

STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY
FINANCIAL AUDITS FOR
SOUTHERN ILLINOIS UNIVERSITY
HOUSING AND AUXILIARY FACILITIES SYSTEM
&
MEDICAL FACILITIES SYSTEM

For the Year Ended June 30, 2017

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



CliftonLarsonAllen

**STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY
FINANCIAL AUDIT**

For the Year Ended June 30, 2017

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

STATE OF ILLINOIS
Southern Illinois University
Annual Financial Report
For the Year Ended June 30, 2017

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SOUTHERN ILLINOIS UNIVERSITY

SENIOR VICE PRESIDENT FOR FINANCIAL & ADMINISTRATIVE AFFAIRS AND BOARD TREASURER
STONE CENTER - MAIL CODE 6801 / 1400 DOUGLAS DRIVE / CARBONDALE, ILLINOIS 62901

February 28, 2018

TO THE BOARD OF TRUSTEES
OF SOUTHERN ILLINOIS UNIVERSITY

I am pleased to submit the annual financial report of Southern Illinois University for the year ended June 30, 2017.

The report consists of the Independent Auditors' Report, Management's Discussion and Analysis, the basic financial statements, and the notes to the financial statements of the University and its aggregate discretely presented component units. It presents the respective financial positions of the University and its component units.

The financial statements of the University have been audited by CliftonLarsonAllen LLP for fiscal year 2017. As Special Assistant Auditors for the Auditor General, they have issued reports covering their audits of the compliance of the University with applicable state and federal laws and regulations and a report containing supplementary financial information and special data requested by the Auditor General. These reports are available at the Office of the Auditor General, State of Illinois.

In addition, the University has published under separate cover Treasurer's Reports to the Bondholders, which provide more detailed information on the University's revenue bond systems. These reports are available upon request from the Office of the President at Carbondale, Illinois.

Respectfully submitted,

SIGNED ORIGINAL ON FILE

Duane Stucky
Board Treasurer

DS/sjp

Southern Illinois University Board of Trustees and Officers of Administration Fiscal Year 2017

BOARD OF TRUSTEES OF SOUTHERN ILLINOIS UNIVERSITY

Randal Thomas, Chair	Springfield
Donna Manering, Vice Chair (7/1/16 to 2/9/17); member (7/1/16 to 3/17/17)	Makanda
J. Phil Gilbert, member; Vice Chair (2/9/17 to 6/30/17)	Carbondale
Joel Sambursky, Secretary	Carbondale
Roger Herrin (7/1/16 to 1/22/17)	Harrisburg
Ryan Johnson	Edwardsville
Shirley Portwood	Godfrey
Marsha Ryan (1/23/17 to 6/30/17)	Carbondale
Amy Sholar	Alton
Naomi Tolbert	Carbondale

OFFICERS OF SOUTHERN ILLINOIS UNIVERSITY

Randy J. Dunn, President
Lucas Crater, General Counsel
James Allen, Acting Vice President, Academic Affairs
Duane Stucky, Senior Vice President, Financial and Administrative Affairs, and Board Treasurer
Misty Whittington, Executive Secretary of the Board

OFFICERS OF ADMINISTRATION, SOUTHERN ILLINOIS UNIVERSITY CARBONDALE

W. Bradley Colwell, Interim Chancellor
Susan M. Ford, Interim Provost & Vice Chancellor for Academic Affairs
Jerry Kruse, Dean and Provost, School of Medicine
Kevin D. Bame, Vice Chancellor for Administration and Finance (7/1/16 to 4/28/17)
James Garvey, Interim Vice Chancellor for Research
Lori Stettler, Interim Vice Chancellor for Student Affairs
James Salmo, Vice Chancellor for Development and Alumni Relations

OFFICERS OF ADMINISTRATION, SOUTHERN ILLINOIS UNIVERSITY EDWARDSVILLE

Stephen Hansen, Interim Chancellor (7/1/16 to 7/31/16)
Randall Pembroke, Chancellor (8/1/16)
Denise Cobb, Provost and Vice Chancellor for Academic Affairs, Interim Provost and Vice Chancellor for Academic Affairs (7/1/16 to 4/30/17)
Jeffrey Waple, Vice Chancellor for Student Affairs
Rich Walker, Vice Chancellor for Administration, Interim Vice Chancellor for Administration (7/1/16 to 4/30/17)
Rachel Stack, Vice Chancellor for University Advancement

FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying basic financial statements of Southern Illinois University was conducted by CliftonLarsonAllen LLP.

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

Exit Conference

An exit conference was waived in correspondence from Kim Labonte, Executive Director of Internal Audit on February 23, 2018.

INDEPENDENT AUDITORS' REPORT

Honorable Frank J. Mautino
Auditor General, State of Illinois
and
Board of Trustees
Southern 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 aggregate discretely presented component units of Southern Illinois University ("the University"), collectively a component unit of the State of Illinois, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the University's aggregate discretely presented component units (the "University Related Organizations"), as described in Note 1 of the financial statements. Those statements were audited by other auditors whose reports thereon have been provided to us, and our opinion on the financial statements, insofar as it relates to the amounts included for the University Related Organizations, is based solely on the reports of the other auditors. 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.

The financial statements of one University Related Organization, the Association of Alumni, Former Students and Friends of Southern Illinois University, Inc. (at Carbondale), were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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.

Opinion

In our opinion, based on our audit and the reports 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 Southern Illinois University and its aggregate discretely presented component units as of June 30, 2017, 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 Note 21 to the financial statements, Public Act 100-0021 granted the University additional appropriations for fiscal year 2017, totaling \$94.3 million. Even though this law appropriated funds for the fiscal year ended June 30, 2017, it was enacted on July 6, 2017. In compliance with GASB Statement No. 33, the University's fiscal year 2017 financial statements do not reflect the additional \$94.3 million appropriation that did not exist as of June 30, 2017. Our opinion is not modified with respect to this matter.

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 7-15 and the Schedule of Southern Illinois University's Proportionate Share of the Net Pension Liability and the Schedule of Contributions on page 53 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 audits 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 under separate cover our report dated February 28, 2018, on our consideration of Southern 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's 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 Southern Illinois University's internal control over financial reporting and compliance.

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CliftonLarsonAllen LLP

Peoria, Illinois
February 28, 2018

**Southern Illinois University
Management's Discussion and Analysis
For the Year Ended June 30, 2017**

Introduction

The following discussion and analysis of the financial statements of Southern Illinois University (the "University") provides an overview of the University's financial activities for the fiscal year ended June 30, 2017 with selected comparative information for the year ended June 30, 2016. This discussion has been prepared by management and should be read in conjunction with the financial statements and related footnotes.

Chartered in 1869, Southern Illinois University opened for instruction in Carbondale in 1874 in a one-building teacher training institution known as Southern Illinois Normal University. Today, two institutions constitute Southern Illinois University—Southern Illinois University Carbondale, with a School of Medicine in Springfield, and Southern Illinois University Edwardsville, with a School of Dental Medicine in Alton and the East St. Louis Center.

This discussion focuses on the financial activities of the University (the primary unit), a component unit of the State of Illinois which conducts instruction, research, public services and related activities. The eight discretely presented component units of the University consist of the following entities: the Southern Illinois University Foundation at Carbondale; the Southern Illinois University at Edwardsville Foundation; the Association of Alumni, Former Students and Friends of Southern Illinois University, Inc.; the Alumni Association of Southern Illinois University at Edwardsville; University Park at Edwardsville; Southern Illinois Research Park, Inc. at Carbondale; SIU Physicians and Surgeons, Inc.; and SIUE East St. Louis Charter School. Complete financial statements for the component units may be obtained from each entity, and addresses are provided in Note 1 in the Notes to Financial Statements.

Higher education appropriated funding

The fiscal condition of the State of Illinois continues to deeply impact higher education funding. SIU received 29% of its expected fiscal year 2016 funding and following a protracted legislative budget impasse, 100% of its expected fiscal year 2017 funding. The funding for 2017 was received in two separate appropriation bills. On June 30, 2016, the Illinois General Assembly passed Senate Bill 2047. The University received \$107 million, which in accordance with governmental accounting standards, has been included in the fiscal year 2017 financial statements. The remainder of the funding resulted from the passage of Senate Bill 0006 on July 6, 2017, and included an additional \$94.3 million of appropriations for fiscal year 2017.

In accordance with governmental accounting standards, the University's fiscal year 2017 financial statements do not reflect the revenue approved on July 6, 2017. This has resulted in a decrease in unrestricted net assets for the year ended June 30, 2017, of \$59.7 million. If all of the fiscal year 2017 appropriation had been included as fiscal year 2017 revenue, the University would have reported an increase in net position of \$34.5 million as reflected below.

**Southern Illinois University
Management's Discussion and Analysis
For the Year Ended June 30, 2017**

Higher education appropriated funding (continued)

For the Year Ended June 30, 2017:

	<u>Net Position As Reported</u>	<u>Net Position With 100% of Appropriation</u>
Operating revenues	\$ 601,195,757	\$ 601,195,757
Operating expenses	<u>(1,217,148,952)</u>	<u>(1,217,148,952)</u>
Operating loss	(615,953,195)	(615,953,195)
Net nonoperating revenues	<u>541,601,986</u>	<u>635,853,386</u>
Gain (loss) before other revenues	(74,351,209)	19,900,191
Total other revenues	<u>14,602,740</u>	<u>14,602,740</u>
Increase (decrease) in net position	<u>\$ (59,748,469)</u>	<u>\$ 34,502,931</u>

Using the financial statements

The University's financial report includes three basic financial statements: the Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position; and the Statement of Cash Flows. The notes to the basic financial statements are an integral part of the basic financial statements and provide additional details which should be included as part of any review or analysis. These financial statements are prepared in accordance with accounting principles generally accepted in the United States of America and provide information on the University as a whole.

FINANCIAL HIGHLIGHTS

Statement of Net Position

The Statement of Net Position includes all assets and liabilities, both current and noncurrent, and all deferred outflows and inflows of resources, using the accrual basis of accounting. The statement presents the financial position of the University at the end of the fiscal year. The difference between total assets and deferred outflows of resources and total liabilities and deferred inflows of resources is net position, which is one indicator of the current financial health of the University. The changes in the net position that occur over time indicate improvements or deterioration in the University's financial condition.

Net position is divided into three major categories: Net Investment in Capital Assets, Restricted Net Position; and Unrestricted Net Position. Net Investment in Capital Assets consists of capital assets reduced by depreciation and the outstanding balances of borrowings for construction and improvements of those assets. Restricted Net Position has external constraints, including grants and contracts, self-insurance, capital projects, agency funds, and loan funds. Unrestricted Net Position does not meet the definition of the first two categories.

The University's assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position at June 30, 2017 and 2016 are summarized as follows:

**Southern Illinois University
Management's Discussion and Analysis
For the Year Ended June 30, 2017**

Statement of Net Position (continued)

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Assets and deferred outflows of resources:		
Current assets	\$ 145,995,400	\$ 202,594,943
Capital assets, net	838,271,518	850,710,090
Other assets	110,963,771	125,362,138
Deferred outflows of resources	<u>5,464,257</u>	<u>6,019,370</u>
Total assets and deferred outflows of resources	1,100,694,946	1,184,686,541
Liabilities and deferred inflows of resources:		
Current liabilities	116,183,323	119,246,755
Noncurrent liabilities	<u>331,126,917</u>	<u>352,306,611</u>
Total liabilities and deferred inflows of resources	447,310,240	471,553,366
Net Position:		
Net investment in capital assets	567,821,930	562,870,520
Restricted - nonexpendable	5,222,891	5,055,450
Restricted - expendable	74,855,200	97,343,657
Unrestricted	<u>5,484,685</u>	<u>47,863,548</u>
Total Net Position	<u>\$ 653,384,706</u>	<u>\$ 713,133,175</u>

University assets and deferred outflows of resources totaled \$1.1 billion at June 30, 2017, a decrease of \$84 million compared to 2016. Cash and cash equivalents decreased \$43.6 million while investment balances decreased \$24.2 million. The decrease in cash was primarily related to operating expenses incurred in the absence of appropriated funding. Also, pooled investment liquidations were necessary to meet the cash flow demands of the University during the State's budget impasse. The largest asset of the University is its investment in land, buildings and equipment which totaled \$838.3 million at June 30, 2017, and \$850.7 million at June 30, 2016, an additional decrease in assets of \$12.4 million.

University liabilities and deferred inflows of resources at June 30, 2017 decreased \$24.2 million or 5.1% compared to 2016. The decrease was driven primarily by scheduled debt service payments in fiscal year 2017 related to long-term debt including Revenue Bonds and Certificates of Participation.

The University's 2017 overall net position, the difference between total assets and deferred outflows of resources and total liabilities and deferred inflows of resources, decreased \$59.7 million, or 8.4%, compared to fiscal year 2016, primarily as a result of reduced appropriated funding levels.

Statement of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position presents the results of the University's revenue and expense activity categorized as operating or non-operating. All revenues and expenses are recognized when earned or incurred, regardless of when cash is received or paid.

Operating revenues and expenses involve exchange transactions. In general, operating revenues include student tuition and fees which are net of scholarship allowances, most grants and contracts, auxiliary enterprises, and sales and services of educational departments. Operating expenses are those expenses incurred to carry out the mission of the University, and include educational and general program expenses, as well as auxiliary enterprises and depreciation.

Southern Illinois University
Management's Discussion and Analysis
For the Year Ended June 30, 2017

Statement of Revenues, Expenses and Changes in Net Position (continued)

Non-operating revenues and expenses involve non-exchange transactions and include state appropriations, investment income, payments on-behalf of the University, and gifts. State appropriations are mandated as non-operating because they are provided by the legislature to the University without the legislature directly receiving commensurate goods and services for those revenues. Therefore, an operating loss will always result. The following summarizes the University's financial activity for fiscal years 2017 and 2016:

	<u>Year Ended June 30, 2017</u>	<u>Year Ended June 30, 2016</u>
Operating revenues:		
Tuition and fees, net	\$ 246,002,966	\$ 248,105,913
Auxiliary enterprises	107,188,291	117,347,368
Grants and contracts	82,267,590	84,651,244
Other	165,736,910	166,169,889
Operating expenses	<u>(1,217,148,952)</u>	<u>(1,164,202,209)</u>
Operating loss	<u>(615,953,195)</u>	<u>(547,927,795)</u>
State appropriations	106,963,500	57,509,200
On-behalf payments	384,606,916	330,965,471
Other nonoperating revenues & expenses, net	<u>50,031,570</u>	<u>58,474,821</u>
Income (Loss) before other revenues	(74,351,209)	(100,978,303)
Other revenues	<u>14,602,740</u>	<u>1,271,296</u>
Increase (Decrease) in net position	(59,748,469)	(99,707,007)
Net position at beginning of year	<u>713,133,175</u>	<u>812,840,182</u>
Net position at end of year	<u><u>\$ 653,384,706</u></u>	<u><u>\$ 713,133,175</u></u>

Operating revenue experienced a net decrease of \$15.1 million, or 2.4%, in fiscal year 2017 compared to 2016. Revenues from student tuition and fees and funded debt enterprises decreased a combined \$12.2 million as a result of overall declining enrollment. State funded grant revenues decreased \$5.7 million and Physicians and Surgeons revenue decreased \$3.1 million. These revenue decreases were partially offset by increases in grant revenues from non-state agencies of \$3.3 million and sales and services of educational departments, \$2.6 million.

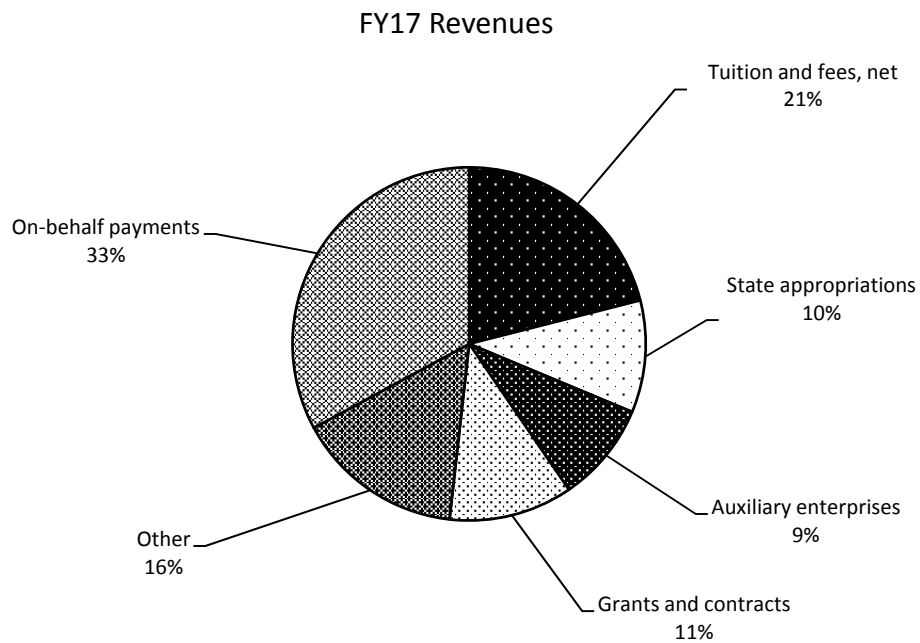
Fiscal year 2017 operating expenses increased \$52.9 million, or 4.5% compared to 2016. The increase was primarily driven by an increase of \$53.6 million in payments on behalf of the University made by the State of Illinois for employee retirement and healthcare benefits.

Net non-operating revenues and expenses realized in 2017 increased \$94.7 million, or 21.2% from fiscal year 2016. State appropriations increased \$49.5 million and payments on behalf of the University increased \$53.6 million while investment income and non-exchange grant revenues combined for a decrease of \$9.2 million. Revenues for state appropriated capital development projects increased \$11.8 million as funding for the Edwardsville campus became available in fiscal year 2017 that was not available in 2016.

**Southern Illinois University
Management's Discussion and Analysis
For the Year Ended June 30, 2017**

Statement of Revenues, Expenses and Changes in Net Position (continued)

The following is a graphic illustration of fiscal year 2017 revenues by source (operating, non-operating, and other), which were used to fund the University's activities. The revenue from charges for tuition and fees is shown net of the scholarship allowance of \$65,773,107. Student tuition, on-behalf payments, and state appropriations are typically the primary source of funding for the University's academic programs. Other operating revenues consist primarily of income from sales and services of educational activities and income from the Physicians and Surgeons practice plan.



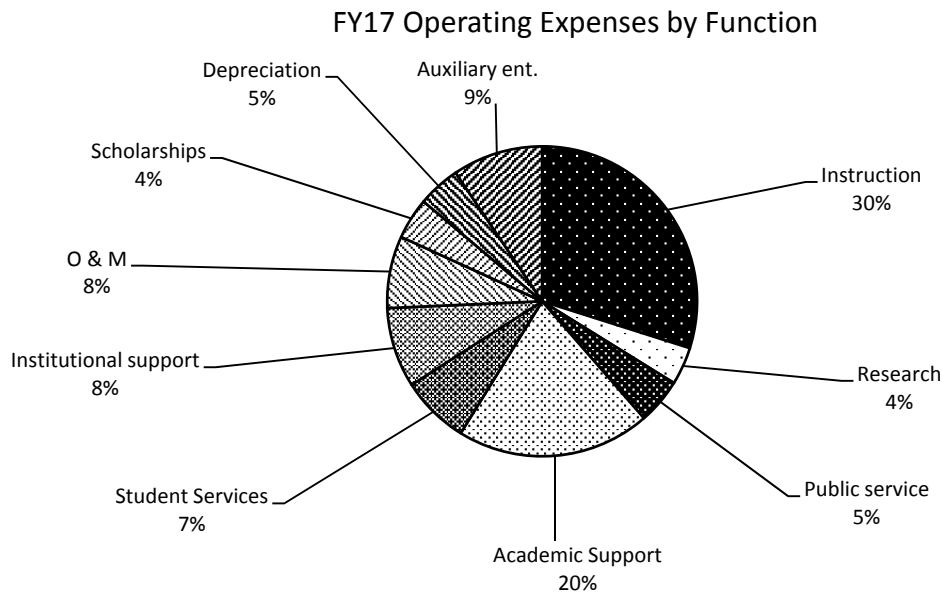
**Southern Illinois University
Management's Discussion and Analysis
For the Year Ended June 30, 2017**

Operating Expenses

A summary of the University's operating expenses by functional classification for the years ended June 30, 2017 and 2016 is as follows:

	<u>Year Ended June 30, 2017</u>	<u>Year Ended June 30, 2016</u>
Instruction	\$ 363,765,973	\$ 350,580,098
Research	47,928,808	48,967,756
Public service	58,139,202	62,176,534
Academic support	245,747,210	228,683,133
Student services	86,860,483	85,004,787
Institutional support	101,738,900	80,951,802
Operation and maintenance of plant	91,445,257	94,285,799
Scholarships and fellowships	52,530,930	43,218,307
Depreciation	53,988,717	53,086,861
Auxiliary enterprises	114,721,960	117,013,328
Other expenditures	281,512	233,804
	<u>\$ 1,217,148,952</u>	<u>\$ 1,164,202,209</u>

Operating expenses include \$384,606,916 and \$330,965,471 for health care and retirement costs paid on-behalf of University employees by the State of Illinois for fiscal years 2017 and 2016, respectively. These expenses have been allocated by function. The University chooses to report its expenses by functional classification in the Statements of Revenues, Expenses and Changes in Net Position. The expenses are displayed in their natural classifications in note 20. The following is a graphic illustration of operating expenses by function for the year ended June 30, 2017:



Southern Illinois University
Management's Discussion and Analysis
For the Year Ended June 30, 2017

Statement of Cash Flows

The Statement of Cash Flows provides additional information about the University's sources and uses of cash during the fiscal year. This statement helps users assess the University's ability to generate net cash flows, its ability to meet obligations as they come due, and its need for external financing. The following summarizes the University's cash flow activity for fiscal years 2017 and 2016:

	<u>Year Ended</u> <u>June 30, 2017</u>	<u>Year Ended</u> <u>June 30, 2016</u>
Cash provided by (used in):		
Operating activities	\$ (176,661,571)	\$ (128,661,739)
Noncapital financing activities	167,812,521	116,622,892
Capital and related financing activities	(58,875,865)	(73,515,607)
Investing activities	<u>24,161,569</u>	<u>7,697,820</u>
Net increase (decrease) in cash	(43,563,346)	(77,856,634)
Cash and cash equivalents, beginning of year	<u>111,433,528</u>	<u>189,290,162</u>
Cash and cash equivalents, end of year	<u>\$ 67,870,182</u>	<u>\$ 111,433,528</u>

Major sources of funds included in operating activities are student tuition and fees, grants and contracts, sales and services of educational activities, auxiliary enterprises, and other operating receipts. For fiscal years 2017 and 2016, respectively, student tuition and fees generated \$263.7 million and \$265.7 million. Grants and contracts provided \$73.5 million and \$78.4 million. Sales and services of educational activities received \$116.2 million and \$110.1 million, auxiliary enterprises generated \$113.5 million and \$124.5 million, and other operating receipts totaled \$100.1 million and \$139.6 million. Payments for employee salaries and benefits, payments to suppliers for goods and services, and scholarship and fellowship payments comprise the major uses of operating funds which totaled \$891.7 million in fiscal year 2017 compared to \$897.7 million in fiscal year 2016.

The major source of funds in noncapital financing activities is State appropriations which provided \$107 million in fiscal year 2017 compared to \$57.5 in fiscal year 2016. The increase in appropriations drove the increase in cash provided by noncapital financing activities of \$51.2 million.

Debt service payments on outstanding capital debt, and the purchases of capital assets comprise the major activity in capital and related financing activities. Cash used for this activity decreased \$14.6 in fiscal year 2017 compared to fiscal year 2016. The Series 2015B Housing and Auxiliary Facilities System revenue bonds were issued in fiscal year 2016. There were no additional bond issuances in 2017.

Investing activities include the purchases, sales, and maturities of investments as well as investment income. Cash provided by this activity increased \$16.5 million compared to fiscal year 2016. While cash provided by investment income remained comparable to fiscal year 2016, net cash provided by investment sales, maturities, and purchases increased \$16 million.

**Southern Illinois University
Management's Discussion and Analysis
For the Year Ended June 30, 2017**

Capital Asset and Debt Administration

The University's Capital Asset policy requires the capitalization of infrastructure at \$1,000,000, buildings and intangible assets at \$100,000, site or building improvements at \$25,000 and equipment at \$5,000. The University depreciates its capital assets on a straight-line basis, using estimated useful lives ranging from five to forty years. At the end of fiscal years 2017 and 2016, respectively, the University had \$567,821,930 and \$562,870,520 invested in capital assets, net of accumulated depreciation and related debt. Depreciation expense for 2017, and 2016, respectively, was \$53,988,717 and \$53,086,861 with accumulated depreciation of \$1,039,902,408 and \$994,583,600. The University experienced net capital asset additions of \$32.9 million offset by additional depreciation of \$45.3 million resulting in a decrease of capital assets for fiscal year 2017 of \$12.4 million.

The University has historically utilized revenue bonds to finance capital projects related to the Housing and Auxiliary Facilities System and the Medical Facilities System which have the ability to generate resources to service the debt. In fiscal year 2017, the University did not issue any additional bonds. The total amount of outstanding bonds payable at June 30, 2017 was \$236,094,121 compared to \$253,213,541 at June 30, 2016.

The University issued certificates of participation (COPS) in fiscal year 2014 of \$43 million for capital improvement projects at Carbondale and to refund the outstanding 2004A COPS issuance. The University did not issue any additional COPS in fiscal year 2017 or 2016. The balance of outstanding COPS at June 30, 2017 and 2016 was \$37,456,103 and \$39,716,981. For additional information concerning the University's Capital Assets and Debt Administration, see Notes 7, 9, 10, and 12 in the Notes to Financial Statements.

Economic Outlook

A critical element to the University's future includes a strong partnership with the State of Illinois. Southern Illinois University has historically received between 40% - 50% of its operating revenues from State funding sources including direct operating appropriations and payments on-behalf to fund University employees' benefits. In fiscal year 2015, Southern Illinois University received \$201.1 million in direct state operating appropriations. However, as legislators and the Governor were unable to reach a budget agreement in fiscal year 2016 and 2017, direct appropriations to Southern Illinois University were limited to \$57.5 million and \$107 million, respectively, through the passage of two stopgap measures. During the budget impasse, Southern Illinois University was forced to tap cash reserves to pay operating expenses and to implement several cost saving measures. In July 2017, the legislators and Governor approved an operating budget for fiscal year 2018. This budget provides \$276.4 million of funding to Southern Illinois University of which \$94.3 million can be used to support fiscal year 2017 operating expenses.

Tuition and fees for first time students were increased by 3.3% at the Carbondale campus and by 4.4% at the Edwardsville campus for the fall 2017 semester. In addition, Southern Illinois University has escalated efforts to develop and expand its resource base by seeking more revenue opportunities from grants and contracts, sales and services of educational activities that include clinics, conferences and seminars, other self-supporting activities, and fund raising efforts.

Enrollment at Southern Illinois University was down from 31,129 in the fall of 2016 to 28,350 in the fall of 2017. The enrollment decline is in part attributed to the prolonged budget impasse and is concentrated primarily at the Carbondale campus. The University plans to implement additional cost saving measures in fiscal year 2018 which include layoffs and academic realignment to adjust to the current enrollment level and to continue efforts to fully recover from the impact of the budget impasse.

**Southern Illinois University
Management's Discussion and Analysis
For the Year Ended June 30, 2017**

Economic Outlook (continued)

The prolonged budget impasse resulted in multiple downgrades in the State of Illinois' long term credit rating. Due to the Illinois Public Universities' reliance on the state for operating support, most of the public universities saw multiple credit rating downgrades as well. Southern Illinois University's long term bond credit rating at the end of August 2017 is Ba2 (Moody's) and BB+ (Standard & Poor's).

