabilities	<u>4,097</u>	<u>133</u>
Total accounts payable and accrued liabilities	<u>\$ 62,555</u>	<u>\$ 3,855</u>

7. Performance Contracts Payable

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

State of Illinois
Northern Illinois University
Notes to the Basic Financial Statements, continued

Performance contracts payable activity and outstanding balances as of June 30, 2013 are as follows (\$000's):

Performance Contract	Beginning Balance	Issued	Retired	Ending Balance	Current Portion
West Plant	\$ 520	\$ -	\$ 520	\$ -	\$ -
West Campus Control Valve Retrofit	209	-	102	107	107
Energy Infrastructure Improvements	1,245	-	302	943	304
Energy Infrastructure Improvements-Phase 10A	1,329	-	72	1,257	75
Energy Infrastructure Improvements-Phase 10B	11,065	-	305	10,760	586
Energy Infrastructure Improvements-Refinance	19,112	-	1,155	17,957	1,186
	<u>\$ 33,480</u>	<u>\$ -</u>	<u>\$ 2,456</u>	<u>\$ 31,024</u>	<u>\$ 2,258</u>

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

Year Ending June 30	Principal	Interest	Total
2014	\$ 2,258	\$ 965	\$ 3,223
2015	2,211	892	3,103
2016	2,126	822	2,948
2017	2,193	754	2,947
2018	2,087	686	2,773
2019-2023	11,456	2,407	13,863
2024-2027	8,693	572	9,265
Total	<u>\$ 31,024</u>	<u>\$ 7,098</u>	<u>\$ 38,122</u>

Interest rates range from 2.48% to 4.83%. The guaranteed savings will be recognized as a reduction of expense over the life of the contract as expenditures are made.

8. Accrued Compensated Absences

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

Balance, beginning of year	\$ 18,646
Additions/(deductions)	(94)
Balance, end of year	18,552
Less current portion	1,827
Balance, end of year, noncurrent portion	<u>\$ 16,725</u>

Amounts reported as current are based upon historical trends.

State of Illinois
Northern Illinois University
Notes to the Basic Financial Statements, continued

9. Deferred Revenue and Grants

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

Balance, beginning of year	\$ 9,643
Additions/(deductions)	<u>(6,442)</u>
Balance, end of year	<u>\$ 3,201</u>

10. Government Loan Fund Advances

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

Balance, beginning of year	\$ 8,172
Additions/(deductions)	<u>(158)</u>
Balance, end of year	<u>\$ 8,014</u>

11. Revenue Bonds Payable

Revenue bonds activity and outstanding balances as of June 30, 2013 are as follows (\$000's):

Issue	Beginning Balance	Issued / Accreted	Retired / Defeased	Ending Balance	Current Portion	Future Revenues Pledged	Debt Service to Pledged Revenue (Current Year)
Series 1992 (B)	\$ 13,695	\$ 794	\$ 3,730	\$ 10,759	\$ 3,730	\$ 11,910	20%
Series 2010	126,025	-	-	126,025	-	355,879	6%
Series 2011	63,935	-	2,565	61,370	-	93,760	2%
	<u>\$ 203,655</u>	<u>\$ 794</u>	<u>\$ 6,295</u>	<u>\$ 198,154</u>	<u>\$ 3,730</u>	<u>\$461,549</u>	
Component Unit	\$ 2,696	\$ 122	\$ 587	\$ 2,231	\$ 274		

The Auxiliary Facilities Revenue Bonds, Series 1992 (B), original issue \$14,498,000, mature serially at varying amounts from fiscal years 2014 through 2017, and pays no current interest. The University records the annual increase in the principal amount of these bonds as interest expense and accretion on bonds payable. The interest ranges from 6.15% to 6.55%. Net revenue and pledged fees for the year were \$20,118,000.

In December 2010, the University issued \$126,025,000 of taxable Auxiliary Facilities Systems Revenue Bonds (Series 2010) under the Build America Program. Taxable interest rates range from 7.75% to 8.15%, with the University receiving an amount equivalent to 35% of the interest expense back from the United States Treasury. The bonds mature at varying

State of Illinois
Northern Illinois University
Notes to the Basic Financial Statements, continued

amounts from 2028 through 2041. Interest payments are due semi-annually. Net revenue, pledged fees and tuition for the year were \$151,495,000

In January 2011, the University issued \$67,135,000 of Auxiliary Facilities System Revenue Bonds (Series 2011). Stated interest rates range from 3.0% to 5.50%. The bonds mature at varying amounts from 2014 through 2028. Interest payments are due semi-annually. Net revenue, pledged fees and tuition for the year were \$151,495,000.

