



**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY**

**FINANCIAL AUDIT
For the Year Ended June 30, 2010**

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



**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
FINANCIAL AUDIT
For the Year Ended June 30, 2010**

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**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
FINANCIAL AUDIT
For the Year Ended June 30, 2010**

Agency Officials

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

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, 2010**

FINANCIAL STATEMENT REPORT

Summary

The audit of the accompanying 2010 basic financial statements of Northeastern Illinois University was performed by Clifton Gunderson 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 them.

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 page 50 of this report, as finding 10-1, *Generally Accepted Accounting Principles (GAAP) Not Properly Applied to Grant Revenue Recognition*.

Exit Conference

The University waived having an exit conference in an email dated December 21, 2010, from the University's Vice President for Finance and Administration, Mark Wilcockson.

The response to the recommendation was provided by Mark Wilcockson in an email dated December 21, 2010.

Independent Auditor's Report

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the business-type activities of Northeastern Illinois University (University) and its aggregate discretely presented component units, collectively a component unit of the State of Illinois, as of and for the year ended June 30, 2010, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative information has been derived from the University's June 30, 2009 financial statements. Those statements were audited by other auditors whose report dated December 15, 2009, expressed an unqualified opinion on those financial statements. We did not audit the financial statements of the aggregate discretely presented component units, as described in Note 1 of the financial statements. Those statements were audited by other auditors whose report thereon has been provided to us, and our opinion on the financial statements, insofar as it relates to the amounts included for the aggregate discretely presented component units, is based 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

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 financial position of the business-type activities and the aggregate discretely presented component unit of the University, as of June 30, 2010, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 11, 2011 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The *Management's Discussion and Analysis* on pages 5 through 16 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion 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. The supplementary information, as listed in the table of contents, has not been subjected to the auditing procedures applied by us in the audit of the basic financial statements, and accordingly, we express no opinion on it.

Clifton Henderson LLP

Oak Brook, Illinois
January 11, 2011

**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2010**

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, 2010 with comparative information for the year ended June 30, 2009. 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 Units 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 Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; 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 Statements No. 37 and No. 38. These statements establish standards for external financial reporting and provide a consolidated perspective of the University's assets, liabilities, net assets, revenues, expenses, and cash flows.

The **Statement of Net Assets** presents the assets, liabilities, and net assets 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 assets, the difference between total assets and total liabilities, is one indicator of the overall strength of the institution. 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 Assets** presents the University's results of operations, as well as the nonoperating revenues and expenses for the fiscal year. Operating revenues are generated by providing goods and services to various customers and constituencies of the University. Operating expenses are incurred when goods and services are provided by vendors and employees for the overall operations of the University. Nonoperating revenues and expenses include resources provided by the State of Illinois and other nonoperating transactions. For comparison purposes, comparative data is provided for the prior year.

**STATE OF ILLINOIS
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MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2010**

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 on the face of the 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, 2010 are presented below:

- The University has total assets of \$162.0 million, including current assets of \$50.0 million and noncurrent assets of \$112.0 million.
- The University has total liabilities of \$50.2 million, including current liabilities of \$12.0 million and noncurrent liabilities of \$38.2 million.
- The University's total net assets increased over the prior year by \$14.6 million to \$111.8 million, including an increase of \$15.5 million in unrestricted net assets, offset by a decrease in restricted net assets of \$1.2 million.
- The total operating revenues of the University were \$75.1 million, including \$50.7 million in student tuition and fees, net of scholarship allowances, and \$16.7 million in grants and contracts.
- The total operating expenses of the University were \$148.8 million, including \$65.5 million in instruction.
- The operating loss of \$73.7 million was completely funded by nonoperating revenues, including State appropriations, gifts and donations, investment income, payments on behalf of the University, Pell Grant revenue, and other nonoperating revenues. As a result, net income before other revenues, expenses, gains and losses totaled \$14.7 million. This amount includes \$5.0 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, 2010**

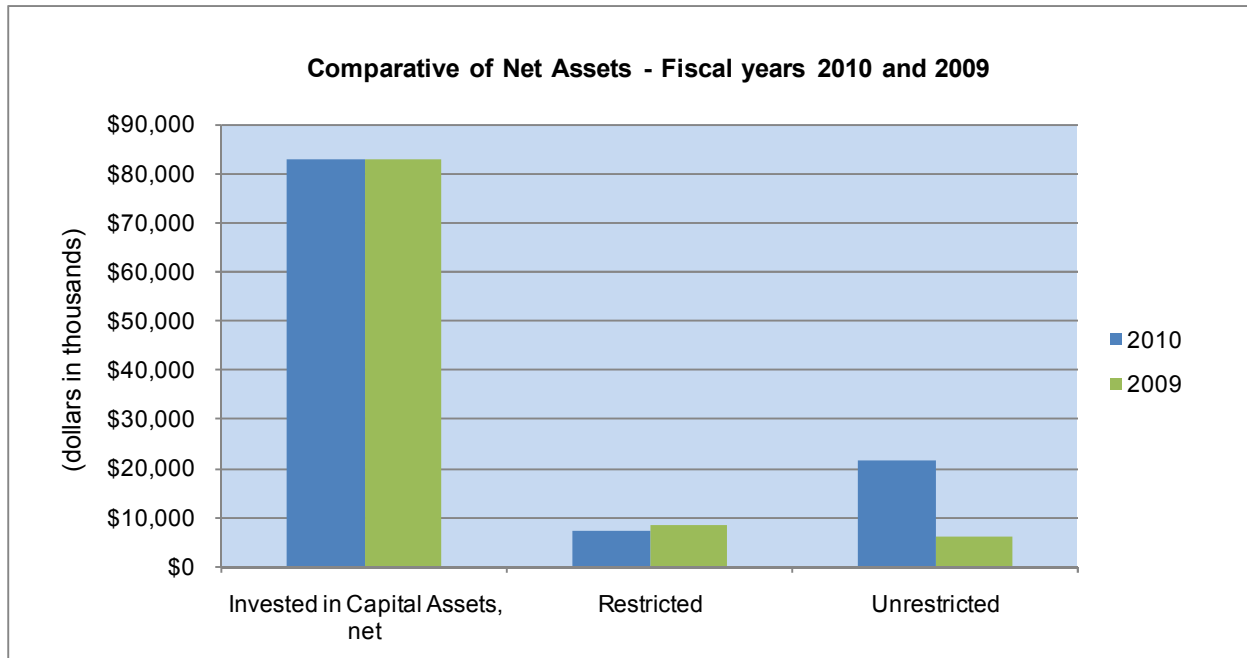
Statement of Net Assets

**Condensed Statement of Net Assets
as of June 30, 2010 and 2009
(dollars in thousands)**

	<u>2010</u>	<u>2009</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
ASSETS				
Current assets	\$ 50,054	\$ 32,671	\$ 17,383	53.2%
Non-current assets:				
Restricted cash and cash equivalent	4,304	7,321	(3,017)	-41.2%
Restricted investment	994	2,269	(1,275)	-56.2%
Receivables, net	2,567	2,455	112	4.6%
Unamortized bond issue costs	657	690	(33)	-4.8%
Capital assets, net	<u>103,454</u>	<u>105,930</u>	<u>(2,476)</u>	<u>-2.3%</u>
Total assets	<u>162,030</u>	<u>151,336</u>	<u>10,694</u>	<u>7.1%</u>
LIABILITIES				
Current liabilities	12,027	12,394	(367)	-3.0%
Non-current liabilities:				
Liability for compensated absences	7,798	8,211	(413)	-5.0%
Revenue bonds payable	17,520	20,010	(2,490)	-12.4%
Certificates of participation	<u>12,856</u>	<u>13,461</u>	<u>(605)</u>	<u>-4.5%</u>
Total liabilities	<u>50,201</u>	<u>54,076</u>	<u>(3,875)</u>	<u>-7.2%</u>
NET ASSETS				
Invested in capital assets, net	83,044	82,812	232	0.3%
Restricted	7,320	8,493	(1,173)	-13.8%
Unrestricted	<u>21,465</u>	<u>5,955</u>	<u>15,510</u>	<u>260.5%</u>
TOTAL NET ASSETS	<u>\$ 111,829</u>	<u>\$ 97,260</u>	<u>\$ 14,569</u>	<u>15.0%</u>

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MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2010**

The following chart shows net assets by classification and restriction:



Current Assets - The majority of the current assets of the University consist of cash and cash equivalents of \$30.3 million, and net receivables of \$18.9 million, including \$5.5 million in grants receivables, \$3.3 million in tuition and fees receivables, and \$10.1 million in other receivables. Total current assets increased by \$17.4 million from the prior year. This is primarily the result of the \$9.1 million increase in cash and cash equivalents and the \$8.0 million increase in receivables. The increase in cash and cash equivalents was mainly due to the \$8.1 million increase in tuition and fees which is a result of average enrollment growth of 4% and an 11% increase in tuition. The increase in receivables was due to the \$1.7 million increase in tuition and fees receivables and the \$6.3 million increase in other receivables. The increase in other receivables was due to the delay in reimbursement payments owed to the University at June 30, 2010, by the State Comptroller for payroll expenses.