The University is not aware of any additional facts, decisions, or conditions that might be expected to have a significant effect on the financial position or results of operations during the next fiscal years beyond those unknown factors having a global effect on virtually all types of business operations.

Southern Illinois University
Statement of Net Position
June 30, 2017

	<u>UNIVERSITY</u>	<u>RELATED ORGANIZATIONS</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current Assets:		
Cash and cash equivalents	\$ 20,501,656	\$ 4,199,608
Cash and cash equivalents, restricted	47,368,526	1,285,309
Short-term investments	851,185	31,474,932
Short-term investments, restricted	16,758,510	8,683,447
Deposits with University	-	5,688,794
Reimbursement due from State Treasurer	-	-
Accounts receivable, net	45,271,537	26,767,576
Notes receivable, net	3,316,404	-
Accrued interest receivable	73,375	482,315
Due from related organizations	3,355,542	55,924
Inventories	7,867,251	-
Prepaid expenses and other assets	631,414	279,001
Total Current Assets	<u>145,995,400</u>	<u>78,916,906</u>
Noncurrent Assets:		
Long-term investments	25,289,383	36,728,388
Long-term investments, restricted	66,279,228	165,426,894
Notes receivable, net	15,968,632	42,829
Prepaid expenses and other assets	3,426,528	3,917,828
Capital assets, not depreciated	101,509,926	307,216
Capital assets, net of depreciation	736,761,592	5,289,796
Total Noncurrent Assets	<u>949,235,289</u>	<u>211,712,951</u>
Deferred outflows of resources	<u>5,464,257</u>	<u>-</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>1,100,694,946</u>	<u>290,629,857</u>
LIABILITIES		
Current Liabilities:		
Accounts payable	29,313,945	2,473,399
Due to State Treasurer	36,648	-
Accrued interest payable	2,577,377	-
Accrued payroll	8,604,189	4,000,670
Accrued compensated absences	3,795,131	-
Revenue bonds payable	22,591,415	-
Certificates of participation	2,335,878	-
Liabilities under capitalized leases	1,871,811	-
Annuities payable	-	141,233
Accrued liability for self-insurance	8,201,381	-
Deposits held for University related organizations	5,688,794	-
Deposits held in custody for others	826,252	87,011
Unearned revenue	30,188,908	182,785
Housing deposits	95,670	-
Due to related organizations	55,924	3,355,542
Total Current Liabilities	<u>116,183,323</u>	<u>10,240,640</u>
Noncurrent Liabilities:		
Accrued compensated absences	37,216,087	-
Revenue bonds payable	213,502,706	-
Certificates of participation	35,120,225	-
Liabilities under capitalized leases	937,527	-
Annuities payable	-	2,382,529
Accrued liability for self-insurance	26,892,249	-
Federal loan program contributions refundable	17,341,193	-
Housing deposits	116,930	-
Other accrued liabilities	-	1,750,783
Deposits held in custody for others	-	2,643,654
Total Noncurrent Liabilities	<u>331,126,917</u>	<u>6,776,966</u>
TOTAL LIABILITIES	<u>447,310,240</u>	<u>17,017,606</u>
NET POSITION		
Net investment in capital assets	567,821,930	5,597,012
Restricted for:		
Nonexpendable	5,222,891	115,715,580
Expendable	74,855,200	84,050,967
Unrestricted	5,484,685	68,248,692
TOTAL NET POSITION	<u>\$ 653,384,706</u>	<u>\$ 273,612,251</u>

The accompanying notes are an integral part of this statement.

Southern Illinois University
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2017

	<u>UNIVERSITY</u>	<u>RELATED ORGANIZATIONS</u>
REVENUES		
Operating Revenues:		
Student tuition and fees (net of scholarship allowances of \$65,773,107)	\$ 246,002,966	\$ -
Federal grants and contracts	41,136,094	-
State of Illinois grants and contracts	14,423,451	-
Other government grants and contracts	5,555,782	-
Private grants and contracts	21,152,263	-
Sales and services of educational departments	117,362,044	-
Physicians and Surgeons practice plan	48,132,357	-
Patient service revenue (net)	-	94,468,369
Auxiliary enterprises:		
Funded debt enterprises (net of scholarship allowances of \$8,358,654)	92,434,651	-
Other auxiliary enterprises (net of scholarship allowances of \$1,154,471)	14,753,640	-
Loan interest income	240,807	-
Other operating revenues	1,702	23,437,843
Total Operating Revenues	<u>601,195,757</u>	<u>117,906,212</u>
EXPENSES		
Operating Expenses:		
Instruction	363,765,973	-
Research	47,928,808	-
Public service	58,139,202	-
Academic support	245,747,210	-
Student services	86,860,483	-
Institutional support	101,738,900	126,921,929
Operation and maintenance of plant	91,445,257	-
Scholarships and fellowships	52,530,930	-
Depreciation	53,988,717	660,446
Auxiliary enterprises:		
Funded debt enterprises	97,391,878	-
Other auxiliary enterprises	17,330,082	-
Other operating expenses	281,512	-
Total Operating Expenses	<u>1,217,148,952</u>	<u>127,582,375</u>
Operating Loss	<u>(615,953,195)</u>	<u>(9,676,163)</u>
NONOPERATING REVENUES (EXPENSES)		
State appropriations	106,963,500	-
Gifts and contributions	10,591,832	4,517,820
Investment income	171,926	20,726,623
Grants and contracts	50,157,134	-
Interest on capital asset-related debt	(9,027,016)	-
Accretion on bonds payable	(3,214,389)	-
University related organizations	140,895	-
Payments on behalf of the University	384,606,916	-
Other nonoperating revenues (expenses)	1,211,188	(732,244)
Net Nonoperating Revenues	<u>541,601,986</u>	<u>24,512,199</u>
Gain (Loss) Before Other Revenues	<u>(74,351,209)</u>	<u>14,836,036</u>
Other Revenues:		
Capital state appropriations	12,975,419	-
Additions to permanent endowments	-	7,435,337
Capital grants and gifts	1,627,321	-
Total Other Revenues	<u>14,602,740</u>	<u>7,435,337</u>
Increase (Decrease) in Net Position	<u>(59,748,469)</u>	<u>22,271,373</u>
NET POSITION		
Net position at beginning of year	<u>713,133,175</u>	<u>251,340,878</u>
Net position at end of year	<u>\$ 653,384,706</u>	<u>\$ 273,612,251</u>

The accompanying notes are an integral part of this statement.

Southern Illinois University
Statement of Cash Flows
For the Year Ended June 30, 2017

	<u>UNIVERSITY</u>	<u>RELATED ORGANIZATIONS</u>
Cash Flows from Operating Activities		
Tuition and fees	\$ 263,688,355	\$ -
Grants and contracts	73,524,293	-
Sales and services of educational activities	116,183,892	-
Physicians and Surgeons	47,758,680	-
Auxiliary enterprise revenues:		
Funded debt	98,055,976	-
Other auxiliary	15,399,335	-
Payments for employee salaries and benefits	(516,906,910)	(34,320,796)
Payments to suppliers	(268,741,319)	(83,570,416)
Payments for scholarships and fellowships	(106,130,524)	-
Loans issued to students	(2,156,267)	-
Interest earned on loans to students	236,685	-
Collection of loans from students	2,349,504	-
Patient service revenue	-	90,534,624
Other operating receipts	100,076,729	14,644,744
Net cash used in operating activities	<u>(176,661,571)</u>	<u>(12,711,844)</u>
Cash Flows from Noncapital Financing Activities		
State appropriations	106,963,500	-
Direct lending receipts	199,601,698	-
Direct lending payments	(199,706,371)	-
Grants and contracts	50,157,134	-
Government advances for federal loan funds	(87,185)	-
Payments to annuitants	-	(255,162)
Other	1,645,329	(1,420,384)
Gifts for other than capital purposes	9,238,416	13,291,910
Net cash provided by noncapital financing activities	<u>167,812,521</u>	<u>11,616,364</u>
Cash Flows from Capital and Related Financing Activities		
Capital appropriations	367,102	-
Purchases of capital assets	(30,255,052)	(330,267)
Proceeds from capital debt	-	-
Deposit to bond escrow	-	-
Other	3,009,080	-
Principal paid on capital debt	(21,805,000)	-
Interest paid on capital debt	(10,191,995)	-
Net cash used in capital and related financing activities	<u>(58,875,865)</u>	<u>(330,267)</u>
Cash Flows from Investing Activities		
Purchases of investments	(68,533,526)	(31,905,665)
Proceeds from sales of investments and maturities	89,902,368	11,732,134
Investment income	2,792,727	5,564,556
Net cash provided by (used in) investing activities	<u>24,161,569</u>	<u>(14,608,975)</u>
Net increase (decrease) in cash	<u>(43,563,346)</u>	<u>(16,034,722)</u>
Cash and cash equivalents, beginning of the year	111,433,528	21,519,639
Cash and cash equivalents, end of the year	<u>\$ 67,870,182</u>	<u>\$ 5,484,917</u>

Southern Illinois University
Statement of Cash Flows
For the Year Ended June 30, 2017

	<u>UNIVERSITY</u>	<u>RELATED ORGANIZATIONS</u>
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating Income (Loss)	\$ (615,953,195)	\$ (9,676,163)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	53,988,717	660,446
Amortization expense	-	-
Noncash grants to University	-	447,778
Noncash expenditures for the benefit of the University	-	4,817
Noncash contributions	-	(536,507)
Budget expended at University	(1,080,625)	-
Payments on behalf of the University	384,606,916	-
Change in assets and liabilities:		
Accounts receivable (net)	1,174,892	(3,784,024)
Reimbursement due from State Treasurer	30,867	-
Inventories	1,338,185	-
Prepaid expenses	(55,079)	102,116
Other assets	(27,419)	(59,130)
Accounts payable	1,419,260	(13,430)
Accrued payroll	(2,073,117)	-
Unearned revenue	(4,439,895)	(71,588)
Compensated absences	422,294	-
Deposits held for others	6,037	7,881
Other liabilities	3,625,177	(16,972)
Due to/from related organizations	355,414	222,932
Net cash used in operating activities	<u>\$ (176,661,571)</u>	<u>\$ (12,711,844)</u>
Noncash investing, capital and financing activities:		
Payments on behalf of the University for fringe benefits	\$ 384,606,916	\$ -
Accretion on bonds payable	3,214,389	-
Gifts in kind	1,540,684	-
Capital assets in accounts payable	5,296,528	-
Capital asset acquisition by CDB	12,975,419	-
Capital assets acquired by leaseholds payable	102,798	-
Loss on disposals of capital assets	1,194,040	18,597
Other capital asset adjustments	(1,280,736)	-
Net interest capitalized	493,519	-

The accompanying notes are an integral part of this statement.

Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2017

NOTE 1 - The financial reporting entity and discretely presented component unit disclosures

Southern Illinois University (the University), a component unit of the State of Illinois, conducts education, research, public service, and related activities principally at its two campuses. One is in Carbondale and includes the School of Medicine in Springfield. The other is in Edwardsville and includes the School of Dental Medicine in Alton and the East St. Louis Center. The governing body of the University is the Board of Trustees of Southern Illinois University (the Board). As required by accounting principles generally accepted in the United States of America, these financial statements present the financial position and financial activities of the University (the primary unit) and its component units as well as certain activities and expenditures funded by other State agencies on behalf of the University or its employees. The component units discussed below are included in the University's financial reporting entity because of the significance of their financial relationship with the University.

The Related Organizations' column in the financial statements includes the financial data of the University's discretely presented component units which consist of the following eight entities: the Southern Illinois University Foundation (at Carbondale) and the Southern Illinois University at Edwardsville Foundation (Foundations); The Association of Alumni, Former Students and Friends of Southern Illinois University, Inc. and The Alumni Association of Southern Illinois University at Edwardsville (Alumni Associations); University Park, Southern Illinois University at Edwardsville, Inc.; Southern Illinois Research Park, Inc., Carbondale; SIU Physicians & Surgeons, Inc.; SIUE East St. Louis Charter School. The University's related organizations are reported in a separate column to emphasize that they are Illinois non-profit organizations legally separate from the University. These entities are University Related Organizations as defined under University Guidelines adopted by the State of Illinois Legislative Audit Commission in 1982 and amended in 1997.

The Foundations were formed for the purpose of providing fundraising and other assistance to the University in order to attract private gifts to support the University's education, research, and public service goals. In this capacity, the Foundations solicit, receive, hold, and administer gifts for the benefit of the University. Complete financial statements for the Foundations may be obtained by writing: Southern Illinois University Foundation (at Carbondale), MC 6805, 1235 Douglas, Carbondale, IL 62901-6805 and Southern Illinois University at Edwardsville Foundation, Edwardsville, IL 62026-1082.

The Alumni Associations were formed to promote the general welfare of the University and to encourage and stimulate interest among students, former students, and others in the University's programs. In this capacity, the Alumni Associations offer memberships to former students, conduct various activities for students and alumni, and publish periodicals for the benefit of the alumni. Complete financial statements for the Alumni Associations may be obtained by writing: The Association of Alumni, Former Students and Friends of Southern Illinois University, Inc., MC 6809, Colyer Hall, Carbondale, IL 62901-6809 and The Alumni Association of Southern Illinois University at Edwardsville, Southern Illinois University, Edwardsville, IL 62026-1031.

University Park, Southern Illinois University at Edwardsville, Inc. was formed for the purpose of providing such management, administrative, and other services as deemed essential to the operation and development of the University Park facility. Complete financial statements for the University Park may be obtained by writing: University Park, Southern Illinois University at Edwardsville, Inc., Southern Illinois University, Edwardsville, IL 62026-1333.

Southern Illinois Research Park, Inc. was formed to promote high technology and knowledge-based enterprise development within Carbondale and southern Illinois. Complete financial statements for the

**Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2017**

**NOTE 1 - The financial reporting entity and discretely presented component unit disclosures
(continued)**

Research Park may be obtained by writing: Southern Illinois Research Park, 150 East Pleasant Hill Road, Carbondale, IL 62901-6891.

SIU Physicians & Surgeons, Inc., d/b/a SIU HealthCare, was formed to aid in the education and training of medical students, residents, fellows, and physicians for the delivery of cost-effective, high-quality patient care and the conduct of medical and other scientific investigations. Complete financial statements for SIU Physicians & Surgeons, Inc. may be obtained by writing: SIU Physicians & Surgeons, Inc., SIU School of Medicine, P.O. Box 19606, Springfield, IL 62794-9606.

The SIUE East St. Louis Charter School was formed for both educational and charitable purposes and includes, but is not limited to, the establishment and operation of one or more charter school campuses in the city of East St. Louis pursuant to the Illinois Charter Schools Law. Complete financial statements for the Charter School may be obtained by writing: SIUE East St. Louis Charter School, 125 Peck Service Road, Campus Box 1049, Edwardsville, IL 62026-1049.

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's comprehensive annual financial report.

NOTE 2 - Significant accounting policies

University basis of presentation

The financial statements of the University have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation to pay has been incurred. All significant intra-agency transactions have been eliminated.

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; the disclosure of contingent assets and liabilities at the date of the financial statements; and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

University Related Organizations basis of presentation

The financial statements of the Southern Illinois University at Edwardsville Foundation; the Alumni Association of Southern Illinois University at Edwardsville; University Park, Southern Illinois University at Edwardsville, Inc.; Southern Illinois Research Park, Inc., Carbondale; SIU Physicians & Surgeons, Inc.; and SIUE East St. Louis Charter School comply with the Governmental Accounting Standards Board (GASB) presentation format as described above.

Beginning in fiscal year 2009, the Southern Illinois University Foundation (at Carbondale) and The Association of Alumni, Former Students and Friends of Southern Illinois University, Inc., follow Financial

Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2017

NOTE 2 - Significant accounting policies (continued)

Accounting Standards Board (FASB) standards for financial statement presentation. Consequently, reclassifications have been made to convert their statements to the GASB format for inclusion in the University Related Organizations' column in the financial statements.

Cash and cash equivalents

Cash deposits and cash equivalents of the University include bank accounts and investments with original maturities of ninety days or less at the time of purchase, primarily U.S. Treasury Bills and money market funds. The University classifies its investment in The Illinois Funds as a deposit for financial statement purposes.

Allowance for uncollectibles

The University provides allowances for uncollectible accounts and notes receivable based upon management's best estimate of uncollectible accounts and notes at the statement of net position date, considering type, age, collection history of receivables, and any other factors as considered appropriate. The University's accounts receivable and notes receivable are reported net of allowances of \$23,698,923 and \$323,297, respectively, at June 30, 2017.

Inventories

Except for the Textbook Rental Service at the Edwardsville campus, inventories are stated at the lower of cost or market. Cost is determined principally by the average cost method or the first-in, first-out method, depending on the type of inventory. The rental books are recorded net of depreciation with the related expense reported as operating expense.

Capital assets

Capital assets are recorded at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. The University's capitalization policy for capital assets is as follows: infrastructure \$1,000,000 or greater; buildings \$100,000 or greater; intangible assets \$100,000 or greater; site or building improvements \$25,000 or greater; and equipment and library books \$5,000 or greater. Renovations to buildings that significantly increase the value or extend the useful life of the asset are capitalized. Routine repairs and maintenance are charged to operating expense in the year incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 40 years for buildings, 20 years for infrastructure, 15 years for site or building improvements, and seven to 20 years for intangible assets. Vehicles and electronic data processing equipment are depreciated over five years. Other equipment and books are depreciated over seven years. Land, works of art, and historical treasures are deemed inexhaustible and are not depreciated. The "following-month" prorate convention is used, in which no depreciation is recorded in the month of acquisition and an entire month of depreciation is recorded in the month of disposition.

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) 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.

Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2017

NOTE 2 - Significant accounting policies (continued)

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.

Revenue and expense recognition

In accordance with GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, and GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, the University reported on-behalf payments of \$384,606,916 for fiscal year 2017 for health care and retirement costs. These costs are reflected in the Statement of Revenues, Expenses and Changes in Net Position as non-operating revenues entitled "Payments on behalf of the University" and as operating expenses under the appropriate functional classifications.

Substantially all employees participate in group health insurance plans administered by the State of Illinois. The employer contributions to these plans for University employees paid from State appropriations and auxiliary enterprises are paid by the State on behalf of the University. On-behalf payments for health care costs totaled \$146,189,673 for the year ended June 30, 2017. The on-behalf payments that relate to State group health insurance is an allocation of estimated costs incurred by CMS on behalf of the University. The employer contributions to these plans for employees paid from other University held funds are paid by the University. On behalf-payments of \$238,417,243 for the year ended June 30, 2017, were made to the State Universities Retirement System for retirement costs.

Classification of revenues and expenses

The University has classified its revenues and expenses as either operating or non-operating as follows:

Operating: Operating revenues and expenses include activities that have the characteristics of exchange transactions, such as student tuition and fees, sales and services of educational departments, sales and services of auxiliary enterprises, and most grants and contracts. The majority of the University's expenses are operating expenses.

Non-operating: Non-operating revenues and expenses include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other sources and uses that are defined as non-operating by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, such as state appropriations, investment income, and federal student aid programs. Appropriations made to the University from the State of Illinois are recognized as non-operating revenues in the year appropriated to the extent expended. Other non-operating revenues and expenses include transactions relating to capital and financing activities, noncapital financing activities, and investing activities. Gift and contribution revenue of the Southern Illinois University Edwardsville Foundation is reported as operating revenue in accordance with their audited financial statements.

Tuition and fees are generally recognized as revenues as they are assessed. The portion of summer session tuition and fees applicable to the following fiscal year is considered unearned.

Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2017

NOTE 2 - Significant accounting policies (continued)

The University first applies resources in restricted net position when an expense or outlay is incurred for purposes for which resources in both restricted and unrestricted net positions are available.

Restricted grant revenues from external sources are recognized to the extent of related expenditures on the accrual basis.

Compensated absences

Accrued compensated absences for University personnel are charged to current funds based on earned but unused vacation and sick leave days including the University's share of Social Security and Medicare taxes. At June 30, 2017, the University estimates \$26,094,887 will be paid from state appropriated accounts funded by the State of Illinois and the Income Fund, and \$14,916,331 from local funds in subsequent years for a combined total of \$41,011,218.

New Governmental Accounting Standards

The Governmental Accounting Standards Board (GASB) has issued the following statements which are effective for periods beginning July 1, 2016, or later which may impact the University:

Statement No. 74 – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, replaces Statement 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and Statement 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement 50, *Pension Disclosures*. The statement is effective for fiscal years beginning after June 15, 2016. The statement did not impact the University's financial statements.

Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, replaces the requirements of Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and Statement 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. The statement is effective for fiscal years beginning after June 15, 2017. The statement will require additional footnote disclosures in the University's financial statements related to OPEB similar to the additional disclosures related to pension benefits required by Statement No. 68.

Statement No. 77 – *Tax Abatement Disclosures*, establishes financial reporting standards for tax abatement agreements entered into by state and local governments. The statement is effective for fiscal years beginning after December 15, 2015. The statement did not impact the University's financial statements.

Statement No. 78 – *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, amends the scope and applicability of Statement 68 to exclude certain pensions provided to employees of state or local governmental employers. The statement is effective for fiscal years beginning after December 15, 2015. The statement did not impact the University's financial statements.

Statement No. 80 – *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14*, amends the blending requirements for the financial statement presentation of component units of all state and local governments. The statement is effective for fiscal years beginning after June 15, 2016. The statement did not impact the University's financial statements as all of the University's Related Organizations fell outside of the blending requirements outlined in the statement.

Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2017

NOTE 2 - Significant accounting policies (continued)

Statement No. 81 – *Irrevocable Split-Interest Agreements*, addresses the timing of recognition of assets, liabilities, deferred inflows, and revenues for government entities entered into split-interest agreements. The statement is effective for fiscal years beginning after December 15, 2016. The statement is not expected to impact the University.

Statement No. 82 – *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*, addresses issues regarding the presentation of payroll-related measures in required supplementary information, the selection of assumptions and deviations from guidance in an Actuarial Standard of Practice for financial reporting purposes, and the classification of payments made by employers to satisfy employee contribution requirements. The statement is effective for fiscal years beginning after June 15, 2016, except for the requirements for the selection of assumptions are effective in the first reporting period in which the measurement of the pension liability is on or after June 15, 2017. The statement did not impact the University's financial statements.

Statement No. 83 – *Certain Asset Retirement Obligations*, addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. Governments with legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on guidance from the statement. The statement is effective for fiscal years beginning after June 15, 2018. The impact on the University is being reviewed.

Statement No. 84 – *Fiduciary Activities*, establishes criteria for identifying fiduciary activities of all state and local governments. The criteria generally focuses on whether a government is controlling the assets of the fiduciary activity and the beneficiaries with who a fiduciary relationship exists. An activity meeting the criteria should be reported in a fiduciary fund in the financial statements. The statement is effective for fiscal years beginning after December 15, 2018. The impact on the University is being reviewed.

Statement No. 85 – *Omnibus 2017*, addresses practice issues identified during the implementation and application of certain prior GASB statements. The statement addresses topics including blending component units, goodwill, fair value measurement and application, and postemployment benefits. The statement is effective for fiscal years beginning after June 15, 2017. The impact on the University is being reviewed.

Statement No. 86 – *Certain Debt Extinguishment Issues*, focuses on improving consistency in accounting and financial reporting for defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources are placed in an irrevocable trust for the sole purpose of extinguishing debt. The statement is effective for fiscal years beginning after June 15, 2017. The impact on the University is being reviewed.

Statement No. 87 – *Leases*, requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The statement establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The statement is effective for fiscal years beginning after December 15, 2019. The impact on the University is being reviewed.

Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2017

NOTE 3 - Cash, deposits and cash equivalents

At June 30, 2017, the actual bank balances related to the deposits of the University amounted to \$74,389,879; of this balance, \$62,593,543 was either covered by federal depository insurance or not required to be collateralized and \$11,796,336 was covered by collateral held by an agent in the University's name.

Cash, deposits and cash equivalents at June 30, 2017 were:

<u>UNIVERSITY:</u>	
Cash and cash equivalents	\$ 32,918,468
The Illinois Funds	<u>34,951,714</u>
Total cash and cash equivalents	<u>\$ 67,870,182</u>
 <u>UNIVERSITY RELATED ORGANIZATIONS:</u>	
Total cash and cash equivalents	<u>\$ 5,484,917</u>

NOTE 4 – Investments

University investment policy

It is University policy to invest funds in a manner which will provide investment returns and security consistent with good business practices, while meeting the daily cash flow demands of the University and conforming to all statutes governing the investments of funds. Funds are invested in accordance with the provisions of the Illinois Compiled Statutes, Chapter 30, Sections 235/0.01 – 235/8, the *Public Funds Investment Act*; the policies of the Board; and covenants provided from the University's bond and certificate of participation issuance activities. The University's Investment Policy authorizes the University to invest in securities of the United States of America, its agencies, and its instrumentalities; interest bearing savings accounts, certificates of deposit, interest bearing time deposits, and other direct obligations of any bank defined in the Illinois Banking Act; certain short term obligations of U.S. corporations rated in the highest rating classification by at least two standard rating services provided such obligations do not mature in longer than 270 days from the time of purchase and the issuing entity has at least \$500 million in assets (limited to 33 percent of the portfolio); money market mutual funds provided they are comprised of only U.S. Treasuries, agencies and instrumentalities; Public Treasurer's Investment Pool-State Treasurer's Office; repurchase agreements of Government securities; and other specifically defined repurchase agreements.

The three basic objectives of the University's investment policy are safety of invested funds; maintenance of sufficient liquidity to meet cash flow needs; and attainment of the maximum investment returns possible consistent with the first two objectives. The University ensures the safety of its invested funds by limiting credit and interest rate risks. The University's portfolio is structured to ensure that cash is available to meet anticipated demands. Additionally, since all possible cash demands cannot be anticipated, the portfolio consists largely of securities with active secondary or resale markets. The investment returns on the University's portfolio is a priority after the safety and liquidity objectives have been met. Investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed.

**Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2017**

NOTE 4 – Investments (continued)

University investments

Investments are reported at fair value. The fair value is determined to be the amount, usually quoted market prices, at which financial instruments could be exchanged in a current transaction between willing partners. The investment with the Public Treasurer’s Investment Pool-State Treasurer’s Office is at fair value, which is the same value as the pool shares. State statutes require the Illinois Funds to comply with the *Illinois Public Funds Investment Act* (30 ILCS 235). Also, certain money market investments having a remaining maturity of one year or less at time of purchase and non-negotiable certificates of deposit with redemption terms that do not consider market rates are carried at amortized cost.

The calculation of realized gains is independent of the calculation of the net increase in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year. The University has pooled its operating cash for investment purposes to provide for efficiencies and economies in their management. Proceeds related to revenue bond and certificate of participation financing activities are pooled to the extent allowed under their covenants. Restricted funds that are invested in the pool are presented as restricted cash or investments based on the ratio of cash and investments held in the pool. Investment income earned on the operating cash and investments, including realized gains and losses resulting from the sale or other disposition of investments, is distributed on a quarterly basis to the pooled participants based upon their respective aggregate balances over the prior three-month period. PFM Asset Management, LLC manages the external portfolios, while U.S. Bank keeps custody of these funds and assists in the accounting and reporting functions related to these investments.

