

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

For the Year Ended June 30, 2016

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

STATE OF ILLINOIS
Southern Illinois University
Annual Financial Report
For the Year Ended June 30, 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 BOARD OF TRUSTEES
OF SOUTHERN ILLINOIS UNIVERSITY

I am pleased to submit the annual financial report of Southern Illinois University for the year ended June 30, 2016.

The report consists of the Independent Auditors' Report, Management's Discussion and Analysis, the basic financial statements, and the notes to the financial statements of the University and its aggregate discretely presented component units. It presents the respective financial positions of the University and its component units and is intended for the use of administrative officers and other interested parties.

The financial statements of the University have been audited by CliftonLarsonAllen LLP for fiscal year 2016. As Special Assistant Auditors for the Auditor General, they have issued reports covering their audits of the compliance of the University with applicable state and federal laws and regulations and a report containing supplementary financial information and special data requested by the Auditor General. These reports are available at the Office of the Auditor General, State of Illinois.

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

Respectfully submitted,

Duane Stucky
Board Treasurer

DS/sjp

Southern Illinois University Board of Trustees and Officers of Administration Fiscal Year 2016

BOARD OF TRUSTEES OF SOUTHERN ILLINOIS UNIVERSITY

Randal Thomas, Chair
Donna Manering, Vice Chair
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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)
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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 Southern Illinois University was conducted by CliftonLarsonAllen LLP.

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

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of Southern Illinois University ("the University"), collectively a component unit of the State of Illinois, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the University's aggregate discretely presented component units (the "University Related Organizations"), as described in Note 1 of the financial statements. Those statements were audited by other auditors whose reports thereon have been provided to us, and our opinion on the financial statements, insofar as it relates to the amounts included for the University Related Organizations, is based solely on the reports of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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

Opinion

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Southern Illinois University and its aggregate discretely presented component units as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 21 to the financial statements, Senate Bill 2047 granted the University Fiscal Year 2017 appropriations, totaling \$106.2 million, which the University has used to pay Fiscal Year 2016 costs as allowed for by Public Act 099-0524. Even though this law was enacted on June 30, 2016, the University did not recognize this appropriations revenue from the State of Illinois at June 30, 2016. Our opinion is not modified with respect to this matter.

Additionally, as discussed in Note 21 to the financial statements, the State of Illinois has not enacted any further appropriations bill to fully fund the University's Fiscal Year 2017 operations. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 7-14 and the Schedule of Southern Illinois University's Proportionate Share of the Net Pension Liability and the Schedule of Contributions on page 51 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued under separate cover our report dated December 21, 2016, on our consideration of Southern Illinois University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Southern Illinois University's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Peoria, Illinois
December 21, 2016

**Southern Illinois University
Management's Discussion and Analysis
For the Year Ended June 30, 2016**

Introduction

The following discussion and analysis of the financial statements of Southern Illinois University (the "University") provides an overview of the University's financial activities for the fiscal year ended June 30, 2016 with selected comparative information for the year ended June 30, 2015. This discussion has been prepared by management and should be read in conjunction with the financial statements and related footnotes.

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

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

Higher education funding

The fiscal condition of the State of Illinois has deeply impacted higher education funding over the past decade. The University operated for much of fiscal year 2016 without an appropriation from the state.

The Illinois General Assembly passed Senate Bill (SB) 2059, stopgap appropriation I, on April 22, 2016. The University received \$57.5 million, or less than one-third of the appropriated funding received during fiscal year 2015. On June 30, 2016, the last day of the fiscal year, the legislature passed Senate Bill (SB) 2047, stopgap appropriation II. The University received \$106.2 million, or about one-half of the appropriated funding received during fiscal year 2015.

SB 2047 is a fiscal year 2017 appropriation that allows for prior year costs. The University elected to apply stopgap II to fiscal year 2016 operating expenses and will receive cash payments in approximately equal installments from July 1 through December 31, 2016. However, even though stopgap II allows for the payment of prior year expenses, SB 2047 did not take effect until July 1, 2016. Therefore, the University's fiscal year 2016 financial statements do not reflect the revenue received from the stopgap II appropriation. This has resulted in a decrease in unrestricted net assets for the year ended June 30, 2016.

Using the financial statements

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

**Southern Illinois University
Management's Discussion and Analysis
For the Year Ended June 30, 2016**

FINANCIAL HIGHLIGHTS

Statement of Net Position

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

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

The University's assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position at June 30, 2016 and 2015 are summarized as follows:

| | <u>June 30, 2016</u> | <u>June 30, 2015</u> |
|--|-----------------------|-----------------------|
| Assets and deferred outflows of resources: | | |
| Current assets | \$ 202,594,943 | \$ 329,910,124 |
| Capital assets, net | 850,710,090 | 866,181,669 |
| Other assets | 125,362,138 | 117,706,504 |
| Deferred outflows of resources | <u>6,019,370</u> | <u>5,685,740</u> |
| Total assets and deferred outflows of resources | 1,184,686,541 | 1,319,484,037 |
| Liabilities and deferred inflows of resources: | | |
| Current liabilities | 119,246,755 | 126,549,128 |
| Noncurrent liabilities | <u>352,306,611</u> | <u>380,094,727</u> |
| Total liabilities and deferred inflows of resources | 471,553,366 | 506,643,855 |
| Net Position: | | |
| Net investment in capital assets | 562,870,520 | 562,652,029 |
| Restricted - nonexpendable | 5,055,450 | 5,126,893 |
| Restricted - expendable | 67,718,335 | 91,259,665 |
| Unrestricted | <u>77,488,870</u> | <u>153,801,595</u> |
| Total Net Position | <u>\$ 713,133,175</u> | <u>\$ 812,840,182</u> |

University assets and deferred outflows of resources totaled \$1.18 billion at June 30, 2016, a decrease of \$134.8 million compared to 2015. Cash and cash equivalents decreased \$77.86 million, primarily due to operating expenses incurred in the absence of appropriated funding. The other significant decrease was attributable to reimbursement due from the State Treasurer in the amount of \$40.09 million. While the stopgap II appropriation will be used in the amount of \$106.2 million to cover fiscal year 2016 operating expenses, it was not effective until July 1, 2016, and may not be shown as an asset as of June 30, 2016.

The largest asset of the University is its investment in land, buildings and equipment which totaled \$850.7 million at June 30, 2016, and \$866.2 million at June 30, 2015. University liabilities and deferred inflows of

**Southern Illinois University
Management's Discussion and Analysis
For the Year Ended June 30, 2016
Statement of Net Position (continued)**

resources at June 30, 2016, decreased \$35.1 million or 6.9% compared to 2015. Long-term debt, including Revenue Bonds Payable and Certificates of Participation, totaled \$292.93 million in fiscal year 2016 and \$317.34 million in 2015, and comprised the largest portion of the University's liabilities.

The University's 2016 overall net position, the difference between total assets and deferred outflows of resources and total liabilities and deferred inflows of resources, decreased \$99.7 million, or 12.3%, compared to fiscal year 2015. The stopgap II appropriation provided \$106.2 million that was used to cover fiscal year 2016 operating expenses, but that revenue is not reflected in the fiscal year 2016 financial statements in order to conform with applicable governmental accounting standards.

Statement of Revenues, Expenses and Changes in Net Position

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

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

Non-operating revenues and expenses involve non-exchange transactions and include state appropriations, investment income, payments on-behalf of the University, and gifts. State appropriations are mandated as non-operating because they are provided by the legislature to the University without the legislature directly receiving commensurate goods and services for those revenues. Therefore, an operating loss will always result. The following summarizes the University's financial activity for fiscal years 2016 and 2015:

| | Year Ended June 30, 2016 | Year Ended June 30, 2015 |
|---|-------------------------------------|-------------------------------------|
| Operating revenues: | | |
| Tuition and fees, net | \$ 248,105,913 | \$ 242,038,475 |
| Auxiliary enterprises | 117,347,368 | 120,730,519 |
| Grants and contracts | 84,651,244 | 84,695,751 |
| Other | 166,169,889 | 150,414,145 |
| Operating expenses | <u>(1,164,202,209)</u> | <u>(1,150,325,824)</u> |
| Operating loss | <u>(547,927,795)</u> | <u>(552,446,934)</u> |
| State appropriations | 57,509,200 | 201,222,949 |
| On-behalf payments | 330,965,471 | 296,562,367 |
| Other nonoperating revenues & expenses, net | <u>58,474,821</u> | <u>67,350,504</u> |
| Income (Loss) before other revenues | (100,978,303) | 12,688,886 |
| Other revenues | <u>1,271,296</u> | <u>14,689,713</u> |
| Increase (Decrease) in net position | (99,707,007) | 27,378,599 |
| Net position at beginning of year | 812,840,182 | 782,667,802 |
| Cumulative effect of change in accounting principle | - | 2,793,781 |
| Net position at end of year | <u><u>\$ 713,133,175</u></u> | <u><u>\$ 812,840,182</u></u> |

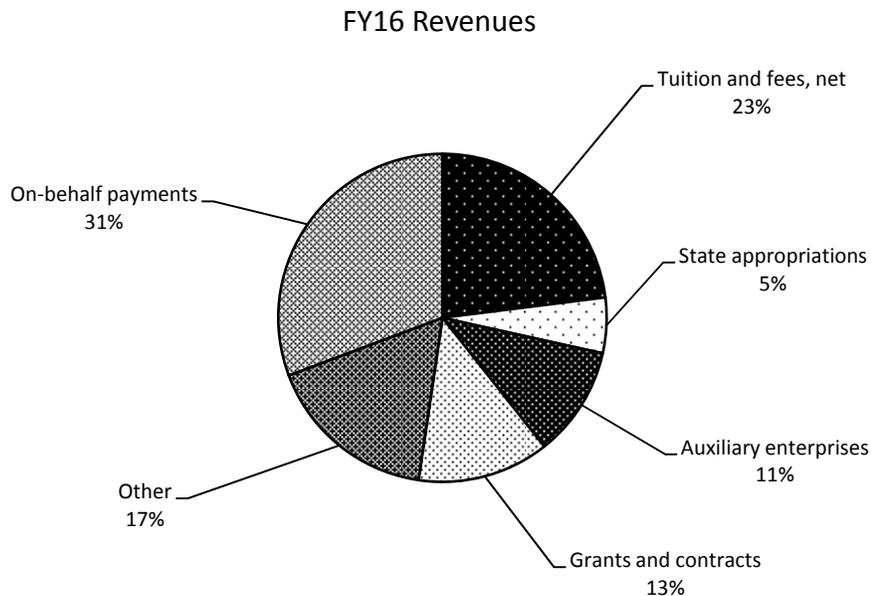
**Southern Illinois University
Management’s Discussion and Analysis
For the Year Ended June 30, 2016
Statement of Revenues, Expenses and Changes in Net Position (continued)**

Operating revenue experienced a net increase of \$18.4 million, or 3.1%, in fiscal year 2016 compared to 2015. Revenues from student tuition and fees and sales and services of educational departments experienced a combined increase of \$22.69 million during fiscal year 2016. These revenue increases were offset by decreases in other areas including non-federal grants and contracts, physicians and surgeons practice plan, and funded debt auxiliary enterprises.

