

STATE OF ILLINOIS

SOUTHERN ILLINOIS UNIVERSITY

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

For the Year Ended June 30, 2019

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

STATE OF ILLINOIS

SOUTHERN ILLINOIS UNIVERSITY

FINANCIAL AUDIT

For the Year Ended June 30, 2019

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, 2019

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Other Report Issued Under a Separate Cover

In accordance with *Government Auditing Standards*, we have issued the Report Required Under *Government Auditing Standards* for the year ended June 30, 2019, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters, under a separate cover. The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Agency's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of the audit.



SOUTHERN ILLINOIS UNIVERSITY

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

January 21, 2020

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, 2019.

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

The financial statements of the University have been audited by Plante & Moran, PLLC for fiscal year 2019. As Special Assistant Auditors for the Auditor General, they will be issuing a report covering their audits of the compliance of the University with applicable state and federal laws and regulations. This report will also contain supplementary financial information and special data requested by the Auditor General. This report will be available at the Office of the Auditor General, State of Illinois.

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

Respectfully submitted,

SIGNED COPY ON FILE

Duane Stucky
Board Treasurer

DS/sjp

Southern Illinois University
Board of Trustees and
Officers of Administration
Fiscal Year 2019

BOARD OF TRUSTEES OF SOUTHERN ILLINOIS UNIVERSITY

| | |
|--|--------------|
| Amy Sholar, member; Chair (7/01/18 to 02/14/19) | Alton |
| J. Phil Gilbert, Vice Chair (07/01/18 to 02/14/19), Chair (02/14/19 to 06/30/19) | Carbondale |
| Ed Hightower, member (3/22/19); Vice Chair (03/27/19 to 06/30/19) | Edwardsville |
| Joel Sambursky, Secretary (07/01/18 to 03/22/19) | Carbondale |
| Roger Tedrick, member (3/22/19); Secretary (03/27/19 to 06/30/19) | Mt. Vernon |
| Thomas Britton (7/01/18 to 3/22/19) | Makanda |
| Shirley Portwood, member; Vice Chair (02/14/19 to 03/22/19) | Godfrey |
| Marsha Ryan (07/01/18 to 03/22/19) | Carbondale |
| Randal Thomas (07/01/18 to 03/22/19) | Springfield |
| Edgar Curtis (03/22/19 to 06/30/19) | Springfield |
| Brione Lockett – Student Elected | Carbondale |
| Subhash Sharma (03/22/19 to 06/30/19) | Carbondale |
| John Simmons (03/22/19 to 06/30/19) | Alton |
| Molly Smith – Student Elected | Edwardsville |

OFFICERS OF SOUTHERN ILLINOIS UNIVERSITY

Randy J. Dunn, President (7/1/18 to 7/15/18)
J. Kevin Dorsey, Interim President (7/16/18 to 6/30/19)
Lucas Crater, General Counsel
W. Bradley Colwell, Vice President, Student and Academic Affairs (7/1/18 to 4/3/19)
James S. Allen, Acting Vice President, Student and Academic Affairs (4/15/19 to 6/30/19)
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

Carlo Montemagno, Chancellor (7/1/18 to 10/11/18)
John M. Dunn, Interim Chancellor (1/1/19 to 6/30/19)
Meera Komaraju, Provost and Vice Chancellor for Academic Affairs
Jerry Kruse, Dean and Provost, Chief Executive Officer, SIU School of Medicine
Judith M. Marshall, Vice Chancellor for Administration and Finance
James Garvey, Interim Vice Chancellor for Research
Lori Stettler, Vice Chancellor for Student Affairs
James Salmo, Vice Chancellor for Development and Alumni Relations (7/1/18 to 12/31/18)
Rae Goldsmith, Interim Vice Chancellor for Development and Alumni Relations (1/1/19 to 6/30/19)

OFFICERS OF ADMINISTRATION, SOUTHERN ILLINOIS UNIVERSITY EDWARDSVILLE

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

BOARD OFFICES

The Agency's primary administrative offices are located at:

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

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

**STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY
FINANCIAL AUDIT
For the Year Ended June 30, 2019**

FINANCIAL STATEMENT REPORT

Summary

The audit of the accompanying financial statements of Southern Illinois University was performed by Plante & Moran, PLLC.

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

Exit Conference

An exit conference was waived in correspondence from Kim Labonte, Executive Director of Internal Audit on January 21, 2020.