Investment income net of realized and unrealized gains and losses on investments for the year ended June 30, 2017 is reflected below:

<u>UNIVERSITY:</u>	
Interest earnings	\$ 3,051,300
Realized gain/(loss) on investments	(147,854)
Unrealized gain/(loss) on investments	<u>(2,731,520)</u>
Net investment income	<u>\$ 171,926</u>
 <u>UNIVERSITY RELATED ORGANIZATIONS:</u>	
Interest earnings	\$ 4,567,633
Realized gain/(loss) on investments	4,203,436
Unrealized gain/(loss) on investments	<u>11,955,554</u>
Net investment income	<u>\$ 20,726,623</u>

University risk disclosures

Credit risk: Credit risk is the risk of loss due to the failure of the security issuer or backer to meet promised interest or principal payments on required dates. Credit risk is mitigated by limiting investments to those specified in the Illinois Public Funds Investment Act, which prohibits investment in corporate bonds with maturity dates longer than 270 days from the date of purchase; pre-qualifying the financial institutions which are utilized; and diversifying the investment portfolio so that the failure of any one issue or backer will not place an undue financial burden on the University. U.S. Treasuries are federal government securities

Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2017

NOTE 4 – Investments (continued)

that do not require the disclosure of credit risk. The U.S. agencies investments typically include the Federal Home Loan Bank, all of which are rated AA or higher. The Public Treasurer's Investment Pool is rated AAAM.

Concentration of credit risk: The University's investment policy states that the portfolio should consist of a mix of various types of securities, issues and maturities. While the fund's asset allocation strategy provides diversification by fixed income sector, each portfolio within the sector is also broadly diversified by security type, issue and maturity.

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

Interest rate risk: Interest rate risk is the risk that the market value of portfolio securities will fall or rise due to changes in general interest rates. Interest rate risk is mitigated by maintaining significant balances in cash equivalent and other short maturity investments and by establishing an asset allocation policy that is consistent with the expected cash flows of the University. Revenue Bond System funds are managed in accordance with covenants provided from the University's debt issuance activities.

Foreign currency risk: The University does not hold any foreign investments.

University Related Organizations investments

As the investments of the University's two Foundations are considered material to the University's financial statements taken as a whole, the following disclosures are made:

Southern Illinois University Foundation (at Carbondale)

The Foundation financial statements follow Financial Accounting Standards Board (FASB) standards; therefore, the required disclosures differ from GASB requirements. Investments are stated at fair value in accordance with SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*, and are recorded on the trade date. The fair value of all debt and equity securities with a readily determinable fair value are based on quotations obtained from national securities exchanges. The alternative investments (hedge funds, limited partnerships and other private equity) for which quoted market prices are not available, are carried at estimated fair market values as provided by the external general partners or investment managers and/or audited financial statements of the fund or partnership. Such values may be based on a variety of estimates and assumptions requiring varying degrees of judgment and may be subject to volatility in market conditions and the possibility that their value could substantially change in the near term and/or be materially different than the values reported in the statement of financial position. Management of the Foundation believes that the carrying amounts of these financial instruments are a reasonable estimate of fair value. Realized gains and losses on sales of investments are determined on the specific identification basis.

Investment securities are exposed to various risks including, but not limited to, interest rate and market and credit risks. Due to the level of risks associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term. Because the hedge funds and limited partnerships are not readily marketable, their estimated fair value is subject to uncertainty and therefore may differ significantly from the values that would have been used had a ready market existed.

Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2017

NOTE 4 – Investments (continued)

The Foundation maintains pooled investment accounts for its endowments. Investment income and realized and unrealized gains and losses from securities in the pooled investment account are allocated monthly to the individual endowments based on the relationship of the fair value of the interest of each endowment to the total fair value of the pooled investment account, as adjusted for additions to or deductions from those accounts.

Life insurance policies are carried at net cash surrender value. Changes in fair value (realized and unrealized) are recorded in the statement of activities.

The Foundation measures fair value using a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability. The objective of a fair value measurement is to determine the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Accordingly, the fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The Foundation may use valuation techniques consistent with the market, income and cost approaches to measure fair value.

Custodial credit risk is the risk that, in the event of a bank failure, the Foundation's deposits may not be returned to the Foundation. The Foundation has a policy to require banks to collateralize balances over the FDIC insured amount. As of June 30, 2017, the Foundation's cash accounts exceeded FDIC limits and collateralized balances by approximately \$85,000.

Southern Illinois University at Edwardsville Foundation

It is Foundation policy to invest funds in a manner which will provide investment returns and security consistent with good business practices, while meeting the daily cash flow demands of the Foundation. Funds are invested in accordance with the approved Board policy for investments. The Foundation's investment policy authorizes the Foundation to invest in securities of the U.S. government or its agencies, banker's acceptances, certificates of deposit, interest bearing savings accounts, interest bearing time deposits, and other direct obligations of any bank defined in the Illinois Banking Act. The Foundation's policy also authorizes additional types of investments in corporate debt securities, open and closed end mutual funds, and common and preferred stocks subject to United States' securities regulation and enforcement. The fair value of investments is determined to be the amount, usually quoted market prices, at which financial instruments could be exchanged in a current transaction between willing parties.

The Foundation has specific investment objectives based on the type of investment. For student assistance endowments and quasi-endowments, the main objective of the investment policy is maintenance of the purchasing power of the assets in perpetuity. For general endowments and quasi-endowments, the main objective is maximizing total return on assets. For charitable gift annuity funds, the main objective of the investment policy is to generate sufficient cash flow to meet the financial commitments to the annuitants while obtaining a total investment return that provides for a residual balance of at least 50 percent of the original gift amount at the termination of the agreement. The investment policy has an overall return objective to preserve the inflation adjusted value of the funds and to maximize total return net of investment expense.

Credit risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit risk is mitigated by limiting investments to those specified in the Board-approved policy; and diversifying the investment portfolio so that the failure of any one issuer or backer will not place an undue financial burden on the Foundation. Board policy requires investments in fixed income government

Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2017

NOTE 4 – Investments (continued)

or corporate securities to be purchased or retained only if the security is A2 or higher by Moody’s Investor Service or is rated A or higher by Standard and Poor’s Corporation (S&P), Fitch Investors Service or Duff & Phelps Credit Rating Co. Commercial paper, money markets, and banker’s acceptances must be rated at least Prime-1 by Moody’s or at least A1 by S&P. U.S. Treasuries are federal government securities that do not require the disclosure of credit risk. The U.S. agencies investments include the Federal Home Loan Mortgage Corporation and the Federal Home Loan Bank, all rated AAA by S&P and Moody’s, respectively.

Concentration of credit risk: Concentration of credit risk is the risk of loss attributable to the magnitude of investment in a single issuer. The Foundation’s investment policy encourages diversification and prohibits investments of more than 10 percent of total investments in any one issuer.

Custodial credit risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Foundation will not be able to recover the value of its investments that are in the possession of an outside party. The investment custodians hold these investments in their name for the benefit of the Foundation. In fiscal year 2017, the Foundation’s investments were managed by two different investment firms, each offering SIPC protection up to \$500,000. The investment balance exposed to custodial credit risk as of June 30, 2017 was \$1,572,783.

Interest rate risk: The Foundation does not maintain a policy that limits investment maturities in regards to interest rate risk; however, its overall risk management requires sound investment decisions and diversification of overall risk.

Foreign currency risk: The Foundation had no investment in common stocks of foreign companies at June 30, 2017. The Foundation’s policy related to foreign currency risk is that no purchase of a foreign equity may be made if such purchase would cause the total value of foreign equity assets to exceed the lesser of 10 percent of the total or 25 percent of the equity portion of the endowment portfolio.

Investment policies and relevant risk disclosures as described in GASB Statement No. 40 applicable to the other University Related Organizations can be obtained by contacting those entities listed in Note 1 on pages 19 and 20.

Investment maturities

Interest rate risk is disclosed below using the segmented time distribution method. As of June 30, 2017, the University and the University Related Organizations had the following investment balances:

UNIVERSITY:

Investment Type:	Investment Maturities (in Years)				
	Fair Value	Less Than 1	1-5	6-10	No Maturity
U.S. Treasuries	\$ 39,063,343	\$ 14,841,165	\$ 8,557,544	\$ 15,664,634	\$ -
U.S. Agencies	70,070,663	2,768,530	46,483,228	20,818,905	-
The Illinois Funds	34,951,714	34,951,714	-	-	-
Common Stock	44,300	-	-	-	44,300
Subtotal	144,130,020	\$ 52,561,409	\$ 55,040,772	\$ 36,483,539	\$ 44,300
Less: Investment in The Illinois Funds reported as cash	(34,951,714)				
Total Investments	\$ 109,178,306				

Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2017

NOTE 4 – Investments (continued)

UNIVERSITY RELATED ORGANIZATIONS:

Investment Type:	Fair Value	Investment Maturities (in Years)				
		Less Than 1	1-5	6-10	Over 10	No Maturity
Municipal Bonds	\$ 14,423,366	\$ 391,759	\$ 6,749,069	\$ 7,282,538	\$ -	\$ -
Government Bonds	93,752	-	-	-	93,752	-
Common Stock	2,200,217	-	-	-	-	2,200,217
Corporate Bonds	9,456,917	38,435	3,374,162	6,044,320	-	-
Commodities/Natural Resources	7,266,937	3,711,728	3,555,209	-	-	-
Alternative Investments	46,735,702	23,364,934	23,370,768	-	-	-
Real Estate	7,301,676	4,166,330	3,135,346	-	-	-
Money Market Funds	3,501,076	3,501,076	-	-	-	-
Mutual Funds	151,334,018	135,543,108	3,096,015	6,544,999	6,149,896	-
Total Investments	\$ 242,313,661	\$ 170,717,370	\$ 43,280,569	\$ 19,871,857	\$ 6,243,648	\$ 2,200,217

Fair value measurements

The objective of a fair value measurement is to determine the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. The University and its related organizations categorize fair values according to the hierarchy established by generally accepted accounting principles. The hierarchy, based on the valuation inputs used to measure fair values, consists of the following three levels of measurement inputs:

- Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets
- Level 2: Other than quoted prices that are observable for an asset or liability, directly or indirectly
- Level 3: Unobservable inputs for an asset or liability

The University uses Level 1 inputs to measure the fair value of all investments held. The fair values, derived from current quoted market prices for identical assets, are provided by both the University's external investment managers as well as the custodian bank.

The University Related Organizations had the following recurring fair value measurements as of June 30, 2017:

Investments:	Fair Value	Level 1	Level 2	Level 3
Municipal Bonds	\$ 14,423,366	\$ -	\$ 14,423,366	\$ -
Government Bonds	93,752	-	93,752	-
Common Stock	2,200,217	2,200,217	-	-
Corporate Bonds	9,456,917	-	9,456,917	-
Commodities/Natural Resources	7,266,937	3,711,728	-	3,555,209
Alternative Investments	46,735,702	11,700,211	6,057,772	28,977,719
Real Estate	7,301,676	4,128,400	-	3,173,276
Money Market Funds	3,501,076	3,501,076	-	-
Mutual Funds	151,334,018	151,334,018	-	-
Total Investments	\$ 242,313,661	\$ 176,575,650	\$ 30,031,807	\$ 35,706,204

Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2017

NOTE 5 - Accounts and notes receivable

Accounts and notes receivable consisted of the following at June 30, 2017:

UNIVERSITY:

	Accounts Receivable	Notes Receivable
Student tuition and fees	\$ 12,409,381	\$ -
Auxiliary enterprises	14,844,229	-
Grants and contracts	14,747,835	-
General operating	24,776,201	30,000
Student loans*	64,057	19,578,333
Other accounts receivable	2,128,757	-
	<u>68,970,460</u>	<u>19,608,333</u>
Less: Allowance for doubtful accounts	<u>(23,698,923)</u>	<u>(323,297)</u>
Net receivable	<u>\$ 45,271,537</u>	<u>\$ 19,285,036</u>

UNIVERSITY RELATED ORGANIZATIONS:

	Accounts Receivable	Notes Receivable
Accounts receivable	\$ 66,668,687	\$ -
Student loans	-	42,829
	<u>66,668,687</u>	<u>42,829</u>
Less: Allowances for assignment losses & doubtful accounts	<u>(39,901,111)</u>	<u>-</u>
Net receivable	<u>\$ 26,767,576</u>	<u>\$ 42,829</u>

*The student loan balance consists of \$17,472,208 of loans under the Perkins Loan Program. Effective September 30, 2015, the federal government discontinued the Perkins Loan Program. The program is currently extended through September 30, 2017, pursuant to the Federal Perkins Loan Program Extension Act of 2015 (Pub.L.No.114-105)

NOTE 6 - Deferred outflows of resources

Deferred outflows of resources consisted of the following at June 30, 2017:

UNIVERSITY:

Unamortized debt refundings	\$ 2,872,344
Employer pension contributions	<u>2,591,913</u>
Total deferred outflows of resources	<u>\$ 5,464,257</u>

Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2017

NOTE 7 - Capital assets

Capital asset activity for the University for the fiscal year ended June 30, 2017 was as follows:

UNIVERSITY:

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Capital assets not being depreciated:					
Land	\$ 22,192,737	\$ 2,160	\$ -	\$ -	\$ 22,194,897
Nondepreciable historical treasures and works of art	11,992,188	338,950	-	-	12,331,138
Construction in progress	56,508,751	20,760,675	104,574	(10,180,961)	66,983,891
Total capital assets not being depreciated	90,693,676	21,101,785	104,574	(10,180,961)	101,509,926
Capital assets being depreciated:					
Site improvements	78,826,361	498,539	-	1,906,774	81,231,674
Buildings	1,271,738,417	11,520,049	383,514	8,274,187	1,291,149,139
Equipment	376,803,579	7,792,401	9,375,859	-	375,220,121
Intangible assets	7,340,787	-	-	-	7,340,787
Infrastructure	19,890,870	1,831,409	-	-	21,722,279
Total capital assets being depreciated	1,754,600,014	21,642,398	9,759,373	10,180,961	1,776,664,000
Less accumulated depreciation for:					
Site improvements	50,337,857	3,500,207	-	-	53,838,064
Buildings	593,406,917	34,099,566	-	-	627,506,483
Equipment	335,135,693	14,365,145	8,669,909	-	340,830,929
Intangible assets	5,429,808	641,829	-	-	6,071,637
Infrastructure	10,273,325	1,381,970	-	-	11,655,295
Total accumulated depreciation	994,583,600	53,988,717	8,669,909	-	1,039,902,408
Total capital assets being depreciated, net	760,016,414	(32,346,319)	1,089,464	10,180,961	736,761,592
Capital assets, net	<u>\$ 850,710,090</u>	<u>\$ (11,244,534)</u>	<u>\$ 1,194,038</u>	<u>\$ -</u>	<u>\$ 838,271,518</u>

The University incurred interest expense of \$12,734,924 during fiscal year 2017 including \$493,519 of capitalized interest.

Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2017

NOTE 7 - Capital assets (continued)

Capital asset activity for the University Related Organizations for the fiscal years ended June 30, 2017 was as follows:

**UNIVERSITY RELATED
ORGANIZATIONS:**

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Capital assets not being depreciated:					
Land	\$ 307,216	\$ -	\$ -	\$ -	\$ 307,216
Construction in Progress	682,569	108,703	-	(791,272)	-
Total capital assets not being depreciated	989,785	108,703	-	(791,272)	307,216
Capital assets being depreciated:					
Site improvements	310,765	-	-	-	310,765
Buildings	5,268,707	-	-	-	5,268,707
Equipment	5,670,593	223,798	327,744	791,272	6,357,919
Total capital assets being depreciated	11,250,065	223,798	327,744	791,272	11,937,391
Less accumulated depreciation for:					
Site improvements	309,308	1,457	-	-	310,765
Buildings	1,646,929	153,800	-	-	1,800,729
Equipment	4,340,058	505,189	309,146	-	4,536,101
Total accumulated depreciation	6,296,295	660,446	309,146	-	6,647,595
Total capital assets being depreciated, net	4,953,770	(436,648)	18,598	791,272	5,289,796
Capital assets, net	<u>\$ 5,943,555</u>	<u>\$ (327,945)</u>	<u>\$ 18,598</u>	<u>\$ -</u>	<u>\$ 5,597,012</u>

Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2017

NOTE 8 – Changes in long-term liabilities

Long-term liability activity for the year ended June 30, 2017 was as follows:

UNIVERSITY:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Compensated absences	\$ 40,588,924	\$ 4,065,074	\$ 3,642,780	\$ 41,011,218	\$ 3,795,131
Revenue bonds payable	253,213,541	3,214,389	20,333,809	236,094,121	22,591,415
Certificates of participation	39,716,981	-	2,260,878	37,456,103	2,335,878
Capitalized leases	4,966,699	275,709	2,433,070	2,809,338	1,871,811
Self insurance	31,804,131	13,997,725	10,708,226	35,093,630	8,201,381
Federal loan programs refundable	17,407,118	-	65,925	17,341,193	-
Housing deposits	231,000	149,559	167,959	212,600	95,670
Total long-term liabilities	<u>\$ 387,928,394</u>	<u>\$ 21,702,456</u>	<u>\$ 39,612,647</u>	<u>\$ 370,018,203</u>	<u>\$ 38,891,286</u>

UNIVERSITY RELATED ORGANIZATIONS:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Annuities payable	\$ 2,713,033	\$ 434,170	\$ 623,441	\$ 2,523,762	\$ 141,233
Other accrued liabilities	1,791,923	-	41,140	1,750,783	-
Deposits held in custody for others	2,549,657	272,115	91,107	2,730,665	87,011
Total long-term liabilities	<u>\$ 7,054,613</u>	<u>\$ 706,285</u>	<u>\$ 755,688</u>	<u>\$ 7,005,210</u>	<u>\$ 228,244</u>

NOTE 9 - Revenue bonds payable

Revenue bonds payable activity for the year ended June 30, 2017:

Series	Annual Maturity To	Beginning Balance	Accretion/ New Debt	Principal Paid/Debt Refunded	Ending Balance	Current Portion
1993A	2018	\$ 7,509,008	\$ 410,144	\$ 4,050,000	\$ 3,869,152	\$ 4,050,000
1997A	2018	5,015,161	253,301	2,690,000	2,578,462	2,690,000
1999A	2029	45,659,475	2,550,944	815,000	47,395,419	1,510,000
2006A	2021	16,535,000	-	2,100,000	14,435,000	3,495,000
2008A	2028	22,510,000	-	1,540,000	20,970,000	1,635,000
2009A	2030	41,005,000	-	2,310,000	38,695,000	2,385,000
2012A	2030	24,500,000	-	1,830,000	22,670,000	1,205,000
2012B	2035	40,550,000	-	1,660,000	38,890,000	1,730,000
2015A	2030	7,760,000	-	455,000	7,305,000	475,000
2015A	2035	11,995,000	-	1,550,000	10,445,000	1,605,000
2015B	2035	20,380,000	-	595,000	19,785,000	1,425,000
		<u>\$ 243,418,644</u>	<u>\$ 3,214,389</u>	<u>\$ 19,595,000</u>	227,038,033	22,205,000
Unaccreted appreciation						(352,394)
Unamortized debt premium					9,056,088	738,809
Total					<u>\$ 236,094,121</u>	<u>\$ 22,591,415</u>

Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2017

NOTE 9 - Revenue bonds payable (continued)

University revenue bonds payable:

The Housing and Auxiliary Facilities System Bonds, Series 1993A were authorized by the University's Board under the Third Supplemental Bond Resolution dated May 13, 1993. The bonds mature at varying amounts from 2011 to 2018 and pay no current interest. Interest ranges from 6.05 to 6.20 percent, approximate yield to maturity. The University records the annual increase in the principal amount of these bonds as interest expense and accretion on bonds payable.

The Housing and Auxiliary System Bonds, Series 1997A were authorized by the Board under the Fifth Supplemental Bond Resolution dated July 10, 1997. The bonds were issued as current interest and capital appreciation bonds. The current interest bonds mature at varying amounts from 1998 to 2009 with interest ranging from 4.20 to 5.50 percent. Interest payments are due semi-annually. The capital appreciation bonds mature at varying amounts from 1998 to 2018 with approximate yield to maturity ranges from 4.10 to 5.74 percent. They pay no current interest. The University records the annual increase in principal amount of these bonds as interest expense and accretion on bonds payable.

The Housing and Auxiliary Facilities System Bonds, Series 1999A were authorized by the University's Board under the Sixth Supplemental Bond Resolution dated May 13, 1999. The bonds mature at varying amounts from 2001 to 2029 with interest ranging from 4.10 to 5.55 percent. They pay no current interest. The University records the annual increase in the principal amount of these bonds as interest expense and accretion on bonds payable.

The Housing and Auxiliary Facilities System Bonds, Series 2006A were authorized by the University's Board under the Eleventh Supplemental Bond Resolution dated March 9, 2006, as amended and restated on May 2, 2006, and as further amended on November 9, 2006. The bonds mature at varying amounts from 2007 to 2021 with interest ranging from 4.00 to 5.25 percent. Interest payments are due semi-annually.

The Housing and Auxiliary Facilities System Bonds, Series 2008A were authorized by the University's Board under the Twelfth Supplemental Bond Resolution dated April 10, 2008. The bonds mature at varying amounts from 2009 to 2028 with interest ranging from 3.00 to 5.50 percent. Interest payments are due semi-annually.

Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2017

NOTE 9 - Revenue bonds payable (continued)

The Housing and Auxiliary Facilities System Bonds, Series 2009A were authorized by the University's Board under the Thirteenth Supplemental Bond Resolution approved April 2, 2009. The bonds mature at varying amounts from 2011 to 2030 with interest ranging from 2.50 to 6.20 percent. Interest payments are due semi-annually. The bonds are Build America Bonds that carry a direct payment subsidy from the U.S. Treasury in an amount equal to 35% of the interest due on each payment date:

Year Ending	Principal	Interest	Treasury Rebate	Total
2018	\$ 2,385,000	\$ 2,260,448	\$ (791,157)	\$ 3,854,291
2019	2,460,000	2,141,197	(749,419)	3,851,778
2020	2,545,000	2,010,818	(703,786)	3,852,032
2021	2,635,000	1,877,205	(657,022)	3,855,183
2022	2,725,000	1,733,597	(606,759)	3,851,838
2023-27	15,255,000	6,174,998	(2,161,249)	19,268,749
2028-30	10,690,000	1,342,920	(470,022)	11,562,898
Total	\$ 38,695,000	\$ 17,541,183	\$ (6,139,414)	\$ 50,096,769

Note: The October 1, 2017 Treasury Rebate will be reduced by 6.9% in accordance with the requirements of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended. Reductions to future Treasury Rebates are subject to Congressional action.

The Housing and Auxiliary Facilities System Bonds, Series 2012A were authorized by the University's Board under the Fourteenth Supplemental Bond Resolution approved December 8, 2011. The bonds mature at varying amounts from 2013 to 2032 with interest ranging from 2.05 to 4.38 percent. Interest payments are due semi-annually. Debt service reserve funds of \$1,592,622 were released and used to refund a portion of Series 2001A debt service. The current refunding, which was undertaken by the Board to effect a cost savings, resulted in a net decrease in debt service payments of \$1,939,053 of which \$1,592,622 represents application of the debt service reserve released funds. The financing resulted in an economic gain of \$233,957 and an accounting loss of \$9,103.

The Housing and Auxiliary Facilities System Bonds, Series 2012B were authorized by the University's Board under the Fifteenth Supplemental Bond Resolution approved November 8, 2012. The bonds in Series 2012B-1 mature at varying amounts from 2013 to 2035 with interest ranging from 1.00 to 5.00 percent. Interest payments are due semi-annually. The advance refunding, which was undertaken by the Board to effect a cost savings, resulted in a net decrease in debt service payments of \$6,293,473. The financing resulted in an economic gain of \$4,829,291 and an accounting loss of \$2,216,389.

Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2017

NOTE 9 - Revenue bonds payable (continued)

The bonds in Series 2012B-2 mature at \$5,365,000 in 2035 with interest of 4.40 percent. Interest payments are due semi-annually. The bonds are Qualified Energy Conservation Bonds that carry a direct payment subsidy from the U.S. Treasury in an amount equal to 70% of the tax credit rate published by the Bureau of Public Debt on the date of the bond sale:

Year				Treasury	
Ending	Principal	Interest	Rebate	Total	
2018	\$ -	\$ 236,060	\$ (157,731)	\$ 78,329	
2019	-	236,060	(157,731)	78,329	
2020	-	236,060	(157,731)	78,329	
2021	-	236,060	(157,731)	78,329	
2022	-	236,060	(157,731)	78,329	
2023-27	-	1,180,300	(788,655)	391,645	
2028-32	-	1,180,300	(788,655)	391,645	
2033-35	5,365,000	708,180	(473,193)	5,599,987	
Total	<u>\$5,365,000</u>	<u>\$ 4,249,080</u>	<u>\$ (2,839,158)</u>	<u>\$ 6,774,922</u>	

Note: The October 1, 2017 Treasury Rebate will be reduced by 6.9% in accordance with the requirements of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended. Reductions to future Treasury Rebates are subject to Congressional action.

The Medical Facilities System Bonds, Series 2015A were authorized by the University's Board on December 11, 2014. The bonds mature at varying amounts from 2016 to 2023 with an interest rate of 1.65 percent. Interest payments are due semi-annually. The current refunding, which was undertaken by the Board to effect a cost savings, resulted in a \$2,413,854 net decrease in debt service payments, an economic gain of \$1,982,564 and an accounting gain of \$38,870.

The Housing and Auxiliary Facilities System Bonds, Series 2015A were authorized by the University's Board under the Sixteenth Supplemental Bond Resolution approved March 19, 2015. The bonds in Series 2015A mature at varying amounts from 2016 to 2030 with an interest rate of 2.85 percent. Interest payments are due semi-annually.

The Housing and Auxiliary Facilities System Bonds, Series 2015B were authorized by the University's Board under the Seventeenth Supplemental Bond Resolution approved July 16, 2015. The bonds mature at varying amounts from 2016 to 2031 with an interest ranging from 3.00 to 5.00 percent. Interest payments are due semi-annually. The advance refunding of a portion of the 2006A bonds, which was undertaken by the Board to effect a cost savings, resulted in a \$16,292,964 net decrease in debt service payments, an economic gain of \$3,417,083 and an accounting loss of \$452,331.

Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2017

NOTE 9 - Revenue bonds payable (continued)

Housing and Auxiliary Facilities System: These bonds, which are payable through 2035, do not constitute a debt of the State of Illinois or the individual members, officers or agents of the Board of Trustees of the University but, together with interest thereon, are payable from and secured by a pledge of and lien on (i) the net revenues of the System, (ii) pledged tuition in an amount not to exceed maximum annual debt service (subject to prior payment of operating and maintenance expenses of the System), (iii) the Bond and Interest Sinking Fund account, and (iv) the Repair and Replacement Reserve account. Unrefunded bonds issued in 2001 and prior are additionally secured by the Debt Service Reserve. Total principal and interest remaining on the debt is \$297,993,580 with annual requirements ranging from \$2,013,460 to \$28,477,085. For the current year, principal and interest paid was \$26,366,847, and the total revenues pledged were \$58,932,785. For fiscal year 2017, the total revenue pledged represents 100 percent of the net revenues of the System and 19 percent of net tuition revenue received. Although net tuition is pledged, it is not expected to be needed to meet debt service requirements.

The bond resolution requires that debt service coverage on a cash basis be at least 120 percent of the maximum annual debt service. For the year ended June 30, 2017, the maximum annual debt service was \$28,477,085, and the coverage was 207 percent. The bond resolution also requires the Treasurer to transfer annually to Renewals and Replacements from the funds remaining in unrestricted net position the sum of 10 percent of the maximum annual net debt service requirement or such portion thereof as is available for transfer. The net position of Renewals and Replacements was \$28,779,190 at June 30, 2017. All of the refunded bonds are considered to be defeased and, accordingly, have been accounted for as if they were retired. As of June 30, 2017, there were no outstanding balances of refunded bonds.