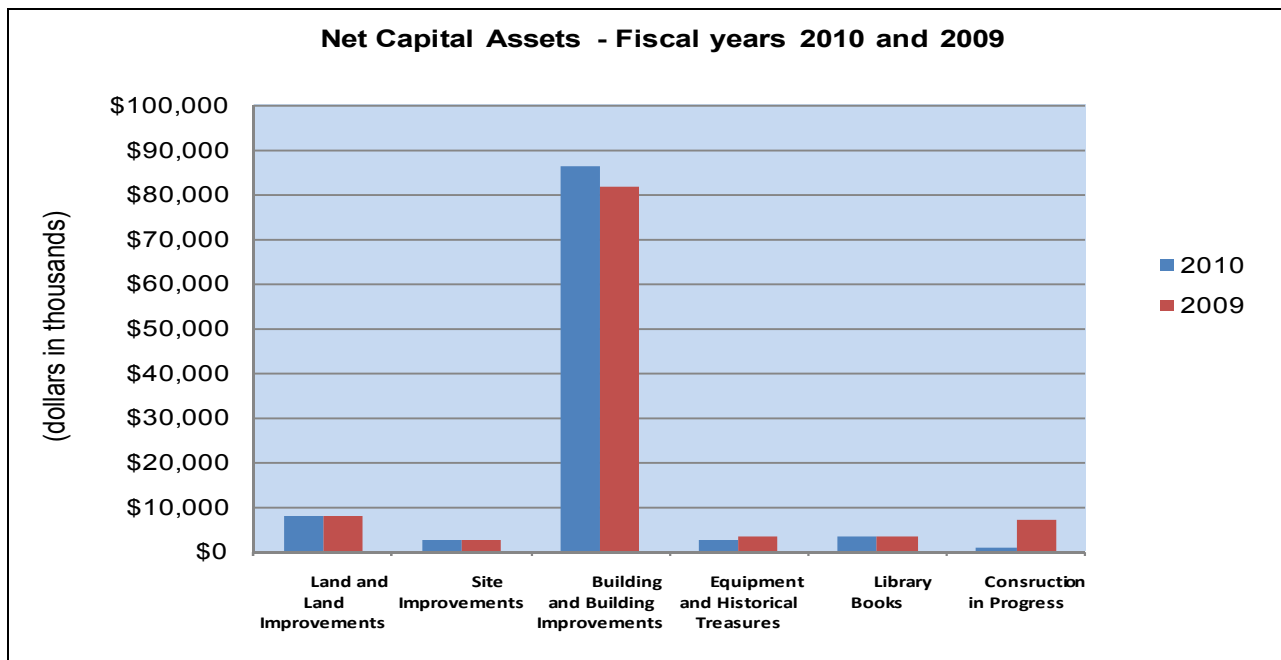
Noncurrent Assets - As of June 30, 2010, the University had total noncurrent assets of \$112.0 million compared with \$118.7 million at June 30, 2009. This net decrease of \$6.7 million was primarily due to the \$3.0 million decrease in restricted cash and cash equivalents, \$1.3 million decrease in restricted investment, and \$2.5 million decrease in capital assets. The decrease in restricted cash and cash equivalents reflects spending from the proceeds of the 2006 Certificate of Participation. The decrease in restricted investment was due to the redemption of the Series 1997 Revenue Bonds. The decrease in capital assets was primarily due to net addition to capital assets of \$2.5 million offset by current year depreciation expense of \$5.0 million. The University's net investment in capital assets is as follows:

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MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2010**

**Capital Assets, Net
As of June 30, 2010 and 2009
(dollars in thousands)**

	<u>2010</u>	<u>2009</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Capital Assets				
Land and land improvements	\$ 8,008	\$ 8,008	\$ -	0.0%
Site improvements	6,408	6,148	260	4.2%
Building	130,931	123,624	7,307	5.9%
Equipment and historical treasures	14,047	14,312	(265)	-1.9%
Library books	21,899	21,242	657	3.1%
Construction in progress	1,056	7,156	(6,100)	-85.2%
Total	182,349	180,490	1,859	1.0%
Less accumulated depreciation	78,895	74,560	4,335	5.8%
NET CAPITAL ASSETS	<u>\$ 103,454</u>	<u>\$ 105,930</u>	<u>\$ (2,476)</u>	<u>-2.3%</u>

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



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For the Year Ended June 30, 2010**

Current Liabilities - Current liabilities consist primarily of accounts payable and accrued liabilities of \$6.4 million, deferred revenues for summer tuition and grants of \$3.7 million, and the current portion of the liability for compensated absences of \$1.0 million. Total current liabilities as of June 30, 2010 were \$12.0 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 assets date. Long-term debt and obligations totaled \$38.2 million at June 30, 2010 as compared to \$41.7 million at June 30, 2009. The decrease of \$3.5 million was mainly due to the full redemption of the Series 1997 Bonds of \$2.5 million. The University's current revenue bonds payable, after the redemption of the Series 1997 Bonds, consists of University Facilities Revenue Bonds Series 1973, and University Facilities System Revenue Bonds Series 2004.

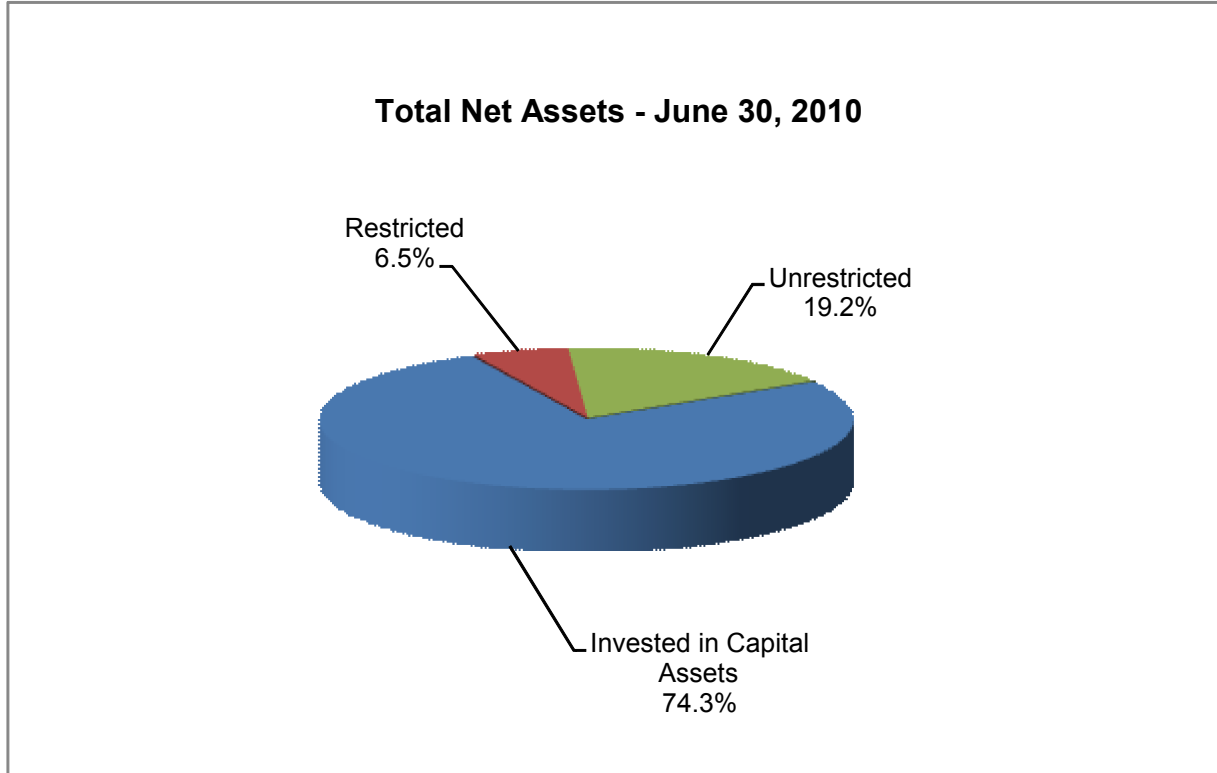
Fiscal year 2010 principal repayments for the three revenue bonds and the Certificates of Participation are as follows:

<u>Debt Type</u>	<u>Principal Paid in Fiscal Year 2010</u>
Revenue Bonds Series 1973	\$ 155,000
Revenue Bonds Series 1997	2,555,000
Revenue Bonds Series 2004*	-
Certificates of Participation 2006	<u>590,000</u>
Total Principal Paid	<u><u>\$ 3,300,000</u></u>

* No principal repayment until year 2014

Total Net Assets - Net assets are divided into three major categories. The first category, invested in capital assets, net of related debts, reports the University's net equity in property and equipment. The second category, restricted net assets, reports net assets 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 assets, which are available to be used for any lawful purpose of the University. The total net assets increased by \$14.6 million over the prior year. This is a result of a \$15.5 million increase in unrestricted net assets, and a \$1.2 million decrease in restricted net assets. The increase in unrestricted net assets was due to the increase in tuition revenues, and the prudent fiscal management at all levels within the University, which has allowed the University to control operating expenses.