The bonds are payable from and secured by, subject to the prior pledge to and lien of the Prior Bonds, a pledge of and lien on the net revenues of the System and pledged fees. The Series 1992, Series 2010, and Series 2011 are further secured by non-cancelable policies of municipal bond insurance. A pledge and lien on pledged tuition also secure the Series 2010 and Series 2011 bonds.

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Accretion</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 3,612	\$ 117	\$ 13,301	\$ 17,030
2015	3,547	343	13,300	17,190
2016	3,346	554	13,295	17,195
2017	3,769	136	13,288	17,193
2018	4,065	-	13,129	17,194
2019-2023	23,620	-	62,339	85,959
2024-2028	30,400	-	55,562	85,962
2029-2033	39,205	-	44,699	83,904
2034-2038	50,440	-	27,416	77,856
2039-2041	36,150	-	5,916	42,066
Total	<u>\$ 198,154</u>	<u>\$ 1,150</u>	<u>\$ 262,245</u>	<u>\$ 461,549</u>

Component Units (\$000)

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Accretion</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 152	\$ -	\$ 34	\$ 186
2015	622	-	31	653
2016	652	-	19	671
2017	683	-	13	696
Total	<u>\$ 2,109</u>	<u>\$ -</u>	<u>\$ 97</u>	<u>\$ 2,206</u>

State of Illinois
Northern Illinois University
Notes to the Basic Financial Statements, continued

12. Capitalized Leases

Certain leases, in which the University's governing board is the lessee, are considered to be equivalent to installment purchases for accounting presentation. The assets recorded under these leases have been capitalized at the present value of future lease payments, measured at lease inception date. These assets totaled \$143,594,000, net of accumulated depreciation of \$11,449,000 at June 30, 2013.

Capital leases activity and outstanding principal balances as of June 30, 2013 are as follows (\$000's):

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Naperville Project	\$ 13,170	\$ -	\$ 755	\$ 12,415	\$ 785
IASBO Building	622	-	39	583	41
Northern View	19,070	-	-	19,070	85
Motor Coaches	334	-	107	227	111
Oracle	150	1,345	352	1,143	-
First Year Residence	113,156	-	-	113,156	505
Net Present Value	<u>\$ 146,502</u>	<u>\$ 1,345</u>	<u>\$ 1,253</u>	<u>\$146,594</u>	<u>\$ 1,527</u>

Future minimum lease payments for the above assets under capital leases at June 30, 2013 on originally scheduled minimum payments and estimated interest are (\$000's):

Year Ending June 30	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 1,527	\$ 9,440	\$ 10,967
2015	2,421	9,366	11,787
2016	2,637	9,277	11,914
2017	2,433	9,172	11,605
2018	2,765	9,049	11,814
2019-2023	17,844	42,745	60,589
2024-2028	18,947	37,216	56,163
2029-2033	22,605	30,771	53,376
2034-2038	31,500	21,881	53,381
2039-2043	43,915	9,459	53,374
Total	<u>\$ 146,594</u>	<u>\$ 188,376</u>	<u>\$ 334,970</u>

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13. Notes and Certificates of Participation Payable

Certificates of participation and notes payable activity and outstanding principle balances as of June 30, 2013 are as follows (\$000's):

Issue	Beginning Balance	Issued	Retired	Ending Balance	Current Portion
Certificates of Participation / Notes Payable:					
Series 1993 - Hoffman Estates Facility	\$ 3,320	\$ -	\$ 465	\$ 2,855	\$ 485
Total	\$ 3,320	\$ -	\$ 465	\$ 2,855	\$ 485

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

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

	Year Ending June 30	Principal	Interest	Total
2014		\$ 485	\$ 141	\$ 626
2015		515	114	629
2016		550	85	635
2017		1,305	35	1,340
Total		\$ 2,855	\$ 375	\$ 3,230

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14. Net Position

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

University Net Position (\$000's)

Net investment in capital assets	\$ 154,273
Restricted:	
Nonexpendable	-
Expendable	3,634
Unrestricted	<u>123,709</u>
Total	<u>\$ 281,616</u>

Component Units Net Position (\$000's)

Net investment in capital assets	\$ 21,472
Restricted:	
Nonexpendable	55,073
Expendable	16,467
Unrestricted	<u>9,622</u>
Total	<u>\$ 102,634</u>

Net investment in capital assets represents the University's capital assets net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

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

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

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

15. Transactions with Component Units

During fiscal year 2013, the University engaged the Foundation, under contract, to provide fundraising services. As provided by the contract agreement, the University paid \$630,000 for fundraising services. Additionally, the University provided services to the Foundation

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valued at \$608,000. As required by the contract, the Foundation fully repaid the University for the services provided, using unrestricted funds. The University engaged the Research Foundation, under contract, to provide services to aid the University in its economic development, public service, research and educational missions. As provided by the contract, the University paid the Research Foundation \$523,000 for these services.