Fiscal year 2016 operating expenses increased \$13.9 million, or 1% compared to 2015. Expenditures related to instruction, public service, academic support, student services, and auxiliary enterprises increased \$28.1 million. Much of the increase was due to payments on behalf of the University made by the State of Illinois for employee retirement and healthcare benefits, which increased a total of \$34.4 million compared to fiscal year 2015. These increases were offset by decreased expenditures of \$14.2 million in the areas of institutional support, research, operation and maintenance of plant, and scholarships.

Net non-operating revenues and expenses realized in 2016 decreased \$118.19 million from fiscal year 2015, primarily due to the decrease in operating state appropriations revenues of \$143.71 million. This decrease was partially offset by an increase in payments on behalf of the University of \$34.4 million, which are classified by function in operating expenses. Investment income increased \$3 million. Revenues for state appropriated capital development projects experienced a decrease of \$12.75 million in 2016, compared to 2015.

The following is a graphic illustration of fiscal year 2016 revenues by source (operating, non-operating, and other), which were used to fund the University’s activities. The revenue from charges for tuition and fees is shown net of the scholarship allowance of \$71,787,373. Student tuition, on-behalf payments and state appropriations are typically the primary source of funding for the University’s academic programs. Other revenues consist primarily of income from sales and services of educational activities and income from the Physicians and Surgeons practice plan.



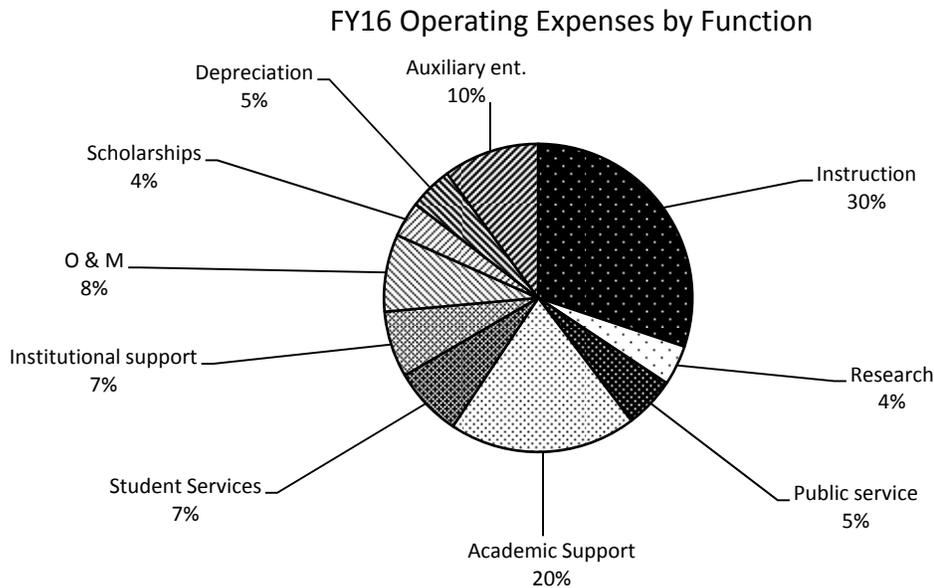
**Southern Illinois University
Management's Discussion and Analysis
For the Year Ended June 30, 2016
Statement of Revenues, Expenses and Changes in Net Position (continued)**

Operating Expenses

A summary of the University's operating expenses by functional classification for the years ended June 30, 2016 and 2015 is as follows:

| | Year Ended June 30, 2016 | Year Ended June 30, 2015 |
|------------------------------------|-------------------------------------|-------------------------------------|
| Instruction | \$ 350,580,098 | \$ 346,058,172 |
| Research | 48,967,756 | 56,940,844 |
| Public service | 62,176,534 | 62,066,305 |
| Academic support | 228,683,133 | 212,575,474 |
| Student services | 85,004,787 | 84,113,012 |
| Institutional support | 80,951,802 | 84,917,654 |
| Operation and maintenance of plant | 94,285,799 | 96,122,679 |
| Scholarships and fellowships | 43,218,307 | 43,672,284 |
| Depreciation | 53,086,861 | 53,062,279 |
| Auxiliary enterprises | 117,013,328 | 110,571,586 |
| Other expenditures | 233,804 | 225,535 |
| | <u>\$ 1,164,202,209</u> | <u>\$ 1,150,325,824</u> |

Operating expenses include \$330,965,471 and \$296,562,367 for health care and retirement costs paid on-behalf of University employees by the State of Illinois for fiscal years 2016 and 2015, respectively. These expenses have been allocated by function. The University chooses to report its expenses by functional classification in the Statements of Revenues, Expenses and Changes in Net Position. The expenses are displayed in their natural classifications in note 20. The following is a graphic illustration of operating expenses by function for the year ended June 30, 2016:



Southern Illinois University
Management's Discussion and Analysis
For the Year Ended June 30, 2016
Statement of Cash Flows

The Statement of Cash Flows provides additional information about the University's sources and uses of cash during the fiscal year. This statement helps users assess the University's ability to generate net cash flows, its ability to meet obligations as they come due, and its need for external financing. The following summarizes the University's cash flow activity for fiscal years 2016 and 2015:

| | <u>Year Ended</u> <u>June 30, 2016</u> | <u>Year Ended</u> <u>June 30, 2015</u> |
|--|---|---|
| Cash provided by (used in): | | |
| Operating activities | \$ (128,661,739) | \$ (203,629,462) |
| Noncapital financing activities | 116,622,892 | 281,607,834 |
| Capital and related financing activities | (73,515,607) | (66,520,851) |
| Investing activities | <u>7,697,820</u> | <u>7,654,870</u> |
| Net increase (decrease) in cash | (77,856,634) | 19,112,391 |
| Cash and cash equivalents, beginning of year | <u>189,290,162</u> | <u>170,177,771</u> |
| Cash and cash equivalents, end of year | <u><u>\$ 111,433,528</u></u> | <u><u>\$ 189,290,162</u></u> |

Major sources of funds included in operating activities are student tuition and fees, grants and contracts, sales and services of educational activities, auxiliary enterprises, and other operating receipts. For fiscal years 2016 and 2015, respectively, student tuition and fees generated \$265.7 million and \$250.9 million. Grants and contracts provided \$78.4 million and \$82.1 million. Sales and services of educational activities received \$110.1 million and \$95.6 million, auxiliary enterprises generated \$124.5 million and \$128.6 million and other operating receipts totaled \$139.6 million and \$94.8 million. Payments for employee salaries and benefits, payments to suppliers for goods and services, and scholarship and fellowship payments comprise the major uses of operating funds.

The major source of funds in noncapital financing activities is State appropriations which only provided \$57.5 million in fiscal year 2016 compared to \$201.2 in fiscal year 2015. Fiscal year 2016 cash provided by noncapital financing activities decreased \$165 million compared to fiscal year 2015 resulting from significantly reduced State Appropriations and the lack of reimbursements related to the Spring 2016 Monetary Award Program (MAP).

The issuance of the Series 2015B revenue bonds for the Housing and Auxiliary Facilities System as well as debt service payments on outstanding capital debt, and the purchases of capital assets comprise the major activity in capital and related financing activities. Cash used for this activity increased \$7 million in fiscal year 2016 compared to fiscal year 2015 following an increase of \$8.4 million in fiscal year 2015 compared to 2014.

Investing activities include the purchases, sales, and maturities of investments as well as investment income. Cash provided by this activity remained steady in fiscal year 2016 after an increase of \$28.1 million between fiscal years 2015 and 2014.

**Southern Illinois University
Management's Discussion and Analysis
For the Year Ended June 30, 2016**

Capital Asset and Debt Administration

The University's Capital Asset policy requires the capitalization of infrastructure at \$1,000,000, buildings and intangible assets at \$100,000, site or building improvements at \$25,000 and equipment at \$5,000. The University depreciates its capital assets on a straight-line basis, using estimated useful lives ranging from five to forty years. At the end of fiscal years 2016 and 2015, respectively, the University had \$562,870,520 and \$562,652,029 invested in capital assets, net of accumulated depreciation and related debt. Depreciation expense for 2016, and 2015, respectively, was \$53,086,861 and \$53,062,279 with accumulated depreciation of \$994,583,600 and \$945,768,325. The University experienced net capital asset additions of \$33.3 million offset by additional depreciation of \$48.8 million resulting in a decrease of capital assets for fiscal year 2016 of \$15.5 million.

The University has historically utilized revenue bonds to finance capital projects related to the Housing and Auxiliary Facilities System and the Medical Facilities System which have the ability to generate resources to service the debt. In fiscal year 2016, the University issued Housing and Auxiliary System revenue bonds of \$20.7 million to partially refund the 2006A issuance. The University did not issue any additional bonds for the Medical Facilities System in fiscal year 2016. The total amount of outstanding bonds payable at June 30, 2016 was \$253,213,541 compared to \$275,417,842 at June 30, 2015.

The University issued certificates of participation (COPS) in fiscal year 2014 of \$43 million for capital improvement projects at Carbondale and to refund the outstanding 2004A COPS issuance. The University did not issue any additional COPS in fiscal year 2016 or 2015. The balance of outstanding COPS at June 30, 2016 and 2015 was \$39,716,981, \$41,922,859. For additional information concerning the University's Capital Assets and Debt Administration, see Notes 7, 9, 10, and 12 in the Notes to Financial Statements.

Economic Outlook

A critical element to the University's future includes a strong partnership with the State of Illinois. Southern Illinois University has historically received between 40% - 50% of its operating revenues from State funding sources including direct operating appropriations and payments on-behalf to fund University employees' benefits. However, the State of Illinois has struggled with severe fiscal challenges including a growing backlog of payables and a sizeable unfunded pension liability which have resulted in several years of flat operating appropriations and delayed payments to the University.

Disagreement over initiatives intended to improve the state's economic conditions have created a legislative impasse that began in fiscal year 2016 and continues into fiscal year 2017. In the absence of a fiscal year 2016 state budget, a stopgap funding plan was passed in April 2016 that provided the University with \$57.5 million, an amount equal to approximately 30% of the fiscal year 2015 appropriation level. On June 30, 2016, a fiscal year 2017 stopgap funding bill was passed providing \$106.2 million to the University, an amount equal to approximately 50% of the fiscal year 2015 appropriation level. As of December 15, 2016, State legislators and the Governor have been unable to reach an agreement on a full fiscal year 2017 budget. The ongoing uncertainty regarding the level of state support has strained the University's short term liquidity and limited long term planning and investment in programs and facilities. Despite the uncertainty created by the state's fiscal challenges, the University remains committed to strong fiscal stewardship of its resources and maintaining a sound financial position.

**Southern Illinois University
Management's Discussion and Analysis
For the Year Ended June 30, 2016**

Economic Outlook (continued)

In response to the declining state support, most higher education institutions in Illinois, including Southern Illinois University, have increased tuition. Tuition and fees for first time students were increased by 2.6% at the Carbondale campus and by 7.4% at the Edwardsville campus for Fall 2016. In addition, Southern Illinois University has escalated efforts to develop and expand its resource base by seeking more revenue opportunities from grants and contracts, sales and services of educational activities that include clinics, conferences and seminars, other self-supporting activities, and fund raising efforts. Furthermore, SIU has implemented several cost saving measures over the past six years that are continuing into fiscal year 2017, such as restrictions on hiring of non-essential positions and cost restrictions on travel and purchases, to help offset unanticipated budget shortfalls. The University is reviewing additional cost saving measures which could possibly include layoffs and academic realignment.

