**STATE OF ILLINOIS**
**NORTHEASTERN ILLINOIS UNIVERSITY**

**FINANCIAL AUDIT**
**For the Year Ended June 30, 2018**

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, 2018**

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Compliance Examination (including Single Audit) for Northeastern Illinois University for the Year Ended June 30, 2018

**STATE OF ILLINOIS**
**NORTHEASTERN ILLINOIS UNIVERSITY**
**FINANCIAL AUDIT**
**FOR THE YEAR ENDED JUNE 30, 2018**

**University Officials**

| | |
|---|---|
| President | |
| (from June 1, 2018 to present) | Dr. Gloria Gibson |
| Interim (from April 1, 2018 to May 31, 2018) | Dr. Wamucii Njogu |
| Interim (to March 31, 2018) | Dr. Richard Helldobler |
| Provost | |
| Acting (from October 1, 2017 to present) | Dr. Wamucii Njogu |
| (from July 1, 2017 to September 30, 2017) | Vacant |
| Vice President for Finance and Administration/Treasurer | |
| (from August 18, 2018 to present) | Vacant |
| Interim (from June 1, 2018 to August 17, 2018) | Mr. Craig Duetsch |
| (to May 31, 2018) | Mr. Michael Pierick |
| Vice President for Student Affairs | Dr. Daniel Lopez, Jr. |
| Vice President for Institutional Advancement | Ms. Liesl Downey |
| Vice President for Legal Affairs | Ms. Melissa Reardon Henry |
| Assistant Vice President for Business Services | |
| (from June 2, 2018 to present) | Vacant |
| (to June 1, 2018) | Mr. Craig Duetsch |
| Director of Financial Affairs/Controller | |
| (from January 29, 2018 to present) | Ms. Beni Ortiz |
| (from October 1, 2017 to January 28, 2018) | Vacant |
| (to September 30, 2017) | Ms. Fe Lenon |
| Director of Internal Audit | |
| (from September 11, 2017 to present) | Ms. Rita Moore |
| (from April 1, 2017 to September 10, 2017) | Vacant |
| Executive Director - Office of University Budgets | Ms. Ann McNabb |
| Interim Chief Finance Officer | |
| (from August 17, 2018 to present) | Ms. Ann McNabb |

***University 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, 2018**

## Financial Statement Report

### Summary

The audit of the accompanying financial statements of the Northeastern Illinois University (University) was performed by E.C. Ortiz and Co., LLP.

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

### Summary of Findings

The auditors identified a matter involving the University's internal control over financial reporting that they considered to be a significant deficiency. The significant deficiency is described in the accompanying Schedule of Findings on pages 69 through 70 of this report as item 2018-001, *Inadequate Controls over Student Receivables and Tuition Billings.*

### Exit Conference

The finding and recommendation appearing in this report was discussed with University personnel at an exit conference on January 7, 2019. Attending were:

<u>Northeastern Illinois University</u>

Dr. Gloria Gibson, President
Ann McNabb, Interim Chief Finance Officer and Executive Director of University Budgets
Beni Ortiz, Director of Financial Affairs/Controller
Rita Moore, Director of Internal Audit

<u>Office of the Auditor General</u>

Jose Roa, Manager

<u>E. C. Ortiz & Co., LLP</u>

Marites U. Sy, Partner
Emily Causon, Manager
Jannica Quintana, Senior

The response to the recommendation was provided by Ann McNabb, Interim Chief Finance Officer and Executive Director of University Budgets, in a letter dated January 7, 2019.

E.C. ORTIZ & CO., LLP
CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITOR'S REPORT**

Honorable Frank J. Mautino
Auditor General
State of Illinois

and

The Board of Trustees
Northeastern Illinois University

**Report on the Financial Statements**

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of Northeastern Illinois University, a component unit of the State of Illinois, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Northeastern Illinois University's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

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

333 SOUTH DES PLAINES STREET, SUITE 2-N CHICAGO, IL 60661 tel: 312.876.1900 fax: 312.876.1911

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

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

### *Opinions*

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Northeastern Illinois University and its discretely presented component unit, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Emphasis of Matter*

As discussed in Notes 1, 13, and 16 to the financial statements, Northeastern Illinois University adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The implementation of this statement resulted in a restatement of net position as of June 30, 2017 in the amount of $40,804,501. Our opinion is not modified with respect to this matter.

### *Report on Summarized Comparative Information*

We have previously audited Northeastern Illinois University's 2017 financial statements, and we expressed unmodified audit opinions on the respective financial statements of the business-type activities and discretely presented component unit of Northeastern Illinois University in our report dated February 21, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

### ***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 6 through 18, pension, and other postemployment benefits information on pages 61 through 64 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Northeastern Illinois University's basic financial statements. The other 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 other information, as listed in the table of contents, has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 14, 2019 on our consideration of Northeastern Illinois University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Northeastern Illinois University's internal control over financial reporting and compliance.

**SIGNED ORIGINAL ON FILE**

Chicago, Illinois
January 14, 2019

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, 2018 with comparative information for the fiscal year ended June 30, 2017. The discussion and analysis is designed to focus on current activities and currently known facts. Please read it in conjunction with the University's financial statements and related footnote disclosures. This discussion and analysis is focused on the University. A discussion and analysis of the University's Component Unit can be found in the separately issued financial statements of the University's Foundation.

## REPORTING ENTITY

Northeastern Illinois University is an institution of higher education and is considered to be a component unit of the State of Illinois. Accordingly, the University's financial statements are included in the State of Illinois' comprehensive annual financial report as a discrete component unit.

## USING THIS ANNUAL REPORT

The University's annual report contains three financial statements: The Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows. These financial statements are prepared in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB) which establish standards for external financial reporting and provide a consolidated perspective of the University's assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, expenses, and cash flows. For comparison purposes, comparative data is provided for the prior year.

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

The **Statement of Revenues, Expenses, and Changes in Net Position** present the University's results of operations, as well as the non-operating revenues and expenses for the fiscal year. Operating revenues are generated by providing goods and services to the various customers and constituencies of the University. Operating expenses are incurred when goods and services are provided by vendors and employees for the overall operations of the University. Nonoperating revenues and expenses include resources provided by the State of Illinois, State MAP grants, Pell and SEOG grants and other nonoperating transactions.

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.

The **Notes to the Basic Financial Statements** are a crucial component of the report. The notes include important background and financial information that may not be reflected in the basic financial statements including details of University's accounting policies, cash holdings, receivables, capital assets, long-term debt, other liabilities and other financial information.

## FINANCIAL HIGHLIGHTS

Highlights of the University's financial position for the fiscal year ended June 30, 2018 are presented below:

- The University has total assets of $268.9 million, including current assets of $75.7 million and noncurrent assets of $193.2 million.

- The University has deferred outflows of resources of $2.4 million, of which $1.1 million relates to pension expense for federal/trust/grant/other contributions and $1.3 million relates to other postemployment benefits (OPEB) expense for health, dental, vision, and health insurance expense awarded to certain retirees and their dependents resulting from the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*.

- The University has total liabilities of $113.2 million, including current liabilities of $15.5 million and noncurrent liabilities of $97.7 million.

- The University has deferred inflows of resources of $35.4 million relating to capital assets constructed under service concession arrangement and other postemployment benefits.

- The University's total net position decreased by $8.7 million with a decrease of $5.3 million and $3.5 million in net investment in capital assets and unrestricted net position, respectively. A new GASB Statement No. 75 pronouncement in Fiscal Year 2018 requires the University to record and adjust prior year unrestricted net position for Other Post-Employment Benefits totaling $40.8 million.

- The total operating revenues of the University were $80.8 million, including $51.4 million in student tuition and fees (net of scholarship allowances), $24.5 million in federal, state, and nongovernmental grants and contracts, $2.8 million auxiliary enterprises revenues, and $2.1 million other operating expenses.

- The total operating expenses of the University were \$194.4 million, of which \$94.7 million was spent for instruction.

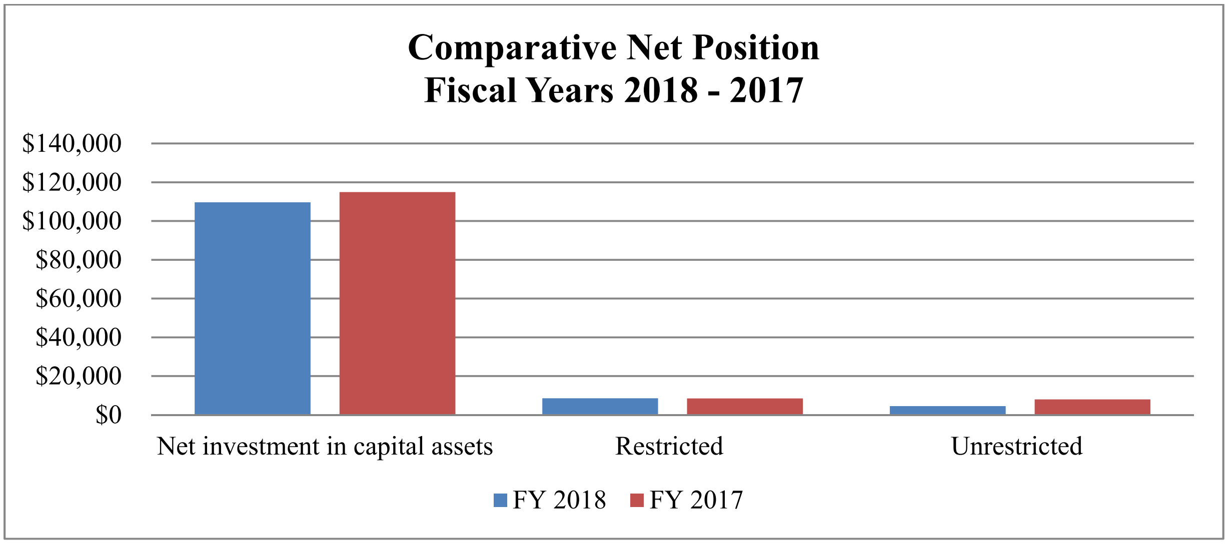
- The operating loss of \$113.6 million of the University was partially funded by nonoperating revenues, including State appropriations and grants, payments on behalf of the University, Pell and SEOG grant revenues and investment income. As a result, the University incurred a loss of \$32.0 million after other revenues, expenses, gains and losses. This amount includes \$7.9 million in depreciation expense.

## FINANCIAL ANALYSIS

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

**Condensed Statement of Net Position**
**As of June 30, 2018 and 2017**
**(dollars in thousands)**

| | 2018 | 2017 | Increase (Decrease) | Percent Change |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Current assets | $ 75,741 | $ 36,072 | $ 39,669 | 110.0% |
| Noncurrent assets: | | | | |
| Restricted cash and cash equivalents | 2,033 | 2,035 | (2) | (0.1%) |
| Student loans receivable, net | 405 | 907 | (502) | (55.3%) |
| Capital assets, net | 189,819 | 197,271 | (7,452) | (3.8%) |
| Other assets | 896 | 890 | 6 | 0.7% |
| Total noncurrent assets | 193,153 | 201,103 | (7,950) | (4.0%) |
| Total assets | 268,894 | 237,175 | 31,719 | 13.4% |
| **DEFERRED OUTFLOWS OF RESOURCES** | 2,400 | 1,005 | 1,395 | 138.8% |
| **LIABILITIES** | | | | |
| Current liabilities | 15,507 | 13,769 | 1,738 | 12.6% |
| Noncurrent liabilities: | | | | |
| Liability for compensated absences | 5,361 | 5,836 | (475) | (8.1%) |
| Revenue bonds payable, net | 14,360 | 14,976 | (616) | (4.1%) |
| Certificates of participation, net | 37,777 | 39,538 | (1,761) | (4.5%) |
| Installment purchases payable | 83 | 164 | (81) | (49.4%) |
| Other postemployment benefits | 40,084 | – | 40,084 | 100% |
| Total noncurrent liabilities | 97,665 | 60,514 | 37,151 | 61.4% |
| Total liabilities | 113,172 | 74,283 | 38,889 | 52.4% |
| **DEFERRED INFLOWS OF RESOURCES** | 35,368 | 32,419 | 2,949 | 9.1% |
| **NET POSITION** | | | | |
| Net investment in capital assets | 109,652 | 114,945 | (5,293) | (4.6%) |
| Restricted | 8,565 | 8,512 | 53 | 0.6% |
| Unrestricted | 4,537 | 8,021 | (3,484) | (43.4%) |
| Total net position | $ 122,754 | $ 131,478 | ($ 8,724) | (6.6%) |




**Current Assets** - Current assets total $75.7 million and consists primarily of cash and cash equivalents of $56.3 million and net receivables of $18.5 million. Total current assets increased by $39.7 million from the prior year. This is primarily due to the increase in cash and cash equivalents of $33.9 million and an increase of $5.7 million in receivables. The current assets of the University of $75.7 million were sufficient to cover the current liabilities of $15.5 million.

**Noncurrent Assets** - As of June 30, 2018, the University had total noncurrent assets of $193.2 million compared with $201.1 million at June 30, 2017. The net decrease of $7.9 million was primarily due to the decrease in capital assets of $7.5 million.

**Current Liabilities** - Current liabilities total $15.5 million and consist primarily of accounts payable and accrued liabilities of $10.2 million, unearned revenues from tuition and fees of $1.6 million, current portion of liability for compensated absences of $0.9 million, current portion of revenue bonds, certificates of participation and installment purchase payable of $2.4 million and funds held in custody others of $0.4 million.