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For the Year Ended June 30, 2010**



The following is a breakdown of the \$7.3 million restricted net assets:

**Restricted Net Assets
As of June 30, 2010 and 2009
(dollars in thousands)**

	<u>2010</u>	<u>2009</u>
Grants and contracts	\$ 494	\$ 784
Student loans	2,562	2,611
Debt service	3,452	3,063
Other	812	2,035
TOTAL RESTRICTED NET ASSETS	<u>\$ 7,320</u>	<u>\$ 8,493</u>

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MANAGEMENT'S DISCUSSION AND ANALYSIS
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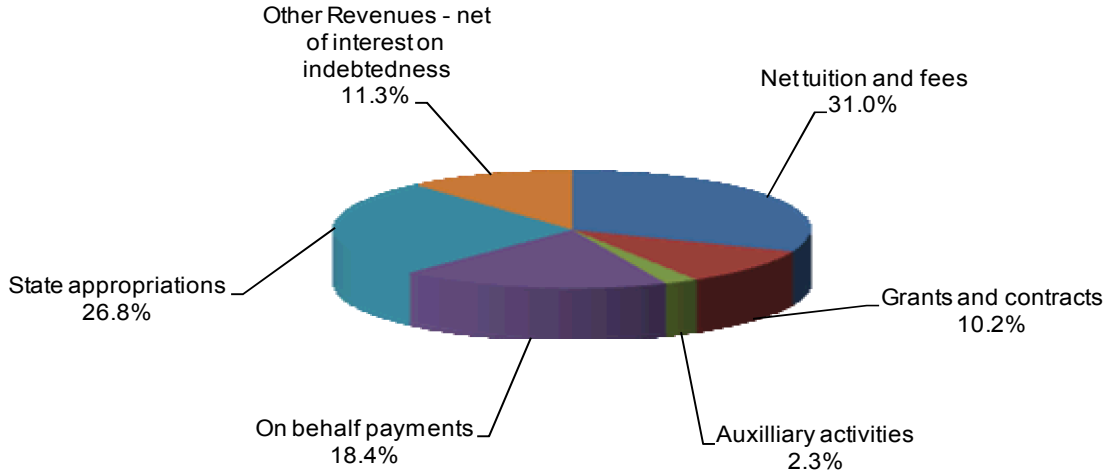
Statement of Revenues, Expenses, and Changes in Net Assets

**Condensed Statement of Revenues, Expenses, and Changes in Net Assets
For the Years Ended June 30, 2010 and 2009
(dollars in thousands)**

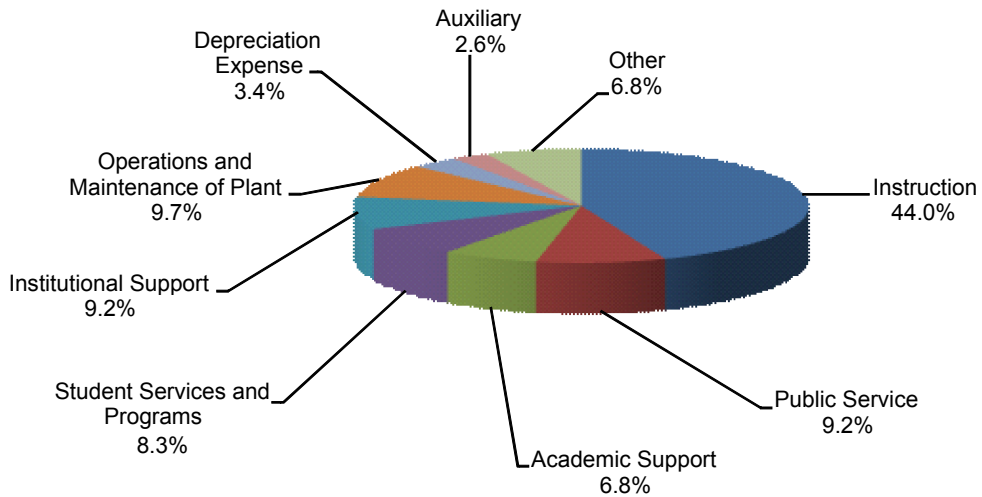
	<u>2010</u>	<u>2009</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
OPERATING REVENUES				
Net tuition and fees	\$ 50,742	\$ 42,672	\$ 8,070	18.9%
Grants and contracts	16,694	17,158	(464)	-2.7%
Auxiliary enterprises	3,734	3,434	300	8.7%
Other	3,893	3,291	602	18.3%
Total operating revenues	<u>75,063</u>	<u>66,555</u>	<u>8,508</u>	<u>12.8%</u>
OPERATING EXPENSES				
Instruction	65,484	61,354	4,130	6.7%
Public service	13,634	14,502	(868)	-6.0%
Academic support	10,111	9,015	1,096	12.2%
Student services and programs	12,319	11,022	1,297	11.8%
Institutional support	13,651	10,723	2,928	27.3%
Operations and maintenance of plant	14,366	12,552	1,814	14.5%
Depreciation expense	5,029	5,337	(308)	-5.8%
Auxiliary	3,943	3,753	190	5.1%
Other	10,227	8,270	1,957	23.7%
Total operating expenses	<u>148,764</u>	<u>136,528</u>	<u>12,236</u>	<u>9.0%</u>
Operating loss	<u>(73,701)</u>	<u>(69,973)</u>	<u>(3,728)</u>	<u>5.3%</u>
NON-OPERATING REVENUES (EXPENSES)				
State appropriations/ARRA funds	43,732	44,043	(311)	-0.7%
Payments on behalf of the University	30,096	22,910	7,186	31.4%
Pell Grant	15,744	10,300	5,444	52.9%
Other non-operating revenues	184	474	(290)	-61.2%
Other non-operating expenses	(1,379)	(1,533)	154	-10.0%
Total non-operating revenues	<u>88,377</u>	<u>76,194</u>	<u>12,183</u>	<u>16.0%</u>
NET INCOME	14,676	6,221	8,455	135.9%
Gain/(loss) on disposal of capital assets	(22)	9	(31)	-344.4%
Capital additions provided by State of Illinois	(85)	1,617	(1,702)	-105.3%
CHANGES IN NET ASSETS	14,569	7,847	6,722	85.7%
NET ASSETS, BEGINNING OF YEAR	<u>97,260</u>	<u>89,413</u>	<u>7,847</u>	<u>8.8%</u>
NET ASSETS, END OF YEAR	<u>\$ 111,829</u>	<u>\$ 97,260</u>	<u>\$ 14,569</u>	<u>15.0%</u>

**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
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Total Revenue by Source - June 30, 2010



Operating Expenses - June 30, 2010



**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
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For the Year Ended June 30, 2010**

Operating Revenues - Total operating revenues increased by \$8.5 million. The increase is due mainly to the increase in tuition and fees of \$8.1 million.

Operating Expenses - Instruction accounted for the largest portion of operating expenses at \$65.5 million. Operations and maintenance is the next largest at \$14.4 million. These two sources, plus institutional support at \$13.7 million, public service at \$13.6 million, student services and programs at \$12.3 million, and academic support at \$10.1 million, account for approximately 87% of the operating expenses of the University. Operating expenses increased by \$12.2 million. This increase is a result of three items: payments on behalf of the University for health insurance and retirement benefits increased by \$7.2 million, which reflects the rise in employee health insurance and retirement benefits costs financed by the State; supplies and services costs increased by \$3.2 million; scholarships and fellowships increased by \$2.5 million.

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 \$12.2 million. This is due primarily to the increase of \$7.2 million in payments on behalf of the University, and the increase of \$5.4 million in Pell Grant. The increase in Pell Grant was due to the increase in the number of Pell eligible students.