INDEPENDENT AUDITOR'S 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, 2019, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 to the financial statements. Those financial statements were audited by other auditors whose reports have been furnished to us and, in our opinion, insofar as it relates to the amounts included in the University Related Organizations, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

The financial statements of The Association of Alumni, Former Students and Friends of Southern Illinois University, Inc. (at Carbondale); The Alumni Association of Southern Illinois University Edwardsville; and Southern Illinois University Edwardsville Foundation, component units of the University, 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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

Opinions

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 and the aggregate discretely presented component units of the University as of June 30, 2019 and the respective changes in its financial position and cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 8-16, the Schedule of Southern Illinois University's Proportionate Share of the Net Pension Liability and the Southern Illinois University Schedule of Contributions on page 61, and the Schedule of Southern Illinois University's Proportionate Share of the Net OPEB liability on page 63 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements.

The Table of Operating Expenses for the year ended June 30, 2019 on page 65, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit and the procedures performed as described above, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Treasurer's Letter on page 1, the Board of Trustees and Officers of Administration on pages 2-3, and the Table of Operating Expenses for the year ended June 30, 2018 on page 66, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 21, 2020 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

SIGNED COPY ON FILE

Plante & Moran, PLLC

Portage, Michigan
January 21, 2020

Southern Illinois University

Management's Discussion and Analysis

For the Year Ended June 30, 2019

Introduction

The following unaudited 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, 2019 with selected comparative information for the year ended June 30, 2018. 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.

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. The financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles, which establish standards for external financial reporting for public colleges and universities and require that financial statements focus on the University as a whole.

Financial Highlights

Fiscal year 2019 is the first year since fiscal year 2015 that state appropriated funding was fully recorded in the University's financial system in the year in which it was received and spent. The fiscal year 2018 appropriated revenue included \$94.3 million of appropriations for fiscal year 2017, as required by governmental accounting standards. This fluctuation is apparent in the Statement of Revenues, Expenses and Changes in Net Position.

During the year ended June 30, 2019, the University's net position increased by \$28.7 million, to \$597.3 million. This is primarily due to an increase in the unrestricted net position of \$23.8 million. Unrestricted net position increased in the Income Fund by \$8.9 million along with increases in Self-Insurance and Unexpended Plant balances of \$6 million each.

Southern Illinois University
Management's Discussion and Analysis
For the Year Ended June 30, 2019

Statement of Net Position

The Statement of Net Position presents the financial position of the University at the end of the fiscal year and includes all assets and liabilities, both current and noncurrent, and all deferred outflows and inflows of resources, using the accrual basis of accounting. 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

The University's assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position at June 30, 2019, and 2018, are summarized as follows:

| | <u>June 30, 2019</u> | <u>June 30, 2018</u> |
|--|------------------------------|------------------------------|
| Assets and deferred outflows of resources: | | |
| Current assets | \$ 222,471,893 | \$ 251,241,895 |
| Capital assets, net | 804,284,375 | 816,609,429 |
| Other assets | 180,873,237 | 137,846,696 |
| Deferred outflows of resources | <u>8,313,025</u> | <u>8,830,040</u> |
| Total assets and deferred outflows of resources | 1,215,942,530 | 1,214,528,060 |
| Liabilities and deferred inflows of resources: | | |
| Current liabilities | 120,635,452 | 113,701,985 |
| Noncurrent liabilities | 424,642,417 | 478,907,819 |
| Deferred inflows of resources related to OPEB | <u>73,374,098</u> | <u>53,340,170</u> |
| Total liabilities and deferred inflows of resources | 618,651,967 | 645,949,974 |
| Net Position: | | |
| Net investment in capital assets | 572,474,407 | 567,631,964 |
| Restricted - nonexpendable | 5,649,088 | 5,328,339 |
| Restricted - expendable | 56,364,690 | 56,590,983 |
| Unrestricted (Deficit) | <u>(37,197,622)</u> | <u>(60,973,200)</u> |
| Total Net Position | <u>\$ 597,290,563</u> | <u>\$ 568,578,086</u> |

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.

As of June 30, 2019, the University had deferred inflows of resources related to postemployment benefits other than pensions totaling \$73 million. The Department of Central Management Services administers the benefits on behalf of the University. The State of Illinois is not required to fund the plan other than the pay-as-you-go amount necessary to provide the current benefits to retirees; therefore, the University has recorded a liability of \$137.6 million related to these benefits as of June 30, 2019. More detailed information is presented in Note 17 in the Notes to Financial Statements.

University assets and deferred outflows of resources totaled \$1.2 billion at June 30, 2019, and are essentially unchanged compared to the prior year. The largest asset of the University is its investment in land, buildings and equipment, which totaled \$804.3 million at June 30, 2019, and \$816.6 million at June 30, 2018. The decrease is due to increased accumulated depreciation of \$46 million offset by the additional capitalization of site improvements and buildings of \$11.5 million.

