State of Illinois

Southern Illinois University Medical Facilities System

Report of the Treasurer

For the Years Ended

June 30, 2018

STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY
MEDICAL FACILITIES SYSTEM
ANNUAL FINANCIAL REPORT
For the Year Ended June 30, 2018

TABLE OF CONTENTS

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

February 13, 2019

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, 2018.

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 COPY ON FILE

Duane Stucky
Board Treasurer

DS/sjp

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CARBONDALE / EDWARDSVILLE / SPRINGFIELD / ALTON / EAST ST. LOUIS

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.

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. The building is currently vacant but we are exploring several options including using the space for the WSIU radio station or rental of the property to an outside entity.

On June 30, 2018, 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:

	Head Count
Fall semester 2017	292
Fall semester 2016	285

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 2017 (2016) enrollment including the Physician's Assistant program was 370 (373).

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.

	Year Ended June 30	
	2018	2017
Receipts:		
Revenue Account:		
Operations	$ 38,214,811	$ 40,118,510
Investment Income	14,083	15,254
Retirement of Indebtedness – Investment Income	11,739	4,687
	38,240,633	41,138,451
Disbursements:		
Operation & Maintenance Account	36,238,890	38,117,726
Net Revenues	2,001,743	2,020,725
Plus: Pledged Tuition	117,700,313	124,597,734
Total Available for Debt Service	$119,702,056	$126,618,459
Annual Debt Service	$ 1,777,343	$ 1,747,918
Maximum Annual Debt Service	$ 1,895,773	$ 1,895,773
Coverage Ratio Based on Net Revenues	1.13	1.16
Coverage Ratio Based on Annual Debt Service	67.35	72.44
Coverage Ratio Based on Maximum Annual Debt Service	63.14	66.79

IV. RETIREMENT OF INDEBTEDNESS

Net position is restricted for the following purposes:

	June 30	
	2018	2017
Bond and Interest Sinking Fund Account	$416,829	$401,821

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.

Additions during the year included transfers from unrestricted net position of $189,577 ($189,577 in 2017), interest earned on investments of $12,516 (interest of $8,514 in 2017) and no nonoperating revenue ($0 in 2017).

There were expenditures in the amount of $523,344 charged to the reserve ($7,676 in 2017). The restricted net position of Renewals and Replacements consisted of the following:

	June 30	
	2018	2017
Cash	$1,126,753	$1,452,240
Accrued interest receivable	5,371	1,134
Accounts payable	0	0
	$1,132,124	$1,453,374

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, 2018.

VII. RESTRICTED NET POSITION - EXPENDABLE

Restricted net position as of June 30, 2018 and 2017 are comprised of the following:

	June 30	
	2018	2017
Retirement of indebtedness	$ 416,829	$ 401,821
Renewals and replacements	1,132,124	1,453,374
	$ 1,548,953	$ 1,855,195

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 2018

Board of Trustees of Southern Illinois University

Amy Sholar, Chair	Alton
J. Phil Gilbert, Vice Chair	Carbondale
Joel Sambursky, Secretary	Carbondale
Sam Beard – Student Elected	Carbondale
Thomas Britton (4/11/18 to 6/30/18)	Makanda
Luke Jansen – Student Elected	Edwardsville
Shirley Portwood	Godfrey
Marsha Ryan	Carbondale
Randal Thomas	Springfield

Officers of Southern Illinois University

J. Kevin Dorsey, Interim President (July 16, 2018 – Current)
Randy J. Dunn, President (through July 15, 2018)
Lucas Crater, General Counsel
W. Bradley Colwell, Vice President, Student and Academic Affairs (7/17/17 to 6/30/18)
Duane Stucky, Senior Vice President, Financial and Administrative Affairs, Board Treasurer
Misty Whittington, Executive Secretary of the Board

Officers of Administration, Southern Illinois University Carbondale

Carlo Montemagno, Chancellor (8/15/17 to 6/30/18)
Meera Komarraju, Provost & Vice Chancellor for Academic Affairs
Judith Marshall, Vice Chancellor of Administration and Finance
James Garvey, Interim Vice Chancellor for Research
Lori Lynn Stettler, Vice Chancellor for Student Affairs
James Salmo, Vice Chancellor for Development and Alumni Relations
Jerry Kruse, Dean and Provost, Chief Executive Officer, SIU School of Medicine