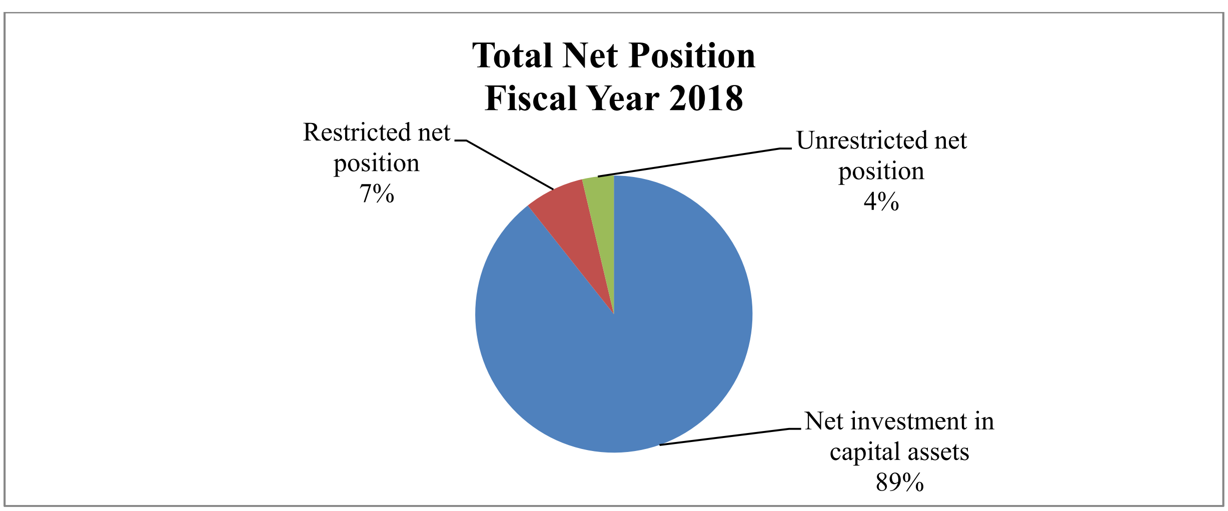
**Noncurrent Liabilities** - Noncurrent liabilities total $97.7 million and consist of long-term debt and other obligations for which the principal is due more than one year from the statement of net position date. The net increase of $37.2 million is primarily due to other postemployment benefits liability of $40.1 million recorded as a result of GASB Statement No. 75 which requires the restatement of prior fiscal year liability and the payment of $1.9 million of revenue bonds and certificates of participation. In Fiscal Year 2018, principal repayments for the revenue bonds and the certificates of participation are as follows:

| Debt Type | (dollars in thousands) |
|---|---|
| Revenue Bonds Series 2014 | $ 240 |
| Certificates of Participation Series 2010 | 250 |
| Certificates of Participation Series 2012 | 540 |
| Certificates of Participation Series 2015 | 855 |
| Total Principal Paid | $ 1,885 |

**Total Net Position** - Net position is divided into three major categories as shown in the following chart. The first category, net investment in capital assets, represent the University's capital assets net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. The second category, restricted net position, reports net positions that are owned by the University, but the use or purpose of the funds is restricted by an external source or entity. The third category is unrestricted net position, which is available to be used for any lawful purpose of the University.

The total net position decreased by $8.7 million, net of cumulative effect of change in accounting principle of $40.8 million, over the prior year. This is a result of a $5.3 million decrease in net investment in capital assets, and a $3.5 million decrease in unrestricted net position. The decrease in net investment in capital assets was mainly due to the depreciation of capital assets, cancellation of capital projects, and repayment of maturing revenue bonds and certificates of participation. The decrease in unrestricted net position is due to the restatement for other postemployment benefits as a result of the implementation of GASB Statement No. 75. Without the effect of the implementation of GASB Statement No. 75, the unrestricted net position increased by $32.1 million mainly because of the additional appropriations of $17.3 million received to cover expenses for Fiscal Year 2017 and reimbursements of $17.2 million for the Monetary Award Program (MAP) grants for Academic Year 2016-2017 and Academic Year 2017-2018.

The following chart shows net position by classification and restriction:

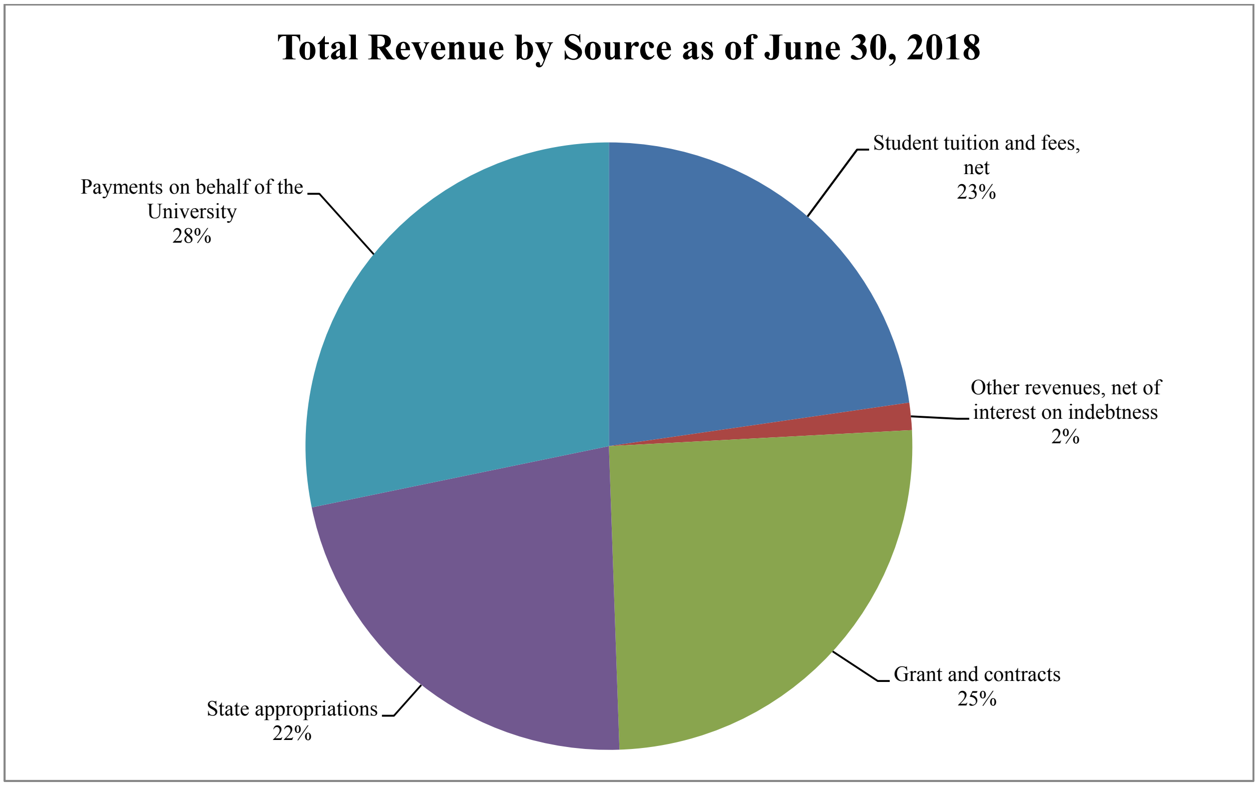


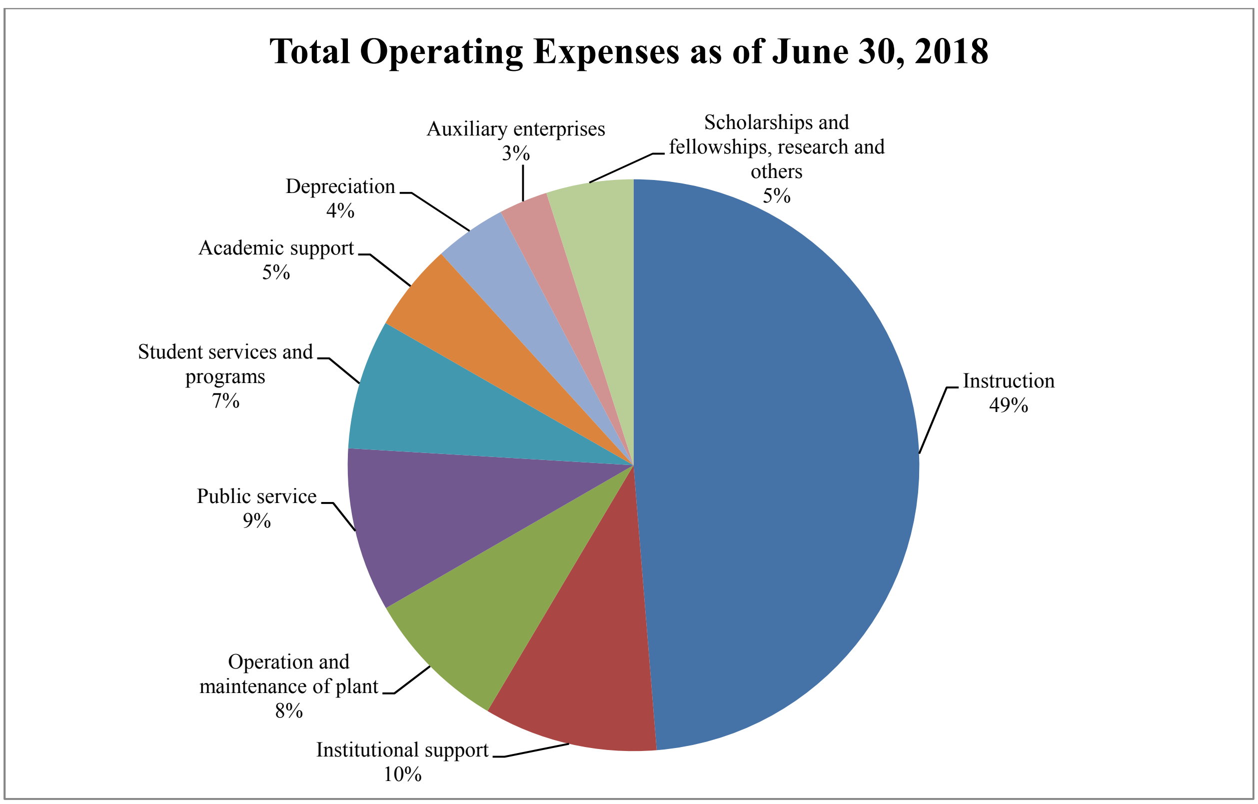
The following is a breakdown of restricted net position:

| | (dollars in thousands) | |
|---|---|---|
| Restricted for: | Fiscal Year 2018 | Fiscal Year 2017 |
| Grants and contracts | $ 1,162 | $ 1,871 |
| Student loans | 921 | 1,150 |
| Debt service | 2,090 | 1,688 |
| Other | 4,392 | 3,803 |
| Total restricted net position | $ 8,565 | $ 8,512 |

**Condensed Statement of Revenues, Expenses, and Changes in Net Position**
**for the Years Ended June 30, 2018 and 2017**
**(dollars in thousands)**

| | 2018 | 2017 | Increase (Decrease) | Percent Change |
|---|---|---|---|---|
| **OPERATING REVENUES** | | | | |
| Student tuition and fees, net | $ 51,427 | $ 49,430 | $ 1,997 | 4.0% |
| Grants and contracts | 24,495 | 22,066 | 2,429 | 11.0% |
| Auxiliary enterprises | 2,784 | 2,954 | (170) | (5.8%) |
| Other operating revenues | 2,137 | 4,373 | (2,236) | (51.1%) |
| Total operating revenues | 80,843 | 78,823 | 2,020 | 2.6% |
| **OPERATING EXPENSES** | | | | |
| Instruction | 94,693 | 92,541 | 2,152 | 2.3% |
| Public service | 18,025 | 17,839 | 186 | 1.0% |
| Academic support | 9,644 | 10,914 | (1,270) | (11.6%) |
| Student services and programs | 14,285 | 16,739 | (2,454) | (14.7%) |
| Institutional support | 19,101 | 19,973 | (872) | (4.4%) |
| Operation and maintenance of plant | 15,813 | 17,092 | (1,279) | (7.5%) |
| Depreciation | 7,889 | 7,018 | 871 | 12.4% |
| Auxiliary enterprises | 5,371 | 5,250 | 121 | 2.3% |
| Scholarships and fellowships, research and others | 9,585 | 9,363 | 222 | 2.4% |
| Total operating expenses | 194,406 | 196,729 | (2,323) | (1.2%) |
| Operating loss | (113,563) | (117,906) | 4,343 | (3.7%) |
| **NONOPERATING REVENUES (EXPENSES)** | | | | |
| State appropriations | 50,546 | 19,562 | 30,984 | 158.4% |
| Payments on behalf of the University | 63,932 | 71,524 | (7,592) | (10.6%) |
| Federal grants - Pell and SEOG | 15,732 | 15,421 | 311 | 2.0% |
| State grants - MAP | 17,021 | 3,249 | 13,772 | 423.9% |
| Investment income | 472 | 130 | 342 | 263.1% |
| Interest on indebtedness | (2,108) | (2,166) | 58 | (2.7%) |
| Net nonoperating revenues | 145,595 | 107,720 | 37,875 | 35.2% |
| **INCOME (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS AND LOSSES** | 32,032 | (10,186) | 42,218 | (414.5%) |
| Loss on cancelled capital projects | (1,596) | 16 | (1,612) | (10,075.0%) |
| Capital additions provided by State of Illinois | 787 | 221 | 566 | 256.1% |
| Other capital additions | 857 | 786 | 71 | 9.0% |
| **INCREASE (DECREASE) IN NET POSITION** | 32,080 | (9,163) | 41,243 | (450.1%) |
| **NET POSITION, BEGINNING OF YEAR** | | | | |
| Net position, beginning of year, as previously reported | 131,478 | 140,188 | (8,710) | (6.2%) |
| Cumulative effect of change in accounting principle | (40,804) | – | (40,804) | (100.0%) |
| Prior period adjustments | – | 453 | (453) | (100.0%) |
| Net position, beginning of year, as restated | 90,674 | 140,641 | (49,967) | (35.5%) |
| **NET POSITION, END OF YEAR** | $ 122,754 | $ 131,478 | ($ 8,724) | (6.6%) |


Total Revenue by Source as of June 30, 2018
Student tuition and fees, net 23%
Other revenues, net of interest on indebtness 2%
Grant and contracts 25%
State appropriations 22%
Payments on behalf of the University 28%


Total Operating Expenses as of June 30, 2018
Scholarships and fellowships, research and others 5%
Auxiliary enterprises 3%
Depreciation 4%
Academic support 5%
Student services and programs 7%
Public service 9%
Operation and maintenance of plant 8%
Institutional support 10%
Instruction 49%

**Operating Revenues** - Total operating revenues for Fiscal Year 2018 totaled $80.8 million. The most significant sources of operating revenues were tuition and fees, and grants and contracts at $75.9 million or 93.9%.

**Operating Expenses** - GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities,* gives the reporting entities the choice of reporting expenses in functional or natural classifications. The University reports expenses in their functional categories on the face of the financial statement and has displayed the natural categories in the notes to the basic financial statements. The operating expenses for Fiscal Year 2018, including depreciation of $7.9 million, totaled $194.4 million. Under the functional classifications, $118.6 million or 61.0% was used for instruction, student services and programs, and academic support; $19.1 million or 9.8% was used for institutional support; $15.8 million or 8.1% was used for operations and maintenance of plant; $18.0 million or 9.3% was used for public service; $7.0 million or 3.6% was used for scholarships and fellowships; $5.4 million or 2.7% was used for auxiliary services; and $2.6 million or 1.3% was used for research and other operating expenses.

Under the natural classifications, $153.5 million or 79.0% was used for compensation and benefits; $25.6 million or 13.2% was used for supplies and services; $7.4 million or 3.8% was used for scholarships and $7.9 million or 4.1% in depreciation expense.