Southern Illinois University
Management's Discussion and Analysis
For the Year Ended June 30, 2019

Statement of Net Position (continued)

University liabilities and deferred inflows of resources at June 30, 2019, decreased \$27.2 million, compared to 2018. The liability for postemployment benefits other than pensions decreased \$37 million and the associated deferred inflow of resources increased \$20 million. Also contributing to the decrease was a reduction in the liabilities related to revenue bonds and certificates of participation totaling \$14.5 million.

The University's 2019 overall net position, the difference between total assets and deferred outflows of resources and total liabilities and deferred inflows of resources, increased \$28.7 million, or 5%, compared to fiscal year 2018. The increase was primarily the result of increases in Income Fund, Self-Insurance, and Unexpended Plant balances.

Capital Assets and Long-Term Debt

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. The following table illustrates the composition of the University's capital assets, net of accumulated depreciation, by category:

Capital Assets, Net of Accumulated Depreciation

| | 2019 | | 2018 | |
|---------------------------------|----------------|--------|----------------|-------|
| Land | \$ 22,194,897 | 2.8% | \$ 22,194,897 | 2.7% |
| Buildings | 621,683,404 | 77.3% | 647,951,407 | 79.4% |
| Improvements and infrastructure | 34,541,096 | 4.3% | 37,426,374 | 4.6% |
| Equipment | 26,925,814 | 3.3% | 30,504,716 | 3.7% |
| Collections | 12,444,555 | 1.5% | 12,404,140 | 1.5% |
| Intangible assets | - | 0.0% | 627,322 | 0.1% |
| Construction in progress | 86,494,609 | 10.8% | 65,500,573 | 8.0% |
| | \$ 804,284,375 | 100.0% | \$ 816,609,429 | 100% |

Construction in progress was the main contributor to an increase in the net investment in capital assets during fiscal year 2019. The increase in construction in progress is primarily driven by the remodeling of Founders Hall on the Edwardsville campus. At the end of fiscal years 2019 and 2018, respectively, the University had \$572,474,407 and \$567,631,964 invested in capital assets, net of accumulated depreciation and related debt. Depreciation expense for 2019 and 2018, respectively, was \$52,767,825 and \$53,196,616, with accumulated depreciation of \$1,132,843,270 and \$1,086,786,569.

Southern Illinois University
Management's Discussion and Analysis
For the Year Ended June 30, 2019

Capital Assets and Long-Term Debt (continued)

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 April 2019, the University issued Housing and Auxiliary Facilities System Series 2019A bonds with a par value of \$5,040,000 for parking lot construction on the Edwardsville campus. The following table details the bonded debt outstanding at June 30, 2019 and 2018:

| Revenue Bonds Payable | | |
|---|------------------------------|------------------------------|
| | <u>2019</u> | <u>2018</u> |
| Housing and Auxiliary Facilities System | \$ 197,665,004 | \$ 207,242,376 |
| Medical Facilities System | 6,290,000 | 8,840,000 |
| | <u><u>\$ 203,955,004</u></u> | <u><u>\$ 216,082,376</u></u> |

Certificates of participation (COPS) were last issued in fiscal year 2014 in the amount of \$43 million for capital improvement projects at Carbondale and to refund the outstanding 2004A COPS issuance. The balances of outstanding COPS at June 30, 2019 and 2018 were \$32,709,347 and \$35,120,225, respectively. 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.

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 nonoperating. 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.

Nonoperating 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 nonoperating 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.

Southern Illinois University
Management's Discussion and Analysis
For the Year Ended June 30, 2019

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

The following summarizes the University's financial activity for fiscal years 2019 and 2018:

| | <u>Year Ended June 30, 2019</u> | <u>Year Ended June 30, 2018</u> |
|---|-------------------------------------|-------------------------------------|
| Operating revenues: | | |
| Tuition and fees, net | \$ 225,568,023 | \$ 229,266,026 |
| Auxiliary enterprises | 88,411,227 | 96,691,267 |
| Grants and contracts | 81,479,148 | 85,440,599 |
| Other | 186,086,105 | 173,409,129 |
| Operating expenses | <u>(1,004,480,036)</u> | <u>(1,194,223,256)</u> |
| Operating loss | <u>(422,935,533)</u> | <u>(609,416,235)</u> |
| State appropriations | 185,781,000 | 276,429,700 |
| Special funding situation for fringe benefits | 114,719,061 | 320,775,248 |
| Benefit payments on behalf of the University | 70,964,190 | 58,242,353 |
| Other nonoperating revenues & expenses, net | <u>76,458,842</u> | <u>87,219,641</u> |
| Income (Loss) before other revenues | 24,987,560 | 133,250,707 |
| Other revenues | <u>3,724,917</u> | <u>6,443,270</u> |
| Increase (Decrease) in net position | 28,712,477 | 139,693,977 |
| Net position at beginning of year | 568,578,086 | 653,384,706 |
| Change in accounting principle | - | (224,500,597) |
| Net position at end of year | <u><u>\$ 597,290,563</u></u> | <u><u>\$ 568,578,086</u></u> |