Officers of Administration, Southern Illinois University Edwardsville

Randall Pembrook, Chancellor
P. Denise Cobb, Provost and Vice Chancellor for Academic Affairs
Jeffrey Waple, Vice Chancellor for Student Affairs
Rich Walker, Vice Chancellor for Administration
Rachel Stack, Vice Chancellor for University Advancement

Agency offices are located at:

Southern Illinois University Carbondale
1263 Lincoln Dr.
Carbondale, IL 62901

Southern Illinois University Edwardsville
1 Hairpin Dr.
Edwardsville, IL 62025

STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY
MEDICAL FACILITIES SYSTEM
FINANCIAL STATEMENT REPORT

Summary

The audit of the accompanying basic financial statements of the Southern Illinois University Medical Facilities System was performed by Plante & Moran, PLLC in accordance with *Government Auditing Standards.* This report is an integral part of that audit.

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 January 7, 2019.

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INDEPENDENT AUDITOR'S REPORT

Honorable Frank J. Mautino
Auditor General, State of Illinois
and
Board of Trustees
Southern Illinois University Medical Facilities System

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"), a segment of Southern Illinois University, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Southern Illinois University Medical Facilities 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.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 Southern Illinois University Medical Facilities System as of June 30, 2018 and the changes in its financial position and its cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Honorable Frank J. Mautino
Auditor General, State of Illinois
and
Board of Trustees
Southern Illinois University Medical Facilities System

Emphasis of Matters

As discussed in Note 1(A) to the financial statements, 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 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, 2018 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.

As described in Note 1(A) to the financial statements, the System adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, as of July 1, 2017.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Schedule of the Southern Illinois University Medical Facilities System's Proportionate Share of the Net Pension Liability and Schedule of Contributions on page 26 and the Schedule of the Southern Illinois University Medical Facilities System's Proportionate Share of the Net OPEB Liability on page 27 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, which 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 is not modified with respect to this matter.

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 on page 28 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 them.

Honorable Frank J. Mautino
Auditor General, State of Illinois
and
Board of Trustees
Southern Illinois University Medical Facilities System

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, adopted December 11, 2014, 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 communications 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 dated February 13, 2019 on our consideration of the Southern Illinois University Medical Facilities System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Southern Illinois University Medical Facilities System's internal control over financial reporting and compliance.

SIGNED COPY ON FILE

Plante & Moran, PLLC

Portage, Michigan
February 13, 2019

SOUTHERN ILLINOIS UNIVERSITY
MEDICAL FACILITIES SYSTEM
STATEMENT OF NET POSITION
June 30, 2018

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	
CURRENT ASSETS:	
Pooled cash and investments	$ 2,744,335
Pooled cash and investments, restricted	1,127,438
Short term investments, restricted	450,943
Accounts receivable	2,769,487
Accrued interest receivable	7,038
TOTAL CURRENT ASSETS	7,099,241
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	6,503,728
Buildings	36,369,587
Less accumulated depreciation	(18,413,103)
Total capital assets being depreciated, net	24,460,212
TOTAL NONCURRENT ASSETS	27,025,327
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to other post-employment benefits	325,755
Deferred loss on refunding	231,716
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	34,682,039
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	
CURRENT LIABILITIES:	
Accounts payable	420,120
Accrued interest payable	36,465
Accrued payroll	232,664
Accrued compensated absences	179,138
Revenue bonds payable	1,660,000
TOTAL CURRENT LIABILITIES	2,528,387
NONCURRENT LIABILITIES:	
Accrued compensated absences	1,696,257
Liability for Other Post-Employment Benefits	15,630,952
Revenue bonds payable	7,180,000
TOTAL NONCURRENT LIABILITIES	24,507,209
TOTAL LIABILITIES	27,035,596
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to other post-employment benefits	4,774,297
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	31,809,893
NET POSITION	
Net investment in capital assets	18,417,043
Restricted for:	
Expendable	
Capital projects and debt service	1,548,953
Unrestricted (Deficit)	(17,093,850)
TOTAL NET POSITION	$ 2,872,146

SOUTHERN ILLINOIS UNIVERSITY
MEDICAL FACILITIES SYSTEM
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Years Ended June 30, 2018