Medical Facilities System: These bonds, which are payable through 2023, do not constitute a debt of the State of Illinois or the individual members, officers or agents of the Board of Trustees of the University but, together with interest thereon, are payable from and secured by a pledge of and lien on (i) the net revenues of the System, (ii) pledged tuition (subject to the prior payment of necessary operating and maintenance expenses of the Housing and Auxiliary Facilities System, debt service of the Housing and Auxiliary Facilities System not to exceed the maximum annual debt service, and then necessary operating and maintenance expenses of the System), (iii) the Bond and Interest Sinking Fund account, and (iv) the Repair and Replacement Reserve account. Total principal and interest remaining on the debt is \$11,063,587 with annual requirements ranging from \$1,777,343 to \$1,895,773. For the current year, principal and interest paid was \$1,747,918, and the total revenues pledged were \$124,799,809. For fiscal year 2017, the total revenue pledged represents 100 percent of the net revenues of the System and 81 percent of net tuition revenue received. Although net tuition is pledged, it is not expected to be needed to meet debt service requirements.

The bond resolution requires that debt service coverage on the cash basis (net revenues plus pledged tuition) be at least 200 percent of annual debt service and that net revenues shall be at least 100 percent of the annual debt service requirement in each fiscal year. For the year ended June 30, 2017, the maximum annual debt service was \$1,895,773, and the coverage was 6,583 percent. The bond resolution also requires the Treasurer to credit funds remaining in the revenue fund into a separate and special account designated the Medical Facilities System Repair and Replacement Reserve account on or before the close of each fiscal year, the sum of not less than 10 percent of the maximum annual debt service, or such portion thereof as is available for transfer and deposit annually, for a repair and replacement reserve. The net position of Renewals and Replacements was \$1,453,375 at June 30, 2017.

**Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2017**

NOTE 9 - Revenue bonds payable (continued)

As of June 30, 2017, future debt service requirements for all bonds outstanding are:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 22,205,000	\$ 8,049,427	\$ 30,254,427
2019	19,075,000	7,456,755	26,531,755
2020	19,690,000	6,862,917	26,552,917
2021	20,150,000	6,243,823	26,393,823
2022	18,285,000	5,631,303	23,916,303
2023-27	87,480,000	19,921,527	107,401,527
2028-32	49,960,000	6,638,233	56,598,233
2033-35	10,300,000	1,108,180	11,408,180
Total payments	<u>247,145,000</u>	<u>\$ 61,912,165</u>	<u>\$ 309,057,165</u>
Unaccreted appreciation	<u>(20,106,967)</u>		
Subtotal	227,038,033		
Unamortized premiums on bonds	9,056,088		
Total bonds payable	<u>\$ 236,094,121</u>		

NOTE 10 - Capitalized leases

The University has entered into lease purchase contracts for certain items of equipment. Minimum lease payments under capital leases together with the present value of the net minimum lease payments are:

UNIVERSITY:

Year Ending

2018	\$ 1,916,075
2019	927,762
2020	23,700
2021	<u>1,975</u>
Total minimum lease payments	2,869,512
Less amount representing interest	<u>(60,174)</u>
Present value of net minimum lease payments	<u>\$ 2,809,338</u>

Assets held under capital lease are:

UNIVERSITY:

Buildings	\$ 1,551,359
Equipment	6,875,211
Improvements	288,082
Less accumulated depreciation	<u>(4,305,695)</u>
Total net assets	<u>\$ 4,408,957</u>

**Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2017**

NOTE 11 - Operating Leases

The University leases office and instructional space as well as equipment (principally office machines, automobiles, and farm equipment) under contracts which are renewable annually. The University also leases clinical space under contract of which some are renewable for multiple years with renewal options at the end of the initial lease period. Many of the University's leases are subject to escalation upon proper notice by the lessor. The clinical leases extending beyond 2017 have future payments of \$1,787,270 in 2018, \$1,086,178 in 2019, \$1,107,306 in 2020 and \$1,133,434 in 2021. There are no clinical leases as of June 30, 2017 with future payments beyond 2021. Rental payments on operating leases totaled \$17,131,781 in 2017.

NOTE 12 - Certificates of participation payable

Series 2014A: On February 13, 2014, the University issued Certificates of Participation (COPS) in the par amount of \$42,995,000. The COPS were issued at a premium of \$1,017,972. The certificates were issued to finance, in combination with University funds, multiple capital improvement projects on the Carbondale campus as well as to refund the outstanding balance of the Series 2004A COPS. The certificates bear interest at rates ranging from 2% to 5% payable semi-annually, and principal installments ranging from \$1,525,000 to \$2,855,000 are payable annually on February 15 beginning 2015 through the year 2034. The current refunding undertaken by the Board to effect a cost savings resulted in a net decrease in debt service payments of \$1,365,042. The financing resulted in an economic gain of \$1,173,843 and an accounting loss of \$330,440.

Annual aggregate principal and interest payments required for subsequent years are:

	<u>Certificates of Participation</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 2,285,000	\$ 1,515,090	\$ 3,800,090
2019	2,360,000	1,434,940	3,794,940
2020	2,450,000	1,352,090	3,802,090
2021	2,550,000	1,253,490	3,803,490
2022	2,655,000	1,150,590	3,805,590
2023-27	10,350,000	4,401,150	14,751,150
2028-32	9,515,000	2,401,388	11,916,388
2033-34	4,445,000	318,115	4,763,115
Total payments	36,610,000	<u>\$ 13,826,853</u>	<u>\$ 50,436,853</u>
Unamortized premiums on COPS	846,103		
Total payable	<u>\$ 37,456,103</u>		

Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2017

NOTE 13 - Accrued self-insurance

The University is exposed to various risks of loss relative to general liability, professional liability, and certain group coverage of student health and life benefits. The University minimizes its exposure through a combination of risk reduction and self-insurance programs, as well as primary and excess insurance coverage with commercial carriers.

The general and professional liability self-insurance fund provides for comprehensive general and professional liability coverage. The University also purchases excess insurance coverage with commercial carriers for claims that may result in catastrophic losses. The University makes contributions to the general and professional liability self-insurance fund based on yearly actuarial analysis. The actuarial analysis for 2017 included a 2% discount rate for self-insurance liabilities.

During fiscal year 2016, the University transitioned from a self-insured Student Medical Insurance Plan (the "Plan") to a commercially insured program of external medical and hospitalization coverage that is fully compliant with the Affordable Care Act (ACA). Under ACA, the self-insured health plan did not meet the minimum essential benefit requirement after the 2014/2015 plan year. The University purchased student health insurance for the Carbondale campus from a third party vendor beginning with the fall 2015 semester. A balance of \$50,000 was held in reserve at June 30, 2016 to cover any final claims of the "Plan." As of June 30, 2017, all claims related to the "Plan" had been paid.

As of June 30, 2017, the accrual for self-insurance was \$35,093,630 for the general and professional liability fund. Because the amounts accrued and funded are estimates, the aggregate actual claims covered by the self-insurance funds could differ from the amount that has been accrued. Changes in these estimates will be reflected in the Statement of Revenues, Expenses, and Changes in Net Position in the period in which additional information becomes available. There were no material settlements that exceeded insurance coverage during the last three years.

Changes in the self-insurance accrual for the years ended June 30, 2017 and June 30, 2016 are reflected below:

	June 30, 2017		
	Total	General and Professional	Student Plan
Accrued liability, June 30, 2016	\$ 31,804,131	\$ 31,754,131	\$ 50,000
Current year claims and other changes	13,997,725	13,997,725	-
Payment of Claims	(10,708,226)	(10,658,226)	(50,000)
Accrued liability, June 30, 2017	<u>\$ 35,093,630</u>	<u>\$ 35,093,630</u>	<u>\$ -</u>

	June 30, 2016		
	Total	General and Professional	Student Plan
Accrued liability, June 30, 2015	\$ 33,863,486	\$ 33,115,992	\$ 747,494
Current year claims and other changes	4,528,149	4,528,149	-
Payment of Claims	(6,587,504)	(5,890,010)	(697,494)
Accrued liability, June 30, 2016	<u>\$ 31,804,131</u>	<u>\$ 31,754,131</u>	<u>\$ 50,000</u>

Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2017

NOTE 14 - Net Position

Net position balances by major categories at June 30, 2017:

<u>UNIVERSITY:</u>	
Net investment in capital assets	\$ 567,821,930
Restricted for:	
Nonexpendable	5,222,891
Expendable	
Quasi-endowment	667,792
Scholarships, research, instruction and other	(10,546,303)
Loans	5,387,831
Capital projects	35,435,605
Debt service	15,106,226
Housing Auxiliary System operations	25,782,172
Medical Facilities System operations	3,021,877
Unrestricted	5,484,685
Total	<u>\$ 653,384,706</u>
<u>UNIVERSITY RELATED ORGANIZATIONS:</u>	
Net investment in capital assets	\$ 5,597,012
Restricted for:	
Nonexpendable	115,715,580
Expendable	
Scholarships, research, instruction and other	77,751,368
Loans	2,917,319
Capital projects	3,382,280
Unrestricted	68,248,692
Total	<u>\$ 273,612,251</u>

NOTE 15 - Donor-restricted endowments

The University entered into an agreement with the Southern Illinois University Foundation at Carbondale on July 1, 2003, in which the University transferred Endowment funds to the Foundation. The Foundation has agreed to hold and administer these funds as agency funds based upon and consistent with the desires of the donor and/or the University. During fiscal year 2017, there were no additions to the University's permanent endowment. For fiscal year 2017, realized losses on investments totaled \$16,786 and unrealized gains on investments totaled \$189,201, resulting in a balance of \$2,636,868 held by the Foundation at June 30, 2017. The Foundation distributes earnings to the University on a quarterly basis. Payments during fiscal years 2017 totaled \$91,107.

The State of Illinois adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), effective June 30, 2009. UPMIFA added certain prudent spending measures to the Uniform Management of Institutional Funds Act. In accordance with UPMIFA, the Board of Directors of Southern Illinois University Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: the duration and preservation of the fund; the purposes of the donor-restricted endowment fund; general economic conditions; the possible effect of inflation and deflation; the expected total return from income and the appreciation of investments; other resources of the institution; and the investment policies of the Foundation.

Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2017

NOTE 16 - State Universities Retirement System

General Information about the Pension Plan

Plan Description: Substantially all employees of the University contribute to the State Universities Retirement System of Illinois (SURS), a cost-sharing multiple-employer defined benefit plan with a special funding situation whereby the State of Illinois (the State) makes substantially all actuarially determined required contributions on behalf of the participating employers. SURS was established July 21, 1941 to provide retirement annuities and other benefits for staff members and employees of state universities, certain affiliated organizations, and certain other state educational and scientific agencies and for survivors, dependents, and other beneficiaries of such employees. SURS is considered a component unit of the State of Illinois' financial reporting entity and is included in the state's financial reports as a pension trust fund. SURS is governed by 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, 2016 can be found in the SURS' comprehensive annual financial report (CAFR) Notes to the Financial Statements.

Contributions: The State of Illinois is primarily responsible for funding SURS 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 SURS 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 was 12.53% 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% 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, 2016. At June 30, 2016, SURS reported an NPL of \$25,965,271,744.

Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2017

NOTE 16 - State Universities Retirement System (continued)

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 \$2,412,381,441 or 9.29%. This amount is not recognized in the financial statements. The net pension liability was measured as of June 30, 2016, and the total pension used to calculate the net pension liability was determined based on the June 30, 2015 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 2016.

Pension Expense: At June 30, 2016 SURS reported a collective net pension expense of \$2,566,164,865.

Employer Proportionate Share of Pension Expense: The University's proportionate share of collective pension expense is recognized as on-behalf revenue and matching expense in the financial statements. The basis allocation used in the proportionate share of collective pension expense is the actual reported pensionable contributions made to SURS during fiscal year 2016. As a result, the University recognized on-behalf revenue and pension expense of \$238,417,243 for the fiscal year ended June 30, 2017.

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: Deferred outflows of resources are the consumption of net position by SURS 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	\$14,215,882	\$2,298,574
Changes in assumption	655,463,758	0
Net difference between projected and actual earnings on pension plan investments	\$795,528,330	0
Total	\$1,465,207,970	\$2,298,574

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
2017	\$539,536,680
2018	275,426,885
2019	401,520,624
2020	246,425,207
2021	-
Thereafter	-
Total	\$1,462,909,396

**Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2017**

NOTE 16 - State Universities Retirement System (continued)

Employer Deferral of Fiscal Year 2017 Pension Expense

The University paid \$2,591,913 in federal, trust or grant contributions for the fiscal year ended June 30, 2017. These contributions were made subsequent to the pension liability measurement date of June 30, 2016 and are recognized as Deferred Outflows of Resources as of June 30, 2017.

Assumptions and Other Inputs

Actuarial assumptions: The actuarial assumptions used in the June 30, 2016 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, 2016 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's target asset allocation as of June 30, 2016, these best estimates are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Equity	23%	6.08%
Private Equity	6%	8.73%
Non-U.S. Equity	19%	6.95%
Global Equity	8%	6.78%
Fixed Income	19%	1.17%
Treasury-Inflation Protected Securities	4%	1.41%
Emerging Market Debt	3%	4.44%
Real Estate REITS	4%	5.75%
Direct Real Estate	6%	4.62%
Commodities	2%	4.23%
Hedged Strategies	5%	4.00%
Opportunity Fund	<u>1%</u>	<u>6.54%</u>
Total	100%	5.09%
Inflation		<u>2.75%</u>
Expected Arithmetic Return		7.84%

**Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2017**

NOTE 16 - State Universities Retirement System (continued)

Discount Rate: A single discount rate of 7.010% 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 7.250% and a municipal bond rate of 2.85% (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 SURS' 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 SURS 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 7.01%, 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:

Current Single Discount Rate		
1% Decrease	Assumption	1% Increase
<u>6.01%</u>	<u>7.01%</u>	<u>8.01%</u>
\$31,348,831,631	\$25,965,271,744	\$21,502,421,700

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.

NOTE 17 - Post-employment benefits

In addition to providing the above pension benefits, the State provides health, dental, vision, and life insurance benefits for retirees and their dependents in a program administered by the Department of Central Management Services. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State sponsored plans. Health, dental, and vision benefits include basic benefits for annuitants and dependents under the State's self-insurance plan and insurance contracts currently in force. The health, dental, and vision benefits provided to and contribution amounts required from annuitants are the result of collective bargaining between the State and various unions that represent the State's and University's employees. Annuitants receive life insurance coverage equal to the annual salary of the last day of employment until age 60, at which time the benefit becomes \$5,000. The State pays the University's portion of employer costs for the benefits provided. The total costs of the State's portion of health, dental, vision, and life insurance benefits of all members, including post-employment health, dental, vision, and life insurance benefits, is recognized as an expenditure by the State in the Illinois Comprehensive Annual Financial Report. The State finances the costs on a pay-as-you-go basis. The total costs incurred for health, dental, vision, and life insurance benefits are not separated by department or component unit for annuitants and their dependents nor active employees and their dependents.

A summary of post-employment benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the financial statements of the Department of Central

Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2017

NOTE 17 - Post-employment benefits (continued)

Management Services. A copy of the financial statements of the Department of Central Management Services may be obtained by writing to the Department of Central Management Services, Stratton Office Building, 401 South Spring Street, Springfield, Illinois, 62706.

NOTE 18 - University Related Organizations - transactions with related parties

The University has entered into master contracts with the University Related Organizations which specify the relationship between the University and its related organizations in accordance with the Legislative Audit Commission's University Guidelines of 1982 as amended in 1997. Significant transactions for the University during fiscal year 2017 included the receipt of \$41,025,139 from SIU Physicians & Surgeons, Inc. (SIU P&S) for services provided by the University. Also, SIU P&S contributions to the University for Academic Development for the School of Medicine during fiscal year 2017 totaled \$8,321,495.

The Entity's financial statements include the activities of the University Related Organizations, which are discretely presented component units in the accompanying financial statements. Since these component units are discretely presented, the activities between them and the University are not eliminated on the Entity's financial statements. Conversely, the University and its component units are consolidated on the State's comprehensive annual financial report, therefore, the following disclosure is presented.

University and University Related Organizations (UROs) Transactions

	Statement of Net Position			Statement of Revenues & Expenses		
	Due from UROs	Due to UROs	Deposits	Operating Revenue	Operating Expense	Non-Operating Revenue
University	\$ 3,355,542	\$ 55,924	\$ 5,688,794	\$ 49,346,634	\$ 19,905,599	\$ 26,931,254
	Due to University	Due from University	Deposits	Operating Revenue	Operating Expense	Non-Operating Revenue
SIUC Foundation	(17,536)	-	-	(14,853,571)	(21,879,226)	-
SIUE Foundation	(291,374)	(8,865)	(515,947)	(2,867,688)	(2,867,688)	-
Physicians & Surgeon	(3,035,065)	(47,059)	(5,069,771)	-	(49,346,634)	-
SIUC Alumni	(853)	-	-	(983,409)	(983,409)	-
SIUE Alumni	(3,917)	-	-	(112,906)	(112,906)	-
SIUC Research Park	(6,797)	-	(103,076)	(123,766)	(123,766)	-
SIUE University Park	-	-	-	(84,938)	(84,938)	-
SIUE Charter School	-	-	-	(879,321)	(879,321)	-
Totals	\$ (3,355,542)	\$ (55,924)	\$ (5,688,794)	\$ (19,905,599)	\$ (76,277,888)	\$ -

Additional information concerning transactions with related parties may be obtained by contacting the entities listed in Note 1 on pages 19 and 20.

Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2017

NOTE 19 - Commitments and contingencies

Grants and contracts

The University receives monies from federal and state government agencies under grants and contracts for research and other activities, including medical service reimbursements and the administration of student financial aid. The costs, both direct and indirect, charged to these grants and contracts are subject to audit and disallowance by the granting agency. During fiscal year 2011, the U.S. Department of Education performed a program review at SIUE that will likely result in the return of Title IV funds by the University. The University recognized a \$1,476,000 liability in 2012; there exists an additional contingent liability of \$800,000. As of June 30, 2017, the status of these liabilities remained the same as the previous fiscal year. The University administration believes that any other disallowances or adjustment resulting from this review and any other reviews would not have a material effect on the University's financial position.

Legal action

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

Forward contract

The University has forward fixed-price purchase contracts with MidAmerican Energy Company for the procurement of electricity that is used in the normal course of operations. The University does not employ futures contracts or other derivative products. At June 30, 2017, the University's annual commitment related to this contract is approximately \$10 million.

Construction projects

During fiscal year 2017, the University had ongoing general facility and infrastructure improvement projects taking place on both campuses. As of June 30, 2017, \$66,983,891 had been spent on these projects with \$18,784,781 being committed to the completion of these projects.

**Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2017**

NOTE 20 - Operating Expenses by Natural Classification

University operating expenses by natural classification for the year ended June 30, 2017 are summarized as follows:

	Compensation and benefits	Supplies and Services	Student Aid	Depreciation	Total
Instruction	324,746,727	25,325,872	13,693,374	-	363,765,973
Research	31,812,105	13,338,547	2,778,156	-	47,928,808
Public Service	36,176,841	20,759,761	1,202,600	-	58,139,202
Academic Support	207,901,688	36,452,022	1,393,500	-	245,747,210
Student Services	55,130,348	26,498,791	5,231,344	-	86,860,483
Institutional Support	64,412,415	29,179,748	8,146,737	-	101,738,900
Operations and maintenance of plant	60,546,748	30,898,509	-	-	91,445,257
Scholarships and fellowships	528,923	62,040	51,939,967	-	52,530,930
Auxiliary Enterprises	60,514,755	53,469,008	738,197	-	114,721,960
Other	-	281,512	-	-	281,512
Depreciation	-	-	-	53,988,717	53,988,717
Total	841,770,550	236,265,810	85,123,875	53,988,717	1,217,148,952

NOTE 21 - Subsequent event

On July 6, 2017, the Illinois General Assembly passed Public Act 100-0021, which included an additional appropriation for fiscal year 2017 of \$94.3 million. The funding consisted of \$26.4 million appropriated from the Education Assistance Fund and \$67.9 million appropriated from the General Revenue Fund of the State. The University began receiving cash payments from this appropriation in July 2017, and it is expected that the final cash reimbursement will be received before June 30, 2018. In order to ensure compliance with GASB Statement No. 33, the University's fiscal year 2017 financial statements do not reflect the additional \$94.3 million appropriation that did not exist as of June 30, 2017.

NOTE 22 - Segment information

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

The University has issued revenue bonds with the net revenues from the two segments pledged to pay the bond interest and principal. The Housing and Auxiliary Facilities System segment is comprised of University owned housing units, student centers, recreation and athletic facilities, and similar auxiliary enterprise units. The operating revenues of the System largely consist of various student fees, various user fees, and room and board charges. The Medical Facilities System is comprised of clinical facilities used to provide patient care at the School of Medicine in Springfield. The operating revenues of the System consists of overhead charges the University receives for services provided to SIU P&S. Both of these systems are closed systems and their assets are considered restricted for System use only with respect to the University's financial statements. Additional information relating to these segments is included in Note 8, Revenue bonds payable.

Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2017

NOTE 22 - Segment information (continued)

Condensed financial statements for the University's two segments for fiscal year 2017 are as follows:

	<u>Housing and Auxiliary Facilities System</u>	<u>Medical Facilities System</u>
CONDENSED STATEMENTS OF NET POSITION		
Assets and deferred outflows of resources:		
Current assets	\$ 74,259,343	\$ 7,454,268
Capital assets, net	263,538,524	28,099,837
Other assets	4,988,141	-
Deferred outflows of resources	<u>2,372,946</u>	<u>280,498</u>
Total Assets and deferred outflows of resources	<u>345,158,954</u>	<u>35,834,603</u>
Liabilities:		
Current liabilities	28,591,297	2,471,502
Noncurrent liabilities	<u>206,586,496</u>	<u>10,550,693</u>
Total Liabilities	<u>235,177,793</u>	<u>13,022,195</u>
Net Position		
Net investment in capital assets	40,262,349	17,935,336
Restricted - expendable	<u>69,718,812</u>	<u>4,877,072</u>
Total Net Position	<u>\$ 109,981,161</u>	<u>\$ 22,812,408</u>
CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION		
Operating revenues	\$ 100,796,320	\$ 39,867,081
Operating expenses	(103,042,662)	(66,281,064)
Depreciation expense	<u>(14,727,580)</u>	<u>(1,689,295)</u>
Operating loss	<u>(16,973,922)</u>	<u>(28,103,278)</u>
Nonoperating revenues and expenses - net	<u>20,762,527</u>	<u>28,171,647</u>
Income before other revenues, expenses, gains or losses	3,788,605	68,369
Other revenues, expenses, gains or losses - net	<u>67,702</u>	<u>270,381</u>
Increase in net position	<u>3,856,307</u>	<u>338,750</u>
Net position at beginning of year	<u>106,124,854</u>	<u>22,473,658</u>
Net position at end of year	<u>\$ 109,981,161</u>	<u>\$ 22,812,408</u>
CONDENSED STATEMENTS OF CASH FLOWS		
Cash provided by (used in):		
Operating activities	\$ 22,940,633	\$ 1,993,108
Noncapital financing activities	3,704,731	144,803
Capital financing activities	(28,461,362)	(1,879,918)
Investing activities	<u>(152,797)</u>	<u>20,971</u>
Net increase (decrease) in cash	<u>(1,968,795)</u>	<u>278,964</u>
Cash, beginning of year	<u>59,697,901</u>	<u>3,872,854</u>
Cash, end of year	<u>\$ 57,729,106</u>	<u>\$ 4,151,818</u>

Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2017

23. University Related Organizations

Condensed financial statements for the component units of the University as of June 30, 2017 are as follows:

	SIUC FOUNDATION	SIUE FOUNDATION	SIUC PHYSICIANS & SURGEONS	SIUC ALUMNI	SIUE ALUMNI	SIUC RESEARCH PARK	SIUE UNIV. PARK	SIUE CHARTER	TOTAL
CONDENSED STATEMENTS OF NET POSITION									
JUNE 30, 2017									
Assets:									
Current assets	\$ 42,263,942	\$ 1,462,588	\$ 34,097,760	\$ 211,813	\$ 26,632	\$ 303,280	\$ 494,346	\$ 56,545	\$ 78,916,906
Other non-current assets	137,766,950	36,425,855	23,339,818	8,418,812	164,504	-	-	-	206,115,939
Capital assets	1,138,022	1,764,713	842,856	72,915	-	48,182	1,729,924	400	5,597,012
Total Assets	181,168,914	39,653,156	58,280,434	8,703,540	191,136	351,462	2,224,270	56,945	290,629,857
Liabilities:									
Current liabilities	336,817	397,179	9,152,965	238,891	6,112	63,568	-	45,108	10,240,640
Noncurrent liabilities	4,668,277	357,906	-	1,750,783	-	-	-	-	6,776,966
Total Liabilities	5,005,094	755,085	9,152,965	1,989,674	6,112	63,568	-	45,108	17,017,606
Net Position:									
Net investment in capital assets	1,138,022	1,764,713	842,856	72,915	-	48,182	1,729,924	400	5,597,012
Restricted - nonexpendable	93,384,339	22,331,241	-	-	-	-	-	-	115,715,580
Restricted - expendable	71,338,632	12,712,335	-	-	-	-	-	-	84,050,967
Unrestricted	10,302,827	2,089,782	48,284,613	6,640,951	185,024	239,712	494,346	11,437	68,248,692
Total Net Position	\$ 176,163,820	\$ 38,898,071	\$ 49,127,469	\$ 6,713,866	\$ 185,024	\$ 287,894	\$ 2,224,270	\$ 11,837	\$ 273,612,251

**CONDENSED STATEMENTS OF REVENUES,
EXPENSES AND CHANGES IN NET POSITION**
Year ended June 30, 2017

Operating revenues	\$ 6,052,338	\$ 4,065,799	\$ 103,878,227	\$ 1,515,503	\$ 250,981	\$ 327,984	\$ 84,938	\$ 1,730,442	\$ 117,906,212
Operating expenses	16,116,466	5,008,444	102,119,501	1,777,280	274,579	389,217	176,062	1,720,826	127,582,375
Operating income (loss)	(10,064,128)	(942,645)	1,758,726	(261,777)	(23,598)	(61,233)	(91,124)	9,616	(9,676,163)
Nonoperating revenues and expenses - net	19,660,068	3,430,557	168,825	1,224,801	25,255	734	1,959	-	24,512,199
Income (Loss) before other revenues	9,595,940	2,487,912	1,927,551	963,024	1,657	(60,499)	(89,165)	9,616	14,836,036
Other revenues	6,711,390	723,947	-	-	-	-	-	-	7,435,337
Increase (decrease) in net position	16,307,330	3,211,859	1,927,551	963,024	1,657	(60,499)	(89,165)	9,616	22,271,373
Net position at beginning of year	159,856,490	35,686,212	47,199,918	5,750,842	183,367	348,393	2,313,435	2,221	251,340,878
Net position at end of year	\$ 176,163,820	\$ 38,898,071	\$ 49,127,469	\$ 6,713,866	\$ 185,024	\$ 287,894	\$ 2,224,270	\$ 11,837	\$ 273,612,251

CONDENSED STATEMENTS OF CASH FLOWS
Year ended June 30, 2017

Cash provided by (used in):									
Operating activities	\$ (9,975,680)	\$ (928,530)	\$ (1,429,402)	\$ (314,271)	\$ (21,546)	\$ (56,498)	\$ (9,554)	\$ 23,637	\$ (12,711,844)
Noncapital financing activities	10,866,166	683,254	83	22,436	1,222	-	43,203	-	11,616,364
Capital financing activities	(124,833)	(2,935)	(201,899)	-	-	-	-	(600)	(330,267)
Investing activities	(298,952)	(3,789,692)	(10,837,225)	300,000	14,201	734	1,959	-	(14,608,975)
Net increase (decrease) in cash	466,701	(4,037,903)	(12,468,443)	8,165	(6,123)	(55,764)	35,608	23,037	(16,034,722)
Cash, beginning of year	307,741	4,682,774	15,639,848	116,389	26,891	253,909	458,579	33,508	21,519,639
Cash, end of year	\$ 774,442	\$ 644,871	\$ 3,171,405	\$ 124,554	\$ 20,768	\$ 198,145	\$ 494,187	\$ 56,545	\$ 5,484,917

Southern Illinois University
Required Supplementary Information
For the Year Ended June 30, 2017

**Schedule of Southern Illinois University's
Proportionate
Share of the Net Pension Liability**

	FY2014	FY2015	FY2016	FY2017
(a) Proportion Percentage of the Collective Pension Liability	0%	0%	0%	
(b) Proportion Amount of the Collective Net Pension Liability	\$0	\$0	\$0	
(c) Portion of Non-employer Contributing Entities' Total Proportion of Collective Net Pension Liability associated with Employer	2,080,655,567	2,249,485,883	2,412,381,441	
Total (b) + (c)	2,080,655,567	2,249,485,883	2,412,381,441	
Employer DB Covered Payroll	345,273,428	342,213,039	335,537,035	
Proportion of Collective Net Pension Liability associated With Employer as a percentage of covered payroll	595.49%	647.58%	718.96%	
SURS Plan Net Position as a Percentage of Total Pension Liability	44.39%	42.37%	39.57%	

Schedule of Contributions

Federal, Trust, Grant and Other contribution	2,793,781	2,735,385	2,880,150	2,591,913
Contribution in relation to required contribution	2,793,781	2,735,385	2,880,150	2,591,913
Contribution deficiency (excess)	0	0	0	0
Employer Covered payroll	349,400,692	347,637,400	340,592,619	328,056,298
Contributions as a percentage of covered payroll	.80%	.79%	.85%	.79%

Changes of benefit terms. There were no benefit changes recognized in the Total Pension Liability as of June 30, 2016.

