

State of Illinois
Southern Illinois University
Medical Facilities System

Report of the Treasurer

For the Years Ended

June 30, 2016

**STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY
MEDICAL FACILITIES SYSTEM
ANNUAL FINANCIAL REPORT
For The Years Ended June 30, 2016**

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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

December 21, 2016

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, 2016.

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,

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, 2016, the School of Medicine Medical Facilities System owned or occupied twenty 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 sixteen remaining locations are leased by the University using revenues generated by the clinical practice of medicine. Twelve of the leased facilities are in Springfield, Illinois and the remaining four 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 2015	290
Fall semester 2014	286

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 2015 (2014) enrollment including the Physician's Assistant program was 362 (358).

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>2016</u>	<u>2015</u>
Receipts:		
Revenue Account:		
Operations	\$ 40,406,839	\$ 42,447,782
Investment Income	10,956	7,833
Retirement of Indebtedness – Investment Income	<u>1,411</u>	<u>(6,779)</u>
	40,419,206	42,448,836
Disbursements:		
Operation & Maintenance Account	<u>38,607,324</u>	<u>40,528,134</u>
Net Revenues	1,811,882	1,920,702
Plus: Pledged Tuition	<u>122,899,106</u>	<u>111,690,683</u>
Total Available for Debt Service	<u>\$124,710,988</u>	<u>\$113,611,385</u>
Annual Debt Service	<u>\$ 1,696,944</u>	<u>\$ 1,785,334</u>
Maximum Annual Debt Service	<u>\$ 1,895,773</u>	<u>\$ 1,895,773</u>
Coverage Ratio Based on Net Revenues	1.07	1.08
Coverage Ratio Based on Annual Debt Service	73.49	63.64
Coverage Ratio Based on Maximum Annual Debt Service	65.78	59.93

IV. RETIREMENT OF INDEBTEDNESS

Net position is restricted for the following purposes:

	<u>June 30</u>	
	<u>2016</u>	<u>2015</u>
Bond and Interest Sinking Fund Account	\$387,994	\$340,689

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 (\$196,326 in 2015), interest earned on investments of \$6,730 (interest of \$4,574 in 2015) and no nonoperating revenue (\$0 in 2015).

There were expenditures in the amount of \$1,649 charged to the reserve (\$97,498 in 2015). The restricted net position of Renewals and Replacements consisted of the following:

	June 30	
	2016	2015
Cash	\$1,262,312	\$1,067,921
Accrued interest receivable	648	380
Accounts payable	0	0
	<u>\$1,262,960</u>	<u>\$1,068,301</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, 2016.

VII. RESTRICTED NET POSITION - EXPENDABLE

Restricted net position as of June 30, 2016 and 2015 are comprised of the following:

	June 30	
	2016	2015
Retirement of indebtedness	\$ 387,994	\$ 340,689
Renewals and replacements	<u>1,262,960</u>	<u>1,068,301</u>
	<u>\$ 1,650,954</u>	<u>\$ 1,408,990</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 2016

BOARD OF TRUSTEES OF SOUTHERN ILLINOIS UNIVERSITY

Randal Thomas, Chair	Springfield
Donna Manering, Vice Chair	Makanda
Joel Sambursky, Secretary	Carbondale
J. Phil Gilbert	Carbondale
Roger Herrin	Harrisburg
Shirley Portwood	Godfrey
Dillon Santoni	Edwardsville
Allen Shelton	Carbondale
Amy Sholar	Alton

OFFICERS OF SOUTHERN ILLINOIS UNIVERSITY

Randy J. Dunn, President
Lucas Crater, General Counsel, Interim General Counsel (July-March)
James Allen, Acting Vice President, Academic Affairs (7/20/15 to 6/30/16)
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 (10/1/15 to 6/30/16)
Susan M. Ford, Interim Provost & Vice Chancellor for Academic Affairs
J. Kevin Dorsey, Dean and Provost, School of Medicine (7/1/15 to 12/31/15)
Jerry Kruse, Dean and Provost, School of Medicine (1/1/16 to 6/30/16)
Kevin D. Bame, Vice Chancellor for Administration and Finance
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

Julie Furst-Bowe, Chancellor (7/1/15 to 8/14/15)
Stephen Hansen, Interim Chancellor (8/17/15 to 6/30/16)
Parviz Ansari, Provost and Vice Chancellor for Academic Affairs (7/1/15 to 11/1/15)
Denise Cobb, Interim Provost and Vice Chancellor for Academic Affairs (1/1/16 to 6/30/16)
Jeffrey Waple, Vice Chancellor for Student Affairs
Kenneth Neher, Vice Chancellor for Administration (7/1/15 to 5/31/16)
Rich Walker, Interim Vice Chancellor for Administration (6/1/16 to 6/30/16)
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.