REVENUES	
OPERATING REVENUES	
Medical Facilities System	$ 38,118,971
EXPENSES	
OPERATING EXPENSES	
Salaries and wages	52,454,499
Contractual services	10,204,077
Other	3,029,505
Depreciation	1,264,194
TOTAL OPERATING EXPENSES	66,952,275
OPERATING LOSS	(28,833,304)
NONOPERATING REVENUES (EXPENSES)	
Investment income	47,488
Gifts and contributions	115,842
Interest on capital asset-related debt	(214,504)
Payments on behalf of the system	28,789,616
NET NONOPERATING REVENUES	28,738,442
GAIN BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES	(94,862)
OTHER REVENUES, EXPENSES, GAINS OR LOSSES	
Capital assets retired	(32,680)
Additions to plant facilities from other sources	124,614
TOTAL OTHER REVENUES, EXPENSES, GAINS OR LOSSES	91,934
DECREASE IN NET POSITION	(2,928)
NET POSITION	
Net position at beginning of year as previously reported	22,812,408
Change in accounting principle	(19,937,334)
Net position, beginning of year as restated	2,875,074
NET POSITION AT END OF YEAR	$ 2,872,146

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, 2018

CASH FLOWS FROM OPERATING ACTIVITIES	
Medical Facilities System	$ 38,206,987
Payments to employees	(23,633,212)
Payments for utilities	(432,521)
Payments to suppliers	(12,696,502)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,444,752
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Contributions for other than capital purposes	115,842
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	115,842
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Purchases of capital assets	(97,750)
Principal paid on capital debt	(1,605,000)
Interest paid on capital debt	(172,342)
NET CASH USED IN CAPITAL FINANCING ACTIVITIES	(1,875,092)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sales and maturities of investments	1,784,794
Investment income	42,488
Purchase of investments	(1,792,829)
NET CASH PROVIDED BY INVESTING ACTIVITIES	34,453
NET DECREASE IN CASH	(280,045)
POOLED CASH AND INVESTMENTS - BEGINNING OF THE YEAR	4,151,818
POOLED CASH AND INVESTMENTS - END OF THE YEAR	$ 3,871,773
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
Operating loss	$ (28,833,304)
Adjustments to reconcile operating loss to net cash provided by operating activities	
Depreciation expense	1,264,194
Payments on behalf of the system	28,789,616
Changes in assets and liabilities:	
Receivables, net	88,016
Accounts payable	(38,155)
Accrued payroll	35,907
Accrued compensated absences	(3,682)
Liability for Other Post-Employment Benefits	142,160
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 1,444,752
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES	
On behalf payments for fringe benefits	$ 28,789,616
Capital asset acquisitions from other sources	124,614
Loss on disposal of capital assets	32,680

The accompanying notes are an integral part of this statement.

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)

GASB 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. Application of Statement No. 75 in fiscal year 2018 required the System to report its proportionate share of the State of Illinois' overall liability, deferred outflows, and deferred inflows related to OPEB. The System was also required to restate (reduce) its fiscal year 2017 net position by $19,937,334 to comply with GASB. The results of this change in accounting principle are reflected on the Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position.

In June 2017, the Governmental Accounting Standards Board issued GASB Statement No. 87, Leases, which increases the usefulness of governments' financial statements by requiring 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. This 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. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The new lease standard is expected to have a significant effect on the University's financial statements as a result of the leases for clinical and office space classified as operating leases disclosed in Note 12. The effects on the statement of revenues, expenses and changes in net position is not expected to be significant. The provisions of this statement are effective for the University's financial statements for the fiscal year 2021.

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.

(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.

1. Significant Accounting Policies (Continued)

(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. Medical Facilities System operating revenue consists of funds received by the School of Medicine from the SIU Faculty Practice Plan, SIU Medicine, for direct costs related to the operations of the Faculty Practice Plan.

(E) Pooled Cash and Investments

Pooled cash and investments include the System's portion of the University's internal investments pool 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, 2018 amounted to $15,088,093 for health care costs, and $13,701,523 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 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 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.

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, 2018, 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, Fannie Mae 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 AAA.

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. 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.

