



KESSLER ORLEAN SILVER
CERTIFIED PUBLIC ACCOUNTANTS

Northeastern Illinois University Foundation

Financial Statements

June 30, 2017 and 2016

Northeastern Illinois University Foundation

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Northeastern Illinois University Foundation

Agency Officials

For the Year Ended June 30, 2017

Agency Officials

President	John Roskopf
Vice-President	Lawrence Frank, PhD
Treasurer	Neal Fenwick
Secretary	Mark Van Ausdal
Executive Director, Vice President for Institutional Advancement	Liesl Downey
Business Manager	Melva Acevedo-Ryan
Director of Development	Sylvia Daniels

Agency office is located at:

5500 North St. Louis Avenue
Chicago, Illinois 60625

Northeastern Illinois University Foundation
Financial Statement Report
For the Year Ended June 30, 2017

Summary

The audit of the accompanying basic financial statements of the Northeastern Illinois University Foundation (the "Foundation") was performed by Kessler Orlean Silver & Company, P.C.

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

The auditor's report on the supplementary information presented in this section states that it has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in the auditor's opinion, is fairly stated in all material respects in relation to the basic financial statements as a whole.

Summary of Findings

No findings were identified in the 2017 and 2016 audits.

Exit Conference

The results of the audit were discussed with Foundation personnel via teleconference on September 6, 2017.



Independent Auditor's Report

To the Board of Trustees
Northeastern Illinois University Foundation
Chicago, IL

We have audited the accompanying financial statements of Northeastern Illinois University Foundation (a not-for-profit corporation) which comprise the statements of financial position, as of June 30, 2017 and 2016, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

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 an opinion on these financial statements based on our audit. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Foundation'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 Foundation'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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northeastern Illinois University Foundation as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 5 through 9 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 2017 on our consideration of the Foundation'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 or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting and compliance.

Respectfully submitted,

Kessler, Orlean, Silver & Company, P.C.

Kessler, Orlean, Silver & Company, P.C.
Certified Public Accountants

Deerfield, Illinois
September 14, 2017

Northeastern Illinois University Foundation

Management's Discussion and Analysis

For the Year Ended June 30, 2017

This document presents management's discussion and analysis of the financial performance of the Foundation during the fiscal year ended June 30, 2017 with comparative information for the year ended June 30, 2016. This discussion should be read in conjunction with the financial statements and footnotes and is designed to focus on current activities, resulting changes, currently known facts, and future outlook. The financial statements, footnotes and this discussion are the responsibility of the Foundation's management.

Reporting Entity

The Northeastern Illinois University Foundation is a not-for profit corporation and is considered to be a component unit of the State of Illinois and Northeastern Illinois University (the University), as defined by the Governmental Accounting Standards Board (GASB) Statement No.39. This statement defines component units as organizations for which "the substance and significance of their relationship between the organization and the primary government or its component units would be such that the exclusion of that organization from the reporting entity's financial statements would render those statements misleading or incomplete from the perspective of the financial statement user." Accordingly, the Foundation is included in the University's financial statements as a discrete component unit.

Established in 1969, the NEIU Foundation functions as an independent Illinois not-for-profit organization whose corporate mission is to advance the interests and welfare of the University. The Foundation is the official fundraising and private gift-receiving agency for Northeastern.

The primary responsibilities of the Foundation are to develop private support on behalf of the University, to promote the University's mission and to receive and administer contributions. In this way, the Foundation plays a vital role in ensuring that the University remains highly affordable while retaining the highest academic standards. Private contributions, when added to state resources, add an extra dimension of support that otherwise would not be possible.

Using the Annual Report

These financial statements are prepared in accordance with the guidance found in the statements issued by the Governmental Accounting Standards Board (GASB). These statements focus on the financial condition of the Foundation, the results of operations and cash flows of the Foundation as a whole.

As prescribed by GASB, the annual report includes three financial statements: The Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows. An explanation of the financial statement presentation follows.

The **Statement of Financial Position** reflects the assets and liabilities of the Foundation using the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided, and expenses and liabilities are recognized when a service is delivered to the Foundation, regardless of when cash is exchanged. Financial Position presents the financial position of the Foundation at a specified point in time. The difference between total assets and total liabilities, known as the net position, is one indicator of the current financial condition of the Foundation.

Northeastern Illinois University Foundation

Management's Discussion and Analysis

For the Year Ended June 30, 2017

The increase or decrease in net position that occurs over time indicates the improvement or erosion of the Foundation's financial condition. The Foundation has seen an improvement from FY16.

The **Statement of Activities and Changes in Net Assets** presents the revenues earned and expenses incurred during the fiscal year. Revenues and expenses are reported as either operating or other income. Investment income is reflected under other income and has seen a positive return and has made up losses recorded in FY16. Additionally, payments made for scholarships and grants to the University are treated as operating expenses and classified by Program expenses.

The **Statement of Cash Flows** presents information about cash receipts and cash payments of the Foundation during the year. The Foundation is required to use the direct method of presentation for this statement which indicates the cash effects categorized by operations, non-capital financing transactions, and investing transactions.

The accompanying **Notes to Financial Statements** are a crucial component of the report because they provide more detailed information regarding the items presented on the face of the financial statements.