Operating revenue experienced a net decrease of \$3.3 million, or 1%, in fiscal year 2019, compared to 2018. The decrease includes a drop in revenues from student tuition and fees of \$3.7 million and a reduction in total grant revenues of \$4 million. Funded debt enterprise revenues decreased \$8.3 million as a result of declining enrollment and decreased occupancy in university housing at the Carbondale campus. The decreases were offset by an increase in Physicians and Surgeons revenue of \$13.7 million.

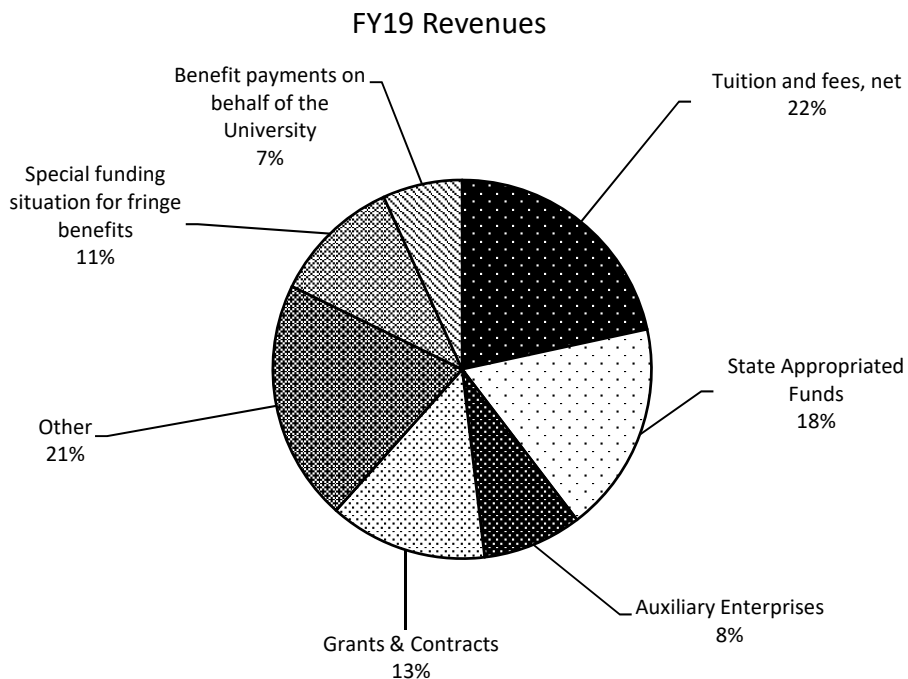
Fiscal year 2019 operating expenses decreased \$189.7 million, or 16% compared to 2018. The reduction was primarily the result of a decrease of \$193.3 million in pension and OPEB expenses incurred.

Net nonoperating revenues and expenses realized in 2019 decreased \$294.7 million, or 39.7% from fiscal year 2018. The prior year included about one-half of the fiscal year 2017 state appropriations, or \$94.3 million, due to accounting standards relating to the timing of the funding. Pension and OPEB revenue recognized decreased \$193.3 million compared to the prior year. Non-exchange grant revenues decreased \$25.7 million, primarily due to the timing of the Illinois Student Assistance Commission appropriations for Monetary Assistance Program (MAP) funding by the State of Illinois in the prior year.

**Southern Illinois University
Management's Discussion and Analysis
For the Year Ended June 30, 2019**

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

The following is a graphic illustration of fiscal year 2019 revenues by source (operating, nonoperating, 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 \$64,157,075. Student tuition, on-behalf payments, and state appropriations are typically the primary source of funding for the University's academic programs. Other operating revenues consist primarily of income from sales and services of educational activities and income from the Physicians and Surgeons practice plan.