Enrollment at Southern Illinois University was down from 31,557 in the Fall of 2015 to 30,129 in the Fall of 2016. The enrollment decline is concentrated primarily at the Carbondale campus.

Southern Illinois University
Statement of Net Position
June 30, 2016

| | <u>UNIVERSITY</u> | <u>RELATED ORGANIZATIONS</u> |
|--|-----------------------|------------------------------|
| ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 45,601,579 | \$ 16,619,987 |
| Cash and cash equivalents, restricted | 65,831,949 | 4,899,652 |
| Short-term investments | 8,818,371 | 27,779,062 |
| Short-term investments, restricted | 18,537,713 | 8,907,003 |
| Deposits with University | - | 5,932,583 |
| Reimbursement due from State Treasurer | 30,867 | - |
| Accounts receivable, net | 46,566,679 | 21,677,495 |
| Notes receivable, net | 3,688,578 | - |
| Accrued interest receivable | 94,597 | 636,359 |
| Due from related organizations | 3,637,470 | 52,578 |
| Inventories | 9,205,436 | - |
| Prepaid expenses and other assets | 581,704 | 505,876 |
| Total Current Assets | <u>202,594,943</u> | <u>87,010,595</u> |
| Noncurrent Assets: | | |
| Long-term investments | 73,420,586 | 23,778,765 |
| Long-term investments, restricted | 32,612,041 | 145,569,753 |
| Notes receivable, net | 15,983,332 | 20,821 |
| Prepaid expenses and other assets | 3,346,179 | 6,126,348 |
| Capital assets, not depreciated | 90,693,676 | 989,785 |
| Capital assets, net of depreciation | 760,016,414 | 4,953,770 |
| Total Noncurrent Assets | <u>976,072,228</u> | <u>181,439,242</u> |
| Deferred outflows of resources | <u>6,019,370</u> | <u>-</u> |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | <u>1,184,686,541</u> | <u>268,449,837</u> |
| LIABILITIES | | |
| Current Liabilities: | | |
| Accounts payable | 28,698,561 | 1,691,211 |
| Accrued interest payable | 2,723,844 | - |
| Accrued payroll | 10,683,469 | 4,486,989 |
| Accrued compensated absences | 4,111,387 | - |
| Revenue bonds payable | 20,009,303 | - |
| Certificates of participation | 2,260,878 | - |
| Liabilities under capitalized leases | 2,343,275 | - |
| Annuities payable | - | 327,637 |
| Accrued liability for self-insurance | 6,792,990 | - |
| Deposits held for University related organizations | 5,836,171 | - |
| Deposits held in custody for others | 1,001,546 | 78,219 |
| Unearned revenue | 34,628,803 | 238,676 |
| Housing deposits | 103,950 | - |
| Due to related organizations | 52,578 | 3,637,470 |
| Total Current Liabilities | <u>119,246,755</u> | <u>10,460,202</u> |
| Noncurrent Liabilities: | | |
| Accrued compensated absences | 36,477,537 | - |
| Revenue bonds payable | 233,204,238 | - |
| Certificates of participation | 37,456,103 | - |
| Liabilities under capitalized leases | 2,623,424 | - |
| Annuities payable | - | 2,385,396 |
| Accrued liability for self-insurance | 25,011,141 | - |
| Federal loan program contributions refundable | 17,407,118 | - |
| Housing deposits | 127,050 | - |
| Other accrued liabilities | - | 1,791,923 |
| Deposits held in custody for others | - | 2,471,438 |
| Total Noncurrent Liabilities | <u>352,306,611</u> | <u>6,648,757</u> |
| TOTAL LIABILITIES | <u>471,553,366</u> | <u>17,108,959</u> |
| NET POSITION | | |
| Net investment in capital assets | 562,870,520 | 5,943,555 |
| Restricted for: | | |
| Nonexpendable | 5,055,450 | 108,581,330 |
| Expendable | 67,718,335 | 74,365,975 |
| Unrestricted | 77,488,870 | 62,450,018 |
| TOTAL NET POSITION | <u>\$ 713,133,175</u> | <u>\$ 251,340,878</u> |

The accompanying notes are an integral part of this statement.

Southern Illinois University
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2016

| | <u>UNIVERSITY</u> | <u>RELATED ORGANIZATIONS</u> |
|--|-----------------------|------------------------------|
| REVENUES | | |
| Operating Revenues: | | |
| Student tuition and fees (net of scholarship allowances of \$71,787,373) | \$ 248,105,913 | \$ - |
| Federal grants and contracts | 39,028,186 | - |
| State of Illinois grants and contracts | 20,092,986 | - |
| Other government grants and contracts | 4,762,435 | - |
| Private grants and contracts | 20,767,637 | - |
| Sales and services of educational departments | 114,691,275 | - |
| Physicians and Surgeons practice plan | 51,220,740 | - |
| Patient service revenue (net) | - | 97,492,887 |
| Auxiliary enterprises: | | |
| Funded debt enterprises (net of scholarship allowances of \$9,306,329) | 102,512,333 | - |
| Other auxiliary enterprises (net of scholarship allowances of \$1,210,281) | 14,835,035 | - |
| Loan interest income | 255,911 | - |
| Other operating revenues | 1,963 | 26,270,613 |
| Total Operating Revenues | <u>616,274,414</u> | <u>123,763,500</u> |
| EXPENSES | | |
| Operating Expenses: | | |
| Instruction | 350,580,098 | - |
| Research | 48,967,756 | - |
| Public service | 62,176,534 | - |
| Academic support | 228,683,133 | - |
| Student services | 85,004,787 | - |
| Institutional support | 80,951,802 | 131,952,550 |
| Operation and maintenance of plant | 94,285,799 | - |
| Scholarships and fellowships | 43,218,307 | - |
| Depreciation | 53,086,861 | 633,697 |
| Auxiliary enterprises: | | |
| Funded debt enterprises | 99,228,527 | - |
| Other auxiliary enterprises | 17,784,801 | - |
| Other operating expenses | 233,804 | - |
| Total Operating Expenses | <u>1,164,202,209</u> | <u>132,586,247</u> |
| Operating Loss | <u>(547,927,795)</u> | <u>(8,822,747)</u> |
| NONOPERATING REVENUES (EXPENSES) | | |
| State appropriations | 57,509,200 | - |
| Gifts and contributions | 11,157,204 | 5,204,939 |
| Investment income | 4,356,397 | (2,859,544) |
| Grants and contracts | 55,226,591 | - |
| Interest on capital asset-related debt | (8,980,558) | - |
| Accretion on bonds payable | (3,469,381) | - |
| University related organizations | (650,026) | - |
| Payments on behalf of the University | 330,965,471 | - |
| Other nonoperating revenues (expenses) | 834,594 | (1,323,182) |
| Net Nonoperating Revenues | <u>446,949,492</u> | <u>1,022,213</u> |
| Loss Before Other Revenues | <u>(100,978,303)</u> | <u>(7,800,534)</u> |
| Other Revenues: | | |
| Capital state appropriations | 1,173,428 | - |
| Additions to permanent endowments | - | 2,672,708 |
| Capital grants and gifts | 97,868 | - |
| Total Other Revenues | <u>1,271,296</u> | <u>2,672,708</u> |
| Decrease in Net Position | (99,707,007) | (5,127,826) |
| NET POSITION | | |
| Net position at beginning of year | 812,840,182 | 256,468,704 |
| Net position at end of year | <u>\$ 713,133,175</u> | <u>\$ 251,340,878</u> |

The accompanying notes are an integral part of this statement.

Southern Illinois University
Statement of Cash Flows
For the Year Ended June 30, 2016

| | <u>UNIVERSITY</u> | <u>RELATED ORGANIZATIONS</u> |
|--|-----------------------|------------------------------|
| Cash Flows from Operating Activities | | |
| Tuition and fees | \$ 265,680,896 | \$ - |
| Grants and contracts | 78,372,446 | - |
| Sales and services of educational activities | 110,075,784 | - |
| Physicians and Surgeons | 51,392,116 | - |
| Auxiliary enterprise revenues: | | |
| Funded debt | 108,423,015 | - |
| Other auxiliary | 16,070,742 | - |
| Payments for employee salaries and benefits | (537,626,532) | (33,568,139) |
| Payments to suppliers | (261,252,787) | (88,689,865) |
| Payments for scholarships and fellowships | (98,815,499) | - |
| Loans issued to students | (3,227,147) | - |
| Interest earned on loans to students | 253,313 | - |
| Collection of loans from students | 2,349,873 | - |
| Patient service revenue | - | 101,785,256 |
| Other operating receipts | 139,642,041 | 17,610,177 |
| Net cash used in operating activities | <u>(128,661,739)</u> | <u>(2,862,571)</u> |
| Cash Flows from Noncapital Financing Activities | | |
| State appropriations | 57,509,200 | - |
| Direct lending receipts | 209,485,349 | - |
| Direct lending payments | (209,402,979) | - |
| Grants and contracts | 55,226,591 | - |
| Government advances for federal loan funds | (37,103) | - |
| Payments to annuitants | - | (315,451) |
| Other | 2,155,492 | (1,693,758) |
| Gifts for other than capital purposes | 1,686,342 | 9,227,544 |
| Net cash provided by noncapital financing activities | <u>116,622,892</u> | <u>7,218,335</u> |
| Cash Flows from Capital and Related Financing Activities | | |
| Capital appropriations | - | - |
| Purchases of capital assets | (37,476,396) | (637,630) |
| Proceeds from capital debt | 23,238,381 | - |
| Deposit to bond escrow | (28,487,375) | - |
| Other | 2,145,383 | - |
| Principal paid on capital debt | (22,315,000) | - |
| Interest paid on capital debt | (10,620,600) | - |
| Net cash used in capital and related financing activities | <u>(73,515,607)</u> | <u>(637,630)</u> |
| Cash Flows from Investing Activities | | |
| Purchases of investments | (34,949,002) | (21,433,432) |
| Proceeds from sales of investments and maturities | 40,297,123 | 23,786,634 |
| Investment income | 2,349,699 | 5,336,917 |
| Net cash provided by (used in) investing activities | <u>7,697,820</u> | <u>7,690,119</u> |
| Net increase (decrease) in cash | <u>(77,856,634)</u> | <u>11,408,253</u> |
| Cash and cash equivalents, beginning of the year | 189,290,162 | 10,111,386 |
| Cash and cash equivalents, end of the year | <u>\$ 111,433,528</u> | <u>\$ 21,519,639</u> |

Southern Illinois University
Statement of Cash Flows
For the Year Ended June 30, 2016

| | <u>UNIVERSITY</u> | <u>RELATED ORGANIZATIONS</u> |
|---|-------------------------|------------------------------|
| Reconciliation of Operating Loss to Net Cash Used in Operating Activities | | |
| Operating Loss | \$ (547,927,795) | \$ (8,822,747) |
| Adjustments to reconcile operating loss to net cash used in operating activities: | | |
| Depreciation expense | 53,086,861 | 633,697 |
| Amortization expense | - | - |
| Noncash grants to University | - | 22,626 |
| Noncash expenditures for the benefit of the University | - | 353,214 |
| Noncash contributions | - | (84,053) |
| Budget expended at University | (1,056,956) | - |
| Payments on behalf of the University | 330,965,471 | - |
| Change in assets and liabilities: | | |
| Accounts receivable (net) | (1,086,989) | (4,082,716) |
| Reimbursement due from State Treasurer | 40,058,860 | - |
| Inventories | 161,000 | - |
| Prepaid expenses | 77,361 | 83,734 |
| Other assets | (150,693) | 23,642 |
| Accounts payable | 3,938,460 | 600,763 |
| Accrued payroll | 94,274 | - |
| Unearned revenue | (2,436,171) | (110,177) |
| Compensated absences | (2,012,690) | - |
| Deposits held for others | 10,971 | (8,126) |
| Other liabilities | (2,113,522) | 68,407 |
| Due to/from related organizations | (270,181) | 8,459,165 |
| Net cash used in operating activities | <u>\$ (128,661,739)</u> | <u>\$ (2,862,571)</u> |
| Noncash investing, capital and financing activities: | | |
| Payments on behalf of the University for fringe benefits | \$ 330,965,471 | \$ - |
| Accretion on bonds payable | 3,469,381 | - |
| Gifts in kind | 15,368 | - |
| Capital assets in accounts payable | 4,073,595 | - |
| Capital asset acquisition by CDB | 1,173,428 | - |
| Loss on disposals of capital assets | 2,806,166 | 9,387 |
| Other capital asset adjustments | (2,002,878) | - |
| Net interest capitalized | 834,190 | - |

The accompanying notes are an integral part of this statement.

Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2016

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

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

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

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

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

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

Southern Illinois Research Park, Inc. was formed to promote high technology and knowledge-based enterprise development within Carbondale and southern Illinois. Complete financial statements for the Research Park may be obtained by writing: Southern Illinois Research Park, 150 East Pleasant Hill Road, Carbondale, IL 62901-6891.

Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2016

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

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

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

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

NOTE 2 - Significant accounting policies

University basis of presentation

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

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

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

University Related Organizations basis of presentation

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

Beginning in fiscal year 2009, the Southern Illinois University Foundation (at Carbondale) and The Association of Alumni, Former Students and Friends of Southern Illinois University, Inc., follow Financial Accounting Standards Board (FASB) standards for financial statement presentation. Consequently, reclassifications have been made to convert their statements to the GASB format for inclusion in the University Related Organizations' column in the financial statements.

Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2016

NOTE 2 - Significant accounting policies (continued)

Cash and cash equivalents

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

Allowance for uncollectibles

The University provides allowances for uncollectible accounts and notes receivable based upon management's best estimate of uncollectible accounts and notes at the statement of net position date, considering type, age, collection history of receivables, and any other factors as considered appropriate. The University's accounts receivable and notes receivable are reported net of allowances of \$21,735,033 and \$277,020, respectively, at June 30, 2016.

Inventories

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

Capital assets

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

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

Pensions

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

Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2016

NOTE 2 - Significant accounting policies (continued)

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

Revenue and expense recognition

In accordance with GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, and GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, the University reported on-behalf payments of \$330,965,471 for fiscal year 2016 for health care and retirement costs. These costs are reflected in the Statement of Revenues, Expenses and Changes in Net Position as non-operating revenues entitled "Payments on behalf of the University" and as operating expenses under the appropriate functional classifications.

Substantially all employees participate in group health insurance plans administered by the State of Illinois. The employer contributions to these plans for University employees paid from State appropriations and auxiliary enterprises are paid by the State on behalf of the University. On-behalf payments for health care costs totaled \$142,098,343 for the year ended June 30, 2016. The on-behalf payments that related to State group health insurance is an allocation of estimated costs incurred by CMS on behalf of the University. The employer contributions to these plans for employees paid from other University held funds are paid by the University. On behalf-payments of \$188,867,128 for the year ended June 30, 2016, were made to the State Universities Retirement System for retirement costs.

Classification of revenues and expenses

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

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

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

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

Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2016

NOTE 2 - Significant accounting policies (continued)

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

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

Compensated absences

Accrued compensated absences for University personnel are charged to current funds based on earned but unused vacation and sick leave days including the University's share of Social Security and Medicare taxes. At June 30, 2016, the University estimates \$26,253,095 will be paid from state appropriated accounts funded by the State of Illinois and the Income Fund, and \$14,335,829 from local funds in subsequent years for a combined total of \$40,588,924.

New Governmental Accounting Standards

The Governmental Accounting Standards Board (GASB) has issued the following statements which are effective for periods beginning July 1, 2015, or later which may impact the University:

Statement No. 72 – *Fair Value Measurement and Application*, addresses accounting and financial reporting issues related to fair value measurements and requires governments to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. The statement is effective for fiscal years beginning after June 15, 2015. Appropriate disclosures are included in the notes to the financial statements for fiscal year 2016.

Statement No. 73 – *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, establishes requirements for defined benefit pensions that are not within the scope of Statement 68 as well as for the assets accumulated for purposes of providing those pensions. It also establishes requirements for defined contribution pensions that are not within the scope of Statement 68 and amends certain provisions of Statement 67. The statement is effective for fiscal years beginning after June 15, 2015, except those provisions that address employers and governmental non-employer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016 and did not impact the University as it participates in a plan within the scope of GASB Nos. 67 and 68.

Statement No. 74 – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, replaces Statement 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and Statement 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement 50, *Pension Disclosures*. The statement is effective for fiscal years beginning after June 15, 2016. The impact on the University will be reviewed.

Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, replaces the requirements of Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and Statement 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. The statement is effective for fiscal years beginning after June 15, 2017. The impact on the University will be reviewed.

Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2016

NOTE 2 - Significant accounting policies (continued)

Statement No. 76 – *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The statement is effective for fiscal years beginning after June 15, 2015, retroactively. The statement did not impact the University's financial statements.

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

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

Statement No. 79 – *Certain External Investment Pools and Pool Participants*, establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The statement is effective for fiscal years beginning after June 15, 2015. The statement did not impact the University.

Statement No. 80 – *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14*, amends the blending requirements for the financial statement presentation of component units of all state and local governments. The statement is effective for fiscal years beginning after June 15, 2016. The statement is not expected to impact the University.

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

Statement No. 82 – *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*, addresses issues regarding the presentation of payroll-related measures in required supplementary information, the selection of assumptions and deviations from guidance in an Actuarial Standard of Practice for financial reporting purposes, and the classification of payments made by employers to satisfy employee contribution requirements. The statement is effective for fiscal years beginning after June 15, 2016, except for the requirements for the selection of assumptions are effective in the first reporting period in which the measurement of the pension liability is on or after June 15, 2017. The impact on the University will be reviewed.

NOTE 3 - Cash, deposits and cash equivalents

At June 30, 2016, the actual bank balances related to the deposits of the University amounted to \$119,947,761; of this balance, \$104,002,896 was either covered by federal depository insurance or not required to be collateralized and \$15,944,864 was covered by collateral held by an agent in the University's name.

**Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2016**

NOTE 3 - Cash, deposits and cash equivalents (continued)

Cash, deposits and cash equivalents at June 30, 2016 were:

| | |
|---|-----------------------|
| <u>UNIVERSITY:</u> | |
| Cash and cash equivalents | \$ 50,987,704 |
| The Illinois Funds | <u>60,445,824</u> |
| Total cash and cash equivalents | <u>\$ 111,433,528</u> |
| <u>UNIVERSITY RELATED ORGANIZATIONS:</u> | |
| Total cash and cash equivalents | <u>\$ 21,519,639</u> |

NOTE 4 – Investments

University investment policy

It is University policy to invest funds in a manner which will provide investment returns and security consistent with good business practices, while meeting the daily cash flow demands of the University and conforming to all statutes governing the investments of funds. Funds are invested in accordance with the provisions of the Illinois Compiled Statutes, Chapter 30, Sections 235/0.01 – 235/8, the *Public Funds Investment Act*; the policies of the Board; and covenants provided from the University's bond and certificate of participation issuance activities. The University's Investment Policy authorizes the University to invest in securities of the United States of America, its agencies, and its instrumentalities; interest bearing savings accounts, certificates of deposit, interest bearing time deposits, and other direct obligations of any bank defined in the Illinois Banking Act; certain short term obligations of U.S. corporations rated in the highest three 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 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.

University investments

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

Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2016

NOTE 4 – Investments (continued)

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

Investment income net of realized and unrealized gains and losses on investments for the year ended June 30, 2016 is reflected below:

UNIVERSITY:

| | |
|---------------------------------------|---------------------|
| Interest earnings | \$ 1,964,254 |
| Realized gain/(loss) on investments | 123,911 |
| Unrealized gain/(loss) on investments | <u>2,268,232</u> |
| Net investment income | <u>\$ 4,356,397</u> |

UNIVERSITY RELATED ORGANIZATIONS:

| | |
|---------------------------------------|-----------------------|
| Interest earnings | \$ 4,820,049 |
| Realized gain/(loss) on investments | 717,390 |
| Unrealized gain/(loss) on investments | <u>(8,396,983)</u> |
| Net investment income | <u>\$ (2,859,544)</u> |

University risk disclosures

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

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

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

Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2016

NOTE 4 – Investments (continued)

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

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

University Related Organizations investments

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

Southern Illinois University Foundation (at Carbondale)

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

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

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

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

Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2016

NOTE 4 – Investments (continued)

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

Custodial credit risk is the risk that, in the event of a bank failure, the Foundation's deposits may not be returned to the Foundation. The Foundation has a policy to require banks to collateralize balances over the FDIC insured amount. As of June 30, 2016, the entire bank balance of \$441,813 was either insured or collateralized by pledged bank assets in the Foundation's name.

Southern Illinois University at Edwardsville Foundation

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

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

Credit risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit risk is mitigated by limiting investments to those specified in the Board-approved policy; and diversifying the investment portfolio so that the failure of any one issuer or backer will not place an undue financial burden on the Foundation. Board policy requires investments in fixed income government or corporate securities to be purchased or retained only if the security is A2 or higher by Moody's Investor Service or is rated A or higher by Standard and Poor's Corporation (S&P), Fitch Investors Service or Duff & Phelps Credit Rating Co. Commercial paper, money markets, and banker's acceptances must be rated at least Prime-1 by Moody's or at least A1 by S&P. U.S. Treasuries are federal government securities that do not require the disclosure of credit risk. The U.S. agencies investments include the Federal Home Loan Mortgage Corporation and the Federal Home Loan Bank, all rated AAA by S&P and Moody's, respectively.

Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2016

NOTE 4 – Investments (continued)

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

Custodial credit risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Foundation will not be able to recover the value of its investments that are in the possession of an outside party. The investment custodians hold these investments in their name for the benefit of the Foundation. In fiscal year 2016, the Foundation’s investments were managed by two different investment firms, each offering SIPC protection up to \$500,000. The investment balance exposed to custodial credit risk as of June 30, 2016 was \$1,815,897.

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

Foreign currency risk: The Foundation had no investment in common stocks of foreign companies at June 30, 2016. The Foundation’s policy related to foreign currency risk is that no purchase of a foreign equity may be made if such purchase would cause the total value of foreign equity assets to exceed the lesser of 10 percent of the total or 25 percent of the equity portion of the endowment portfolio.