Statement of Net Assets

The Foundation's financial position increased during the fiscal year ended June 30, 2017. Total Net Assets increased by 18% from June 30, 2016. This is attributable to various factors including contributions and favorable investment earnings. Non-Current Assets (permanent endowments) increased by \$1.59 million due to an increase in donated gifts and a favorable investment climate that resulted in positive income, additionally Current Assets increased by \$ 235 thousand.

Condensed Statement of Net Assets

Total Current Assets	\$	2,804,470	\$	2,569,564
Total Non-current assets	\$	10,205,227	\$	8,610,605
Total Assets	\$	13,009,697	\$	11,180,169
Total current liabilities	\$	459,585	\$	448,957
Total non-current liabilities	\$	270,754	\$	284,754
Total Liabilities	\$	730,339	\$	733,711
Net Assets Permanently Restricted	\$	10,197,228	\$	8,602,604
Net Assets Restricted	\$	1,340,332	\$	1,179,251
Net Assets Unrestricted	\$	741,798	\$	664,603
Total Net Assets:	\$	12,279,358.00	\$	10,446,458.00
Total Assets Liabilities	\$	13,009,697.00	\$	11,180,169.00

At June 30, 2017, total current assets were \$ 2.8 million which included \$ 792 thousand of cash and cash equivalents and \$159 thousand in receivables (pledges). The approximate \$ 42 thousand change in receivables from 2016 to 2017 was due to a decrease in pledges receivable at year-end.

The Foundation's largest noncurrent assets for June 30, 2017 are its endowment investments of \$ 10.2 million. The increase in noncurrent investments between 2017 and 2016 is attributed to additional contributions to endowed funds and favorable investment earnings.

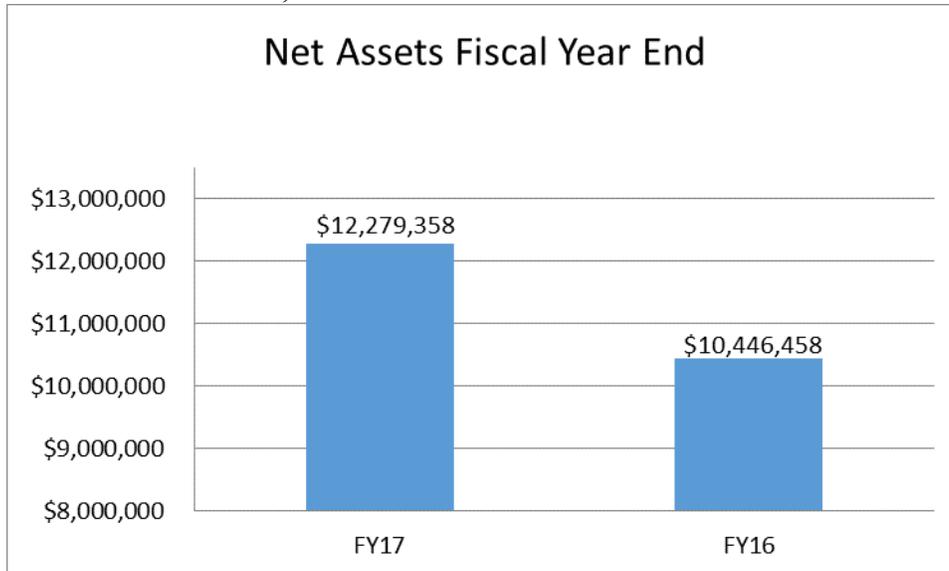
Northeastern Illinois University Foundation

Management's Discussion and Analysis

For the Year Ended June 30, 2017

The Foundation's liabilities as of June 30, 2017 total \$ 730 thousand, the bulk of which comes from custodial funds held by the Foundation and projected obligations on a Split-Interest agreement in the form of a Charitable Remainder Trust.

The Foundation's Net Assets totaled at Fiscal year end June 30, 2017 was \$ 12.3 million, a \$ 1.8 million increase over June 30, 2016.