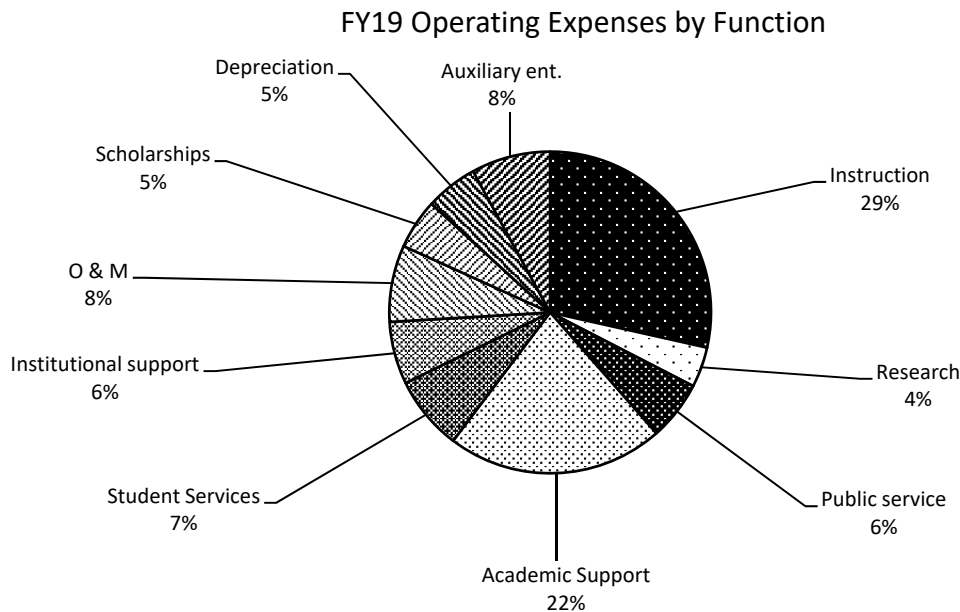
**Southern Illinois University
Management's Discussion and Analysis
For the Year Ended June 30, 2019**

Operating Expenses

A summary of the University's operating expenses by functional classification for the years ended June 30, 2019 and 2018 is as follows:

| | 2019 | | 2018 | |
|------------------------------------|-------------------------|-------------|-------------------------|---------------|
| Instruction | \$ 286,390,991 | 28.5% | \$ 360,037,082 | 30.1% |
| Research | 40,720,774 | 4.0% | 46,792,753 | 3.9% |
| Public service | 59,826,889 | 5.9% | 59,959,861 | 5.0% |
| Academic support | 218,823,789 | 21.8% | 255,616,539 | 21.5% |
| Student services | 75,008,574 | 7.5% | 88,409,546 | 7.4% |
| Institutional support | 63,153,757 | 6.3% | 85,973,713 | 7.2% |
| Operation and maintenance of plant | 77,440,171 | 7.7% | 90,593,871 | 7.6% |
| Scholarships and fellowships | 50,468,249 | 5.0% | 47,907,557 | 4.0% |
| Depreciation | 52,767,825 | 5.3% | 53,196,616 | 4.5% |
| Auxiliary enterprises | 79,879,017 | 8.0% | 105,541,945 | 8.8% |
| Other expenditures | - | 0.0% | 193,773 | 0.0% |
| | <u>\$ 1,004,480,036</u> | <u>100%</u> | <u>\$ 1,194,223,256</u> | <u>100.0%</u> |

Operating expenses include \$185,683,251 and \$379,017,601 for health care and retirement costs of University employees and retirees paid by the State of Illinois for fiscal years 2019 and 2018, respectively. The decrease is primarily due to changes in actuarial estimated costs of retirees' Other Post-Employment Benefits (OPEB). 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, 2019:



Southern Illinois University
Management's Discussion and Analysis
For the Year Ended June 30, 2019

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 2019 and 2018:

| | <u>Year Ended</u> <u>June 30, 2019</u> | <u>Year Ended</u> <u>June 30, 2018</u> |
|--|---|---|
| Cash provided by (used in): | | |
| Operating activities | \$ (197,605,413) | \$ (184,502,037) |
| Noncapital financing activities | 261,893,110 | 376,974,681 |
| Capital and related financing activities | (60,331,914) | (58,276,409) |
| Investing activities | <u>18,796,916</u> | <u>(110,990,552)</u> |
| Net increase in cash | 22,752,699 | 23,205,683 |
| Cash and cash equivalents, beginning of year | <u>91,075,865</u> | <u>67,870,182</u> |
| Cash and cash equivalents, end of year | <u>\$ 113,828,564</u> | <u>\$ 91,075,865</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 2019 and 2018, respectively, student tuition and fees generated \$243.7 million and \$244.2 million. Grants and contracts provided \$76.3 million and \$77.3 million. Sales and services of educational activities received \$134.5 million and \$118.7 million, auxiliary enterprises generated \$93.9 million and \$105.0 million, and other operating receipts totaled \$107.9 million and \$102.8 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 which totaled \$904.9 million in fiscal year 2019 compared to \$885.2 million in fiscal year 2018.