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

Investment maturities

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

UNIVERSITY:

| Investment Type: | Fair Value | Investment Maturities (in Years) | | | | No Maturity |
|---|-----------------------|---|---------------|---------------|-----------|--------------------|
| | | Less Than 1 | 1-5 | 6-10 | | |
| U.S. Treasuries | \$ 56,839,747 | \$ 18,726,586 | \$ 21,970,200 | \$ 16,142,961 | \$ - | |
| U.S. Agencies | 73,505,531 | 5,630,365 | 35,122,064 | 32,753,102 | - | |
| The Illinois Funds | 60,445,824 | 60,445,824 | - | - | - | |
| Commercial Paper | 2,999,133 | 2,999,133 | - | - | - | |
| Common Stock | 44,300 | - | - | - | 44,300 | |
| Subtotal | 193,834,535 | \$ 87,801,908 | \$ 57,092,264 | \$ 48,896,063 | \$ 44,300 | |
| Less: Investment in The Illinois Funds reported as cash | (60,445,824) | | | | | |
| Total Investments | \$ 133,388,711 | | | | | |

**Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2016**

NOTE 4 – Investments (continued)

Investment maturities

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

UNIVERSITY RELATED ORGANIZATIONS:

| Investment Type: | Fair Value | Investment Maturities (in Years) | | | | |
|-------------------------------|-----------------------|---|----------------------|---------------------|-------------------|---------------------|
| | | Less Than 1 | 1-5 | 6-10 | Over 10 | No Maturity |
| Municipal Bonds | \$ 8,668,344 | \$ 153,686 | \$ 5,817,176 | \$ 2,697,482 | \$ - | \$ - |
| Government Bonds | 134,231 | - | - | - | 134,231 | - |
| Common Stock | 1,889,786 | - | - | - | - | 1,889,786 |
| Corporate Bonds | 4,848,456 | 144,795 | 1,960,633 | 2,743,028 | - | - |
| Commodities/Natural Resources | 6,201,480 | 3,491,084 | 2,710,396 | - | - | - |
| Alternative Investments | 41,453,047 | 20,811,538 | 20,641,509 | - | - | - |
| Real Estate | 6,586,103 | 4,175,646 | 2,410,457 | - | - | - |
| Money Market Funds | 4,478,053 | 4,478,053 | - | - | - | - |
| Mutual Funds | 131,775,083 | 131,775,083 | - | - | - | - |
| Total Investments | \$ 206,034,583 | \$ 165,029,885 | \$ 33,540,171 | \$ 5,440,510 | \$ 134,231 | \$ 1,889,786 |

Fair value measurements

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

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets

Level 2: Other than quoted prices that are observable for an asset or liability, directly or indirectly

Level 3: Unobservable inputs for an asset or liability

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

The University Related Organizations had the following recurring fair value measurements as of June 30, 2016:

| Investments: | Fair Value | Level 1 | Level 2 | Level 3 |
|-------------------------------|-----------------------|-----------------------|----------------------|----------------------|
| Municipal Bonds | \$ 8,668,344 | \$ - | \$ 8,668,344 | \$ - |
| Government Bonds | 134,231 | - | 134,231 | - |
| Common Stock | 1,889,786 | 1,889,786 | - | - |
| Corporate Bonds | 4,848,456 | - | 4,848,456 | - |
| Commodities/Natural Resources | 6,201,480 | 3,491,084 | - | 2,710,396 |
| Alternative Investments | 41,453,047 | 10,962,885 | 5,757,702 | 24,732,460 |
| Real Estate | 6,586,103 | 4,178,715 | - | 2,407,388 |
| Money Market Funds | 4,478,053 | 4,478,053 | - | - |
| Mutual Funds | 131,775,083 | 131,775,083 | - | - |
| Total Investments | \$ 206,034,583 | \$ 156,775,606 | \$ 19,408,733 | \$ 29,850,244 |

Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2016

NOTE 5 - Accounts and notes receivable

Accounts and notes receivable consisted of the following at June 30, 2016:

UNIVERSITY:

| | <u>Accounts Receivable</u> | <u>Notes Receivable</u> |
|---------------------------------------|---------------------------------------|------------------------------------|
| Student tuition and fees | \$ 11,747,933 | \$ - |
| Auxiliary enterprises | 15,382,141 | - |
| Grants and contracts | 14,143,200 | - |
| General operating | 24,996,731 | - |
| Student loans * | 49,430 | 19,948,930 |
| Other accounts receivable | <u>1,982,277</u> | <u>-</u> |
| | 68,301,712 | 19,948,930 |
| Less: Allowance for doubtful accounts | <u>(21,735,033)</u> | <u>(277,020)</u> |
| Net receivable | <u><u>\$ 46,566,679</u></u> | <u><u>\$ 19,671,910</u></u> |

UNIVERSITY RELATED ORGANIZATIONS:

| | <u>Accounts Receivable</u> | <u>Notes Receivable</u> |
|---|---------------------------------------|------------------------------------|
| Accounts receivable | \$ 61,102,158 | \$ - |
| Student loans | <u>-</u> | <u>20,821</u> |
| | 61,102,158 | 20,821 |
| Less: Allowances for assignment losses & doubtful accounts | <u>(39,424,663)</u> | <u>-</u> |
| Net receivable | <u><u>\$ 21,677,495</u></u> | <u><u>\$ 20,821</u></u> |

*The student loans balance consists of \$17,760,385 of loans under the Perkins Loan Program. Effective September 30, 2015, the federal government discontinued the Perkins Loan Program. The program is currently extended through September 30, 2017, pursuant to the Federal Perkins Loan Program Extension Act of 2015 (Pub. L. No. 114-105).

NOTE 6 - Deferred outflows of resources

Deferred outflows of resources consisted of the following at June 30, 2016:

UNIVERSITY:

| | |
|--------------------------------------|----------------------------|
| Unamortized debt refundings | \$ 3,139,220 |
| Employer pension contributions | <u>2,880,150</u> |
| Total deferred outflows of resources | <u><u>\$ 6,019,370</u></u> |

Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2016

NOTE 7 - Capital assets

Capital asset activity for the University for the fiscal year ended June 30, 2016 was as follows:

UNIVERSITY:

| | Beginning Balance | Additions | Deletions | Transfers | Ending Balance |
|---|------------------------------|------------------------|---------------------|------------------|---------------------------|
| Capital assets not being depreciated: | | | | | |
| Land | \$ 21,907,382 | \$ 285,355 | \$ - | \$ - | \$ 22,192,737 |
| Nondepreciable historical treasures and works of art | 11,992,188 | - | - | - | 11,992,188 |
| Construction in progress | 81,504,339 | 28,064,861 | - | (53,060,449) | 56,508,751 |
| Total capital assets not being depreciated | 115,403,909 | 28,350,216 | - | (53,060,449) | 90,693,676 |
| Capital assets being depreciated: | | | | | |
| Site improvements | 75,613,328 | (16) | 5,022 | 3,218,071 | 78,826,361 |
| Buildings | 1,224,088,173 | 159,302 | 2,165,969 | 49,656,911 | 1,271,738,417 |
| Equipment | 372,491,828 | 9,025,369 | 4,899,085 | 185,467 | 376,803,579 |
| Intangible assets | 7,340,787 | - | - | - | 7,340,787 |
| Infrastructure | 17,011,969 | 2,886,579 | 7,678 | - | 19,890,870 |
| Total capital assets being depreciated | 1,696,546,085 | 12,071,234 | 7,077,754 | 53,060,449 | 1,754,600,014 |
| Less accumulated depreciation for: | | | | | |
| Site improvements | 46,777,316 | 3,560,541 | - | - | 50,337,857 |
| Buildings | 561,190,294 | 32,216,623 | - | - | 593,406,917 |
| Equipment | 323,577,240 | 15,830,039 | 4,271,586 | - | 335,135,693 |
| Intangible assets | 4,783,034 | 646,774 | - | - | 5,429,808 |
| Infrastructure | 9,440,441 | 832,884 | - | - | 10,273,325 |
| Total accumulated depreciation | 945,768,325 | 53,086,861 | 4,271,586 | - | 994,583,600 |
| Total capital assets being depreciated, net | 750,777,760 | (41,015,627) | 2,806,168 | 53,060,449 | 760,016,414 |
| Capital assets, net | <u>\$ 866,181,669</u> | <u>\$ (12,665,411)</u> | <u>\$ 2,806,168</u> | <u>\$ -</u> | <u>\$ 850,710,090</u> |

The University incurred interest expense of \$12,480,988 during fiscal year 2016 including \$31,049 of capitalized interest.

Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2016

NOTE 7 - Capital assets (continued)

Capital asset activity for the University Related Organizations for the fiscal years ended June 30, 2016 was as follows:

**UNIVERSITY RELATED
ORGANIZATIONS:**

| | Beginning | | | | Ending |
|---|------------------|------------------|------------------|------------------|----------------|
| | Balance | Additions | Deletions | Transfers | Balance |
| Capital assets not being depreciated: | | | | | |
| Land | \$ 307,216 | \$ - | \$ - | \$ - | \$ 307,216 |
| Construction in Progress | 195,345 | 487,224 | - | - | 682,569 |
| Total capital assets not being depreciated | 502,561 | 487,224 | - | - | 989,785 |
| Capital assets being depreciated: | | | | | |
| Site improvements | 315,630 | - | 4,865 | - | 310,765 |
| Buildings | 5,268,707 | - | - | - | 5,268,707 |
| Equipment | 5,881,075 | 150,407 | 360,889 | - | 5,670,593 |
| Total capital assets being depreciated | 11,465,412 | 150,407 | 365,754 | - | 11,250,065 |
| Less accumulated depreciation for: | | | | | |
| Site improvements | 296,563 | 17,610 | 4,865 | - | 309,308 |
| Buildings | 1,493,128 | 153,801 | - | - | 1,646,929 |
| Equipment | 4,229,273 | 462,286 | 351,501 | - | 4,340,058 |
| Total accumulated depreciation | 6,018,964 | 633,697 | 356,366 | - | 6,296,295 |
| Total capital assets being depreciated, net | 5,446,448 | (483,290) | 9,388 | - | 4,953,770 |
| Capital assets, net | \$ 5,949,009 | \$ 3,934 | \$ 9,388 | \$ - | \$ 5,943,555 |

**Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2016**

NOTE 8 – Changes in long-term liabilities

Long-term liability activity for the year ended June 30, 2016 was as follows:

UNIVERSITY:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Current Portion</u> |
|----------------------------------|------------------------------|----------------------|----------------------|---------------------------|----------------------------|
| Compensated absences | \$ 42,601,614 | \$ 2,367,481 | \$ 4,380,171 | \$ 40,588,924 | \$ 4,111,387 |
| Revenue bonds payable | 275,417,842 | 26,707,762 | 48,912,063 | 253,213,541 | 20,009,303 |
| Certificates of participation | 41,922,859 | - | 2,205,878 | 39,716,981 | 2,260,878 |
| Capitalized leases | 4,992,018 | 1,717,770 | 1,743,089 | 4,966,699 | 2,343,275 |
| Self insurance | 33,863,486 | 4,528,149 | 6,587,504 | 31,804,131 | 6,792,990 |
| Federal loan programs refundable | 17,683,346 | - | 276,228 | 17,407,118 | - |
| Housing deposits | 250,275 | 177,388 | 196,663 | 231,000 | 103,950 |
| Total long-term liabilities | <u>\$ 416,731,440</u> | <u>\$ 35,498,550</u> | <u>\$ 64,301,596</u> | <u>\$ 387,928,394</u> | <u>\$ 35,621,783</u> |