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% to 15% based on years of service, with underlying wage inflation of 3.75%.
- 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 to 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.

*Note: The System implemented GASB 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.

State of Illinois
Southern Illinois University
Housing and Auxiliary Facilities System

Report of the Treasurer
For the Year Ended
June 30, 2017

**STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY
HOUSING and AUXILIARY FACILITIES SYSTEM
ANNUAL FINANCIAL REPORT
For The Year Ended June 30, 2017**

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SOUTHERN ILLINOIS UNIVERSITY

SENIOR VICE PRESIDENT FOR FINANCIAL & ADMINISTRATIVE AFFAIRS AND BOARD TREASURER
STONE CENTER - MAIL CODE 6801 / 1400 DOUGLAS DRIVE / CARBONDALE, ILLINOIS 62901

February 28, 2018

TO THE BONDHOLDERS AND THE BOARD OF TRUSTEES
OF SOUTHERN ILLINOIS UNIVERSITY

I am pleased to submit the annual Treasurer's Report to the Bondholders for the Southern Illinois University Housing and Auxiliary Facilities System for the fiscal year ended June 30, 2017.

The system continues to exceed, by a significant percentage, the 120% debt service coverage requirement as outlined in the bond resolution. A calculation for this coverage requirement is included in the Treasurer's Comments to the financial statements.

I hope you find this financial report informative, and I invite your inquiries on any matter related to the bonds or the report.

Respectfully submitted,

SIGNED ORIGINAL ON FILE

Duane Stucky
Board Treasurer

DS/sjp

TREASURER'S COMMENTS (UNAUDITED)

SOUTHERN ILLINOIS UNIVERSITY HOUSING AND AUXILIARY FACILITIES SYSTEM

I. SOUTHERN ILLINOIS UNIVERSITY REVENUE BOND OPERATIONS

FACILITIES

The facilities included in the Southern Illinois University Housing and Auxiliary Facilities System (the "System") were acquired in fifteen phases. The first phase coincided with the creation of the System and the Advanced Refunding of 1978 which consolidated the facilities, the operations and the debt of five separate bond indentures, into one entity, the System. These facilities include residence halls and apartment complexes on the Carbondale and Edwardsville campuses which provide student housing; the student unions known as the Student Center at Carbondale and the University Center at Edwardsville; eight buildings leased to national organizations of fraternities and sororities for student housing; two buildings which are designated as housing for professional students; and seven buildings used by the University for administrative and student service purposes. The buildings and equipment of this phase were constructed or improved through the issuance of bonds totaling \$72,391,000. Additional improvements of this phase, consisting of an energy conservation project, have been constructed through the issuance of Revenue Bond Series 2000A in the amount of \$6,525,000.

The second phase expanded the System to include the Student Recreation Center, the Northwest Annex and the Child Care Center at the Carbondale campus, and the Student Fitness Center and Woodland Hall at the Edwardsville campus. The recreation center additions were acquired through the issuance of the Southern Illinois University Housing and Auxiliary Facilities System Revenue Project and Refunding Bonds Series 1992A (the "Series 1992A Bonds") in the amount of \$13,465,000 while the other projects were acquired through the issuance of the Revenue Bond Series 1993A (the "Series 1993A Bonds") in the amount of \$16,670,506. These facilities include a dormitory, an apartment complex and office space of 29,100 net square feet for academic, administrative and student service purposes; a student recreation center (including an existing facility and a fitness center addition) at Carbondale; a fitness center addition at Edwardsville; and a child care center.

The third phase expanded the System to include a new residence hall, Prairie Hall, on the Edwardsville campus. Prairie Hall consists of approximately 120,000 square feet and is designed to provide housing for approximately 500 students. The third phase also expanded the System to include traffic and parking operations on the Edwardsville campus. Renovation and expansion of Cougar Village Apartments on the Edwardsville campus were also included in this phase. These facilities and operations were constructed or improved through the issuance of bonds totaling \$38,096,284.

The fourth phase expanded the System to include a new residence hall, Bluff Hall, on the Edwardsville campus. The residence hall consists of approximately 120,000 square feet and is designed to provide housing for approximately 500 students. This phase also includes expansion and renovations of the University Center food service facilities. The funds for construction and improvements were provided through the issuance of bonds totaling \$21,001,900.

The fifth phase expanded the System to include a new softball complex on the Carbondale campus and a complete replacement of the turf at McAndrew Stadium on the Carbondale campus. This phase also includes improvements to the University Center on the Edwardsville campus. The funds for construction and improvements were provided through the issuance of bonds totaling \$19,555,000.

The sixth phase expanded the System to include a new Student Health Center building addition on the Carbondale campus. The new facility consists of an approximately 40,000 square foot, two-story addition to the Student Recreation Center. The funds for construction were provided through the issuance of bonds totaling \$8,635,000.

The seventh phase expanded the System to include University Hall on the Carbondale campus. The facility is a four-floor brick residence hall that sits on 5.43 acres of property which is located at the southeast corner of Wall and Park streets. The purchase was funded by the renewals and replacements account.

The eighth phase expanded the System to include Wall and Grand Apartments on the Carbondale campus. The residence hall consists of approximately 169,000 gross square feet and is designed to provide apartment-style living quarters for 400 on-campus students. This phase also includes the installation of automatic sprinkler systems in Schneider Hall, Mae Smith Hall and Neely Hall on the Carbondale campus as well as modification of the HVAC systems and humidity controls in Prairie Hall, Bluff Hall and Woodland Hall on the Edwardsville campus. The funds for construction and improvements were provided through the issuance of bonds totaling \$40,390,000.

The ninth phase expanded the System to include a new residence hall, Evergreen Hall, and adjacent parking lot for the Edwardsville campus; and various safety/security enhancements of the System, student center renovation and the purchase of a student information system for the Carbondale campus. The funds for construction and improvements were provided through the issuance of bonds totaling \$56,585,000.

The tenth phase expanded the System to include a new Student Success Center and an expansion to the Student Fitness Center on the Edwardsville campus. This phase also includes the installation of automatic sprinkler systems in Thompson Point and University Hall and the installation of security cameras and an electronic access control system at all exterior entries to Thompson Point on the Carbondale campus. The funds for construction and improvements were provided through the issuance of bonds totaling \$30,105,000.

The eleventh phase expanded the System to include a new football stadium on the Carbondale campus. This phase also includes the renovation of the SIU Arena and the construction of a new addition thereto on the Carbondale campus. The funds for construction and renovation were provided through the issuance of bonds totaling \$53,735,000.

The twelfth phase expanded the System to add the housing facilities at Evergreen Terrace on the Carbondale campus.

The thirteenth phase expanded the System to include a new Student Services Building on the Carbondale campus. The funds for construction and equipping of were provided through the issuance of bonds totaling \$28,140,000.

The fourteenth phase expanded the System to include improvements to the Student Recreation Center and demolition of student residence halls, Allen, Boomer and Wright, commonly referred to as the Triads, on the Carbondale campus. The funds for improvements and demolition were provided through the issuance of bonds totaling \$8,190,000.

TREASURER'S COMMENTS (UNAUDITED) – Continued

The fifteenth phase expanded the System to include improvements to parking and installation of new light poles and pay by space equipment at Edwardsville. This phase also includes an expansion to the Student Fitness Center weight room on the Edwardsville campus. Another part of this phase is the renovation of the Baseball Stadium on the Carbondale campus. The funds for construction and improvements were provided through the issuance of bonds totaling \$8,205,000.

II. ENROLLMENTS AT SOUTHERN ILLINOIS UNIVERSITY

The University reports the following enrollments, by campus:

	Head Count*	Full-Time Equivalency**
Carbondale Campus (semester basis)		
Fall semester 2016	15,987	13,666
Fall semester 2015	17,292	14,779
Edwardsville Campus (semester basis)		
Fall semester 2016	14,142	11,870
Fall semester 2015	14,265	11,985

*Head count includes all full and part-time students (including those enrolled in extension courses) whether living on or off campus.

**Full-time equivalency is based on 15 credits for undergraduate students and 12 credits for graduate students.

III. HISTORICAL OCCUPANCY OF SYSTEM FACILITIES

The occupancy charges and rates below are based on the typical fall/spring school year (9 months) except for Evergreen Terrace information which based on 12 months.

	Range of Occupancy Charges for 2017	Occupancy Rates				
		2017	2016	2015	2014	2013
Southern Hills Apartments (C)		-- --	-- --	-- --	69.4%	68.6%
Evergreen Terrace (C)						
302 Apartments	\$3,752 - \$8,808	80.3%	84.1%	80.3%	87.4%	86.7%
Thompson Point (C)						
1,246 Persons	\$10,186 - \$13,634	79.1%	91.6%	96.3%	95.6%	93.7%
Towers (C)						
2,278 Persons	\$10,186 - \$13,634	66.0%	83.8%	96.1%	94.1%	87.7%
University Hall (C)						
327 Persons	\$5,936 - \$13,634	38.7%	64.5%	93.3%	91.7%	72.9%
Wall & Grand (C)						
396 Persons (Bldg I,II & III)	\$6,224 - \$7,558	97.1%	97.2%	97.8%	95.0%	96.3%
Cougar Village (E)						
496 Apartments	\$4,420 - \$14,350	89.1%	90.0%	95.0%	93.3%	93.7%
Woodland Hall (E)						
257 Rooms	\$9,180 - \$16,280	85.3%	94.0%	95.7%	89.0%	93.4%
Prairie Hall (E)						
260 Rooms	\$9,180 - \$16,280	81.2%	93.4%	96.1%	89.9%	93.4%
Bluff Hall (E)						
260 Rooms	\$9,180 - \$16,280	86.1%	94.6%	97.0%	92.5%	94.7%
Evergreen Hall (E)						
131 Apartments	\$6,180 - \$11,550	96.9%	97.2%	98.1%	98.1%	97.5%

(C) Carbondale Campus, (E) Edwardsville Campus

Southern Hills was closed in FY15.

TREASURER'S COMMENTS (UNAUDITED) – Continued

IV. DEBT SERVICE COVERAGES

The bond resolution requires that debt service coverage (net revenues plus pledged retained tuition) be at least 120% of the maximum annual debt service. The debt service coverage is calculated at the end of the year using cash basis data obtained from the Statement of Cash Flows. Debt service coverage for the System as defined by the bond resolution and based on net revenues has been calculated as follows:

	Year ended June 30,	
	2017	2016
Receipts:		
Revenue Account:		
Operating Receipts	\$ 102,297,327	\$ 113,341,386
Revenue Bond Fees	1,365,028	1,584,531
Retirement of Indebtedness – Investment Income	109,498	125,866
Total Receipts	<u>103,771,853</u>	<u>115,051,783</u>
Disbursements:		
Operation and Maintenance Account	<u>73,316,153</u>	<u>77,786,239</u>
Net Revenues	30,455,700	37,265,544
Plus: Pledged Retained Tuition	<u>28,477,085</u>	<u>28,477,085</u>
Total Available for Debt Service	<u>\$ 58,932,785</u>	<u>\$ 65,742,629</u>
Maximum Annual Debt Service	<u>\$ 28,477,085</u>	<u>\$ 28,477,085</u>
Coverage Ratio Based on Net Revenues	107%	131%
Coverage Ratio as Defined in the Bond Resolution	207%	231%

V. RETIREMENT OF INDEBTEDNESS

The net position is restricted for the following purposes:

	June 30,	
	2017	2016
Bond and Interest Sinking Fund Account	\$ 6,907,449	\$ 6,404,792
Debt Service Reserve Account	<u>8,250,001</u>	<u>8,250,001</u>
	<u>\$ 15,157,450</u>	<u>\$ 14,654,793</u>

VI. RENEWALS AND REPLACEMENTS

The bond resolution requires the Treasurer to transfer annually to Renewals and Replacements from the funds remaining in unrestricted net position, the sum of 10% of the maximum annual net debt service requirement or such portion thereof as is available for transfer. The maximum amount which may be accumulated in said account shall not exceed 5% of the replacement cost of the facilities constituting the System, plus 20% of the book value of the movable equipment within the System, plus either 10% of the historical cost of the parking lots or 100% of the estimated cost of resurfacing any one existing parking lot which is part of the System.

Additions during the year included transfers from unrestricted net position of \$4,430,113 (\$7,973,796 in 2016) and investment income of \$192,129 in 2017 and \$174,861 in 2016. Expenditures charged to the reserve amounted to \$6,063,876 in 2017 and \$6,288,776 in 2016. The net position of Renewals and Replacements consisted of the following:

	June 30,	
	2017	2016
Pooled Cash and Investments	\$ 31,029,300	\$ 32,241,538
Accrued Interest Receivable	24,824	16,253
Accounts Payable	<u>(2,274,934)</u>	<u>(2,036,967)</u>
	<u>\$ 28,779,190</u>	<u>\$ 30,220,824</u>

VII. SCHEDULE OF BONDS PAYABLE OUTSTANDING

A Schedule of Bonds Payable Outstanding is shown as supplementary information and lists the amount of Housing and Auxiliary Facilities System Revenue Project and Refunding Bonds and Revenue Bonds Series 2015B, 2015A, 2012B, 2012A, 2009A, 2008A, 2006A, 1999A, 1997A and 1993A issued and outstanding as of June 30, 2017.

VIII. RESTRICTED NET POSITION – EXPENDABLE

Restricted net position as of June 30 are comprised of the following:

	2017	2016
Retirement of indebtedness	\$ 15,157,450	\$ 14,654,793
Renewals and replacements	28,779,190	30,220,824
Unexpended	-	2,043
	<u>\$ 43,936,640</u>	<u>\$ 44,877,660</u>

Southern Illinois University Board of Trustees and Officers of Administration Fiscal Year 2017

BOARD OF TRUSTEES OF SOUTHERN ILLINOIS UNIVERSITY

Randal Thomas, Chair	Springfield
Donna Manering, Vice Chair (7/1/16 to 2/9/17); member (7/1/16 to 3/17/17)	Makanda
J. Phil Gilbert, member; Vice Chair (2/9/17 to 6/30/17)	Carbondale
Joel Sambursky, Secretary	Carbondale
Roger Herrin (7/1/16 to 1/22/17)	Harrisburg
Ryan Johnson	Edwardsville
Shirley Portwood	Godfrey
Marsha Ryan (1/23/17 to 6/30/17)	Carbondale
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Naomi Tolbert	Carbondale

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Randall Pembroke, Chancellor (8/1/16)
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Rich Walker, Vice Chancellor for Administration, Interim Vice Chancellor for Administration (7/1/16 to 4/30/17)
Rachel Stack, Vice Chancellor for University Advancement

FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying basic financial statements of the Southern Illinois University Housing and Auxiliary Facilities System was conducted by CliftonLarsonAllen LLP.

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

Exit Conference

An exit conference was waived in correspondence from Kim Labonte, Executive Director of Internal Audit on February 23, 2018.

INDEPENDENT AUDITORS' REPORT

Honorable Frank J. Mautino
Auditor General, State of Illinois
and
Board of Trustees
Southern 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 of the Southern Illinois University Housing and Auxiliary Facilities System ("the System") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities for the System as of June 30, 2017, and the 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 Note 1A, the financial statements of the System are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the business-type activities of Southern Illinois University that is attributable to the transactions of the System. They do not purport to, and do not, present fairly the financial position of Southern Illinois University as of June 30, 2017, and its change in financial position and its cash flows for the year then ended in conformity 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 the Schedule of the Housing and Auxiliary Facilities System's Proportionate Share of the Net Pension Liability and the Schedule of Contributions on page 24 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.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements. The accompanying Schedule of Bonds Payable Outstanding is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Bonds Payable Outstanding is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Bonds Payable Outstanding is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Treasurer's Comments on pages 2-4 have not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

In connection with our audit, nothing came to our attention that caused us to believe that the System was not in compliance with any of the fund accounting covenants of the Resolutions of the Board of Trustees of Southern Illinois University, which provided for the issuance of the Southern Illinois University Housing and Auxiliary Facilities System Revenue Bonds Series 2015B, Revenue Bonds Series 2015A, Revenue Bonds Series 2012B1, Revenue Bonds Series 2012B2, Revenue Bonds Series 2012A, Revenue Bonds Series 2009A, Revenue Bonds Series 2008A, Revenue Bonds Series 2006A, Revenue Bonds Series 2004A, Revenue Bonds Series 1999A, Revenue Bonds Series 1997A, and Revenue Bonds Series 1993A adopted July 16, 2015, March 19, 2015, November 8, 2012, November 8, 2012, December 8, 2011, April 2, 2009, April 10, 2008, March 9, 2006, October 14, 2004, May 13, 1999, July 10, 1997, and May 13, 1993, respectively, insofar as they related to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the System's noncompliance with the above-referenced terms, covenants, provisions, or conditions of the Resolution of the Board of Trustees of Southern Illinois University, insofar as they relate to accounting matters.

Restricted Use Relating to the Other Matter

The purpose of the communication related to compliance with the aforementioned Resolution of the Board of Trustees of Southern Illinois University described in the Other Matters paragraph is intended solely to describe the scope of our testing of compliance and the results of that testing. This communication is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's compliance. Accordingly, this communication is not suitable for any other purpose.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report under separate cover dated February 28, 2018, on our consideration of the System'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's 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 System's internal control over financial reporting and compliance.

SIGNED ORIGINAL ON FILE

CliftonLarsonAllen LLP

Peoria, Illinois
February 28, 2018

SOUTHERN ILLINOIS UNIVERSITY
HOUSING AND AUXILIARY FACILITIES SYSTEM
STATEMENT OF NET POSITION
June 30, 2017

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

CURRENT ASSETS:

Pooled cash and investments	\$ 26,696,526
Pooled cash and investments, restricted	31,032,580
Short term investments, restricted	12,008,220
Accounts receivable, net	3,034,443
Accrued interest receivable	78,149
Merchandise for resale	1,264,251
Prepaid expenses and other assets	145,174
TOTAL CURRENT ASSETS	74,259,343

NONCURRENT ASSETS:

Long term investments, restricted	4,303,722
Prepaid expenses and other assets	684,419
Capital assets, not depreciated	8,776,464
Capital assets, net of depreciation	254,762,060
TOTAL NONCURRENT ASSETS	268,526,665

DEFERRED OUTFLOWS OF RESOURCES

2,372,946

TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

345,158,954

LIABILITIES

CURRENT LIABILITIES:

Accounts payable	2,679,238
Accrued interest payable	1,969,271
Accrued payroll	491,963
Accrued compensated absences	202,831
Housing deposits	95,670
Unearned revenue	2,165,909
Revenue bonds payable	20,986,415
TOTAL CURRENT LIABILITIES	28,591,297

NONCURRENT LIABILITIES:

Accrued compensated absences	1,806,860
Housing deposits	116,930
Revenue bonds payable	204,662,706
TOTAL NONCURRENT LIABILITIES	206,586,496

TOTAL LIABILITIES

235,177,793

NET POSITION

Net investment in capital assets	40,262,349
Restricted for:	
Expendable	
Capital projects and debt service	43,936,640
Unrestricted	25,782,172
TOTAL NET POSITION	\$ 109,981,161

The accompanying notes are an integral part of this statement.

SOUTHERN ILLINOIS UNIVERSITY
HOUSING AND AUXILIARY FACILITIES SYSTEM
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Year Ended June 30, 2017

REVENUES

OPERATING REVENUES:

Residence halls and apartments	\$ 52,698,383
University student centers	
Sales and services	16,055,218
Student fees	8,042,339
Student recreation and fitness centers	
Sales and services	1,060,921
Student fees	5,519,947
Child care center	1,023,679
Student health center	8,393,381
Student services building	2,258,156
Traffic and parking	2,739,765
Student success center	1,639,503
Revenue bond fees	1,365,028
TOTAL OPERATING REVENUES	<u>100,796,320</u>

EXPENSES

OPERATING EXPENSES:

Salaries and wages	56,067,559
Merchandise for resale	8,786,420
Utilities	7,904,609
Maintenance and repairs	11,090,997
Administrative	13,658,596
Other	5,534,481
Depreciation	14,727,580
TOTAL OPERATING EXPENSES	<u>117,770,242</u>

OPERATING LOSS

(16,973,922)

NONOPERATING REVENUES (EXPENSES)

Investment income	414,801
Gifts and contributions	1,002,755
Payments on-behalf of the system	25,538,305
Interest on capital asset-related debt	(7,745,961)
Accretion on bonds payable	(3,214,389)
Other nonoperating revenue	4,767,016
NET NONOPERATING REVENUES	<u>20,762,527</u>

INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES

3,788,605

OTHER REVENUES, EXPENSES, GAINS OR LOSSES

Capital assets retired	(176,308)
Additions to plant facilities from other sources	244,010
TOTAL OTHER REVENUES, EXPENSES, GAINS OR LOSSES	<u>67,702</u>

INCREASE IN NET POSITION

3,856,307

NET POSITION

Net position at beginning of year	106,124,854
NET POSITION AT END OF YEAR	<u><u>\$ 109,981,161</u></u>

The accompanying notes are an integral part of this statement.

SOUTHERN ILLINOIS UNIVERSITY
HOUSING AND AUXILIARY FACILITIES SYSTEM
STATEMENT OF CASH FLOWS
Year Ended June 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES	
Residence halls and apartments	\$ 49,340,328
University student centers	
Sales and services	16,378,617
Student fees	8,017,031
Student recreation and fitness centers	
Sales and services	1,058,999
Student fees	5,516,669
Child care center	1,023,679
Student health center	7,773,732
Student services building	2,889,580
Traffic and parking	2,922,056
Student success center	1,640,144
Revenue bond fees	1,365,028
Payments to employees	(28,347,775)
Payments for utilities	(7,818,893)
Payments to suppliers	(38,818,562)
	<hr/>
NET CASH PROVIDED BY OPERATING ACTIVITIES	22,940,633
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Gifts for other than capital purposes	2,796
Other nonoperating revenue	3,701,935
	<hr/>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	3,704,731
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Purchases of capital assets	(4,159,595)
Principal paid on capital debt	(18,045,000)
Interest paid on capital debt	(8,321,847)
Other	2,065,080
	<hr/>
NET CASH USED IN CAPITAL FINANCING ACTIVITIES	(28,461,362)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sales and maturities of investments	30,603,731
Investment income	404,799
Purchase of investments	(31,161,327)
	<hr/>
NET CASH USED IN INVESTING ACTIVITIES	(152,797)
NET INCREASE (DECREASE) IN CASH	(1,968,795)
POOLED CASH AND INVESTMENTS - BEGINNING OF THE YEAR	59,697,901
	<hr/>
POOLED CASH AND INVESTMENTS - END OF THE YEAR	\$ 57,729,106
RECONCILIATION OF OPERATING LOSS	
TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating loss	\$ (16,973,922)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation expense	14,727,580
Payments on-behalf of the system	25,538,305
Change in assets and liabilities:	
Receivables, net	847,073
Merchandise for resale	(72,594)
Prepaid expenses and other assets	25,376
Accounts payable	(688,615)
Accrued payroll	(173,820)
Accrued compensated absences	(106,384)
Housing deposits	(18,400)
Unearned revenue	(163,966)
	<hr/>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 22,940,633
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES	
Payments on-behalf of the system	\$ 25,538,305
Capital assets in accounts payable	2,121,874
Accretion on bonds payable	3,214,389
Other capital asset adjustments	26,408
Loss on disposal of capital assets	276,346

The accompanying notes are an integral part of this statement.

**SOUTHERN ILLINOIS UNIVERSITY
HOUSING AND AUXILIARY FACILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2017**

1. Significant Accounting Policies

(A) Basis of Presentation

These financial statements include all financial activities over which the Southern Illinois University Housing and Auxiliary Facilities System (the "System") exercises direct responsibility. The System combines the operations of the individual housing units, the student centers, the student recreation center, the student fitness center, the Carbondale child care center, the Carbondale student health center, the Carbondale student information system, the Carbondale softball field, the Carbondale football stadium, the Carbondale SIU Arena, the Carbondale Student Services Building, Edwardsville traffic and parking and the Edwardsville student success center into one operation. The Revenue Bonds of 2015B, 2015A, 2012B, 2012A, 2009A, 2008A, 2006A, 1999A, 1997A and 1993A (the "Bonds") are secured in part by the revenues from these operations. The financial statements reflect the combined operations of the System as of and for the year ended June 30, 2017. The individual facilities included in the System are as follows:

Carbondale Campus	Edwardsville Campus
Southern Hills Apartments	University Center
Greek Row	Cougar Village
Thompson Point	Student Fitness Center
Towers	Woodland Hall
University Hall	Prairie Hall
Northwest Annex	Traffic and Parking
Student Center	Bluff Hall
Student Recreation Center	Evergreen Hall
Child Care Center	Student Success Center
Softball Field	
Student Health Center	
Wall and Grand Apartments	
Student Information System	
Football Stadium	
SIU Arena Renovations	
Evergreen Terrace	
Student Services Building	
Baseball Stadium	

These financial statements have been prepared to satisfy the requirements of the System's Revenue Bonds master indenture. The financial balances and activities of the System, included in these financial statements, are included in the University's financial statements. The System is not a separate legal entity.

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB), including Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. Additionally, effective July 1, 2001, the System adopted GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments : Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. The System now follows the business-type activity reporting requirements of GASB Statements No. 35, 37 and 38 that provide a comprehensive, entity-wide perspective of the System's financial activities and replaces the fund group presentations previously required. Effective July 1, 2004, the System adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. The objective of this statement is to update the custodial credit risk disclosure requirements and to establish more comprehensive disclosure requirements addressing the common risks of deposits and investments. Effective July 1, 2007, the System adopted GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. The System has disclosed pledged revenues in Note 6 to the financial statements. Effective July 1, 2012, the System adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB Statement No. 63 identifies net position, rather than net assets, as the residual of all other elements presented in a statement of financial position. Incorporating GASB Statement No. 63 in the System's 2013 financial statements had no effect on beginning net position. Effective July 1, 2013, the System adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Incorporating GASB Statement No. 65 in the System's 2014 financial statements resulted in the presentation of the deferred loss on refunding, previously reported as a reduction of revenue bonds payable, as a deferred outflow on the Statement of Net Position. It also resulted in the expensing of the unamortized non-insurance components of the bond issuance costs, which were previously reported as prepaid expenses. Effective July 1, 2014, the System adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which addresses the accounting and financial reporting by state and local governments for pensions. Effective July 1, 2015, the System adopted GASB Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements and requires governments to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value.