2. Pooled Cash and Investments (Continued)

Interest rate risk is disclosed below using the segmented time distribution method. As of June 30, 2018, the System had the following cash and investment balances:

		AS OF JUNE 30, 2018			
		Investment Maturities (in Years)			
Investment Type	**Fair Value**	**Less Than 1**	**1-5**	**6-10**	**More than 10**
U.S. Treasuries	$ 450,943	$ 450,943	$ -	$ -	$ -
Total Investments	450,943	$ 450,943	$ -	$ -	$ -
Cash and Equivalents					
US Bank–Interest Sinking Fund	685				
The Illinois Funds	3,871,088				
Total Cash & Equivalents	3,871,773				
Total Cash & Investments	$4,322,716				

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 2 inputs to measure the fair value of all investments held. Inputs other than quoted prices that are observable, either directly or indirectly. These may include quoted prices for similar assets and liabilities in active markets, and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

3. Investments and Investment Income

The investment with the Public Treasurer's Investment Pool-State Treasurer's Office is 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). The Illinois Funds is not registered with the Securities Exchange Commission as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, Accounting and Financial Reporting for Certain External Investment Pools and Pool Participants, which establishes accounting and financial reporting standards for qualifying external investment pools that elect to measure for financial reporting purposes all of their investments at amortized cost. For the year ended June 30, 2018, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemptions gates. 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. 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, 2018 is reflected below.

	2018
Interest earnings	$47,488
Unrealized loss on investments	(424)
Net Investment Income	$47,064

4. Capital Assets

Capital asset activity for the System for the fiscal year ended June 30, 2018 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets not being depreciated				
Land	$ 2,565,115	$ -	$ -	$ 2,565,115
Total capital assets not being depreciated	2,565,115	-	-	2,565,115
Capital assets being depreciated				
Equipment	6,566,343	222,364	284,979	6,503,728
Buildings	36,369,587	-	-	36,369,587
Total capital assets being depreciated	42,935,930	222,364	284,979	42,873,315
Total capital assets	45,501,045	222,364	284,979	45,438,430
Accumulated depreciation				
Equipment	5,391,669	329,799	252,299	5,469,169
Building	12,009,539	934,395	-	12,943,934
Total accumulated depreciation	17,401,208	$ 1,264,194	$ 252,299	18,413,103
Capital assets - net	$ 28,099,837			$ 27,025,327

5. Changes in Long-Term Liabilities

Liability activity for the year ended June 30, 2018 was as follows:

	2018				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Revenue bonds payable	$ 10,445,000	$ -	$ 1,605,000	$ 8,840,000	$1,660,000
Postemployment benefits	-	20,405,249	4,774,297	15,630,952	-
Compensated absences	1,879,076	214,608	218,289	1,875,395	179,138
Total	$ 12,324,076	$ 20,619,857	$ 6,597,586	$ 26,346,347	$1,839,138

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.
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.

6. Revenue Bonds Payable (Continued)

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:

Year Ending June 30	Principal	Interest	Total
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	1,865,000	30,773	1,895,773
Total Payments	$8,840,000	$446,242	$9,286,242

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 $9,286,242 with annual requirements ranging from $1,805,860 to $1,895,773.

For the current year, principal and interest paid was $1,777,343 and the total revenues pledged were $117,700,313. Total revenue pledged represents 100 percent of the net revenues of the System and 82.64 percent of net tuition revenue received in fiscal year 2018. 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 $124,614 paid for by other University funds in fiscal year 2018. 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 2018 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.

8. Retirement Benefits (Continued)

Benefits Provided: A traditional benefit plan was established in 1941. Public Act 90-0448 enacted effective January 1, 1998, established an alternative defined benefit program known as the portable benefit package. The traditional and portable plan Tier 1 refers to members that began participation prior to January 1, 2011. Public Act 96-0889 revised the traditional and portable benefit plans for members who begin participation on or after January 1, 2011, and who do not have other eligible Illinois reciprocal system services. The revised plan is referred to as Tier 2. New employees are allowed 6 months after their date of hire to make an irrevocable election. A summary of the benefit provisions as of June 30, 2017 can be found in the 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 2018 was 12.46% of employee payroll. The normal cost is equal to the value of current year's pension benefit and does not include any allocation for the past unfunded liability or interest on the unfunded liability. Plan members are required to contribute 8.0% of their annual covered salary. The contribution requirements of plan members and employers are established and may be amended by the Illinois General Assembly.