Northeastern Illinois University Foundation

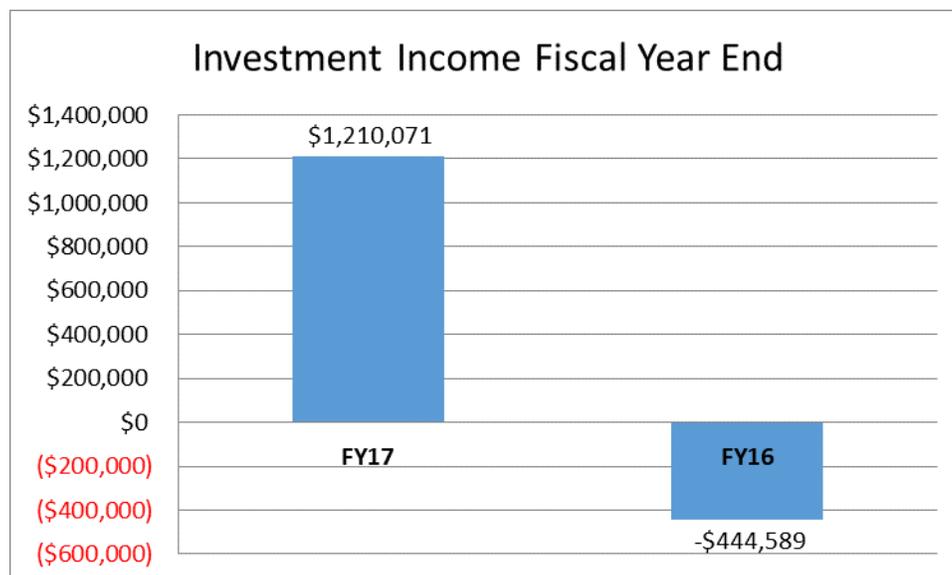
Management's Discussion and Analysis

For the Year Ended June 30, 2017

Operating Revenues

The Foundation receives gifts from many sources and for different purposes. Gifts that are unrestricted or temporarily restricted for a specific purpose are reported as Contributions in the Operating section of the Activities statement and are defined as operating revenues. Additions to permanent endowments for scholarships or to support programs and departments are shown under the Other Income along with investment income reported.

During fiscal year 2017, the Foundation received a total of \$1.23 million in unrestricted and restricted gifts, and \$ 514 thousand in additions to permanent endowments. In addition, investment income in FY17 was \$1.21 million that offset the loss reported in FY16.



Operating Expenses

Total operating expenses for fiscal year 2017 were \$1.3 million. Of this amount, \$ 340 thousand or 29.5% was awarded in scholarships and awards to students. Total scholarships, grants and awards paid out by the Foundation were \$ 611 thousand of the Foundation's Program Service expenses. Together, this represents 47 % percent of Foundation expenses. 68% of all Foundation expenses fall under Program Services expense which represents expenses directly related to carrying out the Foundation's corporate mission. In order to improve transparency, the Foundation has added a Statement of Functional Expenses.

Northeastern Illinois University Foundation

Management's Discussion and Analysis

For the Year Ended June 30, 2017

The Foundation's Future

The Foundation operates with the purpose of supporting the University's mission to provide an exceptional environment for learning, teaching, and scholarship, and to prepare a diverse community of students for leadership and service in our region and in a dynamic multicultural world. Private support enables the University to enhance educational opportunities and provide support that would not otherwise be possible. As state appropriated funds continue to provide a smaller portion of the University's operating revenue, private support will play an increasingly important role in helping NEIU and its students achieve their goals.

The Foundation's operations are supported by its unrestricted fund and from staff and facility use with the University. The University continues to build upon its fundraising success, generating increased giving that will help sustain the Foundation's operations. We continue to budget conservatively and are benefiting from an upward trend in donations received. The University launched the public phase of its \$10 million inaugural campaign, *Transforming Lives: The Campaign for Northeastern Illinois University*, in April 2017, which will end in December 2018. The campaign has raised \$7.8 million as of June 30, 2017, and with 20% of all donations received from first-time donors, we expect continued growth to the Foundation's donor base. The Foundation's strategy includes:

- Engaging alumni through personal and professional networks,
- Continuing high-impact events such as NEIU Weekend, the Scholar / Donor Luncheon and the Chuck Kane Memorial Golf Event,
- Connecting with University stakeholders via social media and print,
- Increasing corporate and foundation partnerships, and
- Cultivating current students as future alumni and donors.

Northeastern Illinois University Foundation

Statements of Financial Position

June 30, 2017 and 2016

	Assets	
	2017	2016
Current Assets		
Cash and Cash Equivalents (Note 2)		
Held for Foundation	\$ 792,124	\$ 351,155
Held in Custody	71,510	236,655
Short Term Investments (Note 2)		
Held for Foundation	1,393,773	1,418,666
Held in Custody	311,287	186,345
Certificates of Deposit	76,062	175,519
Contributions Receivable	159,714	201,224
	2,804,470	2,569,564
Noncurrent Assets		
Endowment Investments (Note 2)	9,750,641	8,186,073
Assets Held Under Split-Interest Agreements	446,586	416,532
Other Assets (Note 4)	8,000	8,000
	10,205,227	8,610,605
	\$ 13,009,697	\$ 11,180,169
Liabilities and Net Assets		
Current Liabilities		
Accounts Payable and Accrued Expenses	\$ 14,176	\$ 6,928
Due to NEIU	47,065	3,867
Obligations Under Split-Interest Agreement - Current Portion	15,547	15,162
Custodial Funds	382,797	423,000
	459,585	448,957
Long-Term Liabilities		
Obligations Under Split-Interest Agreement	270,754	284,754
	730,339	733,711

See accompanying notes to the financial statements.

Northeastern Illinois University Foundation

Statements of Financial Position

June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Net Assets		
Restricted		
Nonexpendable		
Scholarship and Memorials	10,197,228	8,602,604
Expendable		
Academics	191,248	201,127
Scholarship and Memorials	593,392	495,086
Alumni Association	65,983	48,619
Other	489,709	434,419
	<u>1,340,332</u>	<u>1,179,251</u>
Total Expendable		
	<u>1,340,332</u>	<u>1,179,251</u>
Total Restricted	11,537,560	9,781,855
Unrestricted	<u>741,798</u>	<u>664,603</u>
Total Net Assets	<u>12,279,358</u>	<u>10,446,458</u>
Total Liabilities and Net Assets	<u><u>\$ 13,009,697</u></u>	<u><u>\$ 11,180,169</u></u>

See accompanying notes to the financial statements.