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension, and pension expense, information about the plan net position of the State Universities Retirement System (SURS) 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.

**SOUTHERN ILLINOIS UNIVERSITY
HOUSING AND AUXILIARY FACILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2017**

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. Additional information required by GASB No. 68 is provided in Note 8

For financial reporting purposes, the System is considered a special-purpose government engaged only in business-type activities. Accordingly, the System's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting applicable to state colleges and universities. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation to pay has been incurred.

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; the disclosure of contingent assets and liabilities at the date of the financial statements; and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(B) Merchandise For Resale

Merchandise for resale includes inventories which are stated at the lower of cost or market. Cost is determined principally by the average cost method or the first-in, first-out method, depending on the type of inventory. The Student Center University Bookstore on the Carbondale campus has been leased to Follett Higher Education Group Inc. since May 8, 2001.

(C) Buildings, Improvements and Equipment

Buildings, improvements and equipment are recorded at cost less accumulated depreciation. The buildings are located on land owned by the University except for the Northwest Annex, University Hall and Greek Row which were purchased in part by the System. There is no charge to the System for the use of the land other than for grounds maintenance. The System's capitalization policy for capital assets is as follows: buildings with an acquisition cost of \$100,000 or greater, site or building improvements of \$25,000 or greater, and equipment items \$5,000 or greater.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 40 years for buildings, 15 years for site or building improvements, 5 years for vehicles and electronic data processing equipment, and 7 years for other equipment. Land is not depreciated. The "following-month" prorate convention is used, in which no depreciation is recorded in the month of acquisition and an entire month of depreciation is recorded in the month of disposition.

(D) Classification of Revenues and Expenses

The System has classified its revenues and expenses as either operating or nonoperating. Operating revenues and expenses include activities that have characteristics of exchange transactions, such as sales and services of auxiliary enterprises. Nonoperating revenues and expenses include activities that have characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Government Entities that Use Proprietary Fund Accounting*, and GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Other nonoperating revenues and expenses include transactions relating to capital and financing activities, noncapital financing activities, and investing activities. The System first applies restricted net position when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

(E) Pooled Cash and Investments

Pooled cash and investments include the System's portion of the University's internal investments pool as described in Note 2.

(F) Investments

Investments are reported at fair value. The investments, which consist of U.S. Treasury notes, are held in the University's name by its agent.

(G) Allowance for Uncollectibles

The System provides allowances for uncollectible accounts based upon management's best estimate of uncollectible accounts at the statement of net position date, considering type, age, collection history of receivables, and any other factors as considered appropriate. The System's accounts receivable balance is reported net of allowance of \$10,097,462 at June 30, 2017.

(H) Revenue Bond Fee

Transfers from other University funds of the revenue bond fee are based upon the amount budgeted. Fees in the amount of \$54,025 in 2017 have been collected in excess of the budgetary transfer and are available for future budgetary transfers.

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(I) Bond Insurance Issuance Costs

The bond insurance issuance costs are included in prepaid expenses and other assets and are amortized on a straight line basis over the life of the bonds.

(J) On-Behalf Payments

In accordance with GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, the System reported on-behalf payments made by agencies of the State of Illinois for health care and retirement. These costs are reflected in an equal amount in both the nonoperating revenues and salaries and wages of the System. On behalf payments for the year ended June 30, 2017 amounted to \$11,790,665 for health care costs, \$13,619,241 for retirement costs, and \$128,399 for social security and medicare. Payments for retirement costs were made to the State Universities Retirement System.

(K) Classification of Net Position

Net position represents the difference between System assets and deferred outflows and liabilities and deferred inflows and is divided into three major categories. The first category, net investment in capital assets, represents the System's equity in property, plant and equipment. The next asset category is restricted net position. Expendable restricted net position is available for expenditure by the System, but must be spent for purposes as determined by donors or other external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net position, which represents balances from operational activities that have not been restricted by parties external to the System and are available for use by the System. The System first applies restricted net position when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

(L) Compensated Absences

Accrued compensated absences for University personnel are charged to current funds based on earned, but unused vacation and sick leave days including the University's share of Social Security and Medicare taxes.

2. Pooled Cash and Investments

It is University policy to invest funds in a manner which will provide investment returns and security consistent with good business practices, while meeting the daily cash flow demands of the University and conforming to all statutes governing the investments of funds. Funds are invested in accordance with the provisions of the Illinois Compiled Statutes, Chapter 30, Sections 235/0.01 – 235/8, the *Public Funds Investment Act*; the policies of the Board; and covenants provided from the University's bond and certificate of participation issuance activities. The University's Investment Policy authorizes the University to invest in securities of the United States of America, its agencies, and its instrumentalities; interest bearing savings accounts, certificates of deposit, interest bearing time deposits, and other direct obligations of any bank defined in the Illinois Banking Act; certain short term obligations of U.S. corporations rated in the highest rating classifications by at least two standard rating services provided such obligations do not mature in longer than 270 days from the time of purchase and the issuing entity has at least \$500 million in assets (limited to 33 percent of the portfolio); money market mutual funds provided they are comprised of only U.S. Treasuries, agencies and instrumentalities; Public Treasurer's Investment Pool-State Treasurer's Office; repurchase agreements of Government securities; and other specifically defined repurchase agreements.

The three basic objectives of the University's investment policy are safety of invested funds; maintenance of sufficient liquidity to meet cash flow needs; and attainment of the maximum investment returns possible consistent with the first two objectives. The University ensures the safety of its invested funds by limiting credit and interest rate risks. The University's portfolio is structured to ensure that cash is available to meet anticipated demands. Additionally, since all possible cash demands cannot be anticipated, the portfolio consists largely of securities with active secondary or resale markets. The investment returns on the University's portfolio is a priority after the safety and liquidity objectives have been met. Investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed.

The University has pooled certain cash and investments for the purpose of securing a greater return on investment and providing a more equitable distribution of investment return. Pooled investments, which consist principally of government securities, are stated at market. Income is distributed quarterly based upon average balances invested in the pool over the prior 13 week period. There are no investments in foreign currency. It is not feasible to separately determine the System's bank balance at June 30, 2017 due to the pooling of the University's cash and investments.

Credit risk: Credit risk is the risk of loss due to the failure of the security issuer or backer to meet promised interest or principal payments on required dates. Credit risk is mitigated by limiting investments to those specified in the *Illinois Public Funds Investment Act*, which prohibits investment in corporate bonds with maturity dates longer than 270 days from the date of purchase; pre-qualifying the financial institutions which are utilized; and diversifying the investment portfolio so that the failure of any one issuer or backer will not place an undue financial burden on the University. U.S. Treasuries are federal government securities that do not require the disclosure of credit risk. The U.S. agencies investments typically include the Government National Mortgage Association, the Federal Home Loan Mortgage Corporation and the Federal Home Loan Bank, all of which carry a rating in the AA category or higher. The Public Treasurer's Investment Pool is rated AAAM.

Concentration of credit risk: The University's investment policy states that the portfolio should consist of a mix of various types of securities, issues and maturities. While the fund's asset allocation strategy provides diversification by fixed income sector, each portfolio within the sector is also broadly diversified by security type, issue and maturity.

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

Interest rate risk: Interest rate risk is the risk that the market value of portfolio securities will fall or rise due to changes in general interest rates. Interest rate risk is mitigated by maintaining significant balances in cash equivalent and other short maturity investments and by establishing an asset allocation policy that is consistent with the expected cash flows of the University. The internally managed portfolio is managed in accordance with covenants provided from the University's debt issuance activities. The externally managed portfolio is typically allocated with a minimum of \$40 million held in cash equivalents, \$0 to \$160 million in a short term portfolio, and \$65 to \$125 million held in the intermediate-term portfolio. However, circumstances may occur that cause the allocations to temporarily fall outside the prescribed ranges.

Foreign currency risk: The University does not hold any foreign investments.

Interest rate risk is disclosed below using the segmented time distribution method. As of June 30, 2017, the System has the following cash and investment balances:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less than 1	1-5	6-10	More than 10
U.S. Treasuries	\$ 16,311,942	\$ 12,008,220	\$ 4,303,722	\$ -	\$ -
Total Investments	16,311,942	\$ 12,008,220	\$ 4,303,722	\$ -	\$ -
Cash and Equivalents					
The Illinois Funds	20,402,595				
Cash and Equivalents	37,326,511				
Total Cash & Equivalents	57,729,106				
Total Cash & Investments	\$ 74,041,048				

Fair value measurements: The objective of a fair value measurement is to determine the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. The System categorizes fair values according to the hierarchy established by generally accepted accounting principles. The hierarchy, based on the valuation inputs used to measure fair values, consists of the following three levels of measurement inputs:

- Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets
- Level 2: Other than quoted prices that are observable for an asset or liability, directly or indirectly
- Level 3: Unobservable inputs for an asset or liability

The System uses Level 1 inputs to measure the fair value of all investments held. The fair values, derived from current quoted market prices for identical assets, are provided by both the System's external investment managers as well as the custodian bank.

3. Investments and Investment Income

Southern Illinois University has adopted the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. This statement establishes accounting and reporting standards for certain investments and securities and establishes disclosure requirements for most investments held by governmental entities. It requires that investments be recorded at fair (market) value and that unrealized gains and losses be recorded in income. The fair value is determined to be the amount at which financial instruments could be exchanged in a current transaction between willing parties, usually quoted market prices. GASB Statement No. 31 permits 2a7-like pools to be reported at amortized cost. The investment with the Public Treasurer's Investment Pool (The Illinois Funds) operates as a 2a7-like pool and is reported at amortized cost, which is the same value as the pool shares. State statutes require the Illinois Funds to comply with the *Illinois Public Funds Investment Act* (30 ILCS 235). Also, certain money market investments having a remaining maturity of one year or less at time of purchase and nonnegotiable certificates of deposit with redemption terms that do not consider market rates are carried at amortized cost.

The calculation of realized gains is independent of the calculation of the net increase in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year. Investment income net of realized and unrealized gains and losses on investments for the year ended June 30, 2017 is reflected below.

	2017
Interest earnings	\$ 467,330
Realized gain on investments	-
Unrealized gain (loss) on investments	(52,529)
Net investment income	\$ 414,801

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4. Capital Assets

Capital asset activity for the year ended June 30, 2017 is as follows:

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Capital assets not being depreciated:					
Land	\$ 605,395	\$ -	\$ -	\$ -	\$ 605,395
Construction in progress	6,562,532	4,693,017	32,235	(3,052,245)	8,171,069
Total capital assets not being depreciated	7,167,927	4,693,017	32,235	(3,052,245)	8,776,464
Capital assets being depreciated:					
Buildings	470,115,361	32,585	-	2,842,204	472,990,150
Improvements	17,776,664	-	-	210,041	17,986,705
Equipment	16,683,160	534,900	2,164,872	-	15,053,188
Total capital assets being depreciated	504,575,185	567,485	2,164,872	3,052,245	506,030,043
Less accumulated depreciation for:					
Buildings	215,635,205	12,792,719	(100)	-	228,428,024
Improvements	9,591,663	691,144	(228,091)	-	10,510,898
Equipment	13,234,296	1,243,717	2,148,952	-	12,329,061
Total accumulated depreciation	238,461,164	14,727,580	1,920,761	-	251,267,983
Total capital assets being depreciated, net	266,114,021	(14,160,095)	244,111	3,052,245	254,762,060
Capital assets, net	<u>\$ 273,281,948</u>	<u>\$ (9,467,078)</u>	<u>\$ 276,346</u>	<u>\$ -</u>	<u>\$ 263,538,524</u>

The System incurred interest expense of \$10,960,350 during 2017 including \$0 of capitalized interest.

5. Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2017 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Revenue bonds payable	\$241,218,541	\$3,214,389	\$18,783,809	\$225,649,121	\$20,986,415
Compensated absences	2,116,075	32,742	139,126	2,009,691	202,831
Housing deposits	231,000	149,559	167,959	212,600	95,670
Total long-term liabilities	<u>\$243,565,616</u>	<u>\$3,396,690</u>	<u>\$19,090,894</u>	<u>\$227,871,412</u>	<u>\$21,367,872</u>

6. Revenue Bonds Payable

On July 16, 2015, the Board adopted the "Seventeenth Supplemental System Revenue Bond Resolution" which amended and supplemented the Original Resolution of August 29, 1984, the First Supplemental Resolution of November 13, 1986, the Second Supplemental Resolution of February 13, 1992, the Third Supplemental Resolution of May 13, 1993, the Fourth Supplemental Resolution of September 12, 1996, the Fifth Supplemental Resolution of July 10, 1997, the Sixth Supplemental Resolution of May 13, 1999, the Seventh Supplemental Resolution of May 11, 2000, the Eighth Supplemental Bond Resolution of July 12, 2001, as amended and restated on December 11, 2003, the Ninth Supplemental Resolution of December 12, 2002, the Tenth Supplemental Resolution of October 14, 2004, the Eleventh Supplemental Bond Resolution of March 9, 2006, as amended and restated on May 2, 2006 and November 9, 2006, the Twelfth Supplemental Bond Resolution of April 10, 2008, the Thirteenth Supplemental System Revenue Bond Resolution of April 2, 2009, the Fourteenth Supplemental System Revenue Bond Resolution of December 8, 2011, the Fifteenth Supplemental System Revenue Bond Resolution of November 8, 2012, and the Sixteenth Supplemental System Revenue Bond Resolution of March 19, 2015. The outstanding bond issues related to the respective bond resolutions of the System are as follows:

(A) Series 2015B Bonds

These bonds were authorized by the Board under the Seventeenth Supplemental Bond Resolution dated July 16, 2015 and were issued as current interest bonds in the original amount of \$20,735,000. The bonds were sold on August 13, 2015 at a premium of \$2,503,381. The bonds mature at varying amounts from 2016 to 2031 with interest rates ranging from 3.00 to 5.00 percent. Proceeds will be used to refund a portion of the Series 2006A current interest bonds. The advance refunding, which was undertaken by the Board to effect a cost savings, resulted in a net decrease in debt service payments of \$16,292,964. The financing resulted in an economic gain of \$3,417,083 and an accounting loss of \$452,331. As of June 30, 2017, these bonds mature in 2031 and were outstanding in the amount of \$21,986,975.

(B) Series 2015A Bonds

These bonds were authorized by the Board under the Sixteenth Supplemental Bond Resolution dated March 19, 2015 and were issued as current interest bonds in the original amount of \$8,205,000. The bonds were issued at par with an interest rate of 2.85 percent. Proceeds will be used for the reconstruction of parking lots including installation of new light poles and pay-by-space equipment on the Edwardsville

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campus; an expansion of the Student Fitness Center on the Edwardsville campus; and renovation of the Baseball Stadium on the Carbondale Campus. As of June 30, 2017, these bonds mature in 2030 and were outstanding in the amount of \$7,305,000.

(C) Series 2012B Bonds

These bonds were authorized by the Board under the Fifteenth Supplemental Bond Resolution dated November 8, 2012, and were issued in two series. Series 2012B-1 were issued as tax-exempt, current interest bonds in the original amount of \$39,335,000 and Series 2012B-2 were issued as taxable Qualified Energy Conservation bonds in the original amount of \$5,365,000. The bonds were sold on December 19, 2012 at a premium of \$6,245,917 with interest rates ranging from 1.00 to 5.00 percent. The Series 2012B-1 bonds were issued for the purpose of refunding the Series 2003A and a portion of the Series 2004A current interest bonds; and demolition of student residence halls, Allen, Boomer and Wright, commonly referred to as the Triads, on the Carbondale campus. The Series 2012B-2 bonds were issued for financing improvements of the Student Recreation Center. The advance refundings, which were undertaken by the Board to effect cost savings, resulted in a net decrease in debt service payments of \$6,293,473. The financing resulted in an economic gain of \$4,829,291 and an accounting loss of \$2,216,389. As of June 30, 2017, these bonds mature in 2035 and were outstanding in the amount of \$43,850,176.

(D) Series 2012A Bonds

These bonds were authorized by the Board under the Fourteenth Supplemental Bond Resolution dated December 8, 2011 and were issued as current interest bonds in the original amount of \$29,805,000. The bonds were sold on January 11, 2012 at a premium of \$273,628 with interest rates ranging from 2.05 to 4.38 percent. Proceeds will be used for the construction and equipping of a Student Services Building on the Carbondale Campus and refund a portion of the Series 2001A current interest bonds. Debt service reserve funds of \$1,592,622 were released and used to pay a portion of Series 2001A debt service. The current refunding, which was undertaken by the Board to effect a cost savings, resulted in a net decrease in debt service payments of \$1,939,053 of which \$1,592,622 represents application of the debt service reserve released funds. The financing resulted in an economic gain of \$233,957 and an accounting loss of \$9,103. As of June 30, 2017, these bonds mature in 2032 and were outstanding in the amount of \$22,868,812.

(E) Series 2009A Bonds

These bonds were authorized by the Board under the Thirteenth Supplemental Bond Resolution dated April 2, 2009 and were issued as taxable Build America Bonds in the original amount of \$53,735,000. The bonds were issued as current interest bonds on May 15, 2009 at a premium of \$226,028 with interest rates ranging from 2.50 to 6.20 percent. Proceeds will be used for the construction and equipping of a new football stadium on the Carbondale campus, including the relocation of certain tennis courts and playing fields from the project site and the renovation and equipping of the SIU Arena and the construction of a new addition thereto on the Carbondale Campus. As of June 30, 2017, these bonds mature in 2030 and were outstanding in the amount of \$38,833,536.

(F) Series 2008A Bonds

These bonds were authorized by the Board under the Twelfth Supplemental Bond Resolution dated April 10, 2008 and were issued as current interest bonds in the original amount of \$30,105,000. The bonds were sold on May 8, 2008 at a premium of \$1,359,732 with interest rates ranging from 3.00 to 5.50 percent and were issued to finance the construction and equipping of a Student Success Center on the Edwardsville campus; the construction and equipping of an expansion to the Student Fitness Center on the Edwardsville campus; and the installation of sprinklers and other safety/security enhancements to housing on the Carbondale campus. As of June 30, 2017, these bonds mature in 2028 and were outstanding in the amount of \$21,704,626.

(G) Series 2006A Bonds

These bonds were authorized by the Board under the Eleventh Supplemental Bond Resolution dated March 9, 2006, as amended and restated on May 2, 2006 and November 9, 2006, and were issued as current interest bonds in the original amount of \$69,715,000. The bonds were sold on May 24, 2006 at a premium of \$3,155,475 with interest rates ranging from 4.00 to 5.25 percent. The bonds were issued for the purpose of refunding a portion of the Series 1997A, 2000A and 2001A current interest bonds; financing the construction of a student residence hall with an adjoining parking lot for the Edwardsville campus; construction of an additional 350 space parking lot for the Edwardsville campus; funding various safety/security enhancements and other replacements to, and renovations of, the facilities of the System on the Carbondale campus; and purchasing and implementing a student information system for the Carbondale campus. As of June 30, 2017, these bonds mature in 2021 and were outstanding in the amount of \$15,235,736.

(H) Series 1999A Bonds

These bonds were authorized by the Board under the Sixth Supplemental Bond Resolution dated May 13, 1999 and were issued as capital appreciation bonds in the original amount of \$21,001,900. The bonds were issued at a premium of \$53,851 with interest rates ranging from 4.10 to 5.55 percent. The capital appreciation bonds are non-interest bearing and will accrete the interest factor as additional bonds payable over the term of the bonds. These bonds were issued to finance the construction of a residence hall and renovations of the University Center food service facilities. All projects financed by the Series 1999A bonds are associated with the Edwardsville campus. The bonds mature in 2029. As of June 30, 2017, after accreting the capital appreciation, these bonds were outstanding in the amount of \$47,416,647.

(I) Series 1997A Bonds

These bonds were authorized by the Board under the Fifth Supplemental Bond Resolution dated July 10, 1997 and were issued as current interest bonds and capital appreciation bonds in the original amounts of \$8,575,000 and \$29,521,284, respectively. The current interest bonds were issued at a nominal discount while the capital appreciation bonds were issued at par with interest rates ranging from 4.20 to

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5.50 percent. The capital appreciation bonds are non-interest bearing and will accrete the interest factor as additional bonds payable over the term of the bonds. These bonds were issued to finance the construction of Prairie Hall, a residence hall, renovations of existing housing and food service facilities, and construction and improvement to the parking facilities. All projects financed by the Series 1997A bonds are associated with the Edwardsville campus. On March 9, 2006, as amended and restated on May 2, 2006 and November 9, 2006, the Board authorized the advance refunding of a portion of the current interest bonds of the Series 1997A. Bonds in the amount of \$2,915,000 were advance refunded. The bonds mature in 2018. As of June 30, 2017, after accreting the capital appreciation, the remaining bonds were outstanding in the amount of \$2,578,462.

(J) Series 1993A Bonds

These bonds were authorized by the Board under the Third Supplemental Bond Resolution dated May 13, 1993 and were issued as current interest bonds and capital appreciation bonds in the original amounts of \$8,010,000 and \$8,660,506, respectively. The current interest bonds were issued at a nominal discount while the capital appreciation bonds were issued at par with interest rates ranging from 6.05 to 6.20 percent. The capital appreciation bonds are non-interest bearing and will accrete the interest factor as additional bonds payable over the term of the bonds. These bonds were issued to finance the acquisition of the Northwest Annex, an existing facility, and the construction of the Child Care Center at the Carbondale campus and the construction of Woodland Hall at the Edwardsville campus. On December 12, 2002, the Board authorized the current refunding of the current interest bond portion of the Series 1993A Bonds. The bonds were called and redeemed in full on April 1, 2003. The bonds mature in 2018. As of June 30, 2017, after accreting the capital appreciation, the remaining capital appreciation bonds were outstanding in the amount of \$3,869,151.

These bonds, which are payable through 2035, do not constitute a debt of the State of Illinois or the individual members, officers or agents of the Board of Trustees of the University but, together with interest thereon, are payable from and secured by a pledge of and lien on (i) the net revenues of the System, (ii) pledged tuition in an amount not to exceed maximum annual debt service (subject to prior payment of operating and maintenance expenses of the System), (iii) the Bond and Interest Sinking Fund account, and (iv) the Repair and Replacement Reserve account. Unrefunded bonds issued in 2001 and prior are additionally secured by the Debt Service Reserve. Total principal and interest remaining on the debt is \$297,993,580 with annual requirements ranging from \$2,013,460 to \$28,477,085. For the current year, principal and interest paid was \$26,366,847, and the total revenues pledged were \$58,932,785. For fiscal year 2017, the total revenue pledged represents 100 percent of the net revenues of the System and 19 percent of net tuition revenue received. Although net tuition is pledged, it is not expected to be needed to meet debt service requirements.

The bond resolution requires that debt service coverage on a cash basis be at least 120 percent of the maximum annual debt service. For the year ended June 30, 2017, the maximum annual debt service was \$28,477,085 and the coverage was 207 percent. The bond resolution also requires the Treasurer to transfer annually to Renewals and Replacements from the funds remaining in unrestricted net position the sum of 10 percent of the maximum annual net debt service requirement or such portion thereof as is available for transfer. The net position of Renewals and Replacements was \$28,779,190 at June 30, 2017.

All of the refunded bonds are considered to be defeased and, accordingly, have been accounted for as if they were retired. As of June 30, 2017, there were no outstanding balances of refunded bonds.

Revenue bond debt service requirements to maturity are as follows as of June 30, 2017:

Year Ending June 30,	Principal	Interest	Total
2018	20,600,000	7,877,085	28,477,085
2019	17,415,000	7,310,895	24,725,895
2020	17,975,000	6,744,447	24,719,447
2021	18,380,000	6,153,650	24,533,650
2022	16,455,000	5,570,335	22,025,335
2023 – 2027	85,615,000	19,890,755	105,505,755
2028 – 2032	49,960,000	6,638,232	56,598,232
2033 – 2035	10,300,000	1,108,180	11,408,180
Total Payments	\$ 236,700,000	<u>\$ 61,293,580</u>	<u>\$ 297,993,580</u>
Less Unaccreted Appreciation	<u>(20,106,967)</u>		
Total Payable	216,593,033		
Unamortized debt premium	9,056,088		
Total Bonds Payable	<u>\$ 225,649,121</u>		

7. Related Party Transactions

Expenditures to maintain the University Housing Office and Auxiliary Fiscal Reports Office are allocated by the University to the various related operations, including those of the System, on the basis of gross revenues generated by each.

In addition, seven of the buildings on Greek Row, a portion of the Northwest Annex (29,100 net sq. ft.), one room of the Lentz Hall dining facilities at Thompson Point, and the Student Services Building are leased by the University from the System on a year-to-year basis and are used for a variety of academic, administrative, and student service purposes. The lease rentals (\$923,430 in 2017) are inclusive of the debt service requirements, insurance, administrative overhead and grounds maintenance costs. In addition, the University pays all operating and building maintenance costs for the leased properties.

Expenditures capitalized in 2017 include \$244,010 paid for by other University funds.

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8. Retirement Benefits

General Information about the Pension Plan

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

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, 2016 can be found in the SURS' comprehensive annual financial report (CAFR) Notes to the Financial Statements.

Contributions: The State of Illinois is primarily responsible for funding SURS 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 SURS 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 respectively was 12.53% 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% 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, 2016. At June 30, 2016, SURS reported an NPL of \$25,965,271,744.

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 \$2,412,381,441 or 9.29%. This amount is not recognized in the financial statements. The net pension liability was measured as of June 30, 2016, and the total pension used to calculate the net pension liability was determined based on the June 30, 2015 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 2016.

Pension Expense: At June 30, 2016, SURS reported a collective net pension expense of \$2,566,164,865.

Employer Proportionate Share of Pension Expense: The University's proportionate share of collective pension expense is recognized as on-behalf revenue and matching expense in the financial statements. The basis allocation used in the proportionate share of collective pension expense is the actual reported pensionable contributions made to SURS during fiscal year 2016. As a result, the University recognized on-behalf revenue and pension expense of \$238,417,243 for the fiscal year ended June 30, 2017. The System recognized on-behalf revenue and pension expense of \$13,619,241 for the fiscal year ended June 30, 2017.

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: Deferred outflows of resources are the consumption of net position by SURS 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	\$ 14,215,882	\$ 2,298,574
Changes in assumption	655,463,758	0
Net difference between projected and actual earnings on pension plan investments	\$ 795,528,330	0
Total	\$ 1,465,207,970	\$ 2,298,574

**SOUTHERN ILLINOIS UNIVERSITY
HOUSING AND AUXILIARY FACILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2017**

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
2017	\$ 539,536,680
2018	275,426,885
2019	401,520,624
2020	246,425,207
2021	-
Thereafter	-
Total	\$1,462,909,396

Employer Deferral of Fiscal Year 2017 Pension Expense

The University paid \$2,591,913 in federal, trust or grant contributions for the fiscal year ended June 30, 2017. These contributions were made subsequent to the pension liability measurement date of June 30, 2016 and are recognized as Deferred Outflows of Resources as of June 30, 2017.