**Nonoperating Revenues (Expenses)** - This consists of State appropriations and grants, payments on behalf of the University, Pell and SEOG grant revenues, and investment income, less interest on indebtedness. Total nonoperating revenues increased by $37.9 million. This was mainly the result of a lag in State appropriations where the University received $17.3 million for Fiscal Year 2017 and $33.2 million of Fiscal Year 2018 appropriations in Fiscal Year 2018.

**Condensed Statement of Cash Flows**
**For the Years Ended June 30, 2018 and 2017**
**(dollars in thousands)**

| | 2018 | 2017 | Increase (Decrease) | Percent Change |
|---|---|---|---|---|
| Cash received from operations | $ 97,334 | $ 101,501 | ($ 4,167) | (4.1%) |
| Cash expended for operations | (141,011) | (140,665) | (346) | (0.2%) |
| Net cash used in operating activities | (43,677) | (39,164) | (4,513) | (11.5%) |
| Net cash provided by noncapital financing activities | 82,512 | 38,290 | 44,222 | 115.5% |
| Net cash used in capital financing activities | (5,385) | (5,767) | 382 | 6.6% |
| Net cash provided by investing activities | 472 | 130 | 342 | 263.1% |
| Net increase (decrease) in cash and cash equivalents | 33,922 | (6,511) | 40,433 | 621.0% |
| Cash and cash equivalents - beginning of year | 24,442 | 30,953 | (6,511) | (21.0%) |
| Cash and cash equivalents - end of year | $ 58,364 | $ 24,442 | $ 33,922 | 138.8% |

The primary cash receipts from operating activities consist of student tuition and fees of $48.0 million, grants and contracts of $23.3 million and direct lending receipts of $20.8 million. Cash outlays included payments to employees of $79.4 million, payments for fringe benefits of $8.7 million, payments to suppliers of $24.6 million and direct lending disbursements of $20.8 million.

The State appropriation of $50.5 million, State MAP grants of $17.0 million and Federal Pell and SEOG grants of $15.0 million are the primary sources of noncapital financing activities. Accounting standards require the University to reflect these sources of revenue as nonoperating even though the University's budget depends on these fundings to support its operations.

The main capital financing activities included purchases of capital assets and construction costs of $1.3 million and debt service payments of $4.1 million.

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

The total net cash increase of $33.9 million from Fiscal Year 2017 was mainly due to additional State appropriation received during the year of $17.3 million and $33.3 million for Fiscal Years 2017 and 2018, respectively. Additionally, the University received in Fiscal Year 2018 State MAP grants of $17.0 million**.**

## SIGNIFICANT FINANCIAL EVENTS IMPACTING FUTURE PERIODS

In September 2008, the Board of Trustees endorsed the University's strategic planning priorities that include six major goals and underlying action steps to accomplish each of the goals. The goals are ensuring student success, enhancing academic excellence and innovation, providing urban leadership in Chicago and the region, investing in exemplary faculty and staff, enhancing University operations and facilities, and strengthening the financial position of the University. The strategic plan's goals and action steps were updated in Fall 2014 and endorsed by the Board of Trustees in February 2015.

The University also identified key performance indicators and uses those indicators to measure success in addressing their strategic goals. Through the indicators, areas are identified to which additional resources, financial and staffing, should be allocated to make progress in attaining goals. These goals continue to guide the University through at least Fiscal Year 2018.

On July 6, 2017, the General Assembly passed SB0006, Public Act 100-0021 providing additional appropriations of $17.3 million for Fiscal Year 2017, and $33.2 million for Fiscal Year 2018.

In late May 2018, the Illinois Senate passed budget bill HB0109 (appropriations) and HB3342 (implementation) bills including the state Fiscal Year 2019 budget for Northeastern and all Illinois public universities. The Governor signed the budget bill on June 4, 2018. For Northeastern, the approved Fiscal Year 2019 appropriation totals $33.9 million, an increase of 2.1%, or $0.7 million, from the Fiscal Year 2018 appropriation.

From the University's highest state funding level in Fiscal Year 2002 to the Fiscal Year 2019 appropriation, the University has seen available funding from the State's General Fund decrease by about $11.5 million, or 25.4%. In Fiscal Year 2002, the State appropriation comprised 69% of the total general unrestricted operating budget, while tuition comprised 31%. In the Fiscal Year 2019 budget, the State appropriation comprised only 38%, while tuition comprised 62%. Since Fiscal Year 2002, the State appropriation has decreased 1.7% per year on average, while inflationary expense increases based upon CPI averaged about 2.1% per year.

In response to this trend, the University, like most higher education institutions in the nation, has increased tuition to compensate for both declining State support and to address the need for resources to meet increasing costs, implement new and innovative academic programs, and provide needed student support services. However, the Northeastern Illinois University Board of Trustees voted to hold tuition level for incoming freshmen in Fiscal Year 2013. Unfortunately, because of the Illinois 4-year/6-year Guaranteed Tuition Program, that one-year tuition freeze cost the University millions of dollars in tuition revenues. Tuition for incoming freshmen for Fiscal Year 2018 and Fiscal Year 2019 increased by 8.0% and 5.0%, respectively.

A further complication is pension funding. Discussions continue at the state level on options to address the pension challenges, and the State began shifting pension obligations to the University in Fiscal Year 2018. The solution to the State's underfunded pension system will likely have some financial effect on the University.

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

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

In response to these challenges, the University will continue to identify and implement cost saving measures, such as the elimination of over 150 non-instructional staff positions in Summer 2017, approximately two-thirds involving layoffs. The University also eliminated about 90 temporary positions. The University will continue to be good stewards of the resources and use those resources for the highest priorities within the University's strategic plan, focusing on student retention and success. The University will look for new and creative ways to increase student enrollment and to bring additional resources. For example, the University implemented an early alert application in Fall 2017 to support student retention efforts. The University will advocate for appropriate governmental appropriations and grants to support its operations and to assure access to higher education for students with financial need.

On October 18, 2013, the University submitted a Request for Proposal to seek a partner to develop a comprehensive, multi-phased University student housing program that will include the development of housing both on campus and adjacent to the main campus of the University. Following review of five responses, the contract was awarded on August 13, 2014 to American Campus Communities (ACC) as a concession under the Illinois Procurement Code. Fifteen months after the groundbreaking, the University's first residence hall opened on August 19, 2016. Starting Fall 2017, the residence hall was at 87% capacity, exceeding the University's second year target by 4%. By demonstrating a great need for student housing in only its second year, the University will begin to explore future student housing options. The University expects that student housing options increase its opportunities for the recruitment of students from other states and nations.

In Fiscal Year 2016, the University completed the purchase of five properties on Bryn Mawr Avenue to support the University's strategic initiative to develop the expansion phase of its student housing.

## CONTACTING FINANCIAL MANAGEMENT AT NEIU

This financial report is designed to provide interested parties with a general overview of Northeastern Illinois University 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, please contact Ann McNabb, Interim Chief Finance Officers or Beni Ortiz, Director of Financial Affairs/Controller; all located at 5500 North St. Louis Avenue, Chicago, Illinois 60625.

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

| | JUNE 30, | | | |
|---|---|---|---|---|
| | 2018 | | (Comparative totals only) 2017 | |
| | University | Component Unit | University | Component Unit |
| **ASSETS** | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | $ 54,340,252 | $ 1,470,200 | $ 20,770,367 | $ 863,634 |
| Restricted cash and cash equivalents | 1,989,955 | - | 1,637,633 | - |
| Short-term investments | - | 1,034,235 | - | 1,781,122 |
| Accounts receivable, net | 18,081,067 | - | 12,438,131 | - |
| Student loans receivable, net | 446,708 | - | 99,282 | - |
| Inventories | 14,023 | - | 12,374 | - |
| Prepaid expenses | 836,513 | - | 1,072,566 | - |
| Other assets | 32,550 | 521,521 | 42,003 | 159,714 |
| Total current assets | 75,741,068 | 3,025,956 | 36,072,356 | 2,804,470 |
| Noncurrent assets: | | | | |
| Restricted cash and cash equivalents | 2,033,353 | - | 2,034,620 | - |
| Restricted investments | - | 11,479,608 | - | 9,750,641 |
| Assets held under split-interest agreements | - | 878,179 | - | 446,586 |
| Student loans receivable, net | 404,944 | - | 907,238 | - |
| Capital assets, net | 189,818,634 | - | 197,270,603 | - |
| Other assets | 896,399 | 8,000 | 890,229 | 8,000 |
| Total noncurrent assets | 193,153,330 | 12,365,787 | 201,102,690 | 10,205,227 |
| **TOTAL ASSETS** | 268,894,398 | 15,391,743 | 237,175,046 | 13,009,697 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | | | |
| Pension | 1,070,239 | - | 1,005,214 | - |
| Other postemployment benefits | 1,329,621 | - | - | - |
| **TOTAL DEFERRED OUTFLOWS OF RESOURCES** | 2,399,860 | - | 1,005,214 | - |
| **TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES** | 271,294,258 | 15,391,743 | 238,180,260 | 13,009,697 |
| **LIABILITIES** | | | | |
| Current liabilities: | | | | |
| Accounts payable and accrued liabilities | 10,218,988 | 17,353 | 9,189,462 | 61,241 |
| Obligations under split-interest agreements | - | 46,804 | - | 15,547 |
| Unearned revenues | 1,560,641 | - | 1,256,565 | - |
| Liability for compensated absences | 856,205 | - | 842,676 | - |
| Revenue bonds payable, net | 616,286 | - | 271,286 | - |
| Certificates of participation, net | 1,761,802 | - | 1,681,802 | - |
| Funds held in custody for others | 412,194 | 397,318 | 447,150 | 382,797 |
| Installment purchases payable | 81,174 | - | 79,736 | - |
| Total current liabilities | 15,507,290 | 461,475 | 13,768,677 | 459,585 |
| Noncurrent liabilities: | | | | |
| Obligations under split-interest agreements | - | 558,289 | - | 270,754 |
| Liability for compensated absences | 5,361,119 | - | 5,835,652 | - |
| Revenue bonds payable, net | 14,359,924 | - | 14,976,210 | - |
| Certificates of participation, net | 37,776,851 | - | 39,538,649 | - |
| Installment purchases payable | 82,637 | - | 163,810 | - |
| Other postemployment benefits | 40,084,143 | - | - | - |
| Total noncurrent liabilities | 97,664,674 | 558,289 | 60,514,321 | 270,754 |
| **TOTAL LIABILITIES** | 113,171,964 | 1,019,764 | 74,282,998 | 730,339 |

See accompanying notes to the basic financial statements.

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

| | JUNE 30, | | | |
|---|---|---|---|---|
| | 2018 | | (Comparative totals only) 2017 | |
| | University | Component Unit | University | Component Unit |
| **DEFERRED INFLOWS OF RESOURCES** | | | | |
| Concession arrangement | 31,562,396 | - | 32,419,294 | - |
| Other postemployment benefits | 3,805,976 | - | - | - |
| **TOTAL DEFERRED INFLOWS OF RESOURCES** | 35,368,372 | - | 32,419,294 | - |
| **TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES** | 148,540,336 | 1,019,764 | 106,702,292 | 730,339 |
| **NET POSITION** | | | | |
| Net investment in capital assets | 109,651,520 | - | 114,945,427 | - |
| Restricted for: | | | | |
| Nonexpendable: | | | | |
| Scholarships and memorials | - | 11,752,694 | - | 10,197,228 |
| Expendable: | | | | |
| Grants and contracts | 1,161,866 | - | 1,870,646 | - |
| Student loans | 921,013 | - | 1,150,484 | - |
| Debt service | 2,090,269 | - | 1,687,500 | - |
| Other | 4,392,432 | 1,837,641 | 3,802,545 | 1,340,332 |
| Unrestricted | 4,536,822 | 781,644 | 8,021,366 | 741,798 |
| **TOTAL NET POSITION** | $ 122,753,922 | $ 14,371,979 | $ 131,477,968 | $ 12,279,358 |

See accompanying notes to the basic financial statements.

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

| | FOR THE YEAR ENDED JUNE 30, | | | |
|---|---|---|---|---|
| | | | (Comparative totals only) | |
| | 2018 | | 2017 | |
| | University | Component Unit | University | Component Unit |
| **OPERATING REVENUES** | | | | |
| Student tuition and fees, net | $ 51,427,127 | $ - | $ 49,430,541 | $ - |
| Federal grants and contracts | 20,802,088 | - | 19,538,483 | - |
| State and local grants | 2,568,703 | - | 1,608,400 | - |
| Nongovernmental grants and contracts | 1,123,850 | - | 919,199 | - |
| Auxiliary enterprises | 2,784,179 | - | 2,954,003 | - |
| Other operating revenues | 2,136,585 | 2,206,291 | 4,372,542 | 1,404,271 |
| Total operating revenues | 80,842,532 | 2,206,291 | 78,823,168 | 1,404,271 |
| **OPERATING EXPENSES** | | | | |
| Instruction | 94,692,935 | - | 92,540,544 | - |
| Research | 2,231,263 | - | 2,136,674 | - |
| Public service | 18,025,320 | - | 17,838,794 | - |
| Academic support | 9,644,253 | - | 10,914,041 | - |
| Student services and programs | 14,284,535 | - | 16,739,240 | - |
| Institutional support | 19,101,490 | - | 19,973,247 | - |
| Operation and maintenance of plant | 15,812,905 | - | 17,092,183 | - |
| Scholarships and fellowships | 7,016,472 | - | 6,754,998 | - |
| Auxiliary enterprises | 5,371,124 | - | 5,250,333 | - |
| Depreciation | 7,888,645 | - | 7,018,475 | - |
| Other operating expenses | 336,908 | 1,987,500 | 471,365 | 1,295,381 |
| Total operating expenses | 194,405,850 | 1,987,500 | 196,729,894 | 1,295,381 |
| Operating income (loss) | (113,563,318) | 218,791 | (117,906,726) | 108,890 |
| **NONOPERATING REVENUES (EXPENSES)** | | | | |
| State appropriations | 50,545,800 | - | 19,562,103 | - |
| Payments on behalf of the University | 63,931,592 | - | 71,523,784 | - |
| Federal grants - Pell and SEOG | 15,731,793 | - | 15,421,315 | - |
| State grants - Monetary Award Program (MAP) | 17,021,541 | - | 3,249,086 | - |
| Investment income | 471,840 | 584,438 | 130,012 | 1,210,071 |
| Interest on indebtedness | (2,107,522) | - | (2,166,228) | - |
| Net nonoperating revenues | 145,595,044 | 584,438 | 107,720,072 | 1,210,071 |
| Income (loss) before other revenues, expenses, gains and losses | 32,031,726 | 803,229 | (10,186,654) | 1,318,961 |
| Additions to permanent endowments | - | 938,216 | - | 513,939 |
| Gain (loss) on disposal/cancellation of capital assets | (1,595,573) | - | 16,420 | - |
| Capital additions provided by State of Illinois | 787,404 | - | 221,353 | - |
| Other capital additions | 856,898 | - | 785,490 | - |
| **INCREASE (DECREASE) IN NET POSITION** | 32,080,455 | 1,741,445 | (9,163,391) | 1,832,900 |
| **NET POSITION, BEGINNING OF YEAR** | | | | |
| Net positon, beginning of year, as previously reported | 131,477,968 | 12,279,358 | 140,188,173 | 10,446,458 |
| Cumulative effect of change in accounting principle | (40,804,501) | - | - | - |
| Prior period adjustments | - | 351,176 | 453,186 | - |
| Net positon, beginning of year, as restated | 90,673,467 | 12,630,534 | 140,641,359 | 10,446,458 |
| **NET POSITION, END OF YEAR** | $ 122,753,922 | $ 14,371,979 | $ 131,477,968 | $ 12,279,358 |

See accompanying notes to the basic financial statements.