Northeastern Illinois University Foundation

Statements of Activities and Changes in Net Assets

For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Revenues		
Operating Revenues		
Contributions	\$ 1,227,388	\$ 1,060,190
Personal Service Costs, Facility Use and Other Costs Provided by NEIU to the Foundation (Note 5)	<u>176,883</u>	<u>108,544</u>
Total Operating Revenues	<u>1,404,271</u>	<u>1,168,734</u>
Expenses		
Program Services	896,890	1,163,760
Management and General	261,887	192,201
Fundraising	<u>167,022</u>	<u>213,392</u>
Total Expenses	<u>1,325,799</u>	<u>1,569,353</u>
Other Income (Expense)		
Investment Income (Loss)	1,210,071	(444,589)
Gain (Loss) on Split Interest Agreement	<u>30,418</u>	<u>(169,308)</u>
Operating Income	<u>1,318,961</u>	<u>(1,014,516)</u>
Additions to Permanent Endowments	<u>513,939</u>	<u>474,399</u>
Change in Net Assets	1,832,900	(540,117)
Net Assets at Beginning of Year	<u>10,446,458</u>	<u>10,986,575</u>
Net Assets at End of Year	<u><u>\$ 12,279,358</u></u>	<u><u>\$ 10,446,458</u></u>

See accompanying notes to the financial statements.

Northeastern Illinois University Foundation

Statements of Functional Expenses

For the Years Ended June 30, 2017 and 2016

	2017				2016			
	Program	Management and General	Fundraising	Total	Program	Management and General	Fundraising	Total
Grants and Awards	\$ 304,659	\$ -	\$ -	\$ 304,659	\$ 633,676	\$ -	\$ -	\$ 633,676
Scholarship and Fellowship	307,025	-	-	307,025	256,991	-	-	256,991
Personal Service Costs	35,377	141,506	-	176,883	21,709	86,835	-	108,544
Conferences and Meetings	-	2,386	9,543	11,929	-	3,108	12,433	15,541
Consulting	78,483	19,621	-	98,104	104,366	26,092	-	130,458
Donor Cultivation and Stewardship	-	-	21,572	21,572	-	-	30,712	30,712
Dues and Subscriptions	-	2,726	-	2,726	-	4,544	-	4,544
Event Expenses	24,596	-	73,787	98,383	43,123	-	129,368	172,491
Honorarium	110,225	-	-	110,225	45,155	-	-	45,155
Investment Consultant	-	46,719	-	46,719	-	11,130	-	11,130
Licenses and Permits	485	485	-	970	3	3	-	6
Marketing	-	2,447	7,340	9,787	-	707	2,120	2,827
Miscellaneous	14,840	14,840	14,840	44,520	4,640	4,640	4,640	13,920
Office Expense	-	971	-	971	-	3,656	-	3,656
Postage	-	712	2,137	2,849	-	731	2,192	2,923
Printing	2,162	-	6,487	8,649	3,908	-	11,725	15,633
Professional Fees	15,441	2,725	-	18,166	48,003	8,471	-	56,474
Repairs and Maintenance	-	7,941	-	7,941	-	22,881	-	22,881
Service Charges	-	8,643	-	8,643	-	13,462	-	13,462
Staff Training	-	289	2,601	2,890	-	880	7,916	8,796
Supplies	3,597	3,597	3,597	10,791	2,186	2,186	2,186	6,558
Telephone	-	-	-	-	-	350	-	350
Travel	-	6,279	25,118	31,397	-	2,525	10,100	12,625
Total Expenses	\$ 896,890	\$ 261,887	\$ 167,022	\$ 1,325,799	\$ 1,163,760	\$ 192,201	\$ 213,392	\$ 1,569,353

See accompanying notes to the financial statements.

Northeastern Illinois University Foundation

Statements of Cash Flows

For the Years Ended June 30, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities		
Grants and contracts	\$ 754,591	\$ 1,068,336
Custodial Funds Paid Out	(80,747)	(149,817)
Interest and Dividends Received	301,230	320,039
Payments to Suppliers and Students	(1,098,470)	(1,454,723)
Payments to Beneficiaries of Split-Interest Agreements	(20,888)	(13,350)
	(144,284)	(229,515)
Net Cash Used by Operating Activities		
Cash Flows from Investing Activities		
Purchase of Certificates of Deposit	99,457	(175,519)
Proceeds from Sales of Investments	1,499,229	2,055,617
Purchases of Investment	(1,692,517)	(3,178,090)
	(93,831)	(1,297,992)
Net Cash Used by Investing Activities		
Cash Flows from Non Capital Financing Activities		
Contributions Restricted for Long-Term Purposes	513,939	474,399
	513,939	474,399
Net Increase (Decrease) in Cash and Cash Equivalents	275,824	(1,053,108)
Cash and Cash Equivalents, Beginning of Year	587,810	1,640,918
Cash and Cash Equivalents, End of Year	\$ 863,634	\$ 587,810
Reconciliation of Change in Net Assets to Net Cash Provided (Used) by Operating Activities		
Change in Net Assets	\$ 1,832,900	\$ (540,117)
Adjustments to Reconcile Change in Net Assets to Cash Provided (Used) by Operating Activities		
Change in Market Value of Investments Held	(872,256)	50
Realized Gain on Sale of Investments	(36,585)	764,983
Gain on Split Interest Agreement	(30,418)	169,308
Donated Stock	(514,307)	-
Contributions Received for Long-Term Purposes	(513,939)	(474,399)
Changes in Assets and Liabilities		
Contributions Receivable	41,510	8,145
Prepaid Expenses	-	584
Accounts Payable and Accrued Expenses	50,446	10,795
Obligations Under Split-Interest Agreement	(20,888)	(19,047)
Cash Held as Custodial Funds	(80,747)	(149,817)
	(144,284)	(229,515)
Net Cash Used by Operating Activities	\$ (144,284)	\$ (229,515)