Statement of Cash Flows

**Condensed Statement of Cash Flows
For the Years Ended June 30, 2010 and 2009
(dollars in thousands)**

	<u>2010</u>	<u>2009</u>
Cash received from operations	\$ 73,920	\$ 68,250
Cash expended for operations	<u>(114,726)</u>	<u>(110,285)</u>
Net cash used in operating activities	(40,806)	(42,035)
Net cash provided by noncapital financing activities	53,012	51,220
Net cash used in capital financing activities	(7,477)	(7,047)
Net cash provided by investing activities	<u>1,390</u>	<u>1,885</u>
Net increase in cash	6,119	4,023
Cash, beginning of year	<u>28,529</u>	<u>24,506</u>
CASH, END OF YEAR	<u><u>\$ 34,648</u></u>	<u><u>\$ 28,529</u></u>

**STATE OF ILLINOIS
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The primary cash receipts from operating activities consist of tuition and fees of \$49.3 million, and grants and contracts of \$16.8 million. Cash outlays included payments to employees of \$76.7 million, payments for fringe benefits of \$4.1 million, and payments to suppliers of \$25.6 million.

The State appropriation of \$37.6 million is the primary source of noncapital financing activities. Accounting standards require the University to reflect this source of revenue as nonoperating even though the University's budget depends on this to support operations.

The main capital financing activities included purchases of capital assets and construction costs of \$2.7 million, and debt service payment of \$4.8 million.

Investing activities reflect purchases, sales, and interest income earned on investments. The continued downward trend of the investment market and the unrealized market fluctuation resulted in a decrease of \$.2 million in investment income.

SIGNIFICANT FINANCIAL EVENTS IMPACTING FUTURE PERIODS

The fiscal climate in the State of Illinois has had a direct impact on Northeastern and all other Illinois public universities and likely will significantly impact future periods. In fiscal year 2002, State appropriations to the University totaled \$45.4 million and accounted for 69% of the University's operating budget. The same year, student tuition totaled \$20.6 million and accounted for 31% of the operating budget. In the fiscal year 2011 University operating budget, for the first time, student tuition (52%) will exceed the State of Illinois' contribution (48%) to University operations. During this period, fiscal year 2002 to fiscal year 2011, State funding decreased \$4.7 million, or 10.4%, while student tuition, through a combination of enrollment growth and tuition increases, increased \$24.3 million, or 117.8%.

From fiscal year 2002 to fiscal year 2011, the total University operating budget increased 29.7% or, on average, 2.9% per year. This exceeded the Consumer Price Index by one-half of 1% per year. When compared to the Higher Education Price Index, the index which measures the increase in higher education goods and services, the University's operating budget increased at a lower annual rate (2.9%) than the more relevant higher education inflationary index during that same period (3.3% annually).

This trend, decreasing State support and increasing tuition costs, is significant and is expected to continue into and impact future periods. It is widely reported that the Illinois fiscal condition is not sound and the likelihood of a quick turnaround is not probable. With this environment, the University will continue focusing on its core mission of student success and graduation and will be increasingly vigilant in how resources are spent.

**STATE OF ILLINOIS
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MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2010**

The University's strategic planning priorities 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. These are the strategic goals endorsed by the Board in September 2008.

Strategic efforts over the past several years are beginning to show results. Student enrollments continue to increase and retention and graduation rates are improving. The University is exploring options to revitalize its degree offerings to increase student interest and improve employment opportunities. In response to increasing student costs and decreasing State financial aid, the University implemented a modest university based financial aid program for high achieving students with financial need. This program should impact retention and graduation rates. The University continues to be a good steward of its financial resources. The University is implementing energy conservation measures to not only reduce costs but to be more environmental friendly. Further, the University has limited expenditures to better prepare for cash flow challenges related to late payments from the State of Illinois.

In summary, the impact of State funding shortfalls, while significant, is the environment in which publicly supported entities must operate. In future periods, the University will continue to focus on its strategic goals, particularly student retention and graduation, and financial stewardship, and will partner with students, supporters, and the State of Illinois to assure the success of our students.

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 ASSETS**

	June 30,			
	2010		(Comparative Totals Only) 2009	
	University	Component Units	University	Component Units
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 30,343,413	\$ 466,698	\$ 21,208,527	\$ 904,711
Short-term investments	-	982,870	-	513,795
Receivables:				
Grants	5,504,301	-	5,560,856	-
Student loans (net of allowance for doubtful accounts of \$354,595 in 2010 and \$354,214 in 2009)	92,932	-	91,042	-
Tuition and fees (net of allowance for doubtful accounts of \$449,063 in 2010 and \$1,631,831 in 2009)	3,310,539	-	1,588,412	-
Other receivables (net of allowance for doubtful accounts of \$691,757 in 2010 and \$660,365 in 2009)	9,963,069	-	3,609,829	-
Inventories	11,959	-	12,708	-
Deferred charges	794,883	-	566,436	-
Other assets	32,827	296	32,827	5,464
Total current assets	<u>50,053,923</u>	<u>1,449,864</u>	<u>32,670,637</u>	<u>1,430,852</u>
Noncurrent assets:				
Restricted cash and cash equivalents	4,304,270	-	7,320,742	-
Restricted investments	993,705	3,526,934	2,269,474	2,655,764
Receivables:				
Student loans (net of allowance for doubtful accounts of \$464,856 in 2010 and \$494,657 in 2009)	2,118,491	-	2,236,646	-
Tuition and fees (net of allowance for doubtful accounts of \$1,374,456 in 2010 and \$1,224,387 in 2009)	448,283	-	218,365	-
Unamortized bond issue costs	657,184	-	690,011	-
Capital assets:				
Land and land improvements	8,007,817	-	8,007,817	-
Site improvements (net of accumulated depreciation of \$3,959,322 in 2010 and \$3,699,284 in 2009)	2,448,613	-	2,448,878	-
Buildings and building improvements (net of accumulated depreciation of \$44,727,711 in 2010 and \$41,944,569 in 2009)	86,203,094	-	81,679,278	-
Equipment (net of accumulated depreciation of \$11,487,519 in 2010 and \$ 11,071,320 in 2009)	2,476,449	-	3,157,493	-
Historical treasures and works of art	83,330	-	83,330	-
Library books (net of accumulated depreciation of \$18,720,244 in 2010 and \$17,844,992 in 2009)	3,178,920	-	3,397,371	-
Construction in progress	1,056,000	-	7,155,489	-
Other assets	-	18,286	-	18,286
Total noncurrent assets	<u>111,976,156</u>	<u>3,545,220</u>	<u>118,664,894</u>	<u>2,674,050</u>
TOTAL ASSETS	<u>162,030,079</u>	<u>4,995,084</u>	<u>151,335,531</u>	<u>4,104,902</u>

See accompanying notes to basic financial statements.

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

	June 30,			
	2010		(Comparative Totals Only) 2009	
	University	Component Units	University	Component Units
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 6,373,838	\$ 5,025	\$ 6,327,449	\$ 8,344
Deferred revenues	3,713,627	377,595	3,856,323	465,367
Liability for compensated absences	1,043,111	-	1,180,750	-
Revenue bonds payable	165,000	-	385,000	-
Certificates of participation, net	605,284	-	585,284	-
Funds held in custody for others	126,113	-	59,230	-
Total current liabilities	<u>12,026,973</u>	<u>382,620</u>	<u>12,394,036</u>	<u>473,711</u>
Noncurrent liabilities:				
Liability for compensated absences	7,797,780	-	8,210,479	-
Revenue bonds payable	17,520,000	-	20,010,000	-
Certificates of participation, net	12,855,869	-	13,461,153	-
Total noncurrent liabilities	<u>38,173,649</u>	<u>-</u>	<u>41,681,632</u>	<u>-</u>
TOTAL LIABILITIES	<u>50,200,622</u>	<u>382,620</u>	<u>54,075,668</u>	<u>473,711</u>
NET ASSETS				
Invested in capital assets, net of related debts	83,044,097	-	82,811,609	-
Restricted for:				
Nonexpendable:				
Scholarships and charitable trust	-	3,526,934	-	2,655,764
Expendable:				
Grants and contracts	493,986	-	783,851	-
Student loans	2,562,045	-	2,611,264	-
Debt service	3,452,260	-	3,062,854	-
Other	811,878	844,837	2,035,487	696,617
Unrestricted	<u>21,465,191</u>	<u>240,693</u>	<u>5,954,798</u>	<u>278,810</u>
TOTAL NET ASSETS	<u>\$ 111,829,457</u>	<u>\$ 4,612,464</u>	<u>\$ 97,259,863</u>	<u>\$ 3,631,191</u>

See accompanying notes to basic financial statements.