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

| | FOR THE YEAR ENDED JUNE 30, | |
|---|---|---|
| | 2018 | 2017 |
| | University | University |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Student tuition and fees | $ 48,002,382 | $ 49,910,801 |
| Grants and contracts | 23,323,243 | 23,053,243 |
| Payments to employees | (79,446,063) | (81,300,172) |
| Payments for fringe benefits | (8,663,810) | (5,260,214) |
| Payments to suppliers | (24,565,564) | (25,735,671) |
| Payments for scholarships and fellowships | (7,416,278) | (7,095,871) |
| Loans issued to students | (89,929) | (123,204) |
| Collections of loans from students | 244,797 | 296,517 |
| Auxiliary enterprises | 2,784,179 | 2,942,814 |
| Student direct lending receipts | 20,829,891 | 21,149,781 |
| Student direct lending disbursements | (20,829,891) | (21,149,781) |
| Other receipts | 2,149,404 | 4,148,096 |
| Net cash used in operating activities | (43,677,639) | (39,163,661) |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | | |
| State appropriation | 50,514,084 | 19,568,580 |
| Federal grants - Pell and SEOG | 15,011,256 | 15,389,469 |
| State grants - Monetary Award Program (MAP) | 17,021,541 | 3,249,086 |
| Agency transactions | (34,956) | 82,871 |
| Net cash provided by noncapital financing activities | 82,511,925 | 38,290,006 |
| **CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES** | | |
| Purchases of capital assets and construction | (1,247,440) | (1,733,670) |
| Proceeds from disposal of capital assets | 2,596 | - |
| Principal paid on capital debt and leases | (1,964,735) | (1,861,722) |
| Interest paid on capital debt and leases | (2,175,606) | (2,171,862) |
| Net cash used in capital financing activities | (5,385,185) | (5,767,254) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Interest on investments | 471,840 | 130,012 |
| Net cash provided by investing activities | 471,840 | 130,012 |
| Net increase (decrease) in cash and cash equivalents | 33,920,941 | (6,510,897) |
| Cash and cash equivalents - beginning of year | 24,442,619 | 30,953,516 |
| Cash and cash equivalents - end of year | $ 58,363,560 | $ 24,442,619 |

See accompanying notes to the basic financial statements.

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

| | FOR THE YEAR ENDED JUNE 30, | |
|---|---|---|
| | **2018** | **2017** |
| | **University** | **University** |
| **Reconciliation of operating loss to net cash used in operating activities:** | | |
| Operating loss | $ (113,563,318) | $ (117,906,726) |
| Adjustments to reconcile operating loss to net cash used in operating activities: | | |
| Payments on behalf of the University | 63,931,592 | 71,523,784 |
| Depreciation | 7,888,645 | 7,018,475 |
| Changes in assets and liabilities: | | |
| Accounts receivable | (4,890,683) | 1,343,583 |
| Student loans receivable | 154,868 | 173,313 |
| Prepaid expenses and other assets | 239,336 | (119,046) |
| Inventories | (1,649) | (4,182) |
| Deferred outflows of resources | (396,267) | - |
| Accounts payable and accrued liabilities | 1,029,526 | (1,116,439) |
| Unearned revenues | 304,076 | 48,793 |
| Liability for compensated absences | (461,004) | (125,216) |
| Other postemployment benefits | (1,718,737) | - |
| Deferred inflows of resources | 3,805,976 | - |
| Net cash used in operating activities | $ (43,677,639) | $ (39,163,661) |
| **Noncash operating and capital financing activities:** | | |
| On-behalf payments for fringe benefits | $ 63,931,592 | $ 71,523,784 |
| Discontinued capital project | $ 1,596,538 | $ - |
| Capital asset acquisition through capital appropriations | $ 787,404 | $ 221,353 |
| Realized income from deferred concession arrangement | $ 856,898 | $ - |
| Unpaid capitalized cost of land | $ - | $ 2,300,000 |

See accompanying notes to the basic financial statements.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The Foundation is a University Related Organization as defined under University Guidelines adapted 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, to supplement the resources that are available to the University, 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. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources and income thereon the Foundation holds and invests are restricted to the activities of the University by the donors. Because resources held by the Foundation can only be used by, or for the benefit of the University, the Foundation is considered a component unit of the University and is presented in the University's financial statements. The Foundation is a private nonprofit organization that reports under accounting standards promulgated by the Financial Accounting Standards Board (FASB). As such, certain revenue recognition criteria and other accounting rules are different from the revenue recognition criteria and accounting rules promulgated by Governmental Accounting Standards Board (GASB) that the University follows. Except for reclassifying the Foundation's FASB presentation into the University GASB presentation, no modifications have been made to the Foundation's financial information in the University's financial reporting entity for these differences.

An audit of the Foundation's financial statements, for the fiscal year ended June 30, 2018, was conducted by an independent certified public accountant. Complete financial statements for the Foundation may be obtained by writing to the Foundation, Executive Director and Vice President for Institutional Advancement, Northeastern Illinois University, 5500 North St. Louis Ave., Chicago, Illinois 60625.

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

**Basis of Accounting**

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

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

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

- The Statement of Net Position details current assets/liabilities and noncurrent assets/liabilities and deferred inflows of resources/deferred outflows of resources. In general, current assets are those that are available to satisfy current liabilities. Current liabilities are those that will be paid within one year of the date of the Statement of Net Position. Other assets and liabilities due beyond one year are noncurrent. Deferred inflows of resources and deferred outflows of resources represent an increase or outflow in net position that applies to a future period. The University will not recognize the related revenue or expense until the future event occurs. Net Position is divided into three major categories: 1) Net investment in capital assets, 2) Restricted, and 3) Unrestricted.

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

- The Statement of Cash Flows details the change in the cash and cash equivalents balance for the fiscal year and is prepared using the direct method. 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 the 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 and SEOG grants, State Monetary Award Program (MAP) grants and payments of the State for retirement and health care costs on-behalf of the University 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 position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net positions are available.

**Auxiliary Enterprises**

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

**Use of Estimates**

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

**Cash and Cash Equivalents**

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

### Investments and Marketable Securities

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

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

### Restricted Assets

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

### Receivables

Receivables consist mainly of charges to students for tuition and fees, auxiliary enterprise service charges, and student loans made to students from federal loan programs. Receivables also include amounts due from the federal government, state and local governments, or private sources in connection with the reimbursement of allowable expenditures made to the University's grants and contracts. Receivables are recorded net of allowance for doubtful accounts based on management's best estimate of uncollectible accounts considering type, age, collection history and other appropriate factors.

### 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.

### Capital Assets

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

| Classification | Capitalized Threshold | Estimated Useful Life (in years) |
|---|---|---|
| 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.*

The student housing facility is depreciated over the remaining term of the Ground Lease agreement of 38 years and 9 months.

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

**Liability for Compensated Absences**

Liability for compensated absences includes earned but unused vacation and sick leave days valued at the current rate of pay.

**Unearned Revenues**

Unearned revenues include amounts received for tuition and fees prior to the end of the fiscal year but related to the subsequent accounting period.

**Revenue Bonds Payable and Certificates of Participation**

Revenue Bonds and Certificates of Participation (COP) are stated at face value net of unamortized discounts and premiums.

**Net Position**

The University's net position are classified as follows:

Net investment in capital assets - represents the University's total investment in capital assets net of accumulated depreciation, reduced by outstanding obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets.

Restricted - expendable - includes resources in which the University is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Restricted - nonexpendable - consists of endowment and similar type funds in which donors or outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

Unrestricted - represents sources derived from student tuition and fees, State appropriations, and sales and services provided by educational departments and certain auxiliary enterprises. These resources are used for educational and general operations of the University and may be used at the discretion of the governing board to meet current expenses for any purpose.

**Deferred Inflows of Resources/ Deferred Outflows of Resources**

In addition to assets and liabilities, the Statement of Net Position includes a separate section for deferred inflows or outflows of resources. Deferred inflows of resources represent increase in net position that applies to a future period. The revenue is not recognized until a future period. Deferred inflows of resources reported by the University relate to a service concession arrangement and actual investment performance of other post-employment benefits as explained in Notes 15 and 13 to the basic financial statements, respectively. Deferred outflows of resources represents consumption of net position that applies to a future period and so will not be recognized as an expense until then. Deferred outflows of resources reported by the University consist of deferral of employer pension contributions as explained in Note 12 to the basic financial statements and employer other post-employment benefit contributions made after the measurement date but before the end of the reporting period as explained in Note 13 to the basic financial statements.

**Revenue Recognition**

Appropriations made from the State of Illinois General Revenue, Capital Development and Education Assistance 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 Term, are recognized as revenues as they are assessed. Tuition and fees are reduced by scholarship discounts and allowances of $25,433,683 for Fiscal Year 2018. The Summer Term tuition and fees are allocated between fiscal years based on when the revenue is earned, since the Summer Term begins in one fiscal year and ends in the next. The portion of Summer Term tuition and fees applicable to the following fiscal year is unearned. 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 $4,283,611 in Fiscal Year 2018.

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 unearned revenues.

The University relies on certain revenue sources to provide funding for operations, including State appropriations, payments on-behalf of the University, State MAP grants, federal Pell and Supplemental Educational Opportunity (SEOG) grants, gifts, and investment income, are recognized as nonoperating as defined by GASB Statement No. 35. In addition, transactions related to capital and financing activities are components of nonoperating revenues.

**Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the plan net position of the State Universities Retirement System (SURS or the System) and additions to/deductions from SURS' plan net position has been determined on the same basis as they are reported by SURS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

For the purposes of financial reporting, the State of Illinois and participating employers are considered to be under a special funding situation. A special funding situation is defined as a circumstance in which a non-employer entity is legally responsible for making contributions directly to a pension plan that is used to provide pensions to the employees of another entity or entities and either (1) the amount of the contributions for which the non-employer entity is legally responsible is not dependent upon one or more events unrelated to pensions, or (2) the non-employer is the only entity with a legal obligation to make contributions directly to a pension plan. The State of Illinois is considered a non-employer contributing entity. Participating employers are considered employer contributing entities.

### New Accounting Pronouncements

The University adopted the provisions of GASB Statements No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* No. 81, *Irrevocable Split-Interest Agreements,* No. 85, *Omnibus 2017,* and No. 86, *Certain Debt Extinguishment Issues,* during the fiscal year ended June 30, 2018. See Note 16 to the basic financial statements for information regarding the implementation of GASB Statement No. 75. GASB Statement No. 81, No. 85, and No. 86 have no impact on the University's current financial statements.

In addition, the University will be required to implement GASB Statements No. 83, *Certain Asset Retirement Obligations*, and No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, in Fiscal Year 2019, Statements No. 84, *Fiduciary Activities*, and No. 90, *Majority Equity Interest*, in Fiscal Year 2020, and Statements No. 87, *Leases*, and No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, in Fiscal Year 2021. The University has not yet evaluated the impact of adopting future pronouncements on its financial statements.

### Reclassifications

Certain prior year amounts have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported results of operations.

## 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 cash on hand, deposits and investments held by the University and Foundation as shown on the Statement of Net Position as of June 30, 2018:

| | University | Foundation |
|---|---|---|
| Carrying amounts of deposits | $ 11,317,774 | $ 1,470,200 |
| Carrying amounts of investments | 47,039,086 | 13,392,022 |
| Cash on hand | 6,700 | – |
| | $ 58,363,560 | $ 14,862,222 |

| | University | Foundation |
|---|---|---|
| Cash and cash equivalents | $ 54,340,252 | $ 1,470,200 |
| Restricted cash and cash equivalents - current | 1,989,955 | – |
| Restricted cash and cash equivalents - noncurrent | 2,033,353 | – |
| Short-term investments | – | 1,034,235 |
| Long-term investments | – | 12,357,787 |
| | $ 58,363,560 | $ 14,862,222 |

**University Deposits**

The University utilizes multiple bank accounts for the various activities of the University. The book balance of such accounts was $11,317,774 at June 30, 2018, while the bank balance was $13,023,630. The difference between the above amounts primarily represents checks that have been issued but have not yet cleared the bank as of June 30, 2018.

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The policy for reducing its exposure to this risk is to require deposits in excess of the federally insured amount to be collateralized at 100%. As of June 30, 2018, 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.

**University Investments**

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

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

The fair value of the University investments as of June 30, 2018 is as follows:

| Investments: | Fair Value | Maturity | S&P/Moody's |
|---|---|---|---|
| Illinois Fund | $ 45,124,162 | < 1 year | AAAm |
| U.S. Treasury Notes | 1,914,924 | < 1 year | AAAm/Aaa-mf |
| | $ 47,039,086 | | |

The fair value of the investments is further categorized by levels depending on the type of inputs used for their valuation.

- Level 1 - Unadjusted quoted prices for identical assets in active markets that are accessible at the date of measurement.
- Level 2 - Quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the assets.
- Level 3 - Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (that is, the inputs are supported by little or no market activity).

| Investments: | Fair Value | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Illinois Fund | $ 45,124,162 | $ 45,124,162 | $ – | $ – |
| U.S. Treasury Notes | 1,914,924 | 1,914,924 | – | – |
| | $ 47,039,086 | $ 47,039,086 | $ – | $ – |

*Interest rate risk* is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, when the maturity of an investment is longer, its fair value susceptibility to changes in market interest rates is greater. 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.

*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.

*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, 2018, the University does not have any investments representing 5% or more of total assets in any single issuer other than the U.S. government and investments in mutual funds, external investment pools, and other pooled investments.