The major source of funds in noncapital financing activities is State appropriations which provided \$185.8 million in fiscal year 2019 compared to \$276.3 million in fiscal year 2018. The decrease in appropriations resulted from the receipt of about half of fiscal year 2017 funding during fiscal year 2018.

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 was slightly more in fiscal year 2019 compared to fiscal year 2018. In April 2019, the University issued Housing and Auxiliary Facilities System Series 2019A bonds with a par value of \$5,040,000 for parking lot construction on the Edwardsville campus. There were no bond issuances in fiscal year 2018.

Investing activities include the purchases, sales, and maturities of investments as well as investment income. Cash used by this activity decreased compared to fiscal year 2018 due to the resumption of a more stable, predictable pattern of state reimbursements for University operating expenses during fiscal year 2019.

Southern Illinois University
Management's Discussion and Analysis
For the Year Ended June 30, 2019

Economic Outlook

Southern Illinois University has historically received between 40% - 50% of its operating revenues from State funding sources including direct operating appropriations and payments on-behalf to fund University employees' benefits. In June 2019, the legislators and Governor approved an operating budget for fiscal year 2020. This budget provides \$194.9 million of funding to Southern Illinois University, a 5% increase from the prior year appropriation. In addition, the fiscal year 2020 capital appropriation bill included nearly \$188.4 million of new construction capital funding and \$92.3 million for miscellaneous capital improvements for Southern Illinois University.

Tuition for first time students was held level between Fall 2018 and Fall 2019. The consolidated general fees also remained unchanged at \$117 per credit hour at the Carbondale campus and \$100.30 per credit hour at the Edwardsville campus.

Enrollment at Southern Illinois University was down from 26,098 in the Fall of 2018 to 24,756 in the Fall of 2019. On September 12, 2019, the University's Board of Trustees approved the fiscal year 2020 operating budget. Revenues are projected to remain relatively flat as a 5% increase in state operating appropriations is budgeted to offset a 6% decrease in tuition and fee revenues. Southern Illinois University continues efforts to develop and expand its revenue base, implement cost saving measures, and enhance liquidity.

Southern Illinois University
Statement of Net Position
June 30, 2019

| | UNIVERSITY | RELATED ORGANIZATIONS |
|--|-----------------------|--------------------------|
| ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 66,117,698 | \$ 9,291,000 |
| Cash and cash equivalents, restricted | 47,710,866 | 7,070,915 |
| Short-term investments | 23,527,217 | 38,847,805 |
| Short-term investments, restricted | 28,557,618 | 6,085,656 |
| Deposits with University | - | 12,882,829 |
| Reimbursement due from State Treasurer | 1,612,444 | - |
| Accounts receivable, net | 39,534,147 | 18,609,069 |
| Notes receivable, net | 2,930,765 | - |
| Accrued interest receivable | 174,909 | 451,578 |
| Due from related organizations | 3,775,105 | 46,547 |
| Inventories | 7,725,176 | - |
| Prepaid expenses and other assets | 805,948 | 2,201,537 |
| Total Current Assets | 222,471,893 | 95,486,936 |
| Noncurrent Assets: | | |
| Long-term investments | 94,216,704 | 35,913,199 |
| Long-term investments, restricted | 70,367,569 | 183,330,762 |
| Notes receivable, net | 12,838,678 | 12,348 |
| Prepaid expenses and other assets | 3,450,286 | 6,153,522 |
| Capital assets, not depreciated | 121,134,061 | 352,551 |
| Capital assets, net of depreciation | 683,150,314 | 2,986,906 |
| Total Noncurrent Assets | 985,157,612 | 228,749,288 |
| Deferred outflows of resources | 8,313,025 | - |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | 1,215,942,530 | 324,236,224 |
| LIABILITIES AND DEFERRED INFLOWS OF RESOURCES | | |
| Current Liabilities: | | |
| Accounts payable | 26,041,821 | 2,365,469 |
| Accrued interest payable | 2,272,031 | - |
| Accrued payroll | 12,823,730 | 3,801,110 |
| Accrued compensated absences | 4,034,786 | - |
| Revenue bonds payable | 20,618,314 | - |
| Certificates of participation | 2,500,878 | - |
| Liabilities under capitalized leases | 190,614 | - |
| Annuities payable | - | 120,519 |
| Accrued liability for self-insurance | 7,390,811 | - |
| Liability for OPEB | 3,219,776 | - |
| Deposits held for University related organizations | 12,882,829 | - |
| Deposits held in custody for others | 943,292 | 18,220 |
| Unearned revenue | 27,584,737 | 155,790 |
| Housing deposits | 85,286 | - |
| Due to related organizations | 46,547 | 3,775,105 |
| Total Current Liabilities | 120,635,452 | 10,236,213 |
| Noncurrent Liabilities: | | |
| Accrued compensated absences | 36,684,684 | - |
| Revenue bonds payable | 183,336,690 | - |
| Certificates of participation | 30,208,469 | - |
| Liabilities under capitalized leases | 692,744 | - |
| Annuities payable | - | 1,046,903 |
| Accrued liability for self-insurance | 22,729,050 | - |
| Liability for OPEB | 134,380,253 | - |
| Federal loan program contributions refundable | 16,506,288 | - |
| Housing deposits | 104,239 | - |
| Other accrued liabilities | - | 1,716,465 |
| Deposits held in custody for others | - | 2,836,644 |
| Total Noncurrent Liabilities | 424,642,417 | 5,600,012 |
| Deferred inflows of resources related to OPEB | 73,374,098 | - |
| TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES | 618,651,967 | 15,836,225 |
| NET POSITION | | |
| Net investment in capital assets | 572,474,407 | 3,339,457 |
| Restricted for: | | |
| Nonexpendable | 5,649,088 | 134,510,533 |
| Expendable | | |
| Capital projects | 24,801,265 | 2,229,313 |
| Debt service | 12,236,828 | - |
| Housing Auxiliary System | 10,577,624 | - |
| Scholarships, research, instruction, and other | 8,748,973 | 95,704,572 |
| Unrestricted (Deficit) | (37,197,622) | 72,616,124 |
| TOTAL NET POSITION | \$ 597,290,563 | \$ 308,399,999 |