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

	For the Year Ended June 30,			
	(Comparative Totals Only)			
	2010		2009	
University	Component Units	University	Component Units	
OPERATING REVENUES				
Student tuition and fees (net of scholarship allowances of \$12,371,206 in 2010 and \$8,766,737 in 2009)	\$ 50,741,927	\$ -	\$ 42,672,062	\$ -
Federal grants and contracts	12,002,930	-	12,607,691	-
State and local grants	3,124,281	-	3,061,082	-
Nongovernmental grants and contracts	1,566,650	-	1,489,238	-
Auxiliary enterprises	3,734,399	-	3,434,342	-
Other operating revenues	3,893,200	1,213,795	3,290,560	(23,599)
Total operating revenues	<u>75,063,387</u>	<u>1,213,795</u>	<u>66,554,975</u>	<u>(23,599)</u>
OPERATING EXPENSES				
Instruction	65,483,818	-	61,354,540	-
Research	894,756	-	1,005,011	-
Public service	13,634,224	-	14,502,091	-
Academic support	10,111,431	-	9,015,138	-
Student services and programs	12,318,597	-	11,022,575	-
Institutional support	13,651,118	-	10,723,035	-
Operation and maintenance of plant	14,366,452	-	12,552,318	-
Scholarships and fellowships	7,845,618	-	5,348,939	-
Auxiliary enterprises	3,943,137	-	3,752,658	-
Depreciation expense	5,029,378	-	5,336,575	-
Other operating expenses	1,485,620	693,487	1,915,830	789,376
Total operating expenses	<u>148,764,149</u>	<u>693,487</u>	<u>136,528,710</u>	<u>789,376</u>
Operating income (loss)	<u>(73,700,762)</u>	<u>520,308</u>	<u>(69,973,735)</u>	<u>(812,975)</u>
NONOPERATING REVENUES (EXPENSES)				
State appropriations - general revenue fund	39,578,482	-	44,043,061	-
ARRA Fund	4,154,162	-	-	-
Payments on behalf of the University	30,095,726	-	22,909,660	-
Pell Grant	15,743,639	-	10,300,329	-
Gifts and donations	-	-	71,745	-
Investment income	113,838	-	321,999	-
Interest on indebtedness	(1,378,661)	-	(1,533,100)	-
Other nonoperating revenues	70,000	-	80,234	-
Net nonoperating revenues	<u>88,377,186</u>	<u>-</u>	<u>76,193,928</u>	<u>-</u>
Income (loss) before other revenues, expenses, gains and losses	14,676,424	520,308	6,220,193	(812,975)
Additions to permanent endowments	-	460,965	-	626,184
Gain (loss) on disposal of capital assets	(21,529)	-	8,938	-
Capital additions provided by State of Illinois	(85,301)	-	1,617,304	-
INCREASE (DECREASE) IN NET ASSETS	14,569,594	981,273	7,846,435	(186,791)
NET ASSETS, BEGINNING OF YEAR	<u>97,259,863</u>	<u>3,631,191</u>	<u>89,413,428</u>	<u>3,817,982</u>
NET ASSETS, END OF YEAR	<u>\$ 111,829,457</u>	<u>\$ 4,612,464</u>	<u>\$ 97,259,863</u>	<u>\$ 3,631,191</u>

See accompanying notes to basic financial statements.

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

	For the Year Ended June 30,			
	2010		(Comparative Totals Only) 2009	
	University	Component Units	University	Component Units
CASH FLOWS FROM OPERATING ACTIVITIES				
Tuition and fees	\$ 49,268,829	\$ -	\$ 42,469,012	\$ -
Grants and contracts	16,756,189	-	18,546,741	-
Payments to employees	(76,705,983)	-	(75,252,258)	-
Payments for fringe benefits	(4,099,422)	-	(5,521,401)	-
Payments to suppliers	(25,593,693)	(562,132)	(23,690,589)	(683,702)
Payments for scholarships and fellowships	(8,103,504)	-	(5,517,111)	-
Loans issued to students	(224,130)	-	(303,403)	-
Collections of loans from students	309,369	-	283,938	-
Auxiliary enterprises	3,643,398	-	3,445,564	-
Other receipts	3,942,711	721,133	3,504,799	691,316
Net cash provided by (used in) operating activities	<u>(40,806,236)</u>	<u>159,001</u>	<u>(42,034,708)</u>	<u>7,614</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State appropriations	37,575,455	-	40,744,117	-
Pell Grant	15,299,474	-	10,478,731	-
Gifts	-	-	45	-
Agency transactions	66,883	-	(48,242)	-
Other noncapital financing activities	70,000	460,965	45,234	626,184
Net cash provided by noncapital financing activities	<u>53,011,812</u>	<u>460,965</u>	<u>51,219,885</u>	<u>626,184</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES				
Purchases of capital assets and construction	(2,716,928)	-	(4,568,337)	-
Principal paid on capital debt and leases	(3,300,000)	-	(930,000)	-
Interest paid on capital debt and leases	(1,459,842)	-	(1,548,334)	-
Net cash used in capital financing activities	<u>(7,476,770)</u>	<u>-</u>	<u>(7,046,671)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sales and maturities of investments	1,275,770	40,500	1,563,190	241,689
Interest on investments	113,838	-	321,999	-
Purchases of investments	-	(1,098,479)	-	(117,700)
Net cash provided by (used in) investing activities	<u>1,389,608</u>	<u>(1,057,979)</u>	<u>1,885,189</u>	<u>123,989</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	6,118,414	(438,013)	4,023,695	757,787
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	28,529,269	904,711	24,505,574	146,924
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 34,647,683</u>	<u>\$ 466,698</u>	<u>\$ 28,529,269</u>	<u>\$ 904,711</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ (73,700,762)	\$ 520,308	\$ (69,973,735)	\$ (812,975)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Payment on-behalf of the University	30,095,726	-	22,909,660	-
Unrealized loss (gain) on changes in market value of investments	-	(385,763)	-	838,128
Realized loss on sale of investments	-	15,725	-	1,125
Depreciation expense	5,029,378	-	5,336,575	-
Changes in assets and liabilities:				
Receivables, net	(681,566)	6,882	2,257,524	(4,222)
Deferred charges and other assets	(190,904)	5,168	(54,570)	(2,379)
Inventories	749	-	44,688	-
Accounts payable and accrued liabilities	(718,647)	(3,319)	(783,656)	(12,063)
Accrued salaries and wages	52,824	-	55,666	-
Liability for compensated absences	(550,338)	-	(1,183,000)	-
Deferred revenues	(142,696)	-	(643,860)	-
Net cash provided by (used in) operating activities	<u>\$ (40,806,236)</u>	<u>\$ 159,001</u>	<u>\$ (42,034,708)</u>	<u>\$ 7,614</u>
Noncash operating and capital financing activities:				
On-behalf payments for fringe benefits	\$ 30,095,726	\$ -	\$ 22,909,660	\$ -
Capital asset acquisition via capital appropriations	(85,301)	-	1,617,304	-
Net noncash activities	<u>\$ 30,010,425</u>	<u>\$ -</u>	<u>\$ 24,526,964</u>	<u>\$ -</u>

See accompanying notes to basic financial statements.

**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2010**

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 units; Northeastern Illinois University Foundation (the Foundation) and The Northeastern Illinois Alumni Association (the Association). However, there were no separately reported fiscal activities under The Northeastern Illinois Alumni Association in the fiscal year of 2010.

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 fund raising and other assistance to the University in order to attract private gifts to support the University's instructional, research, and public service activities. In this capacity, the Foundation solicits, receives, holds, and administers gifts for the benefit of the University. An audit of the Foundation's financial statements, for the fiscal year ended June 30, 2010, 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 Northeastern Illinois Alumni Association also 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 Alumni Association was formed for the purpose of reconnecting with and engaging Northeastern Illinois University alumni with the University to engender more volunteerism, advocacy and support. Specifically it was founded "to aid in the development of Northeastern Illinois University as an institution of higher education, making a maximum contribution to excellence in higher education by

**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
NOTES TO BASIC FINANCIAL STATEMENTS (continued)
June 30, 2010**

securing for said University the contribution of knowledge, skill, support and loyalty of the thousands of her former students who call her Alma Mater.” In this capacity, the Association hosts social and advocacy events, solicits memberships in the association to further alumni activities, and offers opportunities for volunteerism on projects all of which benefit Northeastern Illinois University. The Association was reestablished on October 15, 2008 through the Illinois Office of the Secretary of State. Information on the Association may be obtained by writing to the Northeastern Illinois Alumni Association, Vice President for Institutional Advancement, Northeastern Illinois University, 5500 North St. Louis Ave., Chicago, Illinois.

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

Basis of Accounting

The financial statements of the University are prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when incurred. All significant intra-agency transactions have been eliminated.