*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 its investments or collateral securities 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. Investments in external investment pools are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. The University therefore, has no custodial credit risk in its investment portfolio.

**Foundation Deposits and Investments**

The fair value and valuations of the Foundation investments as of June 30, 2018 is as follows:

| Investments: | Fair Value | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Mutual Funds | $ 13,292,042 | $ – | $ 13,292,042 | $ – |

The Foundation's investments were distributed among the following currencies:

| Currency: | |
|---|---|
| U.S. Dollar | $ 9,025,866 |
| Japanese Yen | 722,650 |
| Chinese Yuan | 694,118 |
| Euro | 2,010,028 |
| Other Currencies, Individually Less Than 5% of Fund Portfolio | 839,380 |
| | $ 13,292,042 |

*Custodial credit risk* is the potential for a financial institution or counterparty to fail such that the Foundation would not be able to recover the value of deposits, investments or collateral securities that are in the possession of an outside party. The Foundation is aware of such risk and is comfortable with its deposits at Chicago area major banks.

The Foundation maintains its cash in several separate accounts at three different institutions. These accounts are insured by the FDIC up to $250,000 at each financial institution. As of June 30, 2018, the combined uninsured balance was $1,229,964. The Foundation has not experienced any loss in these accounts. The Foundation believes it is not exposed to any significant credit risk on its cash balance.

*Credit risk* is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Foundation's investment policy limits investments in corporate securities rated "Baa" or higher. Credit quality ratings are not required for U.S. government securities that are explicitly guarantee by the U.S. government.

*Interest rate risk* is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, when the maturity of an investment is longer, its fair value susceptibility to changes in market interest rates is greater. As a means of limiting its exposure to fair value losses arising from rising interest rates, as a long-term guideline, the Foundation's investments are allocated between equity investments and 20% fixed-income securities. Interest rate risk is managed according to the purpose of the investments and the projected timeframe for the use of these assets.

*Country/Regional risk and foreign currency risk* is the risk that domestic events – such as political upheaval, financial troubles, or natural disasters – will weaken a country's or region's securities markets. Foreign currency risk is the risk that the value of a foreign investment, measured in U.S. dollars, will decrease because of unfavorable changes in currency exchange rates.

## 3. ACCOUNTS RECEIVABLE

Details of the University's accounts receivable are as follows:

| | June 30, 2018 | June 30, 2017 |
|---|---|---|
| Student tuition and fees | $ 23,278,829 | $ 20,971,159 |
| Federal, State, and private grants and contracts | 6,735,807 | 4,843,872 |
| Others | 1,354,144 | 1,905,676 |
| Subtotal | 31,368,780 | 27,720,707 |
| Less allowance for doubtful accounts | (13,287,713) | (15,282,576) |
| Accounts receivable, net | $ 18,081,067 | $ 12,438,131 |

## 4. STUDENT LOANS RECEIVABLE

Details of the University's student loans receivable are as follows:

| | June 30, 2018 | June 30, 2017 |
|---|---|---|
| Perkins student loan fund | $ 1,446,154 | $ 1,617,217 |
| Emergency student loan | 72,616 | 38,165 |
| Others | 1,472 | 4,569 |
| Subtotal | 1,520,242 | 1,659,951 |
| Less allowance for doubtful accounts | (668,590) | (653,431) |
| Student loans receivable, net | $ 851,652 | $ 1,006,520 |

## 5. CAPITAL ASSETS

Details of the University's investment in capital assets at June 30, 2018 are as follows:

| | Balance June 30, 2017 | Additions | Transfers | Reductions | Balance June 30, 2018 |
|---|---|---|---|---|---|
| Capital assets not being depreciated: | | | | | |
| Land and land improvements | $ 30,869,025 | $ 37,070 | $ – | $ – | $ 30,906,095 |
| Nondepreciable historical treasures and works of art | 83,330 | – | – | – | 83,330 |
| Construction in progress | 4,554,756 | 948,202 | (1,110,517) | (1,777,797) | 2,614,644 |
| Total capital assets not being depreciated | 35,507,111 | 985,272 | (1,110,517) | (1,777,797) | 33,604,069 |
| Capital assets being depreciated: | | | | | |
| Site improvements | 7,614,415 | – | – | – | 7,614,415 |
| Buildings and building improvements | 224,988,773 | 270,345 | 1,110,517 | – | 226,369,635 |
| Equipment | 14,225,822 | 387,875 | – | (92,727) | 14,520,970 |
| Library books | 26,094,068 | 572,612 | – | (357) | 26,666,323 |
| Total capital assets being depreciated | 272,923,078 | 1,230,832 | 1,110,517 | (93,084) | 275,171,343 |
| Less accumulated depreciation: | | | | | |
| Site improvements | 5,786,864 | 276,969 | – | – | 6,063,833 |
| Buildings and building improvements | 70,061,710 | 6,274,165 | – | – | 76,335,875 |
| Equipment | 11,491,393 | 737,509 | – | (91,096) | 12,137,806 |
| Library books | 23,819,619 | 600,002 | – | (357) | 24,419,264 |
| Total accumulated depreciation | 111,159,586 | 7,888,645 | – | (91,453) | 118,956,778 |
| Capital assets, net | $ 197,270,603 | ($ 5,672,541) | $ – | ($ 1,779,428) | $ 189,818,634 |

## 6. LONG-TERM DEBT AND OTHER LIABILITIES

Long-term debt and other liabilities at June 30, 2018 are as follows:

| | Balance June 30, 2017 | Additions | Reductions | Balance June 30, 2018 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| Compensated absences | $ 6,678,328 | $ 426,125 | $ 887,129 | $ 6,217,324 | $ 856,205 |
| Revenue bonds: | | | | | |
| Series 2014 | 14,700,000 | – | 240,000 | 14,460,000 | 585,000 |
| Premium | 547,496 | – | 31,286 | 516,210 | 31,286 |
| Certificates of participation: | | | | | |
| Series 2010 | 5,120,000 | – | 250,000 | 4,870,000 | 275,000 |
| Certificates of participation: | | | | | |
| Series 2012 | 27,040,000 | – | 540,000 | 26,500,000 | 575,000 |
| Premium | 143,314 | – | 5,910 | 137,404 | 5,910 |
| Certificates of participation: | | | | | |
| Series 2015 | 8,670,000 | – | 855,000 | 7,815,000 | 875,000 |
| Premium | 247,137 | – | 30,888 | 216,249 | 30,892 |
| Installment purchases payable | 243,546 | – | 79,735 | 163,811 | 81,174 |
| Other postemployment benefits payable | – | 41,802,880 | 1,718,737 | 40,084,143 | – |
| Subtotal | 63,389,821 | $ 42,229,005 | $ 4,638,685 | 100,980,141 | $ 3,315,467 |
| Less current portion | (2,875,500) | | | (3,315,467) | |
| Total noncurrent liabilities | $ 60,514,321 | | | $ 97,664,674 | |

## 7. COMPENSATED ABSENCES

It is the policy of the University to accrue vacation pay as earned. As of June 30, 2018, the accrued liability for this benefit was $5,123,226 and is reported as liability for compensated absences.

As a result of Illinois Public Act 83-976, the University is required to compensate certain employees for sick leave benefits earned after January 1, 1984. Sick leave earned by these employees after this date will accumulate without limit and are payable upon termination of employment for one-half of the unused amount. As of January 1, 1998, per 30 ILCS 105/14a, sick leave benefits earned after that date are no longer compensable upon termination of employment. All prior earned benefits will still be paid. As of June 30, 2018, the accrued liability of this benefit was $1,094,098 and is included in the liability for compensated absences.

## 8. UNIVERSITY FACILITIES SYSTEM REVENUE BONDS

### Series 2014

The University Facilities System Revenue Bond Series 2014-1 in the amount of $4,520,000 and Series 2014-2 in the amount of $10,640,000 with an aggregate amount of $15,160,000 were issued in December 2014 to provide funds to refund all of the outstanding University Facilities System Revenue Bonds Series 2004 and to pay the necessary issuance costs. The bonds are fully registered and are special, limited obligations of the Board of Trustees of Northeastern Illinois University (Board) and are not obligations of the State of Illinois. The bonds are only payable from and secured by the net revenues of the University Facilities System, Student Union, and fees (subject to the extent necessary to the prior payment of operating and maintenance expenses of the System) and the Bond Reserve Account.

The Series 2014 Bonds mature in increasing principal amounts ranging from $585,000 due on July 1, 2018 to $1,060,000 due on July 1, 2034. Interest is payable on January 1 and July 1 each year, at rates between 3.00% and 5.00%, with an average effective rate of approximately 4.041%. Future aggregate annual payments applicable to the Series 2014 Bonds at June 30, 2018 are:

| Fiscal Year | Principal | Interest |
|---|---|---|
| 2019 | $ 585,000 | $ 575,700 |
| 2020 | 600,000 | 552,000 |
| 2021 | 625,000 | 530,625 |
| 2022 | 645,000 | 508,350 |
| 2023 | 670,000 | 482,050 |
| 2024 - 2028 | 4,050,000 | 1,946,825 |
| 2029 - 2033 | 5,085,000 | 973,150 |
| 2034 - 2035 | 2,200,000 | 88,560 |
| Total | $ 14,460,000 | $ 5,657,260 |

The Series 2014 Bonds are subject to optional and mandatory redemption prior to maturity as set forth in the Notification of Sale. The Series 2014-1 Bonds are not subject to optional redemption prior to maturity. The Series 2014-2 Bonds maturing on or after July 1, 2025 are subject to redemption on any date on or after January 1, 2025, at the option of the Board, 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 Registrar may deem fair and appropriate, at a redemption price of par (100%), plus accrued interest to the date fixed for redemption.

**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:

| Bond Issues | Purpose | Source of Revenue Pledged | Future Net Revenues Pledged [(1)] | Terms of Commitment | Pledged Net Revenues to Debt Service (Current Year) [(2)] |
|---|---|---|---|---|---|
| Facilities System Revenue Bonds Series 2014 | Construction of a multi-level parking structure | Net Revenues of the University Facilities System*, student tuition and fees | $ 20,117,260 | 2034 | 7.31% |

[(1)]Total future principal and interest payments on debt.
[(2)]Current year pledged net operating revenues (disregarding depreciation) versus total future debt service.
*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.

## 9. CERTIFICATES OF PARTICIPATION

### Series 2010

On September 1, 2010, the University issued Certificates of Participation Series 2010, in the amount of $6,060,000 to finance the acquisition of energy conserving improvements at the University. The American Recovery and Reinvestment Act of 2009 permits the Board of Trustees of Northeastern Illinois University (Board) to issue taxable obligations referred to as "Build America Bonds" to finance capital expenditures for which it could issue tax-exempt obligations, and to elect to receive payments from the federal government equal to 35% of the corresponding interest payable on such taxable obligations. The Board is obligated to make installment payments on an annual basis either from funds derived from State appropriations or from legally available non-appropriated funds. The Board's obligation to pay installment payments is subject to termination 60 days after the Board certifies to U.S. Bank National Association (Trustee) that: 1) the General Assembly of the State has made a determination not to appropriate requested funds necessary to make the installment payments from State-appropriated funds, and 2) the Board has determined that there are not sufficient legally available non-appropriated funds to pay the installment payments. The certificates maturing on and after October 1, 2021 are subject to redemption on any date on or after October 1, 2020 at the price of 100% of the principal amount thereof, plus accrued interest to the date fixed for redemption, in whole or in part, and if in part, by lot. Such redemption shall be at the option of the Board, upon at least 35 days prior written notice from the Board to the Trustee.

The certificates mature in increasing principal amounts ranging from $275,000 due on October 1, 2018 to $645,000 due on October 1, 2028 at rates between 4.500% and 6.000%, with an average effective rate of approximately 5.341%. Future aggregate annual payments applicable to the certificates of participation at June 30, 2018 are:

| Fiscal Year | Principal | Interest |
|---|---|---|
| 2019 | $ 275,000 | $ 259,581 |
| 2020 | 300,000 | 246,269 |
| 2021 | 330,000 | 230,894 |
| 2022 | 365,000 | 213,291 |
| 2023 | 395,000 | 193,569 |
| 2024 - 2028 | 2,560,000 | 583,675 |
| 2029 | 645,000 | 19,350 |
| Total | $ 4,870,000 | $ 1,746,629 |

**Series 2012**

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

The certificates mature in increasing principal amounts ranging from $575,000 due on October 1, 2018 to $1,815,000 due on October 1, 2041 at rates between 3.000% and 4.100%, with an average effective rate of approximately 3.623%. Future aggregate annual payments applicable to the certificates of participation at June 30, 2018 are:

| Fiscal Year | Principal | Interest |
|---|---|---|
| 2019 | $ 575,000 | $ 983,300 |
| 2020 | 610,000 | 965,525 |
| 2021 | 645,000 | 946,700 |
| 2022 | 685,000 | 926,750 |
| 2023 | 725,000 | 905,238 |
| 2024 - 2028 | 4,245,000 | 4,125,623 |
| 2029 - 2033 | 5,660,000 | 3,243,370 |
| 2034 - 2038 | 6,745,000 | 2,034,765 |
| 2039 - 2042 | 6,610,000 | 561,970 |
| Total | $ 26,500,000 | $ 14,693,241 |

**Series 2015**

On July 21, 2015, the University issued University Capital Improvement Project Certificates of Participation Series 2015 (Series 2015 Certificates), in the amount of $9,510,000 to advance refund all of the outstanding Certificates of Participation Series 2006 and to pay the costs of issuing the Series 2015 Certificates. The Series 2015 Certificates are payable on a parity basis, solely from (i) an undivided interest in payments (the "Installment Payments") to be made by the Board of Trustees of Northeastern Illinois University (Board) under an Installment Purchase Contract with U.S. Bank National Association (Trustee), and (ii) certain funds and accounts held under the Indenture.

The Installment Payments will be payable both from State appropriated funds and from budgeted legally available funds of the Board derived from sources other than appropriations on an annual basis. The term of the Purchase Contract will expire on July 1, 2025 unless earlier terminated in accordance with the Indenture.

The Series 2015 Certificates are subject to redemption, in whole, at the price of 100% of the principal amount thereof, plus accrued interest to the date fixed for redemption, on any date on which the Purchase Contract is terminated by the Board because (i) an Event of Non-appropriation has occurred, (ii) the Board has determined that there are not sufficient Legally Available Non-appropriated Funds to pay the portion of the Installment Payments coming due during the then-current fiscal year, and (iii) the Board has exercised its option to prepay the Series 2015 Certificates. The Series 2015 Certificates are not otherwise subject to redemption prior to maturity.