See accompanying notes to the financial statements.

Northeastern Illinois University Foundation

Notes to Financial Statements

For the Years Ended June 30, 2017 and 2016

Note 1 – Summary of Significant Accounting Policies

Financial Reporting Entity

Northeastern Illinois University Foundation (the “Foundation”) is an Illinois nonprofit corporation established in May 1969 to secure and manage private support to benefit Northeastern Illinois University (the “University”), a State agency.

The Foundation is a “University Related Foundation”, as defined under the University Guidelines adopted by the Legislative Audit Commission in 1982, as amended in 1997, and a component unit of the State of Illinois for financial reporting purposes. Due to the significance of the financial relationship with the University, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Foundations are Component Units*, an amendment to GASB Statement No. 14; the Foundation is also included as a component unit of the University for financial reporting purposes. The financial balances and activities included in these financial statements are therefore also included as part of the University’s financial statements and the State of Illinois Comprehensive Annual Financial Report. All funds of the Foundation are locally administered and are neither subject to the State of Illinois appropriation process nor held in the State treasury.

Basis of Presentation

These financial statements include all financial activities over which the Foundation exercises direct responsibility.

The financial statement presentation required by GASB Statement No.’s 35, 37 and 38 provides a comprehensive perspective of the Foundation’s assets, liabilities, net assets, revenues, expenses, changes in net assets and cash flows.

For financial reporting purposes, the Foundation is considered a special-purpose government unit engaged only in business-type activities. Accordingly, the accompanying financial statements of the Foundation have been prepared on the accrual basis of accounting using the economic resources measurement focus. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when a liability has been incurred. All significant intra-agency transactions have been eliminated.

When both restricted and unrestricted resources are available for use, it is the Foundation’s policy to use restricted resources first, then unrestricted resources as needed.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 20, the Foundation is required to follow all applicable GASB pronouncements. In addition, the Foundation applies all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The Foundation elected not to apply FASB pronouncements issued after November 30, 1989.

Northeastern Illinois University Foundation

Notes to Financial Statements

For the Years Ended June 30, 2017 and 2016

Note 1 – Summary of Significant Accounting Policies (Continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassification

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

Gift Revenues

Gifts of securities are recorded at fair value on the date of the gift. In accordance with the requirements of Governmental Accounting Standards Board ("GASB") Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, all investments are reported at fair value. Changes in unrealized gain (loss) are reported as a component of investment income in the Statement of Revenues, Expenses and Changes in Net Assets.

Gifts of property and equipment are stated at market values as of the date of the gift. Gifts of service are recorded as both revenue and expenses based on estimates of the fair market value of services received.

Property and equipment are stated at cost for purchased items. The Foundation does not hold any property that is subject to depreciation.

Fair Value of Financial Instruments

The fair value of financial instruments including cash and cash equivalents, accounts receivable, prepaid expenses, accounts payable and accrued expenses approximates the carrying values, principally because of the short maturity of those items.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Foundation considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Operating Revenues

Revenues are classified as Operating Revenues if they have the characteristics of exchange transactions, such as contract revenue with the University. Typically, non-operating revenues include revenues that have the characteristics of non-exchange transactions as defined in GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Non-expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and by GASB Statement No. 34 which would include gifts and investment income. Because securing gifts and investing funds constitute the Foundation's primary operations, gift revenues (other than endowments) and investment income have been classified as operating revenues.

Northeastern Illinois University Foundation

Notes to Financial Statements

For the Years Ended June 30, 2017 and 2016

Note 1 – Summary of Significant Accounting Policies (Continued)

Investments

Investments in marketable securities are stated at their fair values. Unrealized gains and losses are included in the change in net assets in the accompanying statements of activities. Investment income and gains are recorded as unrestricted net assets unless restricted by the donor or by law.

The Foundation adopted provisions of FASB ASC 820-10, which provides a framework for measuring fair value under GAAP. That standard defines fair value as the exchange price that would be received for an asset or paid for a liability in an orderly transaction between market participants on the measurement date. FASB ASC 820-10 requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. The standard also establishes a fair value hierarchy, which prioritizes the valuation inputs into three broad levels.

Assets Held Under Split-Interest Agreements

In accordance with the Foundation's accounting for investments, assets held under split-interest agreements are stated at their fair market value. Unrealized gains and losses are included in the change in net assets in the accompanying statements of activities.