Participating employers make contributions toward separately financed specific liabilities under Section 15-139.5(e) of the Illinois Pension code (relating to contributions payable due to the employment of "affected annuitants" or specific return to work annuitants) and Section 15-155(g) (relating to contributions payable due to earning increases exceeding 6% during the final rate of earnings period).

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

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

Employer Proportionate Share of Net Pension Liability: The amount of the proportionate share of the net pension liability to be recognized for the University is $0. The proportionate share of the State's net pension liability associated with the University is $2,333,202,952 or 9.16%. This amount is not recognized in the financial statements. The net pension liability was measured as of June 30, 2017, and the total pension used to calculate the net pension liability was determined based on the June 30, 2016 actuarial valuation rolled forward. The basis of allocation used in the proportionate share of net pension liability is the actual reported pensionable contributions made to SURS during fiscal year 2017.

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

Employer Proportionate Share of Pension Expense: The University'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 2017. As a result, the University recognized on-behalf revenue and pension expense of $220,941,261 for the fiscal year ended June 30, 2018.

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: Deferred outflows of resources are the consumption of net position by 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	$139,193,227	$1,170,771
Changes in assumption	205,004,315	0
Net difference between projected and actual earnings on pension plan investments	$94,620,827	0
Total	$438,818,369	$260,828,348

8. Retirement Benefits (Continued)

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

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

Employer Deferral of Fiscal Year 2018 Pension Expense

The University paid $2,583,469 in federal, trust or grant contributions for the fiscal year ended June 30, 2018. These contributions were made subsequent to the pension liability measurement date of June 30, 2017 and are recognized as Deferred Outflows of Resources as of June 30, 2018.

Assumptions and Other Inputs

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

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

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

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

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

8. Retirement Benefits (Continued)

Discount Rate: A single discount rate of 7.09% was used to measure the total pension liability. This single discount rate was based on an expected rate of return on pension plan investments of 7.25% and a municipal bond rate of 3.56% (based on the weekly rate closest to but not later than the measurement date of the 20-Year Bond Buyer Index as published by the Federal Reserve). The projection of cash flows used to determine this single discount rate were the amounts of contributions attributable to current plan members and assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the statutory contribution rates under the 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 7.09%, as well as what the plan's net pension liability would be if it were calculated using a single discount rate that is 1-percentage-point lower or 1-percentage-point higher:

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

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

9. Post-Employment Benefits

Plan description: The State Employees Group Insurance Act of 1971 ("Act"), as amended, authorizes the Illinois State Employees Group Insurance Program ("SEGIP") to provide health, dental, vision, and life insurance benefits for certain retirees and their dependents. Substantially all of the Department's full-time employees are members of SEGIP. Members receiving monthly benefits from the General Assembly Retirement System ("GARS"), Judges Retirement System ("JRS"), State Employees' Retirement System of Illinois ("SERS"), Teachers' Retirement System ("TRS"), and State Universities Retirement System of Illinois ("SURS") are eligible for these other post-employment benefits ("OPEB"). The eligibility provisions for each of the retirement systems are defined within Note 16. Certain TRS members eligible for coverage under SEGIP include: certified teachers employed by certain State agencies, executives employed by the Board of Education, regional superintendents, regional assistant superintendents, TRS employees and members with certain reciprocal service.

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

Benefits provided: The health, dental, and vision benefits provided to and contribution amounts required from annuitants are the result of collective bargaining between the State and the various unions representing the State's and the university component units' employees in accordance with limitations established in the Act. Therefore, the benefits provided and contribution amounts are subject to periodic change. Coverage through SEGIP becomes secondary to Medicare after Medicare eligibility has been reached. Members must enroll in Medicare Parts A and B to receive the subsidized SEGIP premium available to Medicare eligible participants. The Act requires the State to provide life insurance benefits for annuitants equal to their annual salary as of the last day of employment until age 60, at which time, the benefit amount becomes $5,000.

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

9. Post-Employment Benefits (Continued)

For fiscal year 2018, the annual cost of the basic program of group health, dental, and vision benefits before the State's contribution was $10,926 ($6,146 if Medicare eligible) if the annuitant chose benefits provided by a health maintenance organization and $14,939 ($5,165 if Medicare eligible) if the annuitant chose other benefits. The State is not required to fund the plan other than the pay-as-you-go amount necessary to provide the current benefits to retirees.