UNIVERSITY RELATED ORGANIZATIONS:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Current Portion</u> |
|-------------------------------------|------------------------------|------------------|-------------------|---------------------------|----------------------------|
| Annuities payable | \$ 3,136,224 | \$ 93,507 | \$ 516,698 | \$ 2,713,033 | \$ 327,637 |
| Other accrued liabilities | 1,870,766 | - | 78,843 | 1,791,923 | - |
| Deposits held in custody for others | 2,775,321 | - | 225,664 | 2,549,657 | 78,219 |
| Total long-term liabilities | <u>\$ 7,782,311</u> | <u>\$ 93,507</u> | <u>\$ 821,205</u> | <u>\$ 7,054,613</u> | <u>\$ 405,856</u> |

NOTE 9 - Revenue bonds payable

Revenue bonds payable activity for the year ended June 30, 2016:

| <u>Series</u> | <u>Annual Maturity To</u> | <u>Beginning Balance</u> | <u>Accretion/ New Debt</u> | <u>Principal Paid/Debt Refunded</u> | <u>Ending Balance</u> | <u>Current Portion</u> |
|--------------------------|-----------------------------------|------------------------------|--------------------------------|---|---------------------------|----------------------------|
| 1993A | 2018 | \$ 10,934,717 | \$ 624,291 | \$ 4,050,000 | \$ 7,509,008 | \$ 4,050,000 |
| 1997A | 2018 | 7,587,611 | 397,550 | 2,970,000 | 5,015,161 | 2,690,000 |
| 1999A | 2029 | 43,756,935 | 2,447,540 | 545,000 | 45,659,475 | 815,000 |
| 2006A | 2021 | 47,550,000 | - | 31,015,000 | 16,535,000 | 2,100,000 |
| 2008A | 2028 | 23,900,000 | - | 1,390,000 | 22,510,000 | 1,540,000 |
| 2009A | 2030 | 43,250,000 | - | 2,245,000 | 41,005,000 | 2,310,000 |
| 2012A | 2030 | 25,635,000 | - | 1,135,000 | 24,500,000 | 1,830,000 |
| 2012B | 2035 | 42,155,000 | - | 1,605,000 | 40,550,000 | 1,660,000 |
| 2015A | 2030 | 8,205,000 | - | 445,000 | 7,760,000 | 455,000 |
| 2015A | 2035 | 13,440,000 | - | 1,445,000 | 11,995,000 | 1,550,000 |
| 2015B | 2035 | - | 20,735,000 | 355,000 | 20,380,000 | 595,000 |
| | | <u>\$ 266,414,263</u> | <u>\$ 24,204,381</u> | <u>\$ 47,200,000</u> | 243,418,644 | 19,595,000 |
| Unaccreted appreciation | | | | | | (324,506) |
| Unamortized debt premium | | | | | 9,794,897 | 738,809 |
| Total | | | | | <u>\$ 253,213,541</u> | <u>\$ 20,009,303</u> |

Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2016

NOTE 9 - Revenue bonds payable (continued)

University revenue bonds payable:

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

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

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

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

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

Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2016

NOTE 9 - Revenue bonds payable (continued)

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

| Year Ending | Principal | Interest | Treasury Rebate | Total |
|--------------------|----------------------|----------------------|------------------------|----------------------|
| 2017 | \$ 2,310,000 | \$ 2,371,327 | \$ (829,965) | \$ 3,851,362 |
| 2018 | 2,385,000 | 2,260,448 | (791,157) | 3,854,291 |
| 2019 | 2,460,000 | 2,141,197 | (749,419) | 3,851,778 |
| 2020 | 2,545,000 | 2,010,818 | (703,786) | 3,852,032 |
| 2021 | 2,635,000 | 1,877,205 | (657,022) | 3,855,183 |
| 2022-26 | 14,690,000 | 7,041,835 | (2,464,642) | 19,267,193 |
| 2027-30 | 13,980,000 | 2,209,680 | (773,388) | 15,416,292 |
| Total | \$ 41,005,000 | \$ 19,912,510 | \$ (6,969,379) | \$ 53,948,131 |

Note: The October 1, 2016 Treasury Rebate will be reduced by 6.8% in accordance with the requirements of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended. Reductions to future Treasury Rebates are subject to Congressional action.

The Housing and Auxiliary Facilities System Bonds, Series 2012A were authorized by the University's Board under the Fourteenth Supplemental Bond Resolution approved December 8, 2011. The bonds mature at varying amounts from 2013 to 2030 with interest ranging from 2.05 to 4.38 percent. Interest payments are due semi-annually. Debt service reserve funds of \$1,592,622 were released and used to refund a portion of Series 2001A debt service. The current refunding, which was undertaken by the Board to effect a cost savings, resulted in a net decrease in debt service payments of \$1,939,053 of which \$1,592,622 represents application of the debt service reserve released funds. The financing resulted in an economic gain of \$233,957 and an accounting loss of \$9,103.

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

Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2016

NOTE 9 - Revenue bonds payable (continued)

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

| Year | Principal | Interest | Treasury Rebate | Total |
|---------------|---------------------|---------------------|----------------------------|---------------------|
| Ending | | | | |
| 2017 | \$ - | \$ 236,060 | \$ (157,731) | \$ 78,329 |
| 2018 | - | 236,060 | (157,731) | 78,329 |
| 2019 | - | 236,060 | (157,731) | 78,329 |
| 2020 | - | 236,060 | (157,731) | 78,329 |
| 2021 | - | 236,060 | (157,731) | 78,329 |
| 2022-26 | - | 1,180,300 | (788,655) | 391,645 |
| 2027-31 | - | 1,180,300 | (788,655) | 391,645 |
| 2032-35 | 5,365,000 | 944,240 | (630,924) | 5,678,316 |
| Total | \$ 5,365,000 | \$ 4,485,140 | \$ (2,996,889) | \$ 6,853,251 |

Note: The October 1, 2016 Treasury Rebate will be reduced by 6.8% in accordance with the requirements of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended. Reductions to future Treasury Rebates are subject to Congressional action.

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

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

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

On October 26, 2015, Moody's Investor Services downgraded the University's rating to Baa1 from A3. The rating action affects the Housing and Auxiliary Facilities System Revenue Bonds and Certificates of Participation. On June 30, 2016, Moody's Investor Services downgraded the University's \$231 million of Housing and Auxiliary Facilities System Revenue Bonds to Baa2 from Baa1. The University met with Standard & Poor's on December 13, 2016 and the credit ratings agency plans to release a new ratings report the week of December 18th, 2016. Refer to the Standard & Poor's website for those results at www.standardandpoors.com.

Housing and Auxiliary Facilities System: These bonds, which are payable through 2036, do not constitute a debt of the State of Illinois or the individual members, officers or agents of the Board of Trustees of the University but, together with interest thereon, are payable from and secured by a pledge of and lien on (i) the net revenues of the System, (ii) pledged tuition in an amount not to exceed maximum annual debt service (subject to prior payment of operating and maintenance expenses of the System), (iii) the Bond and Interest Sinking Fund account, and (iv) the Repair and Replacement Reserve account. Unrefunded bonds issued in 2001 and prior are additionally secured by the Debt Service Reserve. Total principal

Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2016

NOTE 9 - Revenue bonds payable (continued)

and interest remaining on the debt is \$324,360,428 with annual requirements ranging from \$2,013,460 to \$28,477,085. For the current year, principal and interest paid was \$27,169,430, and the total revenues pledged were \$65,742,629. For fiscal year 2016, the total revenue pledged represents 100 percent of the net revenues of the System and 19 percent of net tuition revenue received. Although net tuition is pledged, it is not expected to be needed to meet debt service requirements.

The bond resolution requires that debt service coverage on a cash basis be at least 120 percent of the maximum annual debt service. For the year ended June 30, 2016, the maximum annual debt service was \$28,477,085, and the coverage was 231 percent. The bond resolution also requires the Treasurer to transfer annually to Renewals and Replacements from the funds remaining in unrestricted net position the sum of 10 percent of the maximum annual net debt service requirement or such portion thereof as is available for transfer. The net position of Renewals and Replacements was \$30,220,824 at June 30, 2016. All of the refunded bonds are considered to be defeased and, accordingly, have been accounted for as if they were retired. As of June 30, 2016, there were no outstanding balances of refunded bonds.

Medical Facilities System: These bonds, which are payable through 2023, do not constitute a debt of the State of Illinois or the individual members, officers or agents of the Board of Trustees of the University but, together with interest thereon, are payable from and secured by a pledge of and lien on (i) the net revenues of the System, (ii) pledged tuition (subject to the prior payment of necessary operating and maintenance expenses of the Housing and Auxiliary Facilities System, debt service of the Housing and Auxiliary Facilities System not to exceed the maximum annual debt service, and then necessary operating and maintenance expenses of the System), (iii) the Bond and Interest Sinking Fund account, and (iv) the Repair and Replacement Reserve account. Total principal and interest remaining on the debt is \$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. In the prior year, principal and interest paid was \$1,785,334, and the total revenues pledged were \$113,611,385. For fiscal year 2016, the total revenue pledged represents 100 percent of the net revenues of the System and 81 percent of net tuition revenue received. Although net tuition is pledged, it is not expected to be needed to meet debt service requirements.

The bond resolution requires that debt service coverage on the cash basis (net revenues plus pledged tuition) be at least 200 percent of annual debt service and that net revenues shall be at least 100 percent of the annual debt service requirement in each fiscal year. For the year ended June 30, 2016, the maximum annual debt service was \$1,895,773, and the coverage was 6,578 percent. The bond resolution also requires the Treasurer to credit funds remaining in the revenue fund into a separate and special account designated the Medical Facilities System Repair and Replacement Reserve account on or before the close of each fiscal year, the sum of not less than 10 percent of the maximum annual debt service, or such portion thereof as is available for transfer and deposit annually, for a repair and replacement reserve. The net position of Renewals and Replacements was \$1,262,960 at June 30, 2016.

**Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2016**

NOTE 9 - Revenue bonds payable (continued)

As of June 30, 2016, future debt service requirements for all bonds outstanding are:

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------------------------|-----------------------|----------------------|-----------------------|
| 2017 | \$ 19,595,000 | \$ 8,519,766 | \$ 28,114,766 |
| 2018 | 22,205,000 | 8,049,427 | 30,254,427 |
| 2019 | 19,075,000 | 7,456,755 | 26,531,755 |
| 2020 | 19,690,000 | 6,862,917 | 26,552,917 |
| 2021 | 20,150,000 | 6,243,823 | 26,393,823 |
| 2022-26 | 88,700,000 | 22,685,813 | 111,385,813 |
| 2027-31 | 63,580,000 | 8,911,665 | 72,491,665 |
| 2032-36 | <u>13,745,000</u> | <u>1,701,765</u> | <u>15,446,765</u> |
| Total payments | 266,740,000 | <u>\$ 70,431,931</u> | <u>\$ 337,171,931</u> |
| Unaccreted appreciation | <u>(23,321,356)</u> | | |
| Subtotal | 243,418,644 | | |
| Unamortized premiums on bonds | <u>9,794,897</u> | | |
| Total bonds payable | <u>\$ 253,213,541</u> | | |

NOTE 10 - Capitalized leases

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

UNIVERSITY:

Year Ending

| | |
|---|---------------------|
| 2017 | \$ 2,423,948 |
| 2018 | 1,820,690 |
| 2019 | 833,240 |
| 2020 | 23,700 |
| 2021 | <u>1,975</u> |
| Total minimum lease payments | 5,103,553 |
| Less amount representing interest | <u>(136,854)</u> |
| Present value of net minimum lease payments | <u>\$ 4,966,699</u> |

Assets held under capital lease are:

UNIVERSITY:

| | |
|-------------------------------|---------------------|
| Equipment | \$ 8,083,424 |
| Improvements | 288,082 |
| Less accumulated depreciation | <u>(3,767,023)</u> |
| Total net assets | <u>\$ 4,604,483</u> |

Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2016

NOTE 11 - Operating Leases

The University leases office and instructional space as well as equipment (principally office machines, automobiles, and farm equipment) under contracts which are renewable annually. The University also leases clinical space under contract of which some are renewable for multiple years with renewal options at the end of the initial lease period. Many of the University's leases are subject to escalation upon proper notice by the lessor. The clinical leases extending beyond 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 clinical leases as of June 30, 2016 with future payments beyond 2020. Rental payments on operating leases totaled \$17,686,264 in 2016.

NOTE 12 - Certificates of participation payable

Series 2014A: On February 13, 2014, the University issued Certificates of Participation (COPS) in the par amount of \$42,995,000. The COPS were issued at a premium of \$1,017,972. The certificates were issued to finance, in combination with University funds, multiple capital improvement projects on the Carbondale campus as well as to refund the outstanding balance of the Series 2004A COPS. The certificates bear interest at rates ranging from 2% to 5% payable semi-annually, and principal installments ranging from \$1,525,000 to \$2,855,000 are payable annually on February 15 beginning 2015 through the year 2034. The current refunding undertaken by the Board to effect a cost savings resulted in a net decrease in debt service payments of \$1,365,042. The financing resulted in an economic gain of \$1,173,843 and an accounting loss of \$330,440. On June 30, 2016, Moody's Investor Services downgraded the University's \$39 million Certificates of Participation rating to "Baa3" from "Baa1". The University met with Standard & Poor's on December 13, 2016 and the credit ratings agency plans to release a new ratings report the week of December 18th, 2016. Refer to the Standard & Poor's website for those results at www.standardandpoors.com.

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

UNIVERSITY:

| | <u>Certificates of Participation</u> | | |
|----------------------|---|------------------------|---------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
| 2017 | \$ 2,210,000 | \$ 1,592,540 | \$ 3,802,540 |
| 2018 | 2,285,000 | 1,515,090 | 3,800,090 |
| 2019 | 2,360,000 | 1,434,940 | 3,794,940 |
| 2020 | 2,450,000 | 1,352,090 | 3,802,090 |
| 2021 | 2,550,000 | 1,253,490 | 3,803,490 |
| 2022-26 | 11,360,000 | 4,813,563 | 16,173,563 |
| 2027-31 | 9,080,000 | 2,835,912 | 11,915,912 |
| 2032-36 | 6,525,000 | 621,768 | 7,146,768 |
| Total payments | 38,820,000 | \$ 15,419,393 | \$ 54,239,393 |
| Unamortized premiums | | | |
| on COPS | 896,981 | | |
| Total payable | \$ 39,716,981 | | |

Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2016

NOTE 13 - Accrued self-insurance

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

The general and professional liability self-insurance fund provides for comprehensive general and professional liability coverage. The University also purchases excess insurance coverage with commercial carriers for claims that may result in catastrophic losses. The University makes contributions to the general and professional liability self-insurance fund based on yearly actuarial analysis. The actuarial analysis for 2016 included a 1% discount rate for self-insurance liabilities.

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

As of June 30, 2016, the accrual for self-insurance was \$31,754,131 for the general and professional liability fund and \$50,000 for the Student Medical Insurance Plan, for a total accrued liability for self-insurance of \$31,804,131. Because the amounts accrued and funded are estimates, the aggregate actual claims covered by the self-insurance funds could differ from the amount that has been accrued. Changes in these estimates will be reflected in the Statement of Revenues, Expenses, and Changes in Net Position in the period in which additional information becomes available.

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

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

Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2016

NOTE 14 - Net Position

Net position balances by major categories at June 30, 2016:

| | |
|---|-----------------------|
| <u>UNIVERSITY:</u> | |
| Net investment in capital assets | \$ 562,870,520 |
| Restricted for: | |
| Nonexpendable | 5,055,450 |
| Expendable | |
| Quasi-endowment | 623,904 |
| Scholarships, research, instruction and other | (3,812,092) |
| Loans | 5,338,600 |
| Self insurance | 10,245,889 |
| Capital projects | 40,754,441 |
| Debt service | 14,567,593 |
| Unrestricted | <u>77,488,870</u> |
| Total | <u>\$ 713,133,175</u> |
| <u>UNIVERSITY RELATED ORGANIZATIONS:</u> | |
| Net investment in capital assets | \$ 5,943,555 |
| Restricted for: | |
| Nonexpendable | 108,581,330 |
| Expendable | |
| Scholarships, research, instruction and other | 68,534,361 |
| Loans | 2,697,573 |
| Capital projects | 3,134,041 |
| Unrestricted | <u>62,450,018</u> |
| Total | <u>\$ 251,340,878</u> |

NOTE 15 - Donor-restricted endowments

The University entered into an agreement with the Southern Illinois University Foundation at Carbondale on July 1, 2003, in which the University transferred Endowment funds to the Foundation. The Foundation has agreed to hold and administer these funds as agency funds based upon and consistent with the desires of the donor and/or the University. During fiscal year 2016, there were no additions to the University's permanent endowment. For fiscal year 2016, realized losses on investments totaled \$33,621 and unrealized losses on investments totaled \$180,605, resulting in a balance of \$2,464,453 held by the Foundation at June 30, 2016. The Foundation distributes earnings to the University on a quarterly basis. Payments during fiscal years 2016 totaled \$53,243.

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

Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2016

NOTE 16 - State Universities Retirement System

General Information about the Pension Plan

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

Benefits Provided: A traditional benefit plan was established in 1941. Public Act 90-0448 enacted effective January 1, 1998, established an alternative defined benefit program known as the portable benefit package. The traditional and portable plan Tier 1 refers to members that began participation prior to January 1, 2011. Public Act 96-0889 revised the traditional and portable benefit plans for members who begin participation on or after January 1, 2011, and who do not have other eligible Illinois reciprocal system services. The revised plan is referred to as Tier 2. New employees are allowed 6 months after their date of hire to make an irrevocable election. A summary of the benefit provisions as of June 30, 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 2016 was 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.

Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2016

NOTE 16 - State Universities Retirement System (continued)

Employer Proportionate Share of Net Pension Liability: The amount of the proportionate share of the net pension liability to be recognized for the University is \$0. The proportionate share of the State's net pension liability associated with the University is \$2,249,485,883 or 9.47%. This amount is not recognized in the financial statements. The net pension liability was measured as of June 30, 2015, and the total pension used to calculate the net pension liability 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 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 2015. As a result, the University recognized on-behalf revenue and pension expense of \$188,867,128 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 |

Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2016

NOTE 16 - State Universities Retirement System (continued)

Employer Deferral of Fiscal Year 2016 Pension Expense

The University 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.

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>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 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 | <u>1%</u> | <u>6.80%</u> |
| Total | 100% | 5.02% |
| Inflation | | <u>3.00%</u> |
| Expected Arithmetic Return | | 8.02% |

**Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2016**

NOTE 16 - State Universities Retirement System (continued)

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 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 |

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

NOTE 17 - Post-employment benefits

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

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

Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2016

NOTE 18 - University Related Organizations - transactions with related parties

The University has entered into master contracts with the University Related Organizations which specify the relationship between the University and its related organizations in accordance with the Legislative Audit Commission's University Guidelines of 1982 as amended in 1997. Significant transactions for the University during fiscal year 2016 included the receipt of \$42,023,745 from SIU Physicians & Surgeons, Inc. (SIU P&S) for services provided by the University. Also, SIU P&S contributions to the University for Academic Development for the School of Medicine during fiscal year 2016 totaled \$7,659,625.

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

NOTE 19 - Commitments and contingencies

Grants and contracts

The University receives monies from federal and state government agencies under grants and contracts for research and other activities, including medical service reimbursements and the administration of student financial aid. The costs, both direct and indirect, charged to these grants and contracts are subject to audit and disallowance by the granting agency. During fiscal year 2011, the U.S. Department of Education performed a program review at SIUE that will likely result in the return of Title IV funds by the University. The University recognized a \$1,476,000 liability in 2012; there exists an additional contingent liability of \$800,000. As of June 30, 2016, the status of these liabilities remained the same as the previous fiscal year.

The University administration believes that any other disallowances or adjustment resulting from this review and any other reviews would not have a material effect on the University's financial position.

Legal action

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

Forward contract

The University has forward fixed-price purchase contracts with MidAmerican Energy Company for the procurement of electricity that is used in the normal course of operations. The University does not employ futures contracts or other derivative products. At June 30, 2016, the University's annual commitment related to this contract is approximately \$9 million.

Construction projects

During fiscal year 2016, the University had ongoing general facility and infrastructure improvement projects taking place on both campuses. As of June 30, 2016, \$56,508,751 had been spent on these projects with \$34,164,225 being committed to the completion of these projects.

Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2016

NOTE 20 - Operating Expenses by Natural Classification

University operating expenses by natural classification for the year ended June 30, 2016 are summarized as follows:

| | Compensation and benefits | Supplies and Services | Student Aid | Depreciation | Total |
|-------------------------------------|------------------------------|--------------------------|-------------------|-------------------|----------------------|
| Instruction | 307,385,497 | 27,372,691 | 15,821,910 | - | 350,580,098 |
| Research | 31,994,348 | 14,586,604 | 2,386,804 | - | 48,967,756 |
| Public Service | 41,024,757 | 19,860,462 | 1,291,315 | - | 62,176,534 |
| Academic Support | 191,583,116 | 35,415,730 | 1,684,287 | - | 228,683,133 |
| Student Services | 51,907,250 | 27,539,703 | 5,557,834 | - | 85,004,787 |
| Institutional Support | 69,268,274 | 5,287,412 | 6,396,116 | - | 80,951,802 |
| Operations and maintenance of plant | 57,661,728 | 36,624,071 | - | - | 94,285,799 |
| Scholarships and fellowships | 547,341 | 160,303 | 42,510,663 | - | 43,218,307 |
| Auxiliary Enterprises | 59,219,293 | 57,206,401 | 587,634 | - | 117,013,328 |
| Other | - | 233,804 | - | - | 233,804 |
| Depreciation | - | - | - | 53,086,861 | 53,086,861 |
| Total | 810,591,604 | 224,287,181 | 76,236,563 | 53,086,861 | 1,164,202,209 |

NOTE 21 - Subsequent event

On June 30, 2016, the Illinois General Assembly passed Senate Bill 2047, stopgap appropriation II, and Southern Illinois University received \$106.2 million in funding. Stopgap II is a fiscal year 2017 appropriation that allows for the reimbursement of prior year costs. The University elected to apply the FY17 appropriation to fiscal year 2016 operating expenses and began receiving cash payments in July 2016. As of November 30, 2016, the State Comptroller had disbursed \$87.9 million of this appropriation to the University. This appropriation, however, will be recognized as revenue in Fiscal Year 2017 because the period to which the appropriation applied had not begun as of June 30, 2016, as noted in GASB Statement No. 33, Paragraph 74.