Split-Interest Agreements

Split-interest agreements are valued at fair value at the time of donation with a corresponding liability recorded for the present value of the expected payments due to the donors or third-party beneficiary with the difference recorded as contributions in the net asset type based on the donor's restriction. On an annual basis, the Foundation revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions.

Net Assets

Restricted Net Assets – Nonexpendable: Nonexpendable restricted net assets consist of endowment funds. Endowment funds include those funds where donors have stipulated, as a condition of the gift, 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 the principal.

Restricted Net Assets – Expendable: Expendable restricted net assets include resources in which the Foundation is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

Unrestricted Net Assets: Unrestricted net assets primarily represent resources used for transactions relating to the general operations of the Foundation, and may be used at the discretion of the Foundation's Board to meet current expenses for any purpose.

Northeastern Illinois University Foundation

Notes to Financial Statements

For the Years Ended June 30, 2017 and 2016

Note 1 – Summary of Significant Accounting Policies (Continued)

Income Taxes

The Foundation is a not-for-profit that is exempt from income taxes under Section 501(c) (3) of the Internal Revenue Code.

The Foundation files U.S. federal and Illinois state informational tax returns. The federal and state informational tax returns of the Foundation for years ended June 30, 2017, 2016 and 2015, can be subject to examinations by tax authorities, generally for three years after they were filed. The Foundation recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in general and administrative expenses. At June 30, 2017 and 2016, there was no interest or penalties relating to income taxes recognized in the statements of activities and change in net assets.

Subsequent Events

Management has evaluated subsequent events through September 14, 2017, the date the financial statements were available to be issued.

Note 2 – Cash and Cash Equivalents and Investments

A reconciliation of cash and investments as shown on the June 30, 2017 and 2016 Statement of Net Assets is as follows:

	<u>2017</u>	<u>2016</u>
Cash, Held for Foundation	\$ 792,124	\$ 351,155
Cash, Held in Custody	<u>71,510</u>	<u>236,655</u>
Total Cash and Cash Equivalents	<u>\$ 863,634</u>	<u>\$ 587,810</u>
Short Term Investments, Held for Foundation	\$ 1,393,773	\$ 1,418,666
Short Term Investments, Held in Custody	311,287	186,345
Endowment Investments	9,750,641	8,186,073
Assets Held Under Split-Interest Agreement	<u>446,586</u>	<u>416,532</u>
Total	<u>\$ 11,902,287</u>	<u>\$ 10,207,616</u>

Northeastern Illinois University Foundation

Notes to Financial Statements

For the Years Ended June 30, 2017 and 2016

Note 2 – Cash and Cash Equivalents and Investments (Continued)

Investments at fair value consist of the following at:

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Mutual Funds	<u>\$ 11,902,287</u>	<u>\$ 10,207,616</u>

Custodial Credit Risk

Custodial credit risk is the potential for a financial institution or counterparty to fail such that the Foundation would not be able to recover the value of deposits, investments or collateral securities that are in the possession of an outside party. The Foundation 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 two different institutions. These accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 at each financial institution. As of June 30, 2017 and 2016, the combined uninsured balance was \$564,815 and \$446,848, respectively. 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

Credit risk is the risk that an issuer or counterparty to a debt 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 guaranteed by the U.S. government. The Foundation's mutual funds are invested in the following funds held by TD Ameritrade, Nebraska:

The composition of the investments is as follows:

<u>Fund Name</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Advisors Inner Circle Acadian Emerging	\$ 994,298	\$ 952,808
Dodge & Cox Income	2,942,511	2,432,641
Hotchkis & Wiley High Yield	469,921	506,189
Ivy Funds International Core Equity	2,245,667	1,602,088
DFA Global Real Estate SEC PTF	461,667	-
PIMCO Commodity Real Ret Strat Inst'l	322,053	203,802
PIMCO Foreign Bond	174,621	255,191
Prudential Global Real Estate	-	410,075

Northeastern Illinois University Foundation

Notes to Financial Statements

For the Years Ended June 30, 2017 and 2016

Note 2 – Cash and Cash Equivalents and Investments (Continued)

<u>Fund Name</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>
SteelPath Funds	539,104	613,618
Vanguard Inflation Protected	232,941	199,870
Vanguard Small Cap Index	818,807	721,331
Vanguard 500 Index Admiral	2,516,815	2,056,746
Wells Fargo Advange Int'l Bond Inst'l	183,882	253,257
Total	<u>\$ 11,902,287</u>	<u>\$ 10,207,616</u>

The composition of the investments is as follows:

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Cash	\$ 274,938	\$ 150,625
U.S. Stocks	4,274,143	3,606,557
Non U.S. Stocks	3,157,705	2,631,730
Bonds	3,952,415	3,565,139
Others	243,086	253,565
Total	<u>\$ 11,902,287</u>	<u>\$ 10,207,616</u>

The Foundation's holdings as rated by Morningstar are as follows:

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Five Stars	\$ 6,640,736	\$ 2,925,554
Four Stars	3,761,318	5,872,194
Three Stars	1,500,233	1,409,868
Two Stars	-	-
Total	<u>\$ 11,902,287</u>	<u>\$ 10,207,616</u>

Northeastern Illinois University Foundation

Notes to Financial Statements

For the Years Ended June 30, 2017 and 2016

Note 2 – Cash and Cash Equivalents and Investments (Continued)

Interest Rate Risk

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 will normally constitute 80% 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. Foundation investments in bond mutual funds as of June 30, 2017 and 2016 have an average maturity of 6.17 and 7.99 years, respectively.