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, 2016, 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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, 2016, and the changes in financial position and, where applicable, cash flows thereof for the years 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, 2016, 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 Southern Illinois University Medical Facilities Systems's Proportionate Share of Net Pension Liability and the Schedule of Contributions on page 23 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.

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 audits were 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 audits, 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 audits were 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 December 21, 2016, 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 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 System's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Peoria, Illinois
December 21, 2016

SOUTHERN ILLINOIS UNIVERSITY
MEDICAL FACILITIES SYSTEM
STATEMENT OF NET POSITION
June 30, 2016

	2016
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 2,609,850
Cash and cash equivalents, restricted	1,263,004
Short term investments, restricted	435,700
Accounts receivable	3,137,210
Accrued interest receivable	1,729
TOTAL CURRENT ASSETS	7,447,493
NONCURRENT ASSETS:	
Prepaid expenses and other 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	6,388,461
Buildings	36,369,587
Less accumulated depreciation	(15,936,413)
Total capital assets being depreciated, net	26,821,635
TOTAL NONCURRENT ASSETS	29,386,750
DEFERRED OUTFLOWS OF RESOURCES	
Deferred loss on refunding	329,280
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	37,163,523
LIABILITIES	
CURRENT LIABILITIES:	
Accounts payable	274,269
Accrued interest payable	49,479
Accrued payroll	483,870
Accrued compensated absences	193,273
Revenue bonds payable	1,550,000
TOTAL CURRENT LIABILITIES	2,550,891
NONCURRENT LIABILITIES:	
Accrued compensated absences	1,693,974
Revenue bonds payable	10,445,000
TOTAL NONCURRENT LIABILITIES	12,138,974
TOTAL LIABILITIES	14,689,865
NET POSITION	
Net investment in capital assets	17,721,030
Restricted for:	
Expendable	
Capital projects and debt service	1,650,954
Unrestricted	3,101,674
TOTAL NET POSITION	\$ 22,473,658

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, 2016

	2016
REVENUES	
OPERATING REVENUES	
Medical Facilities System	\$ 40,601,133
TOTAL OPERATING REVENUES	40,601,133
EXPENSES	
OPERATING EXPENSES	
Salaries and wages	48,913,482
Contractual services	11,900,776
Other	2,805,124
Depreciation	1,720,890
TOTAL OPERATING EXPENSES	65,340,272
OPERATING LOSS	(24,739,139)
NONOPERATING REVENUES (EXPENSES)	
Investment income	19,689
Gifts and contributions	115,842
Interest on capital asset-related debt	(264,582)
Payments on behalf of the system	24,927,472
NET NONOPERATING REVENUES	24,798,421
LOSS BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES	59,282
OTHER REVENUES, EXPENSES, GAINS OR LOSSES	
Capital assets retired	(231,280)
Additions to plant facilities from other sources	210,661
TOTAL OTHER REVENUES, EXPENSES, GAINS OR LOSSES	(20,619)
INCREASE (DECREASE) IN NET POSITION	38,663
NET POSITION	
Net position at beginning of year	22,434,995
NET POSITION AT END OF YEAR	\$ 22,473,658

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, 2016

	2016
CASH FLOWS FROM OPERATING ACTIVITIES	
Medical Facilities System	\$ 40,406,839
Payments to employees	(23,879,421)
Payments for utilities	(470,376)
Payments to suppliers	(14,259,176)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,797,866
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Contributions for other than capital purposes	86,882
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	86,882
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Purchases of capital assets	(14,894)
Principal paid on capital debt	(1,445,000)
Interest paid on capital debt	(251,944)
NET CASH USED BY CAPITAL FINANCING ACTIVITIES	(1,711,838)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sales and maturities of investments	1,980,445
Investment income	18,830
Purchase of investments	(1,993,384)
NET CASH PROVIDED BY INVESTING ACTIVITIES	5,891
NET DECREASE IN CASH	178,801
CASH AND CASH EQUIVALENTS - BEGINNING OF THE YEAR	3,694,053
CASH AND CASH EQUIVALENTS - END OF THE YEAR	\$ 3,872,854
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
Operating loss	\$ (24,739,139)
Adjustments to reconcile operating loss to net cash provided by operating activities	
Depreciation expense	1,720,890
Payments on behalf of the system	24,927,472
Changes in assets and liabilities:	
Receivables, net	(194,294)
Accounts payable	(24,106)
Accrued payroll	61,465
Accrued compensated absences	45,578
NET CASH PROVIDED BY OPERATING ACTIVITIES:	\$ 1,797,866
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES	
On behalf payments for fringe benefits	\$ 24,927,472
Capital asset acquisitions from other sources	210,661
Loss on disposal of capital assets	231,280

The accompanying notes are an integral part of this statement.