The University follows all applicable Financial Accounting Standards Board (FASB) statements issued prior to December 1, 1989, to the extent that those standards do not conflict with or contradict guidance of the GASB. The University has elected not to apply FASB pronouncements issued after November 30, 1989.

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 Assets, Statement of Revenues, Expenses, and Changes in Net Assets; and Statement of Cash Flows

- The Statement of Net Assets details current assets/liabilities and noncurrent assets/liabilities. In general, current assets are those that are available to satisfy current

**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
NOTES TO BASIC FINANCIAL STATEMENTS (continued)
June 30, 2010**

liabilities. Current liabilities are those that will be paid within one year of the date of the Statement of Net Assets. Other assets and liabilities due beyond one year are noncurrent. Net Assets are divided into three major categories: 1) invested in capital assets, net of related debt, 2) restricted net assets, and 3) unrestricted net assets.

- * The Statement of Revenues, Expenses, and Changes in Net Assets provides operating and nonoperating revenues and expenses, and displays the net income or loss from operations and total changes in net assets.
- * 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.

Operating and Nonoperating Revenues

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

**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
NOTES TO BASIC FINANCIAL STATEMENTS (continued)
June 30, 2010**

Reclassifications

Bank service charges, which were originally included in the investment income under Non-operating Revenues in the prior year's financial statements have been reclassified to Institutional Support under the Operating Expenses to conform to the current year's presentation.

Cash and Cash Equivalents

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

Investments and Marketable Securities

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

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

Restricted Assets

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

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.

**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
NOTES TO BASIC FINANCIAL STATEMENTS (continued)
June 30, 2010**

Capital Assets

Capital assets reported in the Statement of Net Assets 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.*

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 nonoperating 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 \$12,371,206 for fiscal year 2010. 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 \$3,459,679 in fiscal year 2010.

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.

STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
NOTES TO BASIC FINANCIAL STATEMENTS (continued)
June 30, 2010

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 nonoperating. 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 \$30,095,726 representing \$17,869,979 and \$12,225,747, respectively, for health care and retirement costs. These on-behalf payments are reflected in Payments Made on Behalf of the University as nonoperating revenues and offsetting amount allocated to each functional category under the Operating Expenses.

New Accounting Standards

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. GASB Statement No. 51 requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This Statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009. The provisions of this Statement generally are required to be applied retroactively. However, provisions related to intangible assets that have indefinite useful lives and to internally generated intangible assets, such as computer software, may be applied prospectively. The University has implemented the Statement with this report and has elected to apply the provisions related to internally generated intangible assets on a prospective basis as of July 1, 2009. The University has determined that this Statement has no effect on its financial statements.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. GASB Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by State and local governments. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009. The University has determined that this Statement has no effect on its financial statements.

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 Assets as of June 30, 2010:

**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
NOTES TO BASIC FINANCIAL STATEMENTS (continued)
June 30, 2010**

	<u>University</u>	<u>Component Units</u>
Carrying amounts of deposits	\$ 7,946,015	\$ 466,698
Carrying amounts of investments	<u>27,695,373</u>	<u>4,509,804</u>
	<u>\$ 35,641,388</u>	<u>\$ 4,976,502</u>
Cash and cash equivalents	\$ 30,343,413	\$ 466,698
Restricted cash and cash equivalents	4,304,270	-
Short-term investments	-	982,870
Long-term investments	<u>993,705</u>	<u>3,526,934</u>
	<u>\$ 35,641,388</u>	<u>\$ 4,976,502</u>

Deposits

The University utilizes several different bank accounts for the various activities of the University. The book balance of such accounts is \$7,946,015 at June 30, 2010, while the bank balance was \$8,675,252. The difference between the above amounts primarily represents checks that have been issued but have not yet cleared the bank as of June 30, 2010.

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, 2010, 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.

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.

**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
NOTES TO BASIC FINANCIAL STATEMENTS (continued)
June 30, 2010**

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, 2010:

<u>Investment Type</u>	<u>University</u>	<u>Component Units</u>
Illinois funds	\$ 26,701,668	\$ -
U.S. Treasury notes	749,217	-
U.S. Agency obligations	-	-
Certificate of deposit	244,488	-
Mutual funds	<u>-</u>	<u>4,509,804</u>
Total	<u>\$ 27,695,373</u>	<u>\$ 4,509,804</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, 2010, 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	\$26,701,668	\$ 26,701,668	\$ -	0.09
U. S. Treasury notes	749,217	-	749,217	4.58
Certificate of deposit	<u>244,488</u>	<u>-</u>	<u>244,488</u>	3.00
Total	<u>\$27,695,373</u>	<u>\$ 26,701,668</u>	<u>\$ 993,705</u>	

**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
NOTES TO BASIC FINANCIAL STATEMENTS (continued)
June 30, 2010**

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, 2010, the University had quality ratings as shown in the table below:

	Total	Standard & Poor's	Moody's	Fitch
Certificate of deposit	\$ 244,488	AA-	Aa2	AA
Illinois fund	26,701,668	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, 2010, 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, 2010, the University's investment in the U.S. Treasury was registered with securities in the University's name. Investments in external investment pools and in money market mutual funds 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.

**STATE OF ILLINOIS
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NOTES TO BASIC FINANCIAL STATEMENTS (continued)
June 30, 2010**

3. CAPITAL ASSETS

Details of the University's investment in capital assets at June 30, 2010 are as follows:

	<u>July 1, 2009</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>June 30, 2010</u>
Cost:					
Land and land improvements	\$ 8,007,817	\$ -	\$ -	\$ -	\$ 8,007,817
Site improvements	6,148,162	259,773	-	-	6,407,935
Building and building improvements	123,623,846	652,877	6,654,082	-	130,930,805
Equipment	14,228,813	449,863	-	714,708	13,963,968
Non-depreciable historical treasures and works of art	83,330	-	-	-	83,330
Library books	21,242,363	663,179	-	6,378	21,899,164
Construction in progress	7,155,489	554,593	(6,654,082)	-	1,056,000
Total	<u>180,489,820</u>	<u>2,580,285</u>	<u>-</u>	<u>721,086</u>	<u>182,349,019</u>
Less accumulated depreciation:					
Site improvements	3,699,284	260,038	-	-	3,959,322
Building and building improvements	41,944,569	2,783,142	-	-	44,727,711
Equipment	11,071,320	1,104,568	-	688,369	11,487,519
Library books	17,844,992	881,630	-	6,378	18,720,244
Total	<u>74,560,165</u>	<u>5,029,378</u>	<u>-</u>	<u>694,747</u>	<u>78,894,796</u>
Capital assets - net	<u>\$ 105,929,655</u>	<u>\$ (2,449,093)</u>	<u>\$ -</u>	<u>\$ 26,339</u>	<u>\$ 103,454,223</u>

Included in the additions to Site Improvements, Building and Building Improvements, and Construction in Progress at June 30, 2010 are expenditures totaling \$ 52,773 incurred by the Illinois Capital Development Board for construction projects on behalf of the University.

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NORTHEASTERN ILLINOIS UNIVERSITY
NOTES TO BASIC FINANCIAL STATEMENTS (continued)
June 30, 2010**

4. LONG-TERM DEBT AND OTHER LIABILITIES

Long-term debt and other liabilities consist of the following as of June 30, 2010:

<u>Investment Type</u>	<u>July 1, 2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2010</u>
Compensated absences	\$ 9,391,229	\$ 311,346	\$ 861,684	\$ 8,840,891
Revenue Bonds Series 1973	870,000	-	155,000	715,000
Revenue Bonds Series 1997	2,555,000	-	2,555,000	-
Revenue Bonds Series 2004	16,970,000	-	-	16,970,000
Certificates of Participation (COP):				
Series 2006	14,125,000	-	590,000	13,535,000
COP Discount	<u>(78,563)</u>	<u>-</u>	<u>(4,716)</u>	<u>(73,847)</u>
Subtotal	43,832,666	<u>\$ 311,346</u>	<u>\$ 4,156,968</u>	39,987,044
Less current portion	<u>2,151,034</u>			<u>1,813,395</u>
Total noncurrent liabilities	<u>\$41,681,632</u>			<u>\$38,173,649</u>

5. UNIVERSITY FACILITIES SYSTEM REVENUE BONDS

Revenue Bonds Payable and Interest Subsidy

At June 30, 2010, 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, (\$715,000 of which are outstanding at June 30, 2010) 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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NORTHEASTERN ILLINOIS UNIVERSITY
NOTES TO BASIC FINANCIAL STATEMENTS (continued)
June 30, 2010**

The bonds mature in increasing principal amounts ranging from \$165,000 due on July 1, 2010 to \$195,000 due on July 1, 2013. Interest is payable semi-annually, on January 1 and July 1, at rate of 6.2%, with an average effective rate of approximately 6.2%. Future aggregate annual payments applicable to revenue bonds at June 30, 2010 are:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 165,000	\$ 39,215
2012	170,000	28,830
2013	185,000	17,825
2014	<u>195,000</u>	<u>6,045</u>
Total	<u>\$ 715,000</u>	<u>\$ 91,915</u>

The Board of Trustees has the right, after providing proper notice to bondholders, to call the bonds for redemption prior to their maturity, in whole or in part, on July 1, 2010, or on any interest payment date thereafter, at the principal amount redeemed, together with the unpaid interest accrued thereon, plus a premium applied to the principal amounts redeemed at par.