Total OPEB liability, deferred outflows of resources, deferred inflows of resources and expense related to OPEB: The total OPEB liability, as reported at June 30, 2018, was measured as of June 30, 2017, with an actuarial valuation as of June 30, 2016. At June 30, 2018, the University recorded a liability of $174,634,628 for its proportionate share of the State's total OPEB liability. The University's portion of the OPEB liability was based on the University's proportion of employer contributions relative to all employer contributions made to the plan during the year ended June 30, 2017. As of the current year measurement date of June 30, 2017, the University's proportion was .42%, which was a decrease of .11% from its proportion measured as of the prior year measurement date of June 30, 2016.

The University recognized an OPEB expense reduction for the year ended June 30, 2018, of $165,237. At June 30, 2018, the University reported deferred outflows and deferred inflows of resources, as of the measurement date of June 30, 2017, from the following sources:

Deferred outflows of resources	
Differences between expected and actual experience	$55,980
Changes in proportion and differences between employer contributions and proportionate share of contributions	
University contributions subsequent to the measurement date	$3,583,458
Total deferred outflows of resources	$3,639,438
Deferred inflows of resources	
Changes of assumptions	$16,581,499
Changes in proportion and differences between employer contributions and proportionate share of contributions	36,758,671
Total deferred inflows of resources	$53,340,170

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

Year ended June 30,	
2019	$(11,678,058)
2020	(11,678,058)
2021	(11,678,058)
2022	(11,678,058)
2023	(6,571,958)
Total	$(53,284,190)

9. Post-Employment Benefits (Continued)

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

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry Age Normal
Inflation Rate	2.75%
Projected Salary Increases*	3.00% - 15.00%
Discount Rate	3.56%
Healthcare Cost Trend Rate:	
Medical (Pre-Medicare)	8.0% grading down 0.5% in the first year to 7.5%, then grading down 0.01% in the second year to 7.49%, followed by grading down of 0.5% per year over 5 years to 4.99% in year 7
Medical (Post-Medicare)	9.0% grading down 0.5% per year over 9 years to 4.5%
Dental	7.5% grading down 0.5% per year over 6 years to 4.5%
Vision	3.00%
Retirees' share of benefit-related costs	Healthcare premium rates for members depend on the date of retirement and the years of service earned at retirement. Members who retired before January 1, 1998, are eligible for single coverage at no cost to the member. Members who retire after January1, 1998, are eligible for single coverage provided they pay a portion of the premium equal to 5% for each year of service under 20 years. Eligible dependents receive coverage provided they pay 100% of the required dependent premium. Premiums for plan year 2017 and 2018 are based on actual premiums. Premiums after 2018 were projected based on the same healthcare cost trend rates applied to per capita claim costs but excluding the additional trend rate that estimates the impact of the Excise Tax.

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

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

	Retirement age experience study^	**Mortality^^**
GARS	July 2012 – June 2015	RP-2014 White Collar Total Healthy Annuitant mortality table, sex distinct, set forward 1 year for males and set back 1 year for females and generational mortality improvements using MP-2014 two-dimensional mortality improvement scales
JRS	July 2012 – June 2015	RP-2014 White Collar Total Healthy Annuitant mortality table, sex distinct, set forward 1 year for males and set back 1 year for females and generational mortality improvements using MP-2014 two-dimensional mortality improvement scales
SERS	July 2009 – June 2013	105% of the RP-2014 Healthy Annuitant mortality table, sex distinct, with rates projected to 2015; generational mortality improvement factors were added
TRS	July 2011 – June 2014	RP-2014 with future mortality improvements on a fully generational basis using projection table MP-2014
SURS	July 2010 – June 2014	RP-2014 White Collar, gender distinct, projected using MP-2014 two-dimensional mortality improvement scale, set forward one year for male and female annuitants

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

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

9. Post-Employment Benefits (Continued)

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

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

	1% Decrease (2.56%)	**Current Single Discount Rate Assumption (3.56%)**	**1% Increase (4.56%)**
University's proportionate share of total OPEB liability	$198,121,544	$174,634,628	$151,279,949

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

	1% Decrease	**Current Healthcare Cost Trend Rates Assumption**	**1% Increase**
University's proportionate share of total OPEB liability	$149,223,845	$174,634,628	$195,613,051

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. Other post-employment benefits (OPEB)

Other post-employment benefits for University employees and retirees are provided through the State Employees Group Insurance Program (SEGIP) which is administered by the Illinois Department of Central Management Services (CMS). The University's proportionate share of the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB and OPEB expense, is based on examined allocation schedules prepared by CMS. The University's overall OPEB liability was $174,634,628. The System's proportionate share of the net OPEB liability is 8.95% of the University total.