**SOUTHERN ILLINOIS UNIVERSITY
MEDICAL FACILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2016**

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.

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.

**SOUTHERN ILLINOIS UNIVERSITY
MEDICAL FACILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2016**

(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) Cash and Cash Equivalents

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

(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, 2016 amounted to \$13,575,409 for health care costs, and \$11,352,063 for retirement costs. The on-behalf payments that related to health care costs is an allocation of estimated costs incurred by CMS on behalf of the University. 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.

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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 three 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, 2016, 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.

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Interest rate risk is disclosed below using the segmented time distribution method. As of June 30, 2016, the System had the following cash and investment balances:

		AS OF JUNE 30, 2016			
		Investment Maturities (in Years)			
Investment Type	Fair Value	Less Than 1	1-5	6-10	More than 10
U.S. Treasuries	\$ 435,700	\$ 435,700	\$ -	\$ -	\$ -
Total Investments	435,700	\$ 435,700	\$ -	\$ -	\$ -
 Cash and Equivalents					
The Illinois Funds	3,872,854				
Total Cash & Equivalents	3,872,854				
 Total Cash & Investments	 \$ 4,308,554				

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. The investment with the Public Treasurer's Investment Pool (The Illinois Funds) 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 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, 2016 is reflected below.

	<u>2016</u>
Interest earnings	\$19,689
Unrealized gain (loss) on investments	0
Net Investment Income	<u>\$19,689</u>

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4. Capital Assets

Capital asset activity for the System for the fiscal year ended June 30, 2016 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	<u>2,565,115</u>	<u>-</u>	<u>-</u>	<u>2,565,115</u>
Capital assets being depreciated				
Equipment	6,755,356	225,556	592,451	6,388,461
Buildings	36,369,587	-	-	36,369,587
Total capital assets being depreciated	43,124,943	225,556	592,451	42,758,048
Total capital assets	<u>45,690,058</u>	<u>225,556</u>	<u>592,451</u>	<u>45,323,163</u>
Accumulated depreciation				
Equipment	4,435,945	786,495	361,171	4,861,269
Building	10,140,748	934,396	-	11,075,144
Total accumulated depreciation	<u>14,576,693</u>	<u>\$ 1,720,890</u>	<u>\$ 361,171</u>	<u>15,936,413</u>
Capital assets - net	<u>\$ 31,113,365</u>			<u>\$ 29,386,750</u>

5. Changes in Liabilities

Liability activity for the year ended June 30, 2016 was as follows:

	2016				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Revenue bonds payable	\$ 13,440,000	\$ -	\$ 1,445,000	\$ 11,995,000	\$ 1,550,000
Compensated absences	1,841,669	213,453	167,875	1,887,247	193,273
Total	<u>\$ 15,281,669</u>	<u>\$ 213,453</u>	<u>\$ 1,612,875</u>	<u>\$ 13,882,247</u>	<u>\$ 1,743,273</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.
- 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.

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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>
2017	1,550,000	197,918	1,747,918
2018	1,605,000	172,342	1,777,342
2019	1,660,000	145,860	1,805,860
2020	1,715,000	118,470	1,833,470
2021	1,770,000	90,173	1,860,173
2022-2023	<u>3,695,000</u>	<u>91,740</u>	<u>3,786,740</u>
Total Payments	<u>\$ 11,995,000</u>	<u>\$816,503</u>	<u>\$12,811,503</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 \$12,811,503 with annual requirements ranging from \$1,747,918 to \$1,895,773.

For the current year, principal and interest paid was \$1,696,944 and the total revenues pledged were \$124,710,988. Total revenue pledged represents 100 percent of the net revenues of the System and 81.2 percent of net tuition revenue received in fiscal year 2016. 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 \$210,661 paid for by other University funds in fiscal year 2016. 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 2016 and used for payment of debt.

8. Retirement Benefits

General Information about the Pension Plan

Plan Description: Substantially all employees of the System 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

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months after their date of hire to make an irrevocable election. A summary of the benefit provisions as of June 30, 2015 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 2015 and 2016 respectively, was 11.71% and 12.69% 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: At June 30, 2015, SURS reported a net pension liability (NPL) of \$23,756,361,087. The net pension liability was measured as of June 30, 2014.

Employer Proportionate Share of Net Pension Liability: The amount of the proportionate share of the net pension liability to be recognized for Southern Illinois University (SIU), of which the System is a part, is \$0. The proportionate share of the State's net pension liability associated with SIU is \$2,249,485,883 or 9.47%. This amount should not be recognized in the financial statement. The net pension liability and total pension liability as of June 30, 2015 was determined based on the June 30, 2014 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 2015.

Pension Expense: At June 30, 2015 SURS reported a collective net pension expense of \$1,994,587,170.