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, 2010, \$70,000 of such subsidy was included in other nonoperating revenues.

Series 1997

The University Facilities System Revenue Bonds Series 1997, dated March 1, were sold in April 1997, in the amount of \$4,505,000 (\$2,555,000 of which were outstanding at June 30, 2009). The proceeds of the bond issue were used to finance the costs of constructing improvements to the University's Student Union, prepay outstanding lease obligations of the Board related to System renovation (parking lots), fund a deposit to the Bond Reserve Account, provide capitalized interest on the bonds through July 1, 1997 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 terms of the indenture and are not obligations of the State of Illinois. The 1997 Bonds are issued as Parity Bonds to the 1973 Bonds, and are secured by a pledge of and lien on the Net Revenues of the System, the pledged fees and tuition, and the funds held in the Bond Reserve Account.

The bonds maturing on or after July 1, 2008 are subject to redemption at the option of the Board on or after July 1, 2008 as a whole or in part at any time and, if in part, in the maturities designated by the Board and within any maturity in integral multiples of \$5,000 at the respective premium redemption prices set forth below, plus accrued interest to the date fixed for redemption:

1% if redeemed July 1, 2008 through June 30, 2009; and at par after June 30, 2009

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NOTES TO BASIC FINANCIAL STATEMENTS (continued)
June 30, 2010**

As of July 1, 2009, the interest rates on the \$2,325,000 (after payment of the principal made on July 1, 2009 in the amount of \$230,000) outstanding bonds ranged from 5.35%, for the July 2010 maturity, to 5.625%, for the July 2011 through July 2017 maturities, the final maturity of the issue. In the market, yields at the time on comparable tax-exempt bonds for the same maturities would sell for yields ranging from 1.5% to 3.25%

On August 21, 2009, the University redeemed the outstanding bonds. Below are the principal amounts together with interest accrued to the redemption date for the full redemption.

2010 5.35% bonds redeemed	\$ 240,000
2017 5.625% bonds redeemed	2,085,000
Accrued interest on 2010 bonds due	1,783
Accrued interest on 2017 bonds due	<u>16,289</u>
Total	<u>\$ 2,343,072</u>

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, 2010. 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 3.45% and 4.50%, with an average effective rate of approximately 4.166%. Future aggregate annual payments applicable to the Series 2004 Bonds at June 30, 2010 are:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ -	\$ 726,790
2012	-	726,790
2013	-	726,790
2014	-	726,790
2015	215,000	723,081
2016-2020	1,940,000	3,460,335
2021-2025	3,605,000	2,863,401
2026-2030	4,440,000	2,008,430
2031-2035	5,515,000	918,713
2036	<u>1,255,000</u>	<u>28,238</u>
Total	<u>\$ 16,970,000</u>	<u>\$ 12,909,358</u>

**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
NOTES TO BASIC FINANCIAL STATEMENTS (continued)
June 30, 2010**

The Series 2004 Bonds are subject to redemption on or after January 1, 2014, at the option of the Board, from moneys 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.

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, 2010, the maximum funding requirements have been met.

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NOTES TO BASIC FINANCIAL STATEMENTS (continued)
June 30, 2010**

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 2010, \$50,000 was credited to the renewal and replacement reserve account. At June 30, 2010, the fund balance in this account was \$509,112.

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, 2010, 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, 2010, the fund balance in this account was \$134,885.

**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
NOTES TO BASIC FINANCIAL STATEMENTS (continued)
June 30, 2010**

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

**University Facilities Revenue Bond Funds
Statement of Net Assets
June 30, 2010**

ASSETS	
Current Assets	
Cash and cash equivalents	\$ 1,494,705
Receivables	
Tuition and fees - net	137,808
Parking fines - net	144,736
Other receivables - net	147,609
Inventories	3,052
Other assets	<u>18,823</u>
Total current assets	<u>1,946,733</u>
Noncurrent assets	
Restricted cash and cash equivalents	1,680,008
Investments	993,705
Receivables	
Tuition and fees - net	18,661
Unamortized bond issue costs	451,760
Capital assets	
Site improvements - net	1,758,629
Buildings - net	16,878,212
Equipment - net	96,391
Construction in progress	<u>8,100</u>
Total noncurrent assets	<u>21,885,466</u>
Total assets	<u>23,832,199</u>
LIABILITIES	
Current Liabilities	
Accounts payable and accrued liabilities	627,712
Deferred revenues	202,791
Liability for compensated absences	103,798
Revenue bonds payable	<u>165,000</u>
Total current liabilities	<u>1,099,301</u>
Noncurrent liabilities	
Liability for compensated absences	6,014
Revenue bonds payable	<u>17,520,000</u>
Total noncurrent liabilities	<u>17,526,014</u>
Total liabilities	<u>18,625,315</u>
NET ASSETS	
Invested in capital assets - net of related debt	1,526,916
Restricted for:	
Expendable	
Capital projects	753,765
Debt service	1,456,532
Unrestricted	<u>1,469,671</u>
TOTAL NET ASSETS	<u>\$ 5,206,884</u>

**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
NOTES TO BASIC FINANCIAL STATEMENTS (continued)
June 30, 2010**

**University Facilities Revenue Bond Funds
Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2010**

OPERATING REVENUES

Student fees	\$ 1,545,844
Vending services	119,877
Rental and use fees	25,351
Bookstore commission	389,215
Parking revenue	2,504,428
Other operating revenues	<u>64,216</u>
Total operating revenues	<u>4,648,931</u>

OPERATING EXPENSES

Personal services	1,400,965
Contractual services	578,657
Commodities and supplies	90,840
Vending cost of sales	11,097
Telecommunications	8,231
Depreciation	732,613
Other operating expenses	<u>861,479</u>
Total operating expenses	<u>3,683,882</u>
Operating income	<u>965,049</u>

NONOPERATING REVENUES (EXPENSES)

Investment income	36,018
Interest on indebtedness	(789,192)
Federal grants - HUD	<u>70,000</u>
Net nonoperating expenses	<u>(683,174)</u>
Total increase in net assets	281,875

NET ASSETS

Net assets - beginning of year	<u>4,925,009</u>
Net assets - end of year	<u>\$ 5,206,884</u>

**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
NOTES TO BASIC FINANCIAL STATEMENTS (continued)
June 30, 2010**

**University Facilities Revenue Bond Funds
Statement of Cash Flows
For the Year Ended June 30, 2010**

CASH FLOWS FROM OPERATING ACTIVITIES	
Student fees	\$ 1,464,665
Payment for salaries and benefits	(1,319,071)
Payment for suppliers	(1,610,541)
Vending services	131,812
Rental and use fees	26,073
Bookstore commission	349,289
Parking revenue	2,259,015
Other revenues	64,216
Other payments	<u>(25,371)</u>
Net cash provided by operating activities	<u>1,340,087</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITY	
Federal grants - HUD	<u>70,000</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Purchases of capital assets and construction	(296,901)
Principal paid on capital debt	(2,710,000)
Interest paid on capital debt	<u>(789,192)</u>
Net cash used in capital financing activities	<u>(3,796,093)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sales and maturities of investments	1,275,769
Interest on investments	<u>36,018</u>
Net cash provided by investing activities	<u>1,311,787</u>
Net decrease in cash and cash equivalents	(1,074,219)
Cash and cash equivalents - beginning of the year	<u>4,248,932</u>
Cash and cash equivalents - end of year	<u>\$ 3,174,713</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 965,049
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	732,613
Changes in assets and liabilities:	
Receivables - net	(112,027)
Inventories	(2,349)
Unamortized bond issue cost	18,824
Accounts payable and accrued liabilities	(92,618)
Accrued liability for compensated absences	82,344
Deferred revenues	<u>(251,749)</u>
Net cash provided by operating activities	<u>\$ 1,340,087</u>

**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
NOTES TO BASIC FINANCIAL STATEMENTS (continued)
June 30, 2010**

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	\$ 806,915	2013	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	29,879,358	2035	100.00%
Total future revenues pledged			\$ 30,686,273		

** 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

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 nonappropriated funds on an annual basis. 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 Board has the option to terminate the Purchase Contract on October 1, 2010, and on any date on or after October 1, 2015, upon written notice to the Trustee at least 60 days prior to the termination date.