The Governor's Office of Management and Budget of the State of Illinois reported \$8.071 billion of outstanding bills at the end of June 2016, an increase of \$3.668 billion from the end of June 2015. As the State has not acted on any further appropriation bill to fully fund higher education, the University has developed a contingency plan to manage potential reductions of its Fiscal Year 2017 appropriations. On May 5, 2016, the University's Board of Trustees approved a Temporary Financial Arrangement for Fiscal Year 2017 authorizing expenditures consistent with expected levels of revenue for Fiscal Year 2017. The bonded debt will still be due even if appropriations are not received. The University continues to monitor cash flow and make investment decisions accordingly.

NOTE 22 - Segment information

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

The University has issued revenue bonds with the net revenues from the two segments pledged to pay the bond interest and principal. The Housing and Auxiliary Facilities System segment is comprised of University owned housing units, student centers, recreation and athletic facilities, and similar auxiliary enterprise units. The Medical Facilities System is comprised of clinical facilities used to provide patient care at the School of Medicine in Springfield. Additional information relating to these segments is included in Note 8, Revenue bonds payable.

Condensed financial statements for the University's two segments for fiscal year 2016 are presented on the following page.

Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2016

NOTE 22 - Segment information (continued)

| | <u>Housing and Auxiliary Facilities System</u> | <u>Medical Facilities System</u> |
|---|--|--------------------------------------|
| CONDENSED STATEMENTS OF NET POSITION | | |
| Assets and deferred outflows of resources: | | |
| Current assets | \$ 76,759,908 | \$ 7,447,493 |
| Capital assets, net | 273,281,948 | 29,386,750 |
| Other assets | 4,777,663 | - |
| Deferred outflows of resources | 2,558,024 | 329,280 |
| Total Assets and deferred outflows of resources | <u>357,377,543</u> | <u>37,163,523</u> |
| Liabilities: | | |
| Current liabilities | 26,472,605 | 2,550,891 |
| Noncurrent liabilities | 224,780,084 | 12,138,974 |
| Total Liabilities | <u>251,252,689</u> | <u>14,689,865</u> |
| Net Position | | |
| Net investment in capital assets | 34,723,546 | 17,721,030 |
| Restricted - expendable | 44,877,660 | 1,650,954 |
| Unrestricted | 26,523,648 | 3,101,674 |
| Total Net Position | <u>\$ 106,124,854</u> | <u>\$ 22,473,658</u> |
| CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION | | |
| Operating revenues | \$ 111,653,566 | \$ 40,601,133 |
| Operating expenses | (106,278,914) | (63,619,382) |
| Depreciation expense | (15,232,934) | (1,720,890) |
| Operating loss | (9,858,282) | (24,739,139) |
| Nonoperating revenues and expenses - net | 18,583,126 | 24,798,421 |
| Income before other revenues, expenses, gains or losses | 8,724,844 | 59,282 |
| Other revenues, expenses, gains or losses - net | 68,393 | (20,619) |
| Increase in net position | <u>8,793,237</u> | <u>38,663</u> |
| Net position at beginning of year | 97,331,617 | 22,434,995 |
| Net position at end of year | <u>\$ 106,124,854</u> | <u>\$ 22,473,658</u> |
| CONDENSED STATEMENTS OF CASH FLOWS | | |
| Cash provided by (used in): | | |
| Operating activities | \$ 29,129,824 | \$ 1,797,866 |
| Noncapital financing activities | 4,343,078 | 86,882 |
| Capital financing activities | (37,215,272) | (1,711,838) |
| Investing activities | 5,605,912 | 5,891 |
| Net increase (decrease) in cash | 1,863,542 | 178,801 |
| Cash, beginning of year | 57,834,359 | 3,694,053 |
| Cash, end of year | <u>\$ 59,697,901</u> | <u>\$ 3,872,854</u> |

Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2016

23. University Related Organizations

Condensed financial statements for the component units of the University as of June 30, 2016 are as follows:

| | SIUC FOUNDATION | SIUE FOUNDATION | SIUC PHYSICIANS & SURGEONS | SIUC ALUMNI | SIUE ALUMNI | SIUC RESEARCH PARK | SIUE UNIV. PARK | SIUE CHARTER | TOTAL |
|---|-----------------------|----------------------|----------------------------------|---------------------|-------------------|--------------------------|---------------------|-----------------|-----------------------|
| CONDENSED STATEMENTS OF NET POSITION | | | | | | | | | |
| JUNE 30, 2016 | | | | | | | | | |
| Assets: | | | | | | | | | |
| Current assets | \$ 37,466,369 | \$ 5,585,521 | \$ 42,727,273 | \$ 280,360 | \$ 33,399 | \$ 375,718 | \$ 503,095 | \$ 38,860 | \$ 87,010,595 |
| Other non-current assets | 126,309,809 | 28,968,375 | 12,592,107 | 7,470,997 | 154,399 | - | - | - | 175,495,687 |
| Capital assets | 1,159,764 | 1,853,922 | 952,852 | 104,992 | - | 61,685 | 1,810,340 | - | 5,943,555 |
| Total Assets | 164,935,942 | 36,407,818 | 56,272,232 | 7,856,349 | 187,798 | 437,403 | 2,313,435 | 38,860 | 268,449,837 |
| Liabilities: | | | | | | | | | |
| Current liabilities | 600,421 | 343,803 | 9,072,314 | 313,584 | 4,431 | 89,010 | - | 36,639 | 10,460,202 |
| Noncurrent liabilities | 4,479,031 | 377,803 | - | 1,791,923 | - | - | - | - | 6,648,757 |
| Total Liabilities | 5,079,452 | 721,606 | 9,072,314 | 2,105,507 | 4,431 | 89,010 | - | 36,639 | 17,108,959 |
| Net Position: | | | | | | | | | |
| Net investment in capital assets | 1,159,764 | 1,853,922 | 952,852 | 104,992 | - | 61,685 | 1,810,340 | - | 5,943,555 |
| Restricted - nonexpendable | 88,644,943 | 19,936,387 | - | - | - | - | - | - | 108,581,330 |
| Restricted - expendable | 61,787,217 | 12,578,758 | - | - | - | - | - | - | 74,365,975 |
| Unrestricted | 8,264,566 | 1,317,145 | 46,247,066 | 5,645,850 | 183,367 | 286,708 | 503,095 | 2,221 | 62,450,018 |
| Total Net Position | \$ 159,856,490 | \$ 35,686,212 | \$ 47,199,918 | \$ 5,750,842 | \$ 183,367 | \$ 348,393 | \$ 2,313,435 | \$ 2,221 | \$ 251,340,878 |

**CONDENSED STATEMENTS OF REVENUES,
EXPENSES AND CHANGES IN NET POSITION**
Year ended June 30, 2016

| | | | | | | | | | |
|--|-----------------------|----------------------|----------------------|---------------------|-------------------|-------------------|---------------------|-----------------|-----------------------|
| Operating revenues | \$ 6,067,220 | \$ 3,736,068 | \$ 109,969,694 | \$ 1,527,508 | \$ 355,037 | \$ 366,759 | \$ 153,483 | \$ 1,587,731 | \$ 123,763,500 |
| Operating expenses | 17,567,144 | 4,510,014 | 105,954,051 | 1,881,464 | 367,403 | 419,543 | 238,332 | 1,648,296 | 132,586,247 |
| Operating income (loss) | (11,499,924) | (773,946) | 4,015,643 | (353,956) | (12,366) | (52,784) | (84,849) | (60,565) | (8,822,747) |
| Nonoperating revenues and expenses - net | 1,130,434 | (203,155) | 740,813 | (154,866) | (2,369) | 649 | (552,079) | 62,786 | 1,022,213 |
| Income (Loss) before other revenues | (10,369,490) | (977,101) | 4,756,456 | (508,822) | (14,735) | (52,135) | (636,928) | 2,221 | (7,800,534) |
| Other revenues | 1,919,545 | 753,163 | - | - | - | - | - | - | 2,672,708 |
| Increase (decrease) in net position | (8,449,945) | (223,938) | 4,756,456 | (508,822) | (14,735) | (52,135) | (636,928) | 2,221 | (5,127,826) |
| Net position at beginning of year | 168,306,435 | 35,910,150 | 42,443,462 | 6,259,664 | 198,102 | 400,528 | 2,950,363 | - | 256,468,704 |
| Net position at end of year | \$ 159,856,490 | \$ 35,686,212 | \$ 47,199,918 | \$ 5,750,842 | \$ 183,367 | \$ 348,393 | \$ 2,313,435 | \$ 2,221 | \$ 251,340,878 |

CONDENSED STATEMENTS OF CASH FLOWS
Year ended June 30, 2016

| | | | | | | | | | |
|--|-------------------|---------------------|----------------------|-------------------|------------------|-------------------|-------------------|------------------|----------------------|
| Cash provided by (used in): | | | | | | | | | |
| Operating activities | \$ (10,988,423) | \$ (837,046) | \$ 9,501,905 | \$ (374,910) | \$ (11,040) | \$ 34,581 | \$ (148,917) | \$ (38,721) | \$ (2,862,571) |
| Noncapital financing activities | 7,019,926 | 692,150 | (2,500) | 35,886 | 30 | - | (599,386) | 72,229 | 7,218,335 |
| Capital financing activities | (527,663) | (4,900) | (103,478) | (1,589) | - | - | - | - | (637,630) |
| Investing activities | 4,287,455 | 3,801,385 | (828,226) | 429,999 | (5,247) | 649 | 4,104 | - | 7,690,119 |
| Net increase (decrease) in cash | (208,705) | 3,651,589 | 8,567,701 | 89,386 | (16,257) | 35,230 | (744,199) | 33,508 | 11,408,253 |
| Cash, beginning of year | 516,446 | 1,031,185 | 7,072,147 | 27,003 | 43,148 | 218,679 | 1,202,778 | - | 10,111,386 |
| Cash, end of year | \$ 307,741 | \$ 4,682,774 | \$ 15,639,848 | \$ 116,389 | \$ 26,891 | \$ 253,909 | \$ 458,579 | \$ 33,508 | \$ 21,519,639 |

**Southern Illinois University
Required Supplementary Information
For the Year Ended June 30, 2016**

**Schedule of Southern Illinois University's 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 Non-employer Contributing Entities' Total Proportion of Collective Net Pension Liability associated with Employer | 2,080,655,567 | 2,249,485,883 | |
| Total (b) + (c) | 2,080,655,567 | 2,249,485,883 | |
| Employer Covered-employee payroll | 349,400,692 | 347,637,400 | |
| Proportion of Collective Net Pension Liability associated With Employer as a percentage of covered-employee payroll | 595.49% | 647.58% | |
| SURS Plan Net Position as a Percentage of Total Pension Liability | 44.39% | 42.37% | |

Schedule of Contributions

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

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.