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, 2019

| | UNIVERSITY | RELATED ORGANIZATIONS |
|--|-----------------------|--------------------------|
| REVENUES | | |
| Operating Revenues: | | |
| Student tuition and fees (net of scholarship allowances of \$64,157,075) | \$ 225,568,023 | \$ - |
| Federal grants and contracts | 38,153,483 | - |
| State of Illinois grants and contracts | 15,992,197 | - |
| Other government grants and contracts | 5,788,212 | - |
| Private grants and contracts | 21,545,256 | - |
| Sales and services of educational departments | 135,872,755 | - |
| Physicians and Surgeons practice plan | 50,212,063 | - |
| Patient service revenue (net) | - | 104,841,805 |
| Auxiliary enterprises: | | |
| Funded debt enterprises (net of scholarship allowances of \$8,963,739) | 76,579,302 | - |
| Other auxiliary enterprises (net of scholarship allowances of \$1,215,785) | 11,831,925 | - |
| Other operating revenues | 1,287 | 27,689,998 |
| Total Operating Revenues | 581,544,503 | 132,531,803 |
| EXPENSES | | |
| Operating Expenses: | | |
| Instruction | 286,390,991 | - |
| Research | 40,720,774 | - |
| Public service | 59,826,889 | - |
| Academic support | 218,823,789 | - |
| Student services | 75,008,574 | - |
| Institutional support | 63,153,757 | 130,816,031 |
| Operation and maintenance of plant | 77,440,171 | - |
| Scholarships and fellowships | 50,468,249 | - |
| Depreciation | 52,767,825 | 704,548 |
| Auxiliary enterprises: | | |
| Funded debt enterprises | 66,304,791 | - |
| Other auxiliary enterprises | 13,574,226 | - |
| Total Operating Expenses | 1,004,480,036 | 131,520,579 |
| Operating Gain/(Loss) | (422,935,533) | 1,011,224 |
| NONOPERATING REVENUES (EXPENSES) | | |
| State appropriations | 185,781,000 | - |
| Gifts and contributions | 10,507,702 | 8,958,183 |
| Investment income | 13,148,076 | 8,823,068 |
| Grants and contracts | 59,531,188 | - |
| Interest on capital asset-related debt | (8,385,528) | - |
| Accretion on bonds payable | (2,646,437) | - |
| University related organizations | 1,025,840 | - |
| Special funding situation for fringe benefits | 114,719,061 | - |
| Benefit payments on behalf of the University | 70,964,190 | - |
| Other nonoperating revenues (expenses) | 3,278,001 | (3,710,010) |
| Net Nonoperating Revenues | 447,923,093 | 14,071,241 |
| Gain Before Other Revenues | 24,987,560 | 15,082,465 |
| Other Revenues: | | |
| Capital state appropriations | 2,482,933 | - |
| Additions to permanent endowments | 180,616 | 9,273,307 |
| Capital grants and gifts | 1,061,368 | - |
| Total Other Revenues | 3,724,917 | 9,273,307 |
| Increase in Net Position | 28,712,477 | 24,355,772 |
| NET POSITION | | |
| Net position at beginning of year | 568,578,086 | 284,044,227 |
| Net position at end of year | \$ 597,290,563 | \$ 308,399,999 |