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

	<u>Alumni</u>	<u>Research</u>	
	<u>Foundation</u>	<u>Association</u>	<u>Foundation</u>
Funds unrestricted:			
Totally unrestricted administrative services	\$ 859	\$ -	\$ 523
Support for University programs and departments	6,413	356	-
Administrative and office expense	-	-	-
Provided for library books, equipment and property improvements	398	-	-
Total fund unrestricted	<u>7,670</u>	<u>356</u>	<u>523</u>
Funds restricted:			
Provided for scholarships and awards	1,702	28	-
Provided for library books, equipment and property improvements	43	-	-
Other restricted fund provided to the University:			
Restricted fund	142	-	-
Endowment fund	1,364	-	-
Total funds restricted	<u>3,251</u>	<u>28</u>	<u>-</u>
Total funds provided to the University	<u>\$ 10,921</u>	<u>\$ 384</u>	<u>\$ 523</u>

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

The University entered into an irrevocable letter of intent with the Foundation in August 2012 to enter into a lease agreement for the planned Kenneth and Ellen Chessick Practice Center. The 91,500 square foot facility will serve to enhance campus life and sports-related activities and services. The Foundation's commitment includes the development, financing and construction of the new facility. The University entered into a lease agreement for space in the new facility for a period of 89 months. The lease amount is included in the operating lease disclosure.

16. Operating Leases

The University leases various buildings under operating lease agreements. Total rental expense for the year ended June 30, 2013, under these agreements was \$1,171,000.

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

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Year Ending June 30	Amount
2014	\$ 1,185
2015	1,321
2016	1,199
2017	1,018
2018	319
2019-2021	957
Total	<u>\$ 5,999</u>

17. Retirement Plan

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 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 writing to SURS, 1901 Fox Drive, Champaign, Illinois 61820 or by calling 1-800-275-7877.

Participation by eligible employees is mandatory. Employees are ineligible to participate if (1) employed less than one academic term, (2) employed less than full-time and attending classes with an employer, or (3) receiving a retirement annuity from SURS. Of those University employees ineligible to participate, the majority are students at the University.

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 for fiscal year 2014 is 35.2% of annual covered payroll. The employer contributions to SURS for the years ended June 30, 2013, 2012, and 2011 were \$68,609,000, \$48,870,000, and \$39,096,000, respectively, equal to the required contributions for each year. The contribution requirements of plan members and employers are established and may be amended by the Illinois General Assembly.

18. Postemployment Benefits

The State Employees Group Insurance Act of 1971 (Act), as amended, authorizes the State to provide health, dental, vision, and life insurance benefits for certain retirees and their dependents in a program administered by the Department of Healthcare and Family Services

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along with the Department of Central Management Services. Substantially all State and university employees become eligible for these other postemployment benefits (OPEB) if they eventually become annuitants of one of the State sponsored pension plans. The portions of the Act related to OPEB establish a cost-sharing multiple-employer defined OPEB plan with a special funding situation in which the State funds substantially all nonparticipant contributions. The plan does not issue a standalone financial report but is included as a part of the State's financial statements. Health, dental, and vision benefits include basic benefits for annuitants and dependents under the State's self-insurance plan and insurance contracts currently in force. Annuitants may be required to contribute towards health, dental, and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants who retired prior to January 1, 1998, and who are vested in the State 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 five percent for each year of credited service with the State allowing those annuitants with twenty or more years of credited service to not have to contribute towards health, dental, and vision benefits. Annuitants also receive life insurance coverage equal to the annual salary on the last day of employment until age 60, at which time the benefit becomes \$5,000.

The State pays the University's portion of employer costs for the benefits provided. The total cost of the State's portion of health, dental, vision, and life insurance benefits of all members, including postemployment health, dental, vision, and life insurance benefits, is recognized as an expenditure by the State in the Illinois Comprehensive Annual Financial Report. The State finances the costs on a pay-as-you-go basis. The 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.