The Series 2015 Certificates maturing on July 1, 2023 and July 1, 2025 are subject to mandatory redemption prior to maturity through the application of sinking fund payments, in integral multiples of $5,000 selected by lot by the Trustee, at a redemption price equal to 100% of the principal amount plus accrued interest to date fixed for redemption.

The Series 2015 Certificates mature in increasing principal amounts ranging from $875,000 due on July 1, 2018 to $1,090,000 due on July 1, 2025 at rates between 3.00% and 4.00%, with an average effective rate of approximately 3.250%. Future aggregate annual payments applicable to the certificates of participation at June 30, 2018 are:

| Fiscal Year | Principal | Interest |
|---|---|---|
| 2019 | $ 875,000 | $ 242,675 |
| 2020 | 905,000 | 215,975 |
| 2021 | 935,000 | 188,375 |
| 2022 | 955,000 | 160,025 |
| 2023 | 990,000 | 130,850 |
| 2024 - 2026 | 3,155,000 | 187,000 |
| Total | $ 7,815,000 | $ 1,124,900 |

## 10. INSTALLMENT PURCHASES PAYABLE

The Board of Trustees of Northeastern Illinois University entered into an agreement dated June 24, 2015, with Bank of America Public Capital Corporation to lease and acquire certain copier equipment with an imputed interest rate of 1.8024%. As provided for in the agreement, title to the equipment was vested to the University upon the delivery and acceptance of the equipment, as such the University accounted for this transaction as an installment purchase. Future maturities at June 30, 2018 are as follows:

| Fiscal Year | Principal | Interest |
|---|---|---|
| 2019 | $ 81,174 | $ 2,953 |
| 2020 | 82,637 | 1,489 |
| Total | $ 163,811 | $ 4,442 |

## 11. NORTHEASTERN ILLINOIS UNIVERSITY FOUNDATION AGREEMENT

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

On September 15, 2016, the University entered into a memorandum of understanding (MOU) with the Foundation. The MOU supersedes the Master Contract between the University and the Foundation approved by the University Board of Trustees on September 22, 2005. Under the terms of the MOU, in serving as the official private gift-procurement arm of the University, the Foundation, in partnership with the University, develops fundraising programs and makes known the opportunities where private support can assist in fulfilling the University's goals. The Foundation undertakes responsibilities for planning, coordinating, and implementing fundraising activities on behalf of the University. The Foundation is dedicated to assisting the University in the building of an endowment and in addressing, through financial support, the long-term academic, research, service goals and other priorities of the University. In turn, the University will furnish certain services necessary to the operation of the Foundation. The contract may be cancelled upon 90 days written notice by either party.

During Fiscal Year 2018, certain funds and in-kind services of the University with an estimated value of $356,921 were provided to the Foundation without charge. In turn, during Fiscal Year 2018, the Foundation gave the University $520,806 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 $695,139 in Fiscal Year 2018 for scholarships and awards.

## 12. DEFINED BENEFIT PENSION PLANS

### General Information about the Pension Plan

*Plan Description*

The University contributes to the State Universities Retirement System of Illinois (SURS or System), a cost-sharing, multiple-employer defined benefit pension plan with a special funding situation whereby the State of Illinois (State) makes substantially all actuarially determined required contributions on behalf of the participating employers. SURS was established on July 21, 1941 to provide retirement annuities and other benefits for staff members and employees of 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's financial reporting entity and is included in the State's financial reports as a pension trust fund. SURS is governed by Chapter 40, Act 5, Article 15 of the *Illinois Compiled Statutes*. SURS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by accessing the website at www.SURS.org.

*Benefits Provided*
A traditional benefit plan was established in 1941. Public Act 90-0448 enacted effective January 1, 1998, established an alternative defined benefit program known as the portable benefit package. The traditional and portable plan Tier 1 refers to members that began participation prior to January 1, 2011. Public Act 96-0889 revised the traditional and portable benefit plans for members who begin participation on or after January 1, 2011, and who do not have other eligible Illinois reciprocal system services. The revised plan is referred to as Tier 2. New employees are allowed 6 months after their date of hire to make an irrevocable election. A summary of the benefit provisions as of June 30, 2017 can be found in the System's comprehensive annual financial report (CAFR) Notes to the Financial Statements.

*Contributions*
The State of Illinois is primarily responsible for funding the System on behalf of the individual employers at an actuarially determined amount. Public Act 88-0593 provides a Statutory Funding Plan consisting of two parts: (i) a ramp-up period from 1996 to 2010 and (ii) a period of contributions equal to a level percentage of the payroll of active members of the System to reach 90% of the total Actuarial Accrued Liability by the end of Fiscal Year 2045. Employer contributions from "trust, federal, and other funds" are provided under Section 15-155(b) of the Illinois Pension Code and require employers to pay contributions which are sufficient to cover the accruing normal costs on behalf of applicable employees. The employer normal cost for Fiscal Year 2017 and Fiscal Year 2018, respectively, was 12.53% and 12.46% of employee payroll. The normal cost is equal to the value of current year's pension benefit and does not include any allocation for the past unfunded liability or interest on the unfunded liability. Plan members are required to contribute 8.0% of their annual covered salary. The contribution requirements of plan members and employers are established and may be amended by the Illinois General Assembly.

Participating employers make contributions toward separately financed specific liabilities under Section 15-139.5(e) of the Illinois Pension Code (relating to contributions payable due to the employment of "affected annuitants" or specific return to work annuitants) and Section 15-155(g) (relating to contributions payable due to earning increases exceeding 6.0% during the final rate of earnings period).

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

*Net Pension Liability*
The net pension liability (NPL) was measured as of June 30, 2017. At June 30, 2017, SURS reported an NPL of $25,481,105,995.

*Employer Proportionate Share of Net Pension Liability*
The amount of the proportionate share of the net pension liability to be recognized for the University is $0. The proportionate share of the State's net pension liability associated with the University is $449,716,039 or 1.7649%. This amount is not recognized in the University's financial statements. The net pension liability and total pension liability as of June 30, 2017, was determined based on the June 30, 2016 actuarial valuation rolled forward. The basis of allocation used in the proportionate share of net pension liability is the actual reported pensionable contributions made to SURS during Fiscal Year 2017.

*Pension Expense*
At June 30, 2017, SURS reported a collective net pension expense of $2,412,918,129.

*Employer Proportionate Share of Pension Expense*
The University proportionate share of collective pension expense is recognized similarly to on-behalf payments as both revenue and matching expenditure in the financial statements. The basis of allocation used in the proportionate share of collective pension expense is the actual reported pensionable contributions made to SURS during Fiscal Year 2017. As a result, the University recognized on-behalf revenue and pension expense of $42,585,592 for the fiscal year ended June 30, 2018.

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

SURS Collective Deferred Outflows and Deferred Inflows of Resources by Sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Difference between expected and actual experience | $ 139,193,227 | $ 1,170,771 |
| Changes in assumption | 205,004,315 | 259,657,577 |
| Net difference between projected and actual earnings on pension plan investments | 94,620,827 | – |
| Total | $ 438,818,369 | $ 260,828,348 |

SURS Collective Deferred Outflows and Deferred Inflows of Resources by Year to be recognized in Future Pension Expenses:

| Year Ending June 30 | Net Deferred Outflows of Resources |
|---|---|
| 2018 | $ 55,589,850 |
| 2019 | 187,874,276 |
| 2020 | 90,475,551 |
| 2021 | (155,949,656) |
| 2022 | – |
| Thereafter | – |
| Total | $ 177,990,021 |

**Employer Deferral of Fiscal Year 2018 Pension Expense**

The University paid $1,070,239 in federal, trust or grant contributions for the fiscal year ended June 30, 2018. These contributions were made subsequent to the pension liability date of June 30, 2017 and are recognized as deferred outflows of resources as of June 30, 2018.

**Assumptions and Other Inputs**

*Actuarial Assumptions*
The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period June 30, 2010-2014. The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---|---|
| Inflation | 2.75 percent |
| Salary increases | 3.75 to 15.00 percent, including inflation |
| Investment rate of return | 7.25 percent beginning with the actuarial valuation as of June 30, 2014 |

Mortality rates were based on the RP2014 Combined Mortality Table with projected generational mortality and a separate mortality assumption for disabled participants.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return were adopted by the plan's trustees after considering input from the plan's investment consultant(s) and actuary(s). For each major asset class that is included in the pension plan target asset allocation as of June 30, 2017, these best estimates are summarized in the following table:

| Asset Class | Target Allocation | Weighted Average Long-Term Expected Real Rate of Return |
|---|---|---|
| U.S. Equity | 23% | 6.08% |
| Private Equity | 6% | 8.73% |
| Non-U.S. Equity | 19% | 7.34% |
| Global Equity | 8% | 6.85% |
| Fixed Income | 19% | 1.38% |
| Treasury-Inflation Protected Securities | 4% | 1.17% |
| Emerging Market Debt | 3% | 4.14% |
| Real Estate REITS | 4% | 5.75% |
| Direct Real Estate | 6% | 4.62% |
| Commodities | 2% | 4.23% |
| Hedged Strategies | 5% | 3.95% |
| Opportunity Fund | 1% | 6.71% |
| Total | 100% | 5.20% |
| Inflation | | 2.75% |
| Expected Arithmetic Return | | 7.95% |

*Discount Rate*

A single discount rate of 7.09% was used to measure the total pension liability. This single discount rate was based on an expected rate of return on pension plan investments of 7.25% and a municipal bond rate of 3.56% (based on the weekly rate closest to but not later than the measurement date of the 20-Year Bond Buyer Index as published by the Federal Reserve). The projection of cash flows used to determine this single discount rate were the amounts of contributions attributable to current plan members and assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the statutory contribution rates under the System's funding policy. Based on these assumptions, the pension plan's fiduciary net position and future contributions were sufficient to finance the benefit payments through the year 2073. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2073, and the municipal bond rate was applied to all benefit payments after that date.

*Sensitivity of the System's Net Pension Liability to Changes in the Discount Rate*
Regarding the sensitivity of the net pension liability to changes in the single discount rate, the following presents the plan's net pension liability, calculated using a single discount rate of 7.09%, as well as what the plan's net pension liability would be if it were calculated using a single discount rate that is 1-percentage-point lower or 1-percentage-point higher:

| 1% Decrease 6.09% | Current Single Discount Rate Assumption 7.09% | 1% Increase 8.09% |
|---|---|---|
| $ 30,885,146,279 | $ 25,481,105,995 | $ 20,997,457,586 |

Additional information regarding the SURS basic financial statements including the Plan Net Position can be found in the SURS comprehensive annual financial report by accessing the website at www.SURS.org.

## 13. OTHER POST-EMPLOYMENT BENEFITS

*Plan description*
The State Employees Group Insurance Act of 1971 (Act), as amended, authorizes the Illinois State Employees Group Insurance Program (SEGIP) to provide health, dental, vision, and life insurance benefits for certain retirees and their dependents. Substantially all of the University's full-time employees are members of SEGIP. Members receiving monthly benefits from the General Assembly Retirement System (GARS), Judges Retirement System (JRS), State Employees' Retirement System of Illinois (SERS), Teachers' Retirement System (TRS), and State Universities Retirement System of Illinois (SURS) are eligible for these other post-employment benefits (OPEB). Certain TRS members eligible for coverage under SEGIP include: certified teachers employed by certain State agencies, executives employed by the Board of Education, regional superintendents, regional assistant superintendents, TRS employees and members with certain reciprocal service.

The Department of Central Management Services administers these benefits for annuitants with the assistance of the public retirement systems sponsored by the State (GARS, JRS, SERS, TRS and SURS). The State recognizes SEGIP OPEB benefits as a single-employer defined benefit plan. The plan does not issue a stand-alone financial report.

*Benefits provided*
The health, dental, and vision benefits provided to and contribution amounts required from annuitants are the result of collective bargaining between the State and the various unions representing the State's and the university component units' employees in accordance with limitations established in the Act. Therefore, the benefits provided and contribution amounts are subject to periodic change. Coverage through SEGIP becomes secondary to Medicare after Medicare eligibility has been reached. Members must enroll in Medicare Parts A and B

to receive the subsidized SEGIP premium available to Medicare eligible participants. The Act requires the State to provide life insurance benefits for annuitants equal to their annual salary as of the last day of employment until age 60, at which time, the benefit amount becomes $5,000.

*Funding policy and annual other postemployment benefit cost*

OPEB offered through SEGIP are financed through a combination of retiree premiums, State contributions and Federal government subsidies from the Medicare Part D program. Contributions are deposited in the Health Insurance Reserve Fund, which covers both active State employees and retirement members. Annuitants may be required to contribute towards health and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants who retired prior to January 1, 1998, and who are vested in the State Employee's Retirement System do not contribute toward health and vision benefits. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced five percent for each year of credited service with the State allowing those annuitants with twenty or more years of credited service to not have to contribute towards health and vision benefits. All annuitants are required to pay for dental benefits regardless of retirement date. The Director of Central Management Services shall, on an annual basis, determine the amount the State shall contribute toward the basic program of group health benefits. State contributions are made primarily from the General Revenue Fund on a pay-as-you-go basis. No assets are accumulated or dedicated to funding the retiree health insurance benefit and a separate trust has not been established for the funding of OPEB.

For Fiscal Year 2018, the annual cost of the basic program of group health, dental, and vision benefits before the State's contribution was $10,926 ($6,145 if Medicare eligible) if the annuitant chose benefits provided by a health maintenance organization and $14,939 ($5,165 if Medicare eligible) if the annuitant chose other benefits. The State is not required to fund the plan other than the pay-as-you-go amount necessary to provide the current benefits to retirees.

*Total OPEB liability, deferred outflows of resources, deferred inflows of resources and expense related to OPEB*

The total OPEB liability, as reported at June 30, 2018, was measured as of June 30, 2017, with an actuarial valuation as of June 30, 2016. At June 30, 2018, the University recorded a liability of $40,084,143 for its proportionate share of the State's total OPEB liability. The University's portion of the OPEB liability was based on the University's proportion of employer contributions relative to all employer contributions made to the plan during the year ended June 30, 2017. As of the current year measurement date of June 30, 2017, the University's proportion was 0.0970%, which was an increase of 0.0009% from its proportion measured as of the prior year measurement date of June 30, 2016.