The certificates mature in increasing principal amounts ranging from \$610,000 due on October 1, 2010 to \$1,155,000 due on October 1, 2025 at rates between 3.625% and 4.75%.

**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
NOTES TO BASIC FINANCIAL STATEMENTS (continued)
June 30, 2010**

Future aggregate annual payments applicable to the certificates of participation at June 30, 2010 are:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 610,000	\$ 573,250
2012	635,000	550,288
2013	660,000	525,594
2014	685,000	499,106
2015	715,000	471,106
2016-2020	4,040,000	1,880,609
2021-2025	5,035,000	883,519
2026	<u>1,155,000</u>	<u>27,431</u>
Total	<u>\$ 13,535,000</u>	<u>\$ 5,410,903</u>

7. NORTHEASTERN ILLINOIS UNIVERSITY FOUNDATION AGREEMENT

On July 1, 2005, the University entered into an agreement with Northeastern Illinois University Foundation. The Foundation is a separate non-profit organization incorporated in the State of Illinois and a University Related Organization under University Guidelines, 1982 (amended 1997). 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 ninety days written notice by either party.

During fiscal year 2010, certain funds and in-kind services of the University with an estimated value of \$129,507 were provided to the Foundation without charge. In turn, during fiscal year 2010, the Foundation gave the University \$296,398 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 \$267,583 in fiscal year 2010 for scholarships and awards.

8. PENSION, COMPENSATED ABSENCES AND POSTEMPLOYMENT 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

**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
NOTES TO BASIC FINANCIAL STATEMENTS (continued)
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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 21.27% 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, 2010, 2009, and 2008 were \$12,886,424, \$8,331,736 and \$6,671,847 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.

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, 2010 the accrued liability for this benefit was \$4,872,896 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

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NOTES TO BASIC FINANCIAL STATEMENTS (continued)
June 30, 2010

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, 2010, the accrued liability of this benefit was \$3,967,995 and is included in the liability for compensated absences.

Postemployment Benefits

The State provides health, dental, vision, and life insurance benefits for retirees and their dependents in a program administered by the Department of Healthcare and Family Services along with 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 one of the State's sponsored pension systems, 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 twenty or more years of credited service to not have to contribute towards health, dental, and vision benefits. Annuitants also receive life insurance coverage equal to the annual salary of the last day of employment until age 60, at which time the benefit becomes \$5,000.

The State pays the University's portion of employer costs for the benefits provided. The total cost of the State's portion of health, dental, vision, and life insurance benefits of all members, including 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 postemployment 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 Healthcare and Family Services. A copy of the financial statements of the Department of Healthcare and Family Services may be obtained by writing to the Department of Healthcare and Family Services, 201 South Grand Ave., Springfield, Illinois, 62763-3838.

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June 30, 2010**

9. OPERATING LEASES

The University leases various buildings and equipment under operating lease agreements. Total rental expense for the year ended June 30, 2010 under these agreements was \$581,057. Minimum lease payments for the years ending June 30 are:

<u>Fiscal Year</u>	
2011	\$ 566,500
2012	503,691
2013	274,005
2014	<u>22,834</u>
Total	<u>\$ 1,367,030</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 \$350,000 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. Additionally, the University purchases property insurance coverage for the replacement value of the University's property.

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 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 appropriated documentation verifying the receipts and commission amounts. The commission received from the Vendor for fiscal year 2010 was \$70,220. 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 third year of the agreement. The Vendor also agreed to honor the agreement made during negotiations with the Illinois Department of

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June 30, 2010**

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.

12. OPERATING EXPENSES BY NATURAL CLASSIFICATION

Operating expenses by natural classification for the year ended June 30, 2010 are summarized as follows:

	<u>Compensation and Benefits</u>	<u>Supplies and Services</u>	<u>Scholarships</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$ 62,139,661	\$ 3,209,125	\$ 135,032	\$ -	\$ 65,483,818
Research	601,732	293,024	-	-	894,756
Public service	8,148,522	5,439,387	46,315	-	13,634,224
Academic support	8,322,583	1,788,848	-	-	10,111,431
Student services	7,303,710	4,964,395	50,492	-	12,318,597
Institutional support	10,989,798	2,661,320	-	-	13,651,118
Operation and maintenance of plant	9,686,158	4,680,294	-	-	14,366,452
Scholarships and fellowships	-	-	7,845,618	-	7,845,618
Auxiliary	3,249,667	691,370	2,100	-	3,943,137
Depreciation	-	-	-	5,029,378	5,029,378
Other operating expenses	108,182	1,377,438	-	-	1,485,620
Total	<u>\$ 110,550,013</u>	<u>\$ 25,105,201</u>	<u>\$ 8,079,557</u>	<u>\$ 5,029,378</u>	<u>\$ 148,764,149</u>

13. SUBSEQUENT EVENT

In August, 2010, subsequent to the balance sheet date, the University issued \$6.2 million in Certificates of Participation to complete 11 energy conservation measures. The University contracted with NORESKO, an energy services company, to complete the project. Under this performance contract arrangement, NORESKO will manage the implementation of the energy conservation measures and make certain guarantees regarding the energy savings from those projects. Should the University not realize the projected savings from each energy conservation measure, the contract calls for NORESKO to reimburse the University for the unrealized energy savings.

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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	\$4,334,007 ^(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, 2010 over cash and short-term investments in the Bond Account and Bond Reserve at June 30, 2010.
- (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.

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June 30, 2010**

**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 2009, 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.

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June 30, 2010**

**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, 2010 is as follows:

	<u>Balance of Assets Reserved</u>	<u>Deposits Required to Date</u>	<u>Maximum Reserve Requirement</u>
Bond account ^(a)	\$ 628,491	\$ 550,560	\$ 550,560
Bond reserve account	1,382,592	1,312,020	1,312,020
Renewal and replacement reserve account ^(b)	509,112	1,750,000	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, 2010.
- (b) Total expenditures for extraordinary repairs, as defined in the bond indenture, as of June 30, 2010, amounted to \$1,734,006. Amounts used in this manner are to be replaced in the reserve by extending the periodic payments until the maximum is accumulated.

**Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and other Matters Based on an Audit of Financial
Statements Performed in Accordance With *Government Auditing Standards***

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the basic financial statements of the business-type activities of the Northeastern Illinois University (University) and its aggregate discretely presented component unit, collectively a component unit of the State of Illinois, as of and for the year ended June 30, 2010, and have issued our report thereon dated January 11, 2011. Our report was modified to include a reference to 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. Other auditors audited the financial statements of the University's discretely presented component unit, as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements and not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting, described in finding 10-1, in the accompanying schedule of findings that we consider to be a significant deficiency in internal control over financial reporting. *A significant deficiency* is a deficiency or 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.

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*.

The University's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the University's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, Board of Trustees, University management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Clifton Anderson LLP

Oak Brook, Illinois
January 11, 2011

**STATE OF ILLINOIS
NORTHEASTERN ILLINOIS UNIVERSITY
For the Year Ended June 30, 2010**

SCHEDULE OF FINDINGS

CURRENT FINDINGS - GOVERNMENT AUDITING STANDARDS

10-1 *Generally Accepted Accounting Principles (GAAP) Not Properly Applied to Grant Revenue Recognition*

Northeastern Illinois University (University) did not properly interpret and apply GAAP in recognizing grant revenue.

During our audit, we requested documentation to support four grant revenue deferrals included in the University's financial statements. Upon review of the grant agreements provided along with related documentation, we noted that revenue for two of the grants tested should have been recognized during the audit period rather than deferred to subsequent periods. In one case, the grant was for the purchase of services. Under GAAP, revenue for services provided during the period should have been recognized. The second grant was a voluntary nonexchange transaction which did not stipulate an eligibility requirement. Under GAAP, revenue for this grant should have been recognized in the period received. The actual error identified was \$123,753. The auditors have recorded a passed adjustment of the projected error in the amount of \$199,602.

GAAP for governmental entities is promulgated by GASB. GAAP requires that revenues from exchange transactions be reported when the exchange takes place. GASB Statement No. 33 requires revenue recognition for voluntary nonexchange transactions when all applicable eligibility requirements have been met, and the remaining resources are reported as restricted net assets until consumed.

University officials indicated that the condition noted above was due to oversight and misinterpretation of applicable GASB statements.

Failure to maintain accounting records and present financial reports in accordance with GAAP distorts the net assets of the University and the State. (Finding Code No. 10-1)

Recommendation

We recommend that the University improve its system for determining the timing of grant revenue recognition to properly account for such transactions in accordance with GAAP.

University's Response

The University concurs with this recommendation.