11. Operating Expenses by Function Classification

System operating expenses by function classification for the year ended June 30, 2018 are summarized as follows:

	Compensation and Benefits	Supplies and Services	Depreciation	Total
Academic Support	$53,220,021	$8,137,003	$1,264,194	$62,621,218
Operations and Maintenance of Plant	363,090	3,967,967	-	4,331,057
Total	$53,583,111	$12,104,970	$1,264,194	$66,952,275

12. 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 $3,036,895 in 2018 and $4,529,019 in 2017 and are included in contractual services on the Statements of Revenues, Expenses and Changes in Net Position. Leases extending beyond 2018 have future payments of $4,905,767 in 2019, $1,752,012 in 2020, $876,822 in 2021 and $793,606 in 2022. There are no leases as of June 30, 2018 with future payments beyond 2022.

13. 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 2018 included a 2% discount rate for self-insurance liabilities. All self-insurance claims are paid centrally by administration and are not allocated to the System.

SOUTHERN ILLINOIS UNIVERSITY
MEDICAL FACILITIES SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION - PENSION
Year Ended June 30, 2018

Schedule of Southern Illinois University Medical Facilities System's Proportionate Share of the Net Pension Liability	**FY2014**	**FY2015**	**FY2016**	**FY2017**	**FY2018**
(a) Proportion Percentage of the Collective Pension Liability	0%	0%	0%	0%	
(b) Proportion Amount of the Collective Net Pension Liability	$0	$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	148,648,360	
Total (b) + (c)	145,645,890	142,572,127	149,567,649	148,648,360	
Employer DB Covered Payroll	24,169,140	21,696,307	20,803,296	20,596,793	
Proportion of Collective Net Pension Liability associated With Employer as a percentage of covered-employee payroll	602.61%	657.13%	718.96%	721.71%	
SURS Plan Net Position as a Percentage of Total Pension Liability	44.39%	42.37%	39.57%	42.04%	

Schedule of Contributions					
Federal, Trust, Grant and Other contribution	0	0	0	0	0
Contribution in relation to required contribution	0	0	0	0	0
Contribution deficiency (excess)	0	0	0	0	0
Employer Covered-employee payroll	24,125,159	22,033,214	21,125,750	20,901,279	21,218,309
Contributions as a percentage of covered-employee payroll	0%	0%	0%	0%	0%

Changes of benefit terms. There were no benefit changes recognized in the Total Pension Liability as of June 30, 2017.

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 tales 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
REQUIRED SUPPLEMENTARY INFORMATION - OPEB
Year Ended June 30, 2018

Schedule of Southern Illinois University Medical Facilities System's Proportionate Share of the Net OPEB Liability

	FY2017
Proportion of the net OPEB liability	.04%
Proportionate share of the net OPEB liability	15,630,952
Covered Employee Payroll	23,659,893
Proportionate share of the net OPEB liability as a percentage of covered payroll	66.07%

*Note: The System implemented GASB No. 75 in fiscal year 2018. The information above is presented for as many years as available. The Schedule is intended to show information for 10 years.

There are no assets accumulated in a trust to pay University employees' Other Post-Employment Benefits.

Changes of Assumptions:

The single discount rate was changed from 2.85% to 3.56% for fiscal year 2017.

SOUTHERN ILLINOIS UNIVERSITY
MEDICAL FACILITIES SYSTEM
SCHEDULE OF BONDS PAYABLE OUTSTANDING
June 30, 2018

	Principal Amount	Interest Rate
Interest Bearing Bonds		
Serial Bonds Maturing as follows:		
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	1,865,000	**1.65%**
Total Interest Bearing Bonds	$8,840,000	

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