Country/Regional Risk and Foreign Currency Risk

Country/Regional 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. The Foundations investment policy limits investments in an international portfolio to 25%. An international portfolio may contain equities issued by companies operating in emerging markets which should not represent more than 5% of all Foundation assets invested in equities.

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

<u>Currency</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>
U.S. Dollar	\$ 8,374,353	\$ 9,963,049
Japanese Yen	835,698	57,132
Chinese Yuan	615,465	23,585
Euro	1,558,022	34,939
Other Currencies, Individually Less Than 5% of Fund Portfolio	<u>518,749</u>	<u>128,911</u>
Total	<u>\$ 11,902,287</u>	<u>\$ 10,207,616</u>

Note 3 – Investments – Fair Value

The investments itemized below are considered Level 1 and Level 2 investments. Level 1 investments are measure at fair value using the market approach. The market approach values assets at quoted prices in active markets for identical assets. Level 2 investments are measure at the redemption or state price on the measurement day.

Northeastern Illinois University Foundation

Notes to Financial Statements

For the Years Ended June 30, 2017 and 2016

Note 3 – Investments – Fair Value (Continued)

Investments consist of the following:

	2017			
	Level 1	Level 2	Total	Cost
Money Market Funds				
Mutual Funds	-	11,902,287	11,902,287	10,780,291
Total Investments	\$ -	\$ 11,902,287	\$ 11,902,287	\$ 10,780,291

	2016			
	Level 1	Level 2	Total	Cost
Money Market Funds				
Mutual Funds	-	10,207,616	10,207,616	10,140,962
Total Investments	\$ -	\$ 10,207,616	\$ 10,207,616	\$ 10,140,962

Note 4 – Noncurrent Other Assets

Non-current other assets consist of a sculpture that was donated to the Foundation.

Note 5 – Northeastern Illinois University Agreement

On July 1, 2005, the Foundation entered into an agreement with Northeastern Illinois University. Under the terms of the contract, the Foundation aids and assists the University in developing facilities for broader educational opportunities for the service to its students, alumni and citizens of the State of Illinois and of the United States by encouraging gifts of money, property, works of art, historical and other material having educational, artistic and historical value.

In turn, the University will furnish certain services necessary to the operation of the Foundation. The contract may be cancelled upon ninety days written notice by either party. In 2010, the NEIU Alumni Association became part of the Foundation.

During fiscal year 2017, certain personnel services and facilities of the University with an estimated value of \$176,883 were provided to the Foundation without charge. In turn, the Foundation provided the University with support in the amount of \$1,149,357. Amounts due to the University for scholarships, awards and other costs at June 30, 2017 were \$47,065.

Northeastern Illinois University Foundation

Notes to Financial Statements

For the Years Ended June 30, 2017 and 2016

Note 5 – Northeastern Illinois University Agreement (Continued)

During fiscal year 2016, certain personnel services and facilities of the University with an estimated value of \$108,544 were provided to the Foundation without charge. In turn, the Foundation provided the University with support in the amount of \$1,345,348. Amounts due to the University for scholarships, awards and other costs at June 30, 2016 were \$3,867.

During FY 2007, the Foundation became the fiscal agent for the Gaining Early Awareness and Readiness for Undergraduate Program (“GEAR UP”) scholarship fund which had been set up by the University. The funds were invested and restricted for use by the GEAR UP program. During FY 2017 and 2016, scholarships were awarded in the amount of \$80,747 and \$146,752 to colleges and universities, respectively. Cash held in custody relates to funds held for the Gear-Up Grant and Gear-Up College Success Scholarship Fund.

GEAR UP’s assets and liabilities are included in the Statement of Financial Positions and are as follows at June 30, 2017 and 2016:

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Cash - Held in Custody	\$ 71,510	\$ 236,655
Investments - Held in Custody	<u>311,287</u>	<u>186,345</u>
Total Assets Held for GEAR UP	<u>\$ 382,797</u>	<u>\$ 423,000</u>
Custodial Liability - GEAR UP	<u>\$ 382,797</u>	<u>\$ 423,000</u>

Note 6 – Split-Interest Agreement

The Foundation is the administrator of a charitable remainder trust. The following activity related to the charitable remainder trust is included in the Statement of Financial Position and Statement of Activities and Changes in Net Assets:

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Assets Held Under Split Interest Agreement	<u>\$ 446,586</u>	<u>\$ 416,532</u>
Current Portion - Obligations Held Under Split Interest Agreement	\$ 15,547	\$ 15,162
Long Term - Obligations Held Under Split Interest Agreement	<u>270,754</u>	<u>284,754</u>
Total Obligations Held Under Split Interest Agreement	<u>\$ 286,301</u>	<u>\$ 299,916</u>
Gain (Loss) on Split Interest Agreement	<u>\$ 30,418</u>	<u>\$ (169,308)</u>

Northeastern Illinois University Foundation

Notes to Financial Statements

For the Years Ended June 30, 2017 and 2016

Note 7 – Endowment Funds

Permanently restricted net assets are comprised of various endowment funds established to support various purposes such as scholarships and lectureships. The funds are managed jointly and are credited with a proportionate share of dividend and interest income and any realized and unrealized gains and losses.