Employer Proportionate Share of Pension Expense: The employer 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 2015. As a result, SIU recognized on-behalf revenue and pension expense of \$188,867,128 for the fiscal year ended June 30, 2016. The system recognizes on-behalf revenue and pension expense \$11,352,063 for the fiscal year ended June 30, 2016.

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	\$ 27,312,043	\$ 0
Changes in assumption	609,393,909	0
Net difference between projected and actual earnings on pension plan investments	593,840,642	953,329,464
Total	\$1,230,546,594	\$953,329,464

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
2016	\$154,951,326
2017	118,957,720
2018	(145,152,075)
2019	148,460,159
2020	-
Thereafter	-
Total	\$277,217,130

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Employer Deferral of Fiscal Year 2016 Pension Expense

SIU paid \$2,880,150 in federal, trust or grant contributions for the fiscal year ended June 30, 2016. These contributions were made subsequent to the pension liability measurement date of June 30, 2015 and are recognized as Deferred Outflows of Resources as of June 30, 2016. None of these payments were within the System.

Assumptions and Other Inputs

Actuarial assumptions: The actuarial assumptions used in the June 30, 2015 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, 2015 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 12.00 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, projected with Scale AA to 2017, sex-distinct, with rates multiplied by 0.80 for males and 0.85 for females.

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, 2015, these best estimates are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-Term Expected Real Rate of Return</u>
U.S. Equity	23%	5.77%
Private Equity	6%	9.23%
Non-U.S. Equity	19%	6.69%
Global Equity	8%	6.51%
Fixed Income	19%	1.12%
Treasury-Inflation Protected Securities	4%	1.22%
Emerging Market Debt	3%	4.61%
Real Estate REITS	4%	5.85%
Direct Real Estate	6%	4.37%
Commodities	2%	4.06%
Hedged Strategies	5%	3.99%
Opportunity Fund	1%	6.80%
Total	100%	5.02%
Inflation		3.00%
Expected Geometrical Normal Return		8.02%

Discount Rate: A single discount rate of 7.120% 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 3.80% (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 2072. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2072, 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 7.12%, 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
6.12%	7.12%	8.12%
\$28,929,333,917	\$23,756,361,087	\$19,470,982,362

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Change of benefit terms. There were no benefit changes recognized in the Total Pension Liability as of June 30, 2015.

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. There are no changes of assumptions that affect measurement of the total collective pension liability since the prior measurement date.

- Mortality rates. Change from the RP 2000 Mortality table projected to 2017, sex distinct, to the RP-2014 mortality tables with projected generational mortality improvement. Change to a separate mortality assumption for disabled participants.
- Salary increase. Change assumption to service-based rates, ranging from 3.75 percent to 15.00 percent based on years of service, with underlying wage inflation of 3.75 percent.
- Normal retirement rates. Change to retirement rates at ages younger than 60, age 66, and ages 70-79 to reflect observed experiences.
- Early retirement rates. Change to a slight increase 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. Main the current assumption on marital status that varies by age and sex and the assumption that males are three years older than their spouses.

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, 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 \$5,206,737 in 2016 and \$4,387,547 in 2015 and are included in contractual services on the Statements of Revenues, Expenses and Changes in Net Position. Leases extending beyond 2016 have future payments of \$4,755,665 in 2017, \$2,967,651 in 2018, \$1,491,105 in 2019 and \$1,491,105 in 2020. There are no leases as of June 30, 2016 with future payments beyond 2020.

**SOUTHERN ILLINOIS UNIVERSITY
MEDICAL FACILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2016**

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 minimized 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 2016 included a 1% discount rate for self-insurance liabilities.

**SOUTHERN ILLINOIS UNIVERSITY
MEDICAL FACILITIES SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2016**

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

	FY2014	FY2015	FY2016
(a) Proportion Percentage of the Collective Pension Liability	0%	0%	
(b) Proportion Amount of the Collective Net Pension Liability	\$0	\$0	
(c) Portion of Nonemployer Contributing Entities' Total Proportion of Collective Net Pension Liability associated with Employer	\$145,645,890	\$142,572,127	
Total (b) + (c)	\$145,645,890	\$142,572,127	
Employer Covered-employee payroll	\$24,125,159	\$22,033,214	
Proportion of Collective Net Pension Liability associated With Employer as a percentage of covered-employee payroll	603.71%	647.08%	
SURS Plan Net Position as a Percentage of Total Pension Liability	44.39%	42.37%	

Schedule of Contributions

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

Changes of benefit terms. There were no benefit changes recognized in the Total Pension Liability as of June 30, 2015.

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, 2016**

	<u>Principal Amount</u>	<u>Interest Rate</u>
Interest Bearing Bonds		
Serial Bonds Maturing as follows:		
2017	1,550,000	1.65%
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>\$11,995,000</u>	

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