Assumptions and Other Inputs

Actuarial assumptions: The actuarial assumptions used in the June 30, 2016 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, 2016 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 RP2000 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's target asset allocation as of June 30, 2016, these best estimates are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Equity	23%	6.08%
Private Equity	6%	8.73%
Non-U.S. Equity	19%	6.95%
Global Equity	8%	6.78%
Fixed Income	19%	1.17%
Treasury-Inflation Protected Securities	4%	1.41%
Emerging Market Debt	3%	4.44%
Real Estate-REITS	4%	5.75%
Direct Real Estate-REITS	6%	4.62%
Commodities	2%	4.23%
Hedged Strategies	5%	4.00%
Opportunity Fund	1%	<u>6.54%</u>
Total	100%	5.09%
Inflation		<u>2.75%</u>
Expected Arithmetic Return		7.84%

Discount Rate: A single discount rate of 7.010% 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 7.250% and a municipal bond rate of 2.85% (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 SURS' 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 SURS'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 7.01%, 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	Current Single Discount Rate Assumption	1% Increase
<u>6.01%</u>	<u>7.01%</u>	<u>8.01%</u>
\$31,348,831,631	\$25,965,271,744	\$21,502,421,700

**SOUTHERN ILLINOIS UNIVERSITY
HOUSING AND AUXILIARY FACILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2017**

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.

9. Post-Employment Benefits

In addition to providing the above pension benefits, the State provides health, dental, vision and life insurance benefits for retirees and their dependents in a program administered by the Department of Central Management Services. This includes annuitants of the System. Substantially all State employees, including the System's employees, may become eligible for post-employment benefits if they eventually become annuitants of one of the State sponsored plans. Health, dental and vision benefits include basic benefits for annuitants and dependents under the State's self-insurance plan and insurance contracts currently in force. The health, dental, and vision benefits provided to and contribution amounts required from annuitants are the result of collective bargaining between the State and various unions that represent the State's and System's employees. Annuitants also receive life insurance coverage equal to the annual salary of the last day of employment until age 60, at which time the benefit becomes \$5,000.

The State pays the System's portion of employer costs for the benefits provided. The total costs of the State's portion of health, dental, vision, and life insurance benefits of all members, including post-employment health, dental, vision, and life insurance benefits, is recognized as an expenditure by the State in the Illinois Comprehensive Annual Financial Report. The State finances the costs on a pay-as-you-go basis. The total costs incurred for health, dental, vision, and life insurance benefits are not separated by department or component unit for annuitants and their dependents nor active employees and their dependents. A summary of post-employment benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the financial statements of the Department of Central Management Services. A copy of the financial statements of the Department of Central Management Services may be obtained by writing to the Department of Central Management Services, 401 South Spring Street, Springfield, Illinois, 62706.

10. Insurance

The University is exposed to various risks of loss relative to general liability, professional liability, and certain group coverage of student health and life benefits. The University minimizes its exposure through a combination of risk reduction and self-insurance programs, as well as primary and excess insurance coverage with commercial carriers. No significant reductions in insurance have occurred and the amount of settlements have not exceeded insurance coverage.

The general and professional liability self-insurance fund provides for comprehensive general and professional liability coverage. The University also purchases excess insurance coverage with commercial carriers for claims that may result in catastrophic losses. The University makes contributions to the general and professional liability self-insurance fund based on yearly actuarial analysis. The actuarial analysis for 2017 included a 2% discount rate for self-insurance liabilities.

11. Contingencies and commitments

From time to time, the University is a defendant in lawsuits which relate to the System. In the opinion of the University's legal counsel and its administrative officers, any ultimate liability which could result from such litigation would not have a material effect on the System's financial position.

The System has active construction projects as of June 30, 2017 and \$461,330 has been committed to the completion of these projects.

**SOUTHERN ILLINOIS UNIVERSITY
HOUSING AND AUXILIARY FACILITIES SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2017**

Schedule of the Housing and Auxiliary Facilities System's Proportionate Share of the Net Pension Liability

	FY2014	FY2015	FY2016	FY2017
(a) Proportion Percentage of the Collective Pension Liability	0%	0%	0%	
(b) Proportion Amount of the Collective Net Pension Liability	\$0	\$0	\$0	
(c) Portion of Non-employer Contributing Entities' Total Proportion of Collective Net Pension Liability associated with Employer	124,839,334	79,948,499	133,163,456	
Total (b) + (c)	124,839,334	79,948,499	133,163,456	
Employer DB Covered Payroll	20,716,406	12,148,563	18,521,644	
Proportion of Collective Net Pension Liability associated With Employer as a percentage of covered payroll	602.61%	658.09%	718.96%	
SURS Plan Net Position as a Percentage of Total Pension Liability	44.39%	42.37%	39.57%	

Schedule of Contributions

Federal, Trust, Grant and Other contribution	0	0	0	0
Contribution in relation to required contribution	0	0	0	0
Contribution deficiency (excess)	0	0	0	0
Employer Covered payroll	20,883,340	12,355,307	18,816,453	18,667,379
Contributions as a percentage of covered payroll	0%	0%	0%	0%

Changes of benefit terms. There were no benefit changes recognized in the Total Pension Liability as of June 30, 2016.

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% to 15% based on years of service, with underlying wage inflation of 3.75%.
- 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 to 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.

*Note: The System implemented GASB 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.

SOUTHERN ILLINOIS UNIVERSITY
HOUSING AND AUXILIARY FACILITIES SYSTEM
SCHEDULE OF BONDS PAYABLE OUTSTANDING
June 30, 2017

	TOTAL	REVENUE BONDS		
		Principal Amount	SERIES 1993A Accreted Value at Maturity	Interest Rate
Interest Bearing Bonds:				
Serial Bonds maturing as follows:				
2018	12,350,000	- ----	- ----	- ----
2019	11,745,000	- ----	- ----	- ----
2020	12,195,000	- ----	- ----	- ----
2021	12,430,000	- ----	- ----	- ----
2022	10,455,000	- ----	- ----	- ----
2023	10,735,000	- ----	- ----	- ----
2024	10,880,000	- ----	- ----	- ----
2025	11,460,000	- ----	- ----	- ----
2026	8,310,000	- ----	- ----	- ----
2027	6,090,000	- ----	- ----	- ----
2028	4,060,000	- ----	- ----	- ----
2029	3,890,000	- ----	- ----	- ----
2030	4,255,000	- ----	- ----	- ----
2031	2,210,000	- ----	- ----	- ----
2032	1,940,000	- ----	- ----	- ----
2033	- ----	- ----	- ----	- ----
2034	- ----	- ----	- ----	- ----
2035	- ----	- ----	- ----	- ----
Term Bonds maturing as follows:				
2018	- ----	- ----	- ----	- ----
2019	- ----	- ----	- ----	- ----
2020	- ----	- ----	- ----	- ----
2021	- ----	- ----	- ----	- ----
2022	- ----	- ----	- ----	- ----
2023	- ----	- ----	- ----	- ----
2024	- ----	- ----	- ----	- ----
2025	- ----	- ----	- ----	- ----
2026	3,165,000	- ----	- ----	- ----
2027	4,875,000	- ----	- ----	- ----
2028	7,395,000	- ----	- ----	- ----
2029	6,000,000	- ----	- ----	- ----
2030	5,070,000	- ----	- ----	- ----
2031	1,435,000	- ----	- ----	- ----
2032	1,505,000	- ----	- ----	- ----
2033	1,580,000	- ----	- ----	- ----
2034	1,645,000	- ----	- ----	- ----
2035	1,710,000	- ----	- ----	- ----
Qualified Energy Conservation Bonds maturing as follows				
2035	5,365,000	- ----	- ----	- ----
Total Interest Bearing Bonds	<u>162,750,000</u>	<u>-</u>		
Capital Appreciation Bonds maturing as follows:				
2018	7,897,606	3,869,151	4,050,000	6.200%
2019	5,156,604	- ----	- ----	- ----
2020	4,977,609	- ----	- ----	- ----
2021	4,851,166	- ----	- ----	- ----
2022	4,630,608	- ----	- ----	- ----
2023	4,382,340	- ----	- ----	- ----
2024	4,146,672	- ----	- ----	- ----
2025	3,925,884	- ----	- ----	- ----
2026	3,713,652	- ----	- ----	- ----
2027	3,574,173	- ----	- ----	- ----
2028	3,383,560	- ----	- ----	- ----
2029	3,203,159	- ----	- ----	- ----
Total Capital Appreciation Bonds	<u>53,843,033</u>	<u>3,869,151</u>		
Total	<u>\$ 216,593,033</u>	<u>\$ 3,869,151</u>		

**Approximate yield to maturity.

This schedule of bonds payable outstanding does not reflect unamortized debt premium

SOUTHERN ILLINOIS UNIVERSITY
HOUSING AND AUXILIARY FACILITIES SYSTEM
SCHEDULE OF BONDS PAYABLE OUTSTANDING
June 30, 2017

	REVENUE BONDS		REVENUE BONDS	
	SERIES 2008A		SERIES 2009A	
	Principal Amount	Interest Rate	Principal Amount	Interest Rate
Interest Bearing Bonds:				
Serial Bonds maturing as follows:				
2018	1,635,000	5.000%	2,385,000	5.000%
2019	1,785,000	5.250%	2,460,000	5.300%
2020	1,900,000	5.250%	2,545,000	5.250%
2021	2,055,000	4.000%	2,635,000	5.450%
2022	2,175,000	5.500%	2,725,000	5.600%
2023	2,285,000	5.500%	2,825,000	5.750%
2024	1,690,000	4.250%	2,930,000	5.900%
2025	1,770,000	4.500%	3,045,000	6.000%
2026	1,815,000	4.500%	-	-----
2027	1,890,000	4.500%	-	-----
2028	1,970,000	4.500%	-	-----
2029	-	-----	-	-----
2030	-	-----	-	-----
2031	-	-----	-	-----
2032	-	-----	-	-----
2033	-	-----	-	-----
2034	-	-----	-	-----
2035	-	-----	-	-----
Term Bonds maturing as follows:				
2018	-	-----	-	-----
2019	-	-----	-	-----
2020	-	-----	-	-----
2021	-	-----	-	-----
2022	-	-----	-	-----
2023	-	-----	-	-----
2024	-	-----	-	-----
2025	-	-----	-	-----
2026	-	-----	3,165,000	6.200%
2027	-	-----	3,290,000	6.200%
2028	-	-----	3,425,000	6.200%
2029	-	-----	3,560,000	6.200%
2030	-	-----	3,705,000	6.200%
2031	-	-----	-	-----
2032	-	-----	-	-----
2033	-	-----	-	-----
2034	-	-----	-	-----
2035	-	-----	-	-----
Qualified Energy Conservation Bonds maturing as follows				
2035	-	-----	-	-----
Total Interest Bearing Bonds				
	<u>20,970,000</u>		<u>38,695,000</u>	
Capital Appreciation Bonds maturing as follows:				
2018	-	-----	-	-----
2019	-	-----	-	-----
2020	-	-----	-	-----
2021	-	-----	-	-----
2022	-	-----	-	-----
2023	-	-----	-	-----
2024	-	-----	-	-----
2025	-	-----	-	-----
2026	-	-----	-	-----
2027	-	-----	-	-----
2028	-	-----	-	-----
2029	-	-----	-	-----
Total Capital Appreciation Bonds				
	<u>-</u>		<u>-</u>	
Total				
	<u>\$ 20,970,000</u>		<u>\$ 38,695,000</u>	

State of Illinois
Southern Illinois University
Medical Facilities System

Report of the Treasurer
For the Year Ended
June 30, 2017

**STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY
MEDICAL FACILITIES SYSTEM
ANNUAL FINANCIAL REPORT
For The Year Ended June 30, 2017**

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SOUTHERN ILLINOIS UNIVERSITY

SENIOR VICE PRESIDENT FOR FINANCIAL & ADMINISTRATIVE AFFAIRS AND BOARD TREASURER
STONE CENTER - MAIL CODE 6801 / 1400 DOUGLAS DRIVE / CARBONDALE, ILLINOIS 62901

February 28, 2018

TO THE BONDHOLDERS AND TO THE BOARD OF TRUSTEES
OF SOUTHERN ILLINOIS UNIVERSITY

I am pleased to submit the annual Treasurer's Report to the Bondholders for the Southern Illinois University Medical Facilities System for the fiscal year ended June 30, 2017.

A calculation of debt service coverage is included in the Treasurer's comments to the financial statements. The system exceeds the coverage required by the bond resolution.

We invite your inquiries on any matter relating to the bonds or to the report.

Respectfully submitted,

SIGNED ORIGINAL ON FILE

Duane Stucky
Board Treasurer

DS/sjp

TREASURER'S COMMENTS (UNAUDITED)

SOUTHERN ILLINOIS UNIVERSITY MEDICAL FACILITIES SYSTEM

I. SOUTHERN ILLINOIS UNIVERSITY REVENUE BOND OPERATIONS

FACILITIES

The facilities included in the Southern Illinois University Medical Facilities System (the "System") were acquired in three phases. The first phase coincided with the creation of the system in connection with issuance of the Series 1997 bonds, in the amount of \$16,855,000, pursuant to a resolution of the Board of Trustees (the "Board") adopted on October 10, 1996.

The primary purpose of issuing the Series 1997 Bonds was to purchase the Richard H. Moy, M.D. Building, formerly known as the SIU Clinics Building, located at 751 N. Rutledge, Springfield, Illinois. The building is a four-story, clinical teaching facility containing 106,904 gross square feet. It is connected by skyways to Memorial Medical Center, an independently owned, tertiary hospital and to the University-owned Medical Instructional Facility. Further, it is connected to a four-story parking garage and a physician office building owned by the Memorial Health Systems.

The Richard H. Moy, M.D. Building was completed and occupied by the University in May 1993. The building now houses outpatient clinics for the department of Internal Medicine and for Fertility and In Vitro Fertilization, offices and outpatient clinics for the Memory and Aging Center, Dermatology, Endocrinology, and the department of Neurology. Space is also included in the building for a medical records unit. The design of the Richard H. Moy, M.D. Building includes an allowance in the foundation and other component service areas for the addition of three more stories to the building. Each story would approximate an additional 22,000 square feet. Consideration is being given to expand by two additional floors.

The second phase expanded the System to include the construction and equipping of the Simmons Cancer Institute, a 60,000 square foot multi-story building in Springfield, Illinois that includes space for clinical care and cancer treatment, patient supportive care, education and support services, research, program outreach and coordination. The funds for construction of the building were provided from \$14,500,000 of state appropriations, \$1,000,000 from a state grant and revenue bonds proceeds and related interest earnings totaling \$7,000,000. The bond proceeds were obtained through the issuance of the Southern Illinois University Medical Facilities System Revenue Bonds, Series 2005 totaling \$21,290,000, which were used to advance refund the existing Medical Facilities System Revenue Bonds, Series 1997 as described in the next section and complete construction of the building.

The third phase expanded the system to include the purchase and renovation of property located at 401 N. Walnut in Springfield. This space is being used by clinic billing unit staff.

On June 30, 2017, the School of Medicine Medical Facilities System owned or occupied seventeen locations where clinics and/or clinical faculty and/or clinical administration were housed. Owned by the University are the Richard H. Moy, M.D. Building, 401 N. Walnut, and the Simmons Cancer Institute. The fourteen remaining locations are leased by the University using revenues generated by the clinical practice of medicine. Eleven of the leased facilities are in Springfield, Illinois and the remaining three are located elsewhere in Illinois.

CURRENT REFUNDING

During fiscal year 2015, Series 2015A Bonds were issued for the purpose of current refunding the Series 2005 Bonds. The Series 2015A Bonds have a final maturity date of April 1, 2023 which is 3 years earlier than the Series 2005 Bonds. The refunding, a current refunding, was undertaken by the Board of Trustees ("the Board") for the purpose of affecting a cost savings.

II. ENROLLMENTS AT SOUTHERN ILLINOIS UNIVERSITY

The University reported the following enrollment for the School of Medicine:

	<u>Head Count</u>
Fall semester 2016	285
Fall semester 2015	290

All students are enrolled full time. The first year is spent in Carbondale with a core curriculum of basic science courses. The remaining three years are spent at the Springfield campus. Beginning with Summer semester 2012 the Physician's Assistant program was moved to the School of Medicine. The Fall semester 2016 (2015) enrollment including the Physician's Assistant program was 373 (362).

TREASURER'S COMMENTS (UNAUDITED) – Continued

III. DEBT SERVICE COVERAGE

The bond resolution requires that debt service coverage (net revenues plus pledged tuition) be at least 200% (2.00 times) of annual debt service and that net revenues shall be at least 100% (1.00 times) of the annual debt service requirement in each fiscal year. The debt service coverage is calculated at the end of the year using cash basis data obtained from the Statement of Cash Flows.

	<u>Year Ended June 30</u>	
	<u>2017</u>	<u>2016</u>
Receipts:		
Revenue Account:		
Operations	\$ 40,118,510	\$ 40,406,839
Investment Income	15,254	10,956
Retirement of Indebtedness – Investment Income	<u>4,687</u>	<u>1,411</u>
	40,138,451	40,419,206
Disbursements:		
Operation & Maintenance Account	<u>38,117,726</u>	<u>38,607,324</u>
Net Revenues	2,020,725	1,811,882
Plus: Pledged Tuition	<u>124,597,734</u>	<u>122,899,106</u>
Total Available for Debt Service	<u>\$126,618,459</u>	<u>\$124,710,988</u>
Annual Debt Service	<u>\$ 1,747,918</u>	<u>\$ 1,696,944</u>
Maximum Annual Debt Service	<u>\$ 1,895,773</u>	<u>\$ 1,895,773</u>
Coverage Ratio Based on Net Revenues	1.16	1.07
Coverage Ratio Based on Annual Debt Service	72.44	73.49
Coverage Ratio Based on Maximum Annual Debt Service	66.79	65.78

IV. RETIREMENT OF INDEBTEDNESS

Net position is restricted for the following purposes:

	<u>June 30</u>	
	<u>2017</u>	<u>2016</u>
Bond and Interest Sinking Fund Account	\$401,821	\$387,994

V. RENEWALS AND REPLACEMENTS

The bond resolution requires the Treasurer to credit into a separate and special account designated the Medical Facilities System Revenue Bonds Repair and Replacement Reserve Account on or before the close of each Fiscal Year, the sum of not less than 10% of the Maximum Annual Debt Service, or such portion thereof as is available for transfer and deposit annually for a repair and replacement reserve. The maximum amount which may be credited in such account shall not exceed 5% of the replacement cost of the facilities constituting the System, as determined by the then current Engineering News Record Building Cost Index (or comparable index) plus 20% of the book value of the movable equipment within the System. All moneys and investments so credited to said Account will be used and held for use to pay the cost of unusual or extraordinary maintenance or repairs, renewals, renovations and replacements, and renovating or replacement of the furniture and equipment not paid as part of the ordinary maintenance and operation of the System.

In the event the moneys in the Bond and Interest Sinking Fund Account are reduced at any time below the amounts required to be on deposit therein, then the funds so credited to the Repair and Replacement Reserve Account may, at the discretion of the Treasurer, be transferred for deposit in the Bond and Interest Sinking Fund Account to the extent required to eliminate the deficiency in such Account and to restore such sums as may be necessary for that purpose, and all moneys so transferred will thereafter be replaced by a resumption of the specified credits into the Repair and Replacement Reserve Account.

TREASURER'S COMMENTS (UNAUDITED) – Continued

Additions during the year included transfers from unrestricted net position of \$189,577 (\$189,577 in 2016), interest earned on investments of \$8,514 (interest of \$6,730 in 2016) and no nonoperating revenue (\$0 in 2016).

There were expenditures in the amount of \$7,676 charged to the reserve (\$1,649 in 2016). The restricted net position of Renewals and Replacements consisted of the following:

	June 30	
	2017	2016
Cash	\$1,452,240	\$1,262,312
Accrued interest receivable	1,134	648
Accounts payable	<u>0</u>	<u>0</u>
	<u>\$1,453,374</u>	<u>\$1,262,960</u>

VI. SCHEDULE OF BONDS PAYABLE OUTSTANDING

A Schedule of Bonds Payable Outstanding is shown as supplementary information and lists the amount of Medical Facilities System Revenue Bonds, Series 2015A issued and outstanding as of June 30, 2017.

VII. RESTRICTED NET POSITION - EXPENDABLE

Restricted net position as of June 30, 2017 and 2016 are comprised of the following:

	June 30	
	2017	2016
Retirement of indebtedness	\$ 401,821	\$ 387,994
Renewals and replacements	<u>1,453,374</u>	<u>1,262,960</u>
	<u>\$ 1,855,195</u>	<u>\$ 1,650,954</u>

The Independent Auditors' Report and the System's financial statements appear on the following pages.

Southern Illinois University Board of Trustees and Officers of Administration Fiscal Year 2017

BOARD OF TRUSTEES OF SOUTHERN ILLINOIS UNIVERSITY

Randal Thomas, Chair	Springfield
Donna Manering, Vice Chair (7/1/16 to 2/9/17); member (7/1/16 to 3/17/17)	Makanda
J. Phil Gilbert, member; Vice Chair (2/9/17 to 6/30/17)	Carbondale
Joel Sambursky, Secretary	Carbondale
Roger Herrin (7/1/16 to 1/22/17)	Harrisburg
Ryan Johnson	Edwardsville
Shirley Portwood	Godfrey
Marsha Ryan (1/23/17 to 6/30/17)	Carbondale
Amy Sholar	Alton
Naomi Tolbert	Carbondale

OFFICERS OF SOUTHERN ILLINOIS UNIVERSITY

Randy J. Dunn, President
Lucas Crater, General Counsel
James Allen, Acting Vice President, Academic Affairs
Duane Stucky, Senior Vice President, Financial and Administrative Affairs, and Board Treasurer
Misty Whittington, Executive Secretary of the Board

OFFICERS OF ADMINISTRATION, SOUTHERN ILLINOIS UNIVERSITY CARBONDALE

W. Bradley Colwell, Interim Chancellor
Susan M. Ford, Interim Provost & Vice Chancellor for Academic Affairs
Jerry Kruse, Dean and Provost, School of Medicine
Kevin D. Bame, Vice Chancellor for Administration and Finance (7/1/16 to 4/28/17)
James Garvey, Interim Vice Chancellor for Research
Lori Stettler, Interim Vice Chancellor for Student Affairs
James Salmo, Vice Chancellor for Development and Alumni Relations

OFFICERS OF ADMINISTRATION, SOUTHERN ILLINOIS UNIVERSITY EDWARDSVILLE

Stephen Hansen, Interim Chancellor (7/1/16 to 7/31/16)
Randall Pembroke, Chancellor (8/1/16)
Denise Cobb, Provost and Vice Chancellor for Academic Affairs, Interim Provost and Vice Chancellor for Academic Affairs (7/1/16 to 4/30/17)
Jeffrey Waple, Vice Chancellor for Student Affairs
Rich Walker, Vice Chancellor for Administration, Interim Vice Chancellor for Administration (7/1/16 to 4/30/17)
Rachel Stack, Vice Chancellor for University Advancement

FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying basic financial statements of the Southern Illinois University Medical Facilities System was conducted by CliftonLarsonAllen LLP.

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

Exit Conference

An exit conference was waived in correspondence from Kim Labonte, Executive Director of Internal Audit on February 23, 2018.



CliftonLarsonAllen

CliftonLarsonAllen LLP
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INDEPENDENT AUDITORS' REPORT

Honorable Frank J. Mautino
Auditor General, State of Illinois
and
Board of Trustees
Southern 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 of the Southern Illinois University Medical Facilities System ("the System") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 opinion.



An independent member of Nexia International

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities for the System as of June 30, 2017, and the 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 Note 1A, the financial statements of the System are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the business-type activities of Southern Illinois University that is attributable to the transactions of the System. They do not purport to, and do not, present fairly the financial position of Southern Illinois University as of June 30, 2017, and its change in financial position and its cash flows for the year then ended in conformity 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 the Schedule of the Medical Facilities System's Proportionate Share of the Net Pension Liability and the Schedule of Contributions on page 22 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.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements. The accompanying Schedule of Bonds Payable Outstanding is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Bonds Payable Outstanding is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Bonds Payable Outstanding is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Treasurer's Comments on pages 2-4 have not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

In connection with our audit, nothing came to our attention that caused us to believe that the System was not in compliance with any of the fund accounting covenants of the Resolutions of the Board of Trustees of Southern Illinois University, which provided for the issuance of the Southern Illinois University Medical Facilities System Revenue Bonds Series 2015A and Revenue Bonds Series 2005, adopted December 11, 2014 and October 13, 2005, respectively, insofar as they related to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the System's noncompliance with the above-referenced terms, covenants, provisions, or conditions of the Resolution of the Board of Trustees of Southern Illinois University, insofar as they relate to accounting matters.

Restricted Use Relating to the Other Matter

The purpose of the communication related to compliance with the aforementioned Resolution of the Board of Trustees of Southern Illinois University described in the Other Matters paragraph is intended solely to describe the scope of our testing of compliance and the results of that testing. This communication is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's compliance. Accordingly, this communication is not suitable for any other purpose.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report under separate cover dated February 28, 2018, on our consideration of the System'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's 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 System's internal control over financial reporting and compliance.

SIGNED ORIGINAL ON FILE

CliftonLarsonAllen LLP

Peoria, Illinois
February 28, 2018

SOUTHERN ILLINOIS UNIVERSITY
MEDICAL FACILITIES SYSTEM
STATEMENT OF NET POSITION
June 30, 2017

	2017
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	
CURRENT ASSETS:	
Pooled cash and investments	\$ 2,698,484
Pooled cash and investments, restricted	1,453,334
Short term investments, restricted	442,909
Accounts receivable	2,857,503
Accrued interest receivable	2,038
TOTAL CURRENT ASSETS	7,454,268
NONCURRENT ASSETS:	
Capital assets not being depreciated:	
Land	2,565,115
Total capital assets not being depreciated	2,565,115
Capital assets being depreciated, net:	
Equipment	6,566,343
Buildings	36,369,587
Less accumulated depreciation	(17,401,208)
Total capital assets being depreciated, net	25,534,722
TOTAL NONCURRENT ASSETS	28,099,837
DEFERRED OUTFLOWS OF RESOURCES	
Deferred loss on refunding	280,498
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	35,834,603
LIABILITIES	
CURRENT LIABILITIES:	
Accounts payable	458,275
Accrued interest payable	43,086
Accrued payroll	196,757
Accrued compensated absences	168,384
Revenue bonds payable	1,605,000
TOTAL CURRENT LIABILITIES	2,471,502
NONCURRENT LIABILITIES:	
Accrued compensated absences	1,710,693
Revenue bonds payable	8,840,000
TOTAL NONCURRENT LIABILITIES	10,550,693
TOTAL LIABILITIES	13,022,195
NET POSITION	
Net investment in capital assets	17,935,336
Restricted for:	
Expendable	
Capital projects and debt service	1,855,195
Unrestricted	3,021,877
TOTAL NET POSITION	\$ 22,812,408

The accompanying notes are an integral part of this statement.

SOUTHERN ILLINOIS UNIVERSITY
MEDICAL FACILITIES SYSTEM
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Years Ended June 30, 2017

	2017
REVENUES	
OPERATING REVENUES	
Medical Facilities System	\$ 39,867,081
TOTAL OPERATING REVENUES	39,867,081
EXPENSES	
Salaries and wages	52,111,853
Contractual services	11,142,614
Other	3,026,597
Depreciation	1,689,295
TOTAL OPERATING EXPENSES	67,970,359
OPERATING LOSS	(28,103,278)
NONOPERATING REVENUES (EXPENSES)	
Investment income	29,171
Gifts and contributions	115,842
Interest on capital asset-related debt	(240,306)
Payments on behalf of the system	28,266,940
NET NONOPERATING REVENUES	28,171,647
GAIN BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES	68,369
OTHER REVENUES, EXPENSES, GAINS OR LOSSES	
Capital assets retired	(44,536)
Additions to plant facilities from other sources	314,917
TOTAL OTHER REVENUES, EXPENSES, GAINS OR LOSSES	270,381
INCREASE IN NET POSITION	338,750
NET POSITION	
Net position at beginning of year	22,473,658
NET POSITION AT END OF YEAR	\$ 22,812,408

The accompanying notes are an integral part of this statement.