The University recognized OPEB expense for the year ended June 30, 2018, of $2,081,377. At June 30, 2018, the University reported deferred outflows and deferred inflows of resources, as of the measurement date of June 30, 2017, from the following sources (amounts expressed in thousands):

| | | |
|---|---|---|
| **Deferred outflow of resources** | | |
| Difference between expected and actual experience | $ | 13 |
| Changes in portion and differences between employer contributions and proportionate share of contribution | | 320 |
| University contribution subsequent to measurement date | | 997 |
| Total deferred outflow of resources | $ | 1,330 |
| | | |
| **Deferred inflows of resources** | | |
| Changes of assumptions | $ | 3,806 |
| Changes in portion and differences between employer contributions and proportionate share of contribution | | – |
| State contribution subsequent to measurement date | | – |
| Total deferred inflow of resources | $ | 3,806 |

The $997,132 reported as deferred outflows of resources related to OPEB resulting from University contributions subsequent to the measurement date will be recognized as a reduction to the OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows (amounts expressed in thousands):

| Year Ending June 30 | | Net Deferred Inflows of Resources |
|---|---|---|
| 2019 | $ | (781) |
| 2020 | | (781) |
| 2021 | | (781) |
| 2022 | | (781) |
| 2023 | | (349) |
| Total | $ | (3,473) |

*Actuarial methods and assumptions*

The total OPEB liability was determined by an actuarial valuation using the following actuarial assumptions, applied to all periods included in the measurement unless otherwise specified. The actuarial valuation for the SEGIP was based on GARS, JRS, SERS, TRS, and SURS active, inactive, and retiree data as of June 30, 2016, for eligible SEGIP employees, and SEGIP retiree data as of June 30, 2016.

| | |
|---|---|
| Valuation Date | June 30, 2016 |
| Measurement Date | June 30, 2017 |
| Actuarial Cost Method | Entry Age Normal |
| Inflation Rate | 2.75% |
| Projected Salary Increases* | 3.00% - 15.00% |
| Discount Rate | 3.56% |
| Healthcare Cost Trend Rate | |
| Medical (Pre-Medical) | 8.0% grading down 0.5% in the first year to 7.5%, then grading down 0.01% in the second year to 7.49%, followed by grading down of 0.5% per year over 5 years to 4.99% in year 7 |
| Medical (Post-Medical) | 9.0% grading down 0.5% per year over 9 years to 4.5% |
| Dental | 7.5% grading down 0.5% per year over 6 years to 4.5% |
| Vision | 3% |
| Retirees' share of benefit related costs | Healthcare premium rates for members depend on the date of retirement and the years of service earned at retirement. Members who retired before January 1, 1998, are eligible for single coverage at no cost to the member. Members who retire after January 1, 1008, are eligible for single coverage provided they pay a portion of the premium equal to 5% for each year of service under 20 years. Eligible dependents receive coverage provided they pay 100% of the required dependent premium. Premiums for plan year 2017 and 2018 are based on actual premiums. Premiums after 2018 were projected based on the same healthcare cost trend rates applied to per capita claim costs but excluding the additional trend rates that estimates the impact of the Excise Tax. |

*Dependent upon service and participation in the respective retirement systems. Includes inflation rate listed.

Additionally, the demographic assumptions used in the OPEB valuation are identical to those used in the June 30, 2016 valuations for GARS, JRS, SERS, TRS, and SURS as follows:

| | Retirement age experience study^ | Mortality^^ |
|---|---|---|
| GARS | July 2012 – June 2015 | RP-2014 White Collar Total Healthy Annuitant mortality table, sex distinct, set forward 1 year for males and set back 1 year for females and generational improvement scales |
| JRS | July 2012 – June 2015 | RP-2014 White Collar Total Healthy Annuitant mortality table, sex distinct, set forward 1 year for males and set back 1 year for females and generational mortality improvements using MP-2014 two-dimensional mortality improvement scales |
| SERS | July 2009 – June 2013 | 105% of the RP 2014 Healthy Annuitant mortality table, sex distinct, with rates projected to 2015; generational mortality improvement factors were added |
| TRS | July 2011 – June 2014 | RP-2014 with future mortality improvements on a fully generational basis using projection table MP-2014 |
| SURS | July 2011 – June 2014 | RP-2014 White Collar, gender distinct, projected using MP-2014 two dimensional mortality improvement scale, set forward one year for male and female annuitants. |

^The actuarial assumptions used in the respective actuarial valuations are based on the results of actuarial experience studies for the periods defined. A modified experience review was completed for SERS for the 3-year period ending June 30, 2015. Changes were made to the assumptions regarding investment rate of return, projected salary increases, inflation rate, and mortality based on this review. All other assumptions remained unchanged.

^^Mortality rates are based on mortality tables published by the Society of Actuaries' Retirement Plans Experience Committee.

*Discount rate*
Retirees contribute a percentage of the premium rate based on service at retirement. The State contributes additional amounts to cover claims and expenses in excess of retiree contributions. Because plan benefits are financed on a pay-as-you-go basis, the single discount rate is based on a tax-exempt municipal bond rate index of 20-year general obligation bonds with an average AA credit rating as of the measurement date. A single discount rate of 2.85% at June 30, 2016, and 3.56% at June 30, 2017, was used to measure the total OPEB liability.

*Sensitivity of total OPEB liability to changes in the single discount rate*
The following presents the plan's total OPEB liability, calculated using a Single Discount Rate of 3.56%, as well as what the plan's total OPEB liability would be if it were calculated using a Single Discount rate that is one percentage point higher (4.56%) or lower (2.56%) than the current rate (amounts expressed in thousands):

| | 1% Decrease (2.56%) | Current Single Discount Rate Assumption (3.56%) | 1% Increase (4.56%) |
|---|---|---|---|
| Total OPEB liability | $ 45,475 | $ 40,084 | $ 34,724 |

*Sensitivity of the total OPEB liability to changes in the healthcare cost trend rate.*
The following presents the plans total OPEB liability, calculated using the healthcare cost trend rates as well as what the plan's total OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point higher or lower, than the current healthcare cost trend rates (amounts in table expressed in thousands). The key trend rates are 8.0% in 2018 decreasing to an ultimate trend rate of 4.99% in 2025, for non-Medicare coverage, and 9.0% decreasing to an ultimate trend rate of 4.5% in 2027 for Medicare coverage.

| | 1% Decrease* | Current Healthcare Cost Trend Rates Assumption | 1% Increase** |
|---|---|---|---|
| Total OPEB liability | $ 34,252 | $ 40,084 | $ 44,899 |

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

## 14. OPERATING LEASES

The University leases various buildings and equipment under operating lease agreements. Total rental expense for the year ended June 30, 2018 under these agreements was $422,311. Minimum lease payments for the years ending June 30 are:

| Fiscal Year | Amount |
|---|---|
| 2019 | $ 388,082 |
| 2020 | 325,381 |
| 2021 | 325,381 |
| 2022 | 305,593 |
| 2023 | 305,593 |
| 2024 | 25,466 |
| Total | $ 1,675,496 |

## 15. SERVICE CONCESSION ARRANGEMENTS FOR STUDENT HOUSING

In August 13, 2014, the University awarded the design, development, and management of the University student housing facility project (Project) to the American Campus Communities (ACC) as a concession arrangement in accordance with 30 ILCS 500/53-25 of the Illinois Procurement Code. The concession arrangement is structured as a ground lease enabling the Project to be financed through bonds issued by the Illinois Finance Authority consistent with the Procurement Code. All net available cash flow of the Project will be paid to the University as rent under the ground lease.

In conjunction with the award to ACC, Collegiate Housing Foundation (CHF), a 501(c)(3) organization, was identified as the entity to be the ground lessee under the ground lease. In accordance with the ground lease agreement, CHF entered into a development agreement with ACC as developer for the planning, construction, equipping and furnishing of the Project. In addition, CHF entered into a management agreement with ACC to manage the operation of completed Project.

Under the ground lease agreement executed on May 7, 2015 between the University as the Lessor and CHF as Lessee, the lease will expire 40 years after the commencement date unless otherwise extended or sooner terminated. Upon termination or expiration of the ground lease, all rights and interests of the Lessee will immediately cease and terminate and the Project, including all buildings, improvements, machinery, fixtures, equipment and all personal property belong to and be the absolute property of the University.

Construction of the student housing facility started in May 2015 and opened for occupancy in fall of 2016. The University reported this transaction as a service concession arrangement effective Fiscal Year 2017 under the provisions of GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. The University recorded the student housing facility included under building and building improvement at acquisition value of $36,433,432, inclusive of the capitalized portion of the upfront equity contributed by the University of $3,228,618. A corresponding deferred inflow of resources of $33,204,784 is recognized and amortized over the remaining term of the ground lease agreement.

At June 30, 2018, the carrying amount of the student housing facility amounted to $35,530,521 and deferred inflow of resources amounted to $31,562,396. The amortization of deferred inflow of resources presented under Other Capital Additions in the statement of revenues, expenses, and changes in net assets amounted to $856,898.

## 16. CHANGE IN ACCOUNTING PRINCIPLE

The University adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* effective June 15, 2017. Note 13 to the financial statements provided general information about OPEB including the required disclosures. Also see the required supplementary information for additional disclosures.

As a result of implementing this standard, the University decreased its unrestricted net position as of July 1, 2017 by $40,804,501 which represented OPEB for the fiscal year ended June 30, 2017.

## 17. OPERATING EXPENSES BY NATURAL CLASSIFICATION

Details of the University's operating expenses by natural classification as June 30, 2018 are as follows:

| | Compensation and Benefits | Supplies and Services | Scholarships | Depreciation | Total |
|---|---|---|---|---|---|
| Instruction | $ 90,604,941 | $ 3,929,383 | $ 158,611 | $ – | $ 94,692,935 |
| Research | 1,307,942 | 788,610 | 134,711 | – | 2,231,263 |
| Public service | 11,871,204 | 6,127,064 | 27,052 | – | 18,025,320 |
| Academic support | 7,718,730 | 1,924,773 | 750 | – | 9,644,253 |
| Student services and programs | 11,088,256 | 3,117,597 | 78,682 | – | 14,284,535 |
| Institutional support | 15,077,639 | 4,023,851 | – | – | 19,101,490 |
| Operation and maintenance of plant | 12,172,856 | 3,640,049 | – | – | 15,812,905 |
| Scholarship and fellowships | – | – | 7,016,472 | – | 7,016,472 |
| Auxiliary enterprises | 3,560,187 | 1,810,937 | – | – | 5,371,124 |
| Depreciation | – | – | – | 7,888,645 | 7,888,645 |
| Other operating expenses | 76,736 | 260,172 | – | – | 336,908 |
| Total operating expenses | $ 153,478,491 | $ 25,622,436 | $ 7,416,278 | $ 7,888,645 | $ 194,405,850 |

## 18. STATE ON-BEHALF PAYMENTS FOR FRINGE BENEFITS

In accordance with GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, the University reported on-behalf payments totaling $63,931,592 representing $21,346,000 for healthcare and $42,585,592 for retirement costs. These on-behalf payments are reflected in Payments Made on Behalf of the University as nonoperating revenues and offsetting amounts allocated to each functional category under the operating expenses.

## 19. FEDERAL PERKINS LOAN

On February 17, 2016, a Dear Colleague Letter (DCL) Gen-16-05 notifies schools that the Federal Perkins Loan Program Extension Act of 2015 (Public Law 114-105), enacted on December 18, 2015, extends the Perkins Loan Program through September 30, 2017. The Extension Act establishes new eligibility requirements for undergraduate and graduate students to receive Perkins Loans. The grandfathering guidance is no longer applicable to the Perkins Loan Program. Schools participating in the Perkins Loan Program may make Perkins Loan through September 30, 2017 (undergraduate students) and September 30, 2016 (graduate students). In Fiscal Year 2018, the University chooses to continue servicing its Perkins Loans until such time all of the outstanding Perkins loans have been paid in full or otherwise fully retired.

## 20. SEGMENT INFORMATION

A segment is an identifiable activity for which one or more revenue bonds or other revenuebacked debt instruments are outstanding. A segment has a specific, identifiable revenue stream pledged in support of the revenue bonds and has related expenses, gains and losses, assets and liabilities that can be identified.

The University Facilities System was created in July 1973. It consists of buildings such as student union, multi-level parking and other structures, that have been constructed and improved with funding provided from the issuance of revenue bonds. Its revenues mainly include student union fees, parking user fees and parking violation fines, campus improvement fees, and commission from vending operations and concession fees from bookstore operations. Its operating expenses mainly include personnel costs, repairs, maintenance and other contractual services, and depreciation.

The following are the condensed financial statements for the University Facility System. These financial statements have been prepared to satisfy the requirements of the Revenue Bond Resolution. The financial balances and activities of the University Facilities System are included in the University financial statements.

| **Condensed Statement of Net Position** | June 30, 2018 |
|---|---|
| Assets: | |
| Current assets | |
| Unrestricted | $ 1,936,028 |
| Restricted | 878,700 |
| Noncurrent assets: | |
| Capital assets, net | 15,980,537 |
| Restricted other noncurrent assets | 2,033,360 |
| Total assets | 20,828,625 |
| Liabilities: | |
| Current liabilities | 1,188,426 |
| Noncurrent liabilities | 14,359,924 |
| Total liabilities | 15,548,350 |
| Net position: | |
| Net investment in capital assets | 1,004,327 |
| Restricted - expendable: | |
| Capital projects | 2,024,506 |
| Debt service | 585,000 |
| Unrestricted | 1,666,442 |
| Total net position | $ 5,280,275 |

| **Condensed Statement of Revenues, Expenses, and Changes in Net Position** | For the year ended June 30, 2018 |
|---|---|
| Operating revenues: | |
| Student tuition and fees, net | $ 1,727,463 |
| Auxiliary enterprises and others | 2,025,082 |
| Total operating revenues | 3,752,545 |
| Operating expenses: | |
| Depreciation | 803,900 |
| Other operating expenses | 2,281,499 |
| Total operating expenses | 3,085,399 |
| Operating income | 667,146 |
| Nonoperating revenues (expenses): | |
| Investment income | 1,032 |
| Interest on indebtedness | (587,400) |
| Net nonoperating expenses | (586,368) |
| Increase in net position | 80,778 |
| Net position, beginning of year | 5,199,497 |
| Net position, end of year | $ 5,280,275 |

| **Condensed Statement of Cash Flows** | For the year ended June 30, 2018 |
|---|---|
| Net cash provided by (used in): | |
| Operating activities | $ 1,453,175 |
| Capital financing activities | (827,400) |
| Investing activity | 1,032 |
| Net increase in cash and cash equivalents | 626,807 |
| Cash and cash equivalents, beginning of year | 3,854,575 |
| Cash and cash equivalents, end of year | $ 4,481,382 |

## 21. FOUNDATION ENDOWMENT FUNDS

The Board of Directors of the Foundation have interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), as adopted by the State of Illinois as requiring the preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

a. The duration and preservation of the fund;
b. The purposes of the Foundation and the donor-restricted endowment fund;
c. General economic conditions;
d. The possible effect of inflation and deflation;
e. The expected total return from income and the appreciation of investments;
f. Other resources of the Foundation; and
g. The investment policies of the Foundation.