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19. Operating Expenses by Natural Classification

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

University
(\$000's)

	Compensation and Benefits	Supplies and Services	Scholarships and Fellowships	Depreciation	Total
Instruction	\$ 111,255	\$ 19,800	\$ 2,300	\$ -	\$ 133,355
Research	9,953	8,289	322	-	18,564
Public Service	14,412	28,259	317	-	42,988
Academic					
Support	21,148	12,635	336	-	34,119
Student Services	9,884	4,644	3	-	14,531
O&M	13,440	11,067	-	-	24,507
Depreciation	-	-	-	16,504	16,504
Inst. Support	22,803	11,199	-	-	34,002
Staff Benefits	153,712	-	-	-	153,712
Student Aid	892	551	24,131	-	25,574
Auxiliary	33,297	45,193	4,012	8,490	90,992
Total	\$ 390,796	\$ 141,637	\$ 31,421	\$ 24,994	\$ 588,848

Component Units
(\$000's)

	Compensation and Benefits	Supplies and Services	Scholarships and Fellowships	Depreciation	Total
Instruction	\$ 690	\$ 1,545	\$ 200	\$ -	\$ 2,435
Research	14	19	3	-	36
Public Service	589	650	-	-	1,239
Academic					
Support	-	92	10	-	102
Student Services	91	623	41	-	755
O&M	-	384	2	410	796
Inst. Support	474	4,495	10	-	4,979
Staff Benefits	-	-	-	-	-
Student Aid	78	48	1,606	-	1,732
Total	\$ 1,936	\$ 7,856	\$ 1,872	\$ 410	\$ 12,074

20. Insurance

The University participates in a statutory cooperative known as the Illinois Public Higher Education Cooperative (IPHEC). Through IPHEC the University has contracted with commercial carriers to provide various excess liability insurance coverages, including educators' legal and other general liability insurance. The University's liability coverages have a general \$350,000 deductible per occurrence, which may be partially funded by a self-insurance fund authorized by the NIU Board of Trustees. There is no per occurrence or aggregate limit in the insurance document. Additionally, the University purchases property

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insurance coverage for the replacement value of University real property and contents. Settled claims have not exceeded commercial coverages in any of the three preceding years.

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

21. Commitments and Contingencies

At June 30, 2013, the University had commitments on various grants, construction projects and contracts for repairs and renovations of facilities of approximately \$17.8 million.

Grants and Contracts

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

Legal Action

The University is a defendant in several lawsuits. However, University officials are of the opinion, based on the advice of legal counsel, that any ultimate liability which could result from such litigation would not have a material adverse effect on the University's financial position or its future operations.

On March 6, 2013, the Federal Bureau of Investigation, the Illinois State Police, the Office of the Inspector General for the U.S. Department of Education, and the Office of The Inspector General for Housing and Urban Development served a search warrant on Northern Illinois University for records related to the NIU Department of Police and Public Safety. The University continues to cooperate with requests for information and assistance from these law enforcement agencies. No arrests or charges have been associated with this ongoing investigation.

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22. University Related Organizations

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

	<u>Foundation</u>	<u>Alumni Association</u>	<u>Northern IL Research Foundation</u>
Condensed Statement of Net Position			
ASSETS:			
Current assets	\$ 3,773	\$ 36	\$ 62
Noncurrent assets			
Capital assets, net of accumulated depreciation	23,052	-	651
Investments administered by NIU Foundation	80,496	2,609	-
Other noncurrent assets	3,727	-	-
TOTAL ASSETS	<u>\$ 111,048</u>	<u>\$ 2,645</u>	<u>\$ 713</u>
LIABILITIES:			
Current liabilities	\$ 3,377	\$ 311	\$ 34
Noncurrent liabilities			
Deposits held for NIU Alumni Association	2,609	-	-
Deposits held for NIU	3,351	-	-
Endowments and life income trusts	133	-	-
Bonds and notes payable	1,957	-	-
TOTAL LIABILITIES	<u>11,427</u>	<u>311</u>	<u>34</u>
NET POSITION:			
Invested in capital assets	20,821	-	651
Restricted			
Nonexpendable	54,954	119	-
Expendable	16,207	260	-
Unrestricted	7,639	1,955	28
Total net position	99,621	2,334	679
TOTAL LIABILITIES AND NET POSITION	<u>\$ 111,048</u>	<u>\$ 2,645</u>	<u>\$ 713</u>
Condensed Statement of Revenues, Expenses and Changes in Net Position			
Operating revenues	\$ 15,318	\$ 98	\$ 726
Operating expenses	10,865	385	824
Operating income (loss)	4,453	(287)	(98)
Nonoperating revenue (expenses)	3,373	579	(4,226)
Increase (decrease) in net position	7,826	292	(4,324)
Net position, beginning of year	91,795	2,042	5,003
Net position, end of year	<u>\$ 99,621</u>	<u>\$ 2,334</u>	<u>\$ 679</u>