SOUTHERN ILLINOIS UNIVERSITY
MEDICAL FACILITIES SYSTEM
STATEMENT OF CASH FLOWS
For the Years Ended June 30, 2017

	2017
CASH FLOWS FROM OPERATING ACTIVITIES	
Medical Facilities System	\$ 40,118,510
Payments to employees	(24,135,992)
Payments for utilities	(381,011)
Payments to suppliers	(13,608,399)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,993,108
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Contributions for other than capital purposes	144,803
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	144,803
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Purchases of capital assets	(132,001)
Principal paid on capital debt	(1,550,000)
Interest paid on capital debt	(197,917)
NET CASH USED BY CAPITAL FINANCING ACTIVITIES	(1,879,918)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sales and maturities of investments	2,085,904
Investment income	27,968
Purchase of investments	(2,092,901)
NET CASH PROVIDED BY INVESTING ACTIVITIES	20,971
NET DECREASE IN CASH	278,964
POOLED CASH AND INVESTMENTS - BEGINNING OF THE YEAR	3,872,854
POOLED CASH AND INVESTMENTS - END OF THE YEAR	\$ 4,151,818
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
Operating loss	\$ (28,103,278)
Adjustments to reconcile operating loss to net cash provided by operating activities	
Depreciation expense	1,689,295
Payments on behalf of the system	28,266,940
Changes in assets and liabilities:	
Receivables, net	251,429
Accounts payable	184,006
Accrued payroll	(287,113)
Accrued compensated absences	(8,171)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 1,993,108
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES	
On behalf payments for fringe benefits	\$ 28,266,940
Capital asset acquisitions from other sources	314,917
Loss on disposal of capital assets	44,536

The accompanying notes are an integral part of this statement.

**SOUTHERN ILLINOIS UNIVERSITY
MEDICAL FACILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2017**

1. Significant Accounting Policies

(A) Basis of Presentation

These financial statements have been prepared to satisfy the requirements of the Southern Illinois University Medical Facilities System ("System") Revenue Bonds master resolution. The financial balances and activities of the System, included in these financial statements, are included in the University's financial statements. The System is not a separate legal entity.

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB), including Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. Additionally, effective July 1, 2001, the System adopted GASB Statement No. 37, *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. The System now follows the business-type activity reporting requirements of GASB Statement Nos. 35, 37 and 38 that provide a comprehensive, entity-wide perspective of the System's financial activities and replaces the fund group presentations previously required. Effective July 1, 2004, the System adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. The objective of this statement is to update the custodial credit risk disclosure requirements and to establish more comprehensive disclosure requirements addressing the common risks of deposits and investments. Effective July 1, 2007, the System adopted GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. The System has disclosed pledged revenues in Note 6 to the financial statements. Effective July 1, 2012, the System adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB Statement No. 63 identifies net position, rather than net assets, as the residual of all other elements presented in a statement of financial position. Incorporating GASB Statement No. 63 in the System's 2013 financial statements had no effect on beginning net position. Effective July 1, 2013, the System adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Incorporating GASB Statement No. 65 in the System's 2014 financial statements resulted in the presentation of the deferred loss on refunding, previously reported as a reduction of revenue bonds payable, as a deferred outflow on the Statement of Net Position. It also resulted in the expensing of the unamortized non-insurance components of the bond issuance costs, which were previously reported as prepaid expenses. Effective July 1, 2014, the System adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which addresses the accounting and financial reporting by state and local governments for pensions. Effective July 1, 2015, the System adopted GASB Statement No. 72, *Fair Value Measurement and Application*, which addresses the accounting and financial reporting issues related to fair value measurements.

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) 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. Additional information required by GASB No. 68 is provided in Note 8.

For financial reporting purposes, the System is considered a special-purpose government engaged only in business-type activities. Accordingly, the System's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting applicable to state colleges and universities. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation to pay has been incurred.

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; the disclosure of contingent assets and liabilities at the date of the financial statements; and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**SOUTHERN ILLINOIS UNIVERSITY
MEDICAL FACILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2017**

(B) Compensated Absences

Accrued compensated absences for University personnel are charged to current funds based on earned but unused vacation and sick leave days including the University's share of Social Security and Medicare taxes.

(C) Buildings, Improvements and Equipment

Buildings, improvements and equipment are recorded at cost less accumulated depreciation. The System's capitalization policy for capital assets is as follows: buildings with an acquisition cost of \$100,000 or greater, site or building improvements of \$25,000 or greater; and equipment items \$5,000 or greater.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 40 years for buildings, 15 years for site or building improvements, 5 years for vehicles and electronic data processing equipment, and 7 years for other equipment. Land is not depreciated. The "following-month" prorate convention is used, in which no depreciation is recorded in the month of acquisition and an entire month of depreciation is recorded in the month of disposition.

(D) Revenues and Expenses

The System has classified its revenues and expenses as either operating or nonoperating. Operating revenues and expenses include activities that have characteristics of exchange transactions, such as sales and services. Nonoperating revenues and expenses include activities that have characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting*, and GASB Statement No. 34 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Other nonoperating revenues and expenses include transactions relating to capital and financing activities, noncapital financing activities, and investing activities. The System first applies restricted net position when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

(E) Pooled Cash and Investments

Pooled cash and investments include the System's portion of the University's internal investments pool as described in Note 2.

(F) Investments

Investments are reported at fair value. The investments, which consist of U.S. Treasury notes, are held in the University's name by its agent.

(G) Allowance for Uncollectibles

The System does not report an allowance for uncollectibles. The accounts receivable amount represents actual collections as of June 30 that have not yet been transferred from the SIU HealthCare agency account to the System revenue accounts. The funds have been collected and therefore no allowance for uncollectible accounts is reported.

(H) Bond Issuance Insurance Costs

The system incurred no bond issuance insurance costs on the Series 2015A bonds.

(I) On-Behalf Payments

In accordance with GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, the System reported on-behalf payments made by agencies of the State of Illinois for health care and retirement. These costs are reflected in an equal amount in both the nonoperating revenues and salaries and wages of the System. On-behalf payments for the year ended June 30, 2017 amounted to \$13,750,320 for health care costs, and \$14,516,620 for retirement costs. Payments for retirement costs were made to the State Universities Retirement System.

(J) Classifications of Net Position

Net position represents the difference between System assets and deferred outflows and liabilities and deferred inflows and is divided into three major categories. The first category, net investment in capital assets, represents the System's equity in property, plant and equipment. The next asset category is restricted net position. Expendable restricted net position is available for expenditure by the System but must be spent for purposes as determined by donors or other external entities

**SOUTHERN ILLINOIS UNIVERSITY
MEDICAL FACILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2017**

that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net position, which represents balances from operational activities that have not been restricted by parties external to the System and are available for use by the System. The System first applies restricted net position when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

2. Pooled Cash and Investments

It is University policy to invest funds in a manner which will provide investment returns and security consistent with good business practices, while meeting the daily cash flow demands of the University and conforming to all statutes governing the investments of funds. Funds are invested in accordance with the provisions of the Illinois Compiled Statutes, Chapter 30, Sections 235/0.01-235/8, the *Public Funds Investment Act*, the policies of the Board; and covenants provided from the University's bond and certificate of participation issuance activities. The University's Investment Policy authorizes the University to invest in securities of the United States of America, its agencies, and its instrumentalities; interest bearing savings accounts, certificates of deposit, interest bearing time deposits, and other direct obligations of any bank defined in the Illinois Banking Act; certain short term obligations of U.S. corporations rated in the highest rating classifications by at least two standard rating services provided such obligations do not mature in longer than 270 days from the time of purchase and the issuing entity has at least \$500 million in assets (limited to 33 percent of the portfolio); money market mutual funds provided they are comprised of only U.S. Treasuries, agencies and instrumentalities; Public Treasurer's Investment Pool-State Treasurer's Office; repurchase agreements of Government securities; and other specifically defined repurchase agreements.

The three basic objectives of the University's investment policy are safety of invested funds; maintenance of sufficient liquidity to meet cash flow needs; and attainment of the maximum investment returns possible consistent with the first two objectives. The University insures the safety of its invested funds by limiting credit and interest rate risks. The University's portfolio is structured to ensure that cash is available to meet anticipated demands. Additionally, since all possible cash demands cannot be anticipated, the portfolio consists largely of securities with active secondary or resale markets. The investment returns on the University's portfolio is a priority after the safety and liquidity objectives have been met. Investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed.

The University has pooled certain cash and investments for the purpose of securing a greater return on investment and providing a more equitable distribution of investment return. Pooled investments, which consist principally of government securities, are stated at market. Income is distributed quarterly based upon average balances invested in the pool over the prior 13 week period. There are no investments in foreign currency. It is not feasible to separately determine the System's bank balance at June 30, 2017, due to the pooling of the University's cash and investments.

Credit risk: Credit risk is the risk of loss due to the failure of the security issuer or backer to meet promised interest or principal payments on required dates. Credit risk is mitigated by limiting investments to those specified in the *Illinois Public Funds Investment Act*, which prohibits investment in corporate bonds with maturity dates longer than 270 days from the date of purchase; pre-qualifying the financial institutions which are utilized; and diversifying the investment portfolio so that the failure of any one issuer or backer will not place an undue financial burden on the University. U.S. Treasuries are federal government securities that do not require the disclosure of credit risk. The U.S. agencies investments typically include the Government National Mortgage Association, the Federal Home Loan Mortgage Corporation and the Federal Home Loan Bank, all of which carry a rating in the AA category or higher. The Public Treasurer's Investment Pool is rated AAAM.

Concentration of credit risk: The University's investment policy states that the portfolio should consist of a mix of various types of securities, issues and maturities. While the fund's asset allocation strategy provides diversification by fixed income sector, each portfolio within the sector is also broadly diversified by security type, issue and maturity.

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

Interest rate risk: Interest rate risk is the risk that the market value of portfolio securities will fall or rise due to changes in general interest rates. Interest rate risk is mitigated by maintaining significant balances in cash equivalent and other short maturity investments and by establishing an asset allocation policy that is consistent with the expected cash flows of the University. The internally managed portfolio is managed in accordance with covenants provided from the University's debt issuance activities. The externally managed portfolio is typically allocated with a minimum of \$40 million held in cash equivalents, \$0 to \$160 million in a short term portfolio, and \$65 to \$125 million held in the intermediate-term portfolio. However, circumstances may occur that cause the allocations to temporarily fall outside the prescribed ranges.

Foreign currency risk: The University does not hold any foreign investments.

**SOUTHERN ILLINOIS UNIVERSITY
 MEDICAL FACILITIES SYSTEM
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2017**

Interest rate risk is disclosed below using the segmented time distribution method. As of June 30, 2017, the System had the following cash and investment balances:

		AS OF JUNE 30, 2017			
Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1-5	6-10	More than 10
U.S. Treasuries	\$ 442,909	\$ 442,909	\$ -	\$ -	\$ -
Total Investments	442,909	\$ 442,909	\$ -	\$ -	\$ -
 Cash and Equivalents					
The Illinois Funds	4,151,818				
Total Cash & Equivalents	4,151,818				
 Total Cash & Investments	 \$ 4,594,727				

Fair value measurements: The objective of a fair value measurement is to determine the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. The System categorizes fair values according to the hierarchy established by generally accepted accounting principles. The hierarchy, based on the valuation inputs used to measure fair values, consists of the following three levels of measurement inputs:

- Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets
- Level 2: Other than quoted prices that are observable for an asset or liability, directly or indirectly
- Level 3: Unobservable inputs for an asset or liability

The system uses Level 1 inputs to measure the fair value of all investments held. The fair values, derived from current quoted market prices for identical assets, are provided by both the System's external investment managers as well as the custodian bank.

3. Investments and Investment Income

Southern Illinois University has adopted the provisions of GASB Statement No. 31 *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. This statement establishes accounting and reporting standards for certain investments and securities and establishes disclosure requirements for most investments held by governmental entities. It requires that investments be recorded at fair (market) value and that unrealized gains and losses be recorded in income. The fair value is determined to be the amount at which financial instruments could be exchanged in a current transaction between willing parties, usually quoted market prices. GASB Statement No. 31 permits 2a7-like pools to be reported at amortized cost. The investment with the Public Treasurer's Investment Pool (The Illinois Funds) operates as a 2a7-like pool and is reported at amortized cost, which is the same value as the pool shares. State statutes require the Illinois Funds to comply with the *Illinois Public Funds Investment Act* (30 ILCS 235). Also, certain money market investments having a remaining maturity of one year or less at the time of purchase and nonnegotiable certificates of deposit with redemption terms that do not consider market rates, are carried at amortized cost.

The calculation of realized gains is independent of the calculation of the net increase in the fair value of investments. Realized gains and losses of investments that had been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year. Investment income net of realized and unrealized gains and losses on investments for the years ended June 30, 2017 is reflected below.

	<u>2017</u>
Interest earnings	\$29,171
Unrealized loss on investments	<u>544</u>
Net Investment Income	<u>\$28,627</u>

**SOUTHERN ILLINOIS UNIVERSITY
MEDICAL FACILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2017**

4. Capital Assets

Capital asset activity for the System for the fiscal year ended June 30, 2017 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land	\$ 2,565,115	\$ -	\$ -	\$ 2,565,115
Total capital assets not being depreciated	<u>2,565,115</u>	<u>-</u>	<u>-</u>	<u>2,565,115</u>
Capital assets being depreciated				
Equipment	6,388,461	446,918	269,036	6,566,343
Buildings	<u>36,369,587</u>	<u>-</u>	<u>-</u>	<u>36,369,587</u>
Total capital assets being depreciated	42,758,048	446,918	269,036	42,935,930
Total capital assets	<u>45,323,163</u>	<u>446,918</u>	<u>269,036</u>	<u>45,501,045</u>
Accumulated depreciation				
Equipment	4,861,269	754,900	224,500	5,391,669
Building	<u>11,075,144</u>	<u>934,395</u>	<u>-</u>	<u>12,009,539</u>
Total accumulated depreciation	<u>15,936,413</u>	<u>\$ 1,689,295</u>	<u>\$ 224,500</u>	<u>17,401,208</u>
Capital assets - net	<u>\$ 29,386,750</u>			<u>\$ 28,099,837</u>

5. Changes in Liabilities

Liability activity for the year ended June 30, 2017 was as follows:

	<u>2017</u>				
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Revenue bonds payable	\$ 11,995,000	\$ -	\$ 1,550,000	\$ 10,445,000	\$ 1,605,000
Compensated absences	<u>1,887,247</u>	<u>202,533</u>	<u>210,704</u>	<u>1,879,076</u>	<u>168,384</u>
Total	<u>\$ 13,882,247</u>	<u>\$ 202,533</u>	<u>\$ 1,760,704</u>	<u>\$ 12,324,076</u>	<u>\$ 1,773,384</u>

Amounts shown as ending balance include both current and long-term portions

6. Revenue Bonds Payable

On October 10, 1996, the Board authorized the creation of the Southern Illinois University Medical Facilities System and the sale of Medical Facilities System Revenue Bonds. The Series 1997 Bonds were issued on March 27, 1997 in the amount of \$16,855,000 for the purpose of acquiring the SIU Clinics Building, an existing facility, located at 751 North Rutledge, Springfield, Illinois. These bonds were sold at a discount of \$94,059.

On October 13, 2005, the Board adopted the "Medical Facilities System Revenue Bonds Series 2005" resolution which amended and restated the original resolution of October 10, 1996. The Board also authorized the issuance of the Medical Facilities System Revenue Bonds Series 2005. The bonds were issued as current interest bonds in the amount of \$21,290,000 and included accrued interest of \$41,314. The bonds were sold on November 15, 2005 at the premium of \$806,296 and used as follows:

- a. Bond proceeds of \$14,699,511 and Board funds of \$1,069,888 from the System were deposited in the bond escrow account in either cash or U.S. Government securities which, together with the interest earned thereon is used to finance the advance refunding of the Boards Series 1997 bonds. The advance refunding, which was undertaken by the Board to affect a cost savings, resulted in a net decrease in debt service payments of \$3,153,133 and an economic gain of \$1,146,547. The accounting loss on the refunding was \$1,185,421.
- b. Bond proceeds of \$6,783,042 were deposited in an Unexpended Plant account to finance the costs of constructing and equipping a new Cancer Institute building on the Springfield campus.
- c. Bond proceeds of \$315,726 were provided for the payment of capitalized interest through October 1, 2006 and accrued interest payable.

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- d. Bond proceeds of \$339,331 were reserved to pay the underwriter's fees and certain other costs related to the issuance of the bonds.

On December 11, 2014, the Board adopted a resolution authorizing and providing for the continued existence of the Southern Illinois University Medical Facilities System and for the issuance of Southern Illinois University Medical Facilities System Revenue Bonds, Series 2015A. The bonds were issued and sold February 12, 2015 in the amount of \$13,440,000 bearing interest of 1.65% payable semi-annually and principal installments ranging from \$1,445,000 to \$1,865,000 payable annually April 1 through the year 2023. Bond proceeds of \$13,370,000 and Board funds of \$1,439,036 were deposited in the bond escrow account in either cash or U.S. Government securities which, together with the interest earned thereon, were used to current refund the Series 2005 bonds. Bond proceeds of \$70,000 were reserved to pay for the costs related to issuance of the Series 2015A bonds. The current refunding of the Series 2005 bonds resulted in a \$2,413,854 net decrease in debt service payments, an economic gain of \$1,982,564 and an accounting gain of \$38,870.

Series 2015A bonds are subject to mandatory redemption prior to maturity through the application of sinking fund payments in integral multiples of \$5,000 selected by the Bond Registrar, at a redemption price equal to 100% of the principal amount, plus accrued interest to the date fixed for redemption, in the following amounts in each of the years set forth below:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	1,605,000	172,343	1,777,343
2019	1,660,000	145,860	1,805,860
2020	1,715,000	118,470	1,833,470
2021	1,770,000	90,172	1,860,172
2022	1,830,000	60,967	1,890,967
2023	<u>1,865,000</u>	<u>30,773</u>	<u>1,895,773</u>
Total Payments	<u>\$10,445,000</u>	<u>\$618,585</u>	<u>\$11,063,585</u>

These bonds do not constitute a debt of the State of Illinois or the individual members, officers or agents of the Board of Trustees of the University but, together with interest thereon, are payable from and secured by a pledge of and lien on (i) the net revenues of the System, (ii) pledged tuition (subject to prior payment of necessary operating and maintenance expenses of the Housing and Auxiliary Facilities System, debt service of the Housing and Auxiliary Facilities System not to exceed the maximum annual debt service, and then necessary operating and maintenance expenses of the System), (iii) the Bond and Interest Sinking Fund Account, and (iv) the Repair and Replacement Reserve Account. Total principal and interest remaining on the debt is \$11,063,587 with annual requirements ranging from \$1,777,343 to \$1,895,773.

For the current year, principal and interest paid was \$1,747,918 and the total revenues pledged were \$124,597,734. Total revenue pledged represents 100 percent of the net revenues of the System and 81.4 percent of net tuition revenue received in fiscal year 2017. Although net tuition is pledged it is not expected to be needed to meet debt service requirements.

All of the Series 1997 bonds referred to above were called for redemption and payment prior to their maturity on April 1, 2007 at a redemption price of 102% of the principal. All of the Series 2005 bonds referred to above were called for redemption and payment at April 1, 2015 at a redemption price of 100% of principal.

7. Related Party Transactions

Expenditures capitalized include \$314,917 paid for by other University funds in fiscal year 2017. The expenditures were for the purchase of equipment to be utilized in the various Medical Facilities System facilities. In addition, \$115,842 was received from other University funds in fiscal year 2017 and used for payment of debt.

8. Retirement Benefits

General Information about the Pension Plan

Plan Description: Substantially all employees of the University contribute to the State Universities Retirement System of Illinois (SURS), a cost-sharing multiple-employer defined benefit plan with a special funding situation whereby the State of Illinois (the State) makes substantially all actuarially determined required contributions on behalf of the participating employers. SURS was established July 21, 1941 to provide retirement annuities and other benefits for staff members and employees of state universities, certain affiliated organizations, and certain other state educational and scientific agencies and for survivors, dependents, and other beneficiaries of such employees. SURS is considered a component unit of the State of Illinois' financial reporting entity and is included in the state's financial reports as a pension trust fund. SURS is governed by 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.

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June 30, 2017**

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, 2016 can be found in the SURS' comprehensive annual financial report (CAFR) Notes to the Financial Statements.

Contributions: The State of Illinois is primarily responsible for funding SURS 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 SURS 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 was 12.53% 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% 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, 2016. At June 30, 2016, SURS reported an NPL of \$25,965,271,744.

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 \$2,412,381,441 or 9.29%. This amount is not recognized in the financial statements. The net pension liability was measured as of June 30, 2016, and the total pension used to calculate the net pension liability was determined based on the June 30, 2015 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 2016.

Pension Expense: At June 30, 2016 SURS reported a collective net pension expense of \$2,566,164,865.

Employer Proportionate Share of Pension Expense: The University's proportionate share of collective pension expense is recognized as on-behalf revenue and matching expense in the financial statements. The basis allocation used in the proportionate share of collective pension expense is the actual reported pensionable contributions made to SURS during fiscal year 2016. As a result, the University recognized on-behalf revenue and pension expense of \$238,417,243 for the fiscal year ended June 30, 2017.

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: Deferred outflows of resources are the consumption of net position by SURS 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	\$14,215,882	\$2,298,574
Changes in assumption	655,463,758	0
Net difference between projected and actual earnings on pension plan investments	\$795,528,330	0
Total	\$1,465,207,970	\$2,298,574

**SOUTHERN ILLINOIS UNIVERSITY
MEDICAL FACILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2017**

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
2017	\$539,536,680
2018	275,426,885
2019	401,520,624
2020	246,425,207
2021	-
Thereafter	-
Total	\$1,462,909,396

Employer Deferral of Fiscal Year 2017 Pension Expense

The University paid \$2,591,913 in federal, trust or grant contributions for the fiscal year ended June 30, 2017. These contributions were made subsequent to the pension liability measurement date of June 30, 2016 and are recognized as Deferred Outflows of Resources as of June 30, 2017.

Assumptions and Other Inputs

Actuarial assumptions: The actuarial assumptions used in the June 30, 2016 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, 2016 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's target asset allocation as of June 30, 2016, these best estimates are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Equity	23%	6.08%
Private Equity	6%	8.73%
Non-U.S. Equity	19%	6.95%
Global Equity	8%	6.78%
Fixed Income	19%	1.17%
Treasury-Inflation Protected Securities	4%	1.41%
Emerging Market Debt	3%	4.44%
Real Estate REITS	4%	5.75%
Direct Real Estate	6%	4.62%
Commodities	2%	4.23%
Hedged Strategies	5%	4.00%
Opportunity Fund	1%	6.54%
Total	100%	5.09%
Inflation		2.75%
Expected Arithmetic Return		7.84%

**SOUTHERN ILLINOIS UNIVERSITY
MEDICAL FACILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2017**

Discount Rate: A single discount rate of 7.010% 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 7.250% and a municipal bond rate of 2.85% (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 SURS' 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 SURS 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 7.01%, 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	Current Single Discount Rate Assumption	1% Increase
6.01%	7.01%	8.01%
\$31,348,831,631	\$25,965,271,744	\$21,502,421,700

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.

9. Post-Employment Benefits

In addition to providing the above pension benefits, the State provides health, dental, vision, and life insurance benefits for retirees and their dependents in a program administered by the Department of Central Management Services. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State sponsored plans. Health, dental, and vision benefits include basic benefits for annuitants and dependents under the State's self-insurance plan and insurance contracts currently in force. The health, dental, and vision benefits provided to and contribution amounts required from annuitants are the result of collective bargaining between the State and various unions that represent the State's and University's employees. Annuitants receive life insurance coverage equal to the annual salary of the last day of employment until age 60, at which time the benefit becomes \$5,000. The State pays the University's portion of employer costs for the benefits provided. The total costs of the State's portion of health, dental, vision, and life insurance benefits of all members, including post-employment health, dental, vision, and life insurance benefits, is recognized as an expenditure by the State in the Illinois Comprehensive Annual Financial Report. The State finances the costs on a pay-as-you-go basis. The total costs incurred for health, dental, vision, and life insurance benefits are not separated by department or component unit for annuitants and their dependents nor active employees and their dependents.

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

10. Operating leases

The System leases clinical and office space under contracts, some of which are renewable annually and others for multiple years with renewal options at the end of the initial lease period. Many of the renewals are subject to escalation upon proper notice by the lessor. Rental payments on these operating leases totaled \$4,529,019 in 2017 and \$5,206,737 in 2016 and are included in contractual services on the Statements of Revenues, Expenses and Changes in Net Position. Leases extending beyond 2017 have future payments of \$1,787,270 in 2018, \$1,086,178 in 2019, \$1,107,306 in 2020 and \$1,133,434 in 2021. There are no leases as of June 30, 2017 with future payments beyond 2021.

11. Insurance

The University is exposed to various risks of loss relative to general liability, professional liability, and certain group coverage of student health and life benefits. The University minimizes its exposure through a combination of risk reduction and self-insurance programs, as well as primary and excess insurance coverage with commercial carriers.

The general and professional liability self-insurance fund provides for comprehensive general and professional liability coverage. The University also purchases excess insurance coverage with commercial carriers for claims that may result in catastrophic losses. The University makes contributions to the general and professional liability self-insurance fund based on yearly actuarial analysis. The actuarial analysis for 2017 included a 2% discount rate for self-insurance liabilities.

**SOUTHERN ILLINOIS UNIVERSITY
MEDICAL FACILITIES SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2017**

**Schedule of the Medical Facilities System's
Proportionate Share of the
Net Pension Liability**

	FY2014	FY2015	FY2016	FY2017
(a) Proportion Percentage of the Collective Pension Liability	0%	0%	0%	
(b) Proportion Amount of the Collective Net Pension Liability	\$0	\$0	\$0	
(c) Portion of Non-employer Contributing Entities' Total Proportion of Collective Net Pension Liability associated with Employer	145,645,890	142,572,127	149,567,649	
Total (b) + (c)	145,645,890	142,572,127	149,567,649	
Employer DB Covered Payroll	24,169,140	21,696,307	20,803,296	
Proportion of Collective Net Pension Liability associated With Employer as a percentage of covered payroll	602.61%	657.13%	718.96%	
SURS Plan Net Position as a Percentage of Total Pension Liability	44.39%	42.37%	39.57%	

Schedule of Contributions

Federal, Trust, Grant and Other contribution	0	0	0	0
Contribution in relation to required contribution	0	0	0	0
Contribution deficiency (excess)	0	0	0	0
Employer Covered payroll	24,125,159	22,033,214	21,125,750	20,901,279
Contributions as a percentage of covered payroll	0%	0%	0%	0%

Changes of benefit terms. There were no benefit changes recognized in the Total Pension Liability as of June 30, 2016.

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% to 15% based on years of service, with underlying wage inflation of 3.75%.
- 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 to 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.

*Note: The System implemented GASB 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.

**SOUTHERN ILLINOIS UNIVERSITY
 MEDICAL FACILITIES SYSTEM
 SCHEDULE OF BONDS PAYABLE OUTSTANDING
 June 30, 2017**

	<u>Principal Amount</u>	<u>Interest Rate</u>
Interest Bearing Bonds		
Serial Bonds Maturing as follows:		
2018	1,605,000	1.65%
2019	1,660,000	1.65%
2020	1,715,000	1.65%
2021	1,770,000	1.65%
2022	1,830,000	1.65%
2023	<u>1,865,000</u>	1.65%
Total Interest Bearing Bonds	<u><u>\$10,445,000</u></u>	

This schedule of bonds payable outstanding does not reflect unamortized deferred amount on refunding.