The donors to the various endowment funds of the Foundation allow that on occasion, the value of the respective funds may drop below historical value due to the realized and unrealized investment losses with the expectation that all efforts are made to restore historical value when market conditions improve and that, in accordance with policy, no distributions may be made from the funds in order to allow for this restoration.

Endowment net asset composition by type of fund as of June 30, 2018 is as follows:

| | Unrestricted | Temporary Restricted | Permanently Restricted | Total Endowment Net Assets |
|---|---|---|---|---|
| Donor-restricted endowment funds | $ – | $ – | $ 11,752,694 | $ 11,752,694 |
| Quasi endowment fund | 496,225 | – | – | 496,225 |
| Total endowment net assets | $ 496,225 | $ – | $ 11,752,694 | $ 12,248,919 |

Changes in endowment net assets for the year ended June 30, 2018 are as follows:

| | Unrestricted | Temporary Restricted | Permanently Restricted | Total Endowment Net Assets |
|---|---|---|---|---|
| Endowment net assets, beginning of year | $ 495,545 | $ – | $ 10,197,228 | $ 10,692,773 |
| Prior period adjustment | – | – | 245,824 | 245,824 |
| Contributions | – | – | 938,216 | 938,216 |
| Investment income, net of fees | 11,472 | 74,864 | 177,226 | 263,562 |
| Net realized and unrealized gains | 11,466 | 99,948 | 240,454 | 351,868 |
| Change in value of split interest agreement | – | – | (35,558) | (35,558) |
| Bad debt loss | – | – | (10,696) | (10,696) |
| Appropriation of endowment assets for expenditure | (22,258) | (174,812) | – | (197,070) |
| Total endowment net assets | $ 496,225 | $ – | $ 11,752,694 | $ 12,248,919 |

## 22. COMMITMENTS AND CONTINGENCIES

The University is from time to time subject to various claims and legal actions related to the University or the actions of its employees. Although it is difficult to quantify the potential impact of these claims, management believes that the ultimate cost of these matters will not adversely affect the University's future financial condition or results of operations.

## 23. SUBSEQUENT EVENTS

In fall of 2018, the University student housing facility occupancy fell to 53.74%. Due to lower expected occupancy, an occupancy contribution of $676,644 was made in October 2018 and a similar payment is expected in spring of 2019.

# REQUIRED SUPPLEMENTARY INFORMATION

**STATE OF ILLINOIS**
**NORTHEASTERN ILLINOIS UNIVERSITY**
**REQUIRED SUPPLEMENTARY INFORMATION - PENSION (UNAUDITED)**
**FOR THE YEAR ENDED JUNE 30, 2018**

**Schedule of Employer's Proportionate Share of Net Pension Liability (Unaudited)**

| | Fiscal Year 2014 | Fiscal Year 2015 | Fiscal Year 2016 | Fiscal Year 2017 |
|---|---|---|---|---|
| | | | | |
| (a) Proportion Percentage of the Collective Net Pension Liability | 0% | 0% | 0% | 0% |
| (b) Proportion Amount of the Collective Net Pension Liability | $– | $– | $– | $– |
| (c) Portion of Nonemployer Contribution Entities' Total Proportion of Collective Net Pension Liability associated with Employer | $390,904,472 | $415,299,735 | $456,612,715 | $449,716,040 |
| Total (b) + (c) | $390,904,472 | $415,299,735 | $456,612,715 | $449,716,040 |
| | | | | |
| Employer Defined Benefit Covered Payroll | $65,041,857 | $63,636,133 | $ 63,473,858 | $62,293,222 |
| | | | | |
| Proportion of Collective Net Pension Liability associated with Employer as a percentage of Defined Benefit Covered Payroll | 601.00% | 652.62% | 719.37% | 721.93% |
| | | | | |
| SURS Plan Net Position as a Percentage of Total Pension Liability | 44.39% | 42.37% | 39.57% | 42.04% |

**Schedule of Contributions (Unaudited)**

| | Fiscal Year 2014 | Fiscal Year 2015 | Fiscal Year 2016 | Fiscal Year 2017 | Fiscal Year 2018 |
|---|---|---|---|---|---|
| | | | | | |
| Federal, Trust, Grant and Other contribution | $893,135 | $891,325 | $993,039 | $1,005,214 | $,1070,239 |
| Contribution in relation to required contribution | $893,135 | $891,325 | $993,039 | $1,005,214 | $1,070,239 |
| Contribution deficiency (excess) | $– | $– | $– | $– | $– |
| Employer Covered-Employee Payroll | $10,013,144 | $8,073,594 | $9,495,538 | $10,465,666 | $10,024,895 |
| Contributions as a percentage of covered payroll | 8.92% | 11.04% | 10.46% | 9.60% | 10.67% |

Note: The System implemented GASB Statement No. 68 in Fiscal Year 2015. The information above is presented for as many years as available. The Schedule is intended to show information for 10 years.

Fiscal Year 2018 Total Define Benefit (DB) Contributions: $5,022,484

Fiscal Year 2018 Total Self-Managed Plan (SMP) Contributions: $1,075,458

1. **Changes of Benefit Terms**
   There were no benefit changes recognized in the Total Pension Liability as of June 30, 2017.

2. **Changes of Assumptions**
   In accordance with Illinois Compiled Statutes, an actuarial review is to be performed at least once every three years to determine the reasonableness of actuarial assumptions regarding the retirement, disability, mortality, turnover, interest and salary of the members and benefit recipients of SURS. An experience review for the years June 30, 2010 to June 30, 2014 was performed in February 2015, resulting in the adoption of new assumptions as of June 30, 2015.

   - Mortality rates. Change from the RP 2000 Mortality table projected to 2017, sex distinct, to the RP-2014 mortality tables with projected generational mortality improvement. Change to a separate mortality assumption for disabled participants.
   - Salary increase. Change assumption to service-based rates, ranging from 3.75 percent to 15.00 percent based on years of service, with underlying wage inflation of 3.75 percent.
   - Normal retirement rates. Change to retirement rates at ages younger than 60, age 66, and ages 70-79 to reflect observed experiences.
   - Early retirement rates. Change to a slight increase in the rates at ages 55 and 56.
   - Turnover rates. Change to produce lower expected turnover for members with less than 10 years of service and higher turnover for members with more than 10 years of service than the currently assumed rates.
   - Disability rates. Decrease rates and have separate rates for males and females to reflect observed experience.
   - Dependent assumption. Maintain the current assumption on marital status that varies by age and sex and the assumption that males are three years older than their spouses.

**STATE OF ILLINOIS**
**NORTHEASTERN ILLINOIS UNIVERSITY**
**REQUIRED SUPPLEMENTARY INFORMATION - OTHER POSTEMPLOYMENT BENEFITS (UNAUDITED)**
**FOR THE YEAR ENDED JUNE 30, 2018**

**Schedule of Employer's Proportionate Share of Net Other Postemployment Benefits Liability - OPEB (Unaudited)**

| | Fiscal Year 2016* | Fiscal Year 2017* |
|---|---|---|
| | | |
| Employer's Proportion of the Collective Net Other Postemployment Benefits Liability | 0.0961% | 0.0970% |
| Employer's Proportionate Share of the Collective Net Other Postemployment Benefits Liability | $41,802,880 | $40,084,143 |
| Employer Defined Benefit Covered Payroll | $74,753,685 | $73,284,189 |
| Proportion of Collective Net Other Postemployment Benefits Liability as associated with Employer as a percentage of Defined Benefit Covered Payroll | 55.92% | 54.70% |

**The amount presented for each fiscal year was determined as of the prior fiscal year end.*

Note: The Illinois State Employees Group Insurance Program implemented GASB Statement No. 75 in Fiscal Year 2018. The information above is presented for as many years as available. The Schedule is intended to show information for 10 years.

**STATE OF ILLINOIS**
**NORTHEASTERN ILLINOIS UNIVERSITY**
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - OPEB (UNAUDITED)**
**FOR THE YEAR ENDED JUNE 30, 2018**

1. **Asset accumulated in the plan.**
   Contributions are made on a pay-as-you-go basis. No assets are accumulated or dedicated to fund the retiree health insurance benefit and a separate trust has not been established.

2. **Change of Benefit Terms**
   There were no benefit changes as of June 30, 2017.

3. **Changes of Assumptions**
   Changes of assumptions and other inputs reflect the effects of changes in the discounts rate each period. The following are the discount rates used in each period:

| | |
|---|---|
| 2017 | 3.56% |
| 2016 | 2.85% |

# OTHER INFORMATION

**STATE OF ILLINOIS**
**NORTHEASTERN ILLINOIS UNIVERSITY**
**OTHER INFORMATION**
**UNIVERSITY FACILITIES SYSTEM REVENUE BOND FUNDS (UNAUDITED)**
**FOR THE YEAR ENDED JUNE 30, 2018**

**Insurance in Force (Unaudited)**

| Type of Coverage | Required Coverage | Coverage in Force (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) |
| Licensed professional liability policy | | $1,000,000 / occurrence |
| | | $2,000,000 / aggregate |
| General liability insurance | $100,000/person<br>$300,000/accident | $10,000,000 / occurrence<br>$10,000,000 / annual aggregate, with $10,000,000 annual aggregate each for product liability, completed operations liability, employee occupational disease and sexual molestation |
| Corporate surety bonds | $4,015,575 (d) | $5,000,000 |
| Buffer excess liability | | $650,000 / occurrence<br>$2,000,000 / aggregate |
| Each University employee blanket crime policy | None | $1,000,000 / occurrence |

Notes:

(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, 2018 over cash and short-term investments in the Bond Account and Bond Reserve at June 30, 2018.

(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.

**STATE OF ILLINOIS**
**NORTHEASTERN ILLINOIS UNIVERSITY**
**OTHER INFORMATION**
**UNIVERSITY FACILITIES SYSTEM REVENUE BOND FUNDS (UNAUDITED)**
**FOR THE YEAR ENDED JUNE 30, 2018**

**Enrollment at the University (Unaudited)**

| Term | Academic Year 2017-2018 |
|---|---|
| Fall | 8,984 |
| Spring | 8,051 |
| Summer | 3,925 |

**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 and Facilities System. 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.

In academic year 2017-2018, students enrolled at the University pay a fee of $7.75 per credit hour for the right to use the University's Student Union which is the heart of the activity program on-campus, a fee of $2.50 per credit hour for a campus improvement to support current and future long-term investments in capital facilities and technology infrastructure, and a $10 parking fee, which can be waived.

**Summary of Each Fund and Account under the Bond Resolution (Unaudited)**

| | Balance of Assets Reserved as of June 30, 2018 |
|---|---|
| Bond account (a) | $ 585,000 |
| Repair and replacement reserve account | $ 1,884,686 |
| Non-instructional facilities (development) reserve account | $ – |
| Equipment reserve account | $ 139,820 |

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 July 1, 2018.

E.C. ORTIZ & CO., LLP
CERTIFIED PUBLIC ACCOUNTANTS

**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 Frank J. Mautino
Auditor General
State of Illinois

and

The Board of Trustees
Northeastern Illinois University

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Northeastern Illinois University and its discretely presented component unit, collectively a component unit of the State of Illinois, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Northeastern Illinois University's basic financial statements, and have issued our report thereon dated January 14, 2019. Our report includes a reference to other auditors who audited the financial statements of Northeastern Illinois University's discretely presented component unit, as described in our report on Northeastern Illinois 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 of the financial statements, we considered Northeastern Illinois University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Northeastern Illinois University's internal control. Accordingly, we do not express an opinion on the effectiveness of Northeastern Illinois University's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings as item 2018-001, that we consider to be a significant deficiency.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Northeastern Illinois University's financial statements are free from 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*.

**University's Response to the Finding**

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

**Purpose of this Report**

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

**SIGNED ORIGINAL ON FILE**

Chicago, Illinois
January 14, 2019

## Schedule of Findings

### Current Finding - *Government Auditing Standards*

2018-001. **FINDING** (Inadequate Controls over Student Receivables and Tuition Billings)

Northeastern Illinois University (University) did not establish and implement adequate internal control procedures over student receivables and tuition billings.

In the performance of our auditing procedures, we noted the following:

- The University improperly classified student accounts with credit balances against students' receivable. In our testing of receivable aging schedule of 47 students, we noted two (4%) student accounts had credit balances totaling \$1,780. The credit balances pertained to student overpayments from prior years which were supposedly refunded to students. As of June 30, 2018, there were 837 students with credit balances totaling \$311,155. The University subsequently reclassified the credit balances to accounts payable.

- The University did not ensure correct tuition rates were billed to students. In our testing of tuition fee billings of 25 students, we noted three (12%) students erroneously billed lower tuition rates than the approved student tuition rates by the University's Board of Trustees. These students were noted to be included under the fall 2011, summer 2013 and second bachelor's cohorts. As of June 30, 2018, there were 86 students incorrectly billed totaling \$16,397.

Governmental Accounting Standards Board Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, Paragraph 501, states that assets and liabilities should not be offset in the statement of net position except where a right of offset exists.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the University to establish and maintain a system, or systems, of internal fiscal and administrative controls to ensure resources are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

University officials stated the student accounts with credit balances were improperly classified due to a timing issue in running the job generating refund checks to students. University officials also stated the incorrect student tuition fee rates billed to students were due to human error when the student tuition rates were updated in the system during the current academic year.

**Schedule of Findings**

**Current Finding - *Government Auditing Standards* (continued)**

2018-001. **FINDING** (Inadequate Controls over Student Receivables and Tuition Billings) (continued)

Failure to establish and implement adequate internal control procedures over student receivables and tuition billings may result in material misstatements on the University's financial statements. (Finding Code No. 2018-001)

**RECOMMENDATION**

We recommend University management provide adequate oversight over student receivables and tuition billings to ensure student accounts are properly classified in the financial statements and students are billed with accurate student tuition fee rates.

**UNIVERSITY'S RESPONSE**

The University accepts the recommendation. Going forward, the University will increase the frequency in running necessary procedures to address student credit balances and implement a secondary review when applying new tuition rates in the system.

**Schedule of Findings**

**Prior Findings Not Repeated - *Government Auditing Standards***

A. **FINDING:** Inadequate Controls over Financial Close and Reporting

During the prior audit, Northeastern Illinois University (University) did not have adequate controls over financial close and reporting to allow management or employees in the normal course of performing their assigned functions to prevent or detect financial statement misstatements timely.

During the current audit, the University implemented additional financial close and reporting procedures to ensure transactions are properly recorded during the fiscal year. (Finding Code No. 2017-001)