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 gift 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 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:

1. The duration and preservation of the fund
2. The purposes of the Foundation and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Foundation
7. 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 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.

As presented in the accompanying Statement of Activities and Changes in Net Assets, fiscal 2017 and 2016 activity is summarized as follows:

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Investment Return		
Gain (Loss) on Investments	\$ 1,290,496	\$ (445,017)
Contributions Received	513,939	474,399
Amounts Appropriated for Expenditure	<u>(240,859)</u>	<u>(210,739)</u>
Total Change in Endowment Funds	<u>\$ 1,563,576</u>	<u>\$ (181,357)</u>

Northeastern Illinois University Foundation

Notes to Financial Statements

For the Years Ended June 30, 2017 and 2016

Note 7 – Endowment Funds (Continued)

Investment Objectives

The primary investment objective is to preserve and prudently grow the financial assets of the Foundation by earning returns which corresponds to each fund's objectives, time, horizon, liquidity needs and risk tolerance. The principal objective of the Operating Fund is to provide monies to meet the payment of the Foundation's obligations incurred in the day-to-day operations of the Foundation. A secondary objective is to provide a reasonable rate of return on these funds in line with prudent fiscal management.

Investment Policy and Procedure

The Foundation investment policy provides the guidelines for the investment of the general operating funds, board designated reserve funds, and endowment funds entrusted to and maintained by the Foundation. Each fund has its specific guidelines regarding the type and nature of allowable investments. However, the guideline specific to each fund should not, where practicable, preclude the pooling of similar investments of other Foundation funds in order to gain the advantage of economies of size. If the invested funds are pooled, each fund will be periodically allocated its proportionate share of income earned and capital appreciation.

The Finance Committee may waive or modify any of the restrictions in these guidelines in appropriate circumstances. Any such waiver or modification will be made only after a review of the investment strategy involved. An addendum supporting the decision regarding such waiver modifications will be maintained as a permanent record of the Finance Committee. All waivers and modifications will be reported to the Board of Directors at the meeting immediately following the granting of the waiver or modification. Individual fund guidelines are as follows:

General operating funds:

Such funds are used to finance the day-to-day operations and short-term needs of the Foundation.

Distribution policy:

Funds to be drawn upon as needed in accordance with prudent operating practices.

Board Designated Reserves:

Board designated reserves are to be accumulated from the annual excess of revenues over expenses that is not needed for working capital.

Investment guidelines:

The basic objective is to preserve the principal value of the funds, while maintaining liquidity to meet anticipated cash needs and maximizing return. Generally, investments should only include U.S. Government or agencies' securities, high grade corporate debt, or money market securities.

Northeastern Illinois University Foundation

Notes to Financial Statements

For the Years Ended June 30, 2017 and 2016

Note 7 – Endowment Funds (Continued)

The average maturity of the portfolio should not exceed 30 months and no security shall have a remaining period to maturity of more than five years. The expected and actual portfolio return should be measured against an appropriately weighted index that is regularly published in the financial media.

Distribution policy:

As these funds are expected to serve as long-term capital, they should be utilized only under circumstances as approved by the Board of Directors.

Long Term Investment Funds

Unrestricted, temporarily restricted, and permanently restricted Endowment Funds:

Gifts of cash, cash equivalents, securities or other assets that are received by the Foundation for its use in perpetuity, without specific restrictions, are carried and accounted for in this fund. Assets in this classification are considered to be an important part of the Foundation's long-term capital and are invested in accordance with prudent and appropriate investment objectives. Non-cash assets are to be held as long as practicable; cash assets are to be invested in a diversified portfolio of fixed income and equity securities that meet the expected long-term needs of the Foundation.

Investment guidelines:

The primary investment objectives of the funds are to provide a stable source of perpetual financial support, and to preserve the real purchasing power of the principal. The Finance Committee, subject to annual review and rebalancing as necessary, will determine the allocation of assets, recognizing that returns on investments in this category can vary on a year-to-year basis because of the higher risk associated with higher expected long-term returns.

Distribution policy:

Payout shall be based on a donor's specific direction if made. In the absence of donor direction, a distribution rate of 4-6% for a particular fiscal year as approved by the Finance Committee may be considered, but not to exceed the actual earnings for that fiscal year, combined with accumulated, realized earnings from prior periods.



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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*

To the Board of Directors
Northeastern Illinois University Foundation
Chicago, IL

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 Northeastern Illinois University Foundation (a not-for-profit organization), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 14, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Northeastern Illinois University Foundation'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Northeastern Illinois University Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Northeastern Illinois University Foundation'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 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Northeastern Illinois University Foundation'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*.

Purpose of this Report

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

Respectfully submitted,

Kessler, Orlean, Silver & Company, P.C.

Kessler, Orlean, Silver & Company, P.C.
Certified Public Accountants

Deerfield, Illinois
September 14, 2017

Northeastern Illinois University Foundation

Prior Year Audit Findings

June 30, 2017

There were no findings for the audit as of June 30, 2016.