The accompanying notes are an integral part of this statement.

Southern Illinois University
Statement of Cash Flows
For the Year Ended June 30, 2019

| | UNIVERSITY | RELATED ORGANIZATIONS |
|--|-----------------------|----------------------------------|
| Cash Flows from Operating Activities | | |
| Tuition and fees | \$ 243,719,707 | \$ - |
| Grants and contracts | 76,286,638 | - |
| Sales and services of educational activities | 134,505,444 | - |
| Physicians and Surgeons | 50,963,200 | - |
| Auxiliary enterprise revenues: | | |
| Funded debt | 81,699,285 | - |
| Other auxiliary | 12,198,569 | - |
| Payments for employee salaries and benefits | (533,498,697) | (33,013,827) |
| Payments to suppliers | (266,921,953) | (91,697,466) |
| Payments for scholarships and fellowships | (104,489,292) | - |
| Patient service revenue | - | 100,284,854 |
| Other operating receipts | 107,931,686 | 21,738,181 |
| Net cash used in operating activities | (197,605,413) | (2,688,258) |
| Cash Flows from Noncapital Financing Activities | | |
| State appropriations | 185,784,376 | - |
| Direct lending receipts | 173,298,481 | - |
| Direct lending payments | (173,401,986) | - |
| Grants and contracts | 59,531,189 | - |
| Loans issued to students | (7,016) | - |
| Interest earned on loans to students | 184,116 | - |
| Collection of loans from students | 2,277,079 | - |
| Government repayments for federal loan funds | 100,405 | - |
| Payments to annuitants | - | (145,516) |
| Other | 2,302,879 | (1,891,631) |
| Gifts for other than capital purposes | 11,823,587 | 16,010,132 |
| Net cash provided by noncapital financing activities | 261,893,110 | 13,972,985 |
| Cash Flows from Capital and Related Financing Activities | | |
| Capital appropriations | 200,404 | (45,335) |
| Purchases of capital assets | (36,983,870) | (220,057) |
| Proceeds from capital debt | 5,040,000 | - |
| Other | 1,799,873 | 1,345 |
| Principal paid on capital debt | (21,435,000) | - |
| Interest paid on capital debt | (8,953,321) | - |
| Net cash used in capital and related financing activities | (60,331,914) | (264,047) |
| Cash Flows from Investing Activities | | |
| Purchases of investments | (113,608,918) | (21,231,888) |
| Proceeds from sales of investments and maturities | 125,118,975 | 15,227,202 |
| Investment income | 7,286,859 | 6,401,221 |
| Net cash used in investing activities | 18,796,916 | 396,535 |
| Net increase (decrease) in cash | 22,752,699 | 11,417,215 |
| Cash and cash equivalents, beginning of the year | 91,075,865 | 4,944,700 |
| Cash and cash equivalents, end of the year | \$ 113,828,564 | \$ 16,361,915 |

The accompanying notes are an integral part of this statement.

Southern Illinois University
Statement of Cash Flows
For the Year Ended June 30, 2019

| | UNIVERSITY | RELATED ORGANIZATIONS |
|---|-------------------------|----------------------------------|
| Reconciliation of Operating Loss to Net Cash Used in Operating Activities | | |
| Operating Gain/(Loss) | \$ (422,935,533) | \$ 903,498 |
| Adjustments to reconcile operating loss to net cash used in operating activities: | | |
| Depreciation expense | 52,767,825 | 704,548 |
| Noncash grants to University | - | - |
| Noncash expenditures for the benefit of the University | - | (169,104) |
| Noncash contributions | - | (398,106) |
| Budget expended at University | (654,012) | - |
| Special funding situation for fringe benefits | 114,719,061 | - |
| Benefit payments on behalf of the University | 70,964,190 | - |
| Change in assets and liabilities: | | |
| Accounts receivable (net) | 1,248,703 | (2,498,677) |
| Reimbursement due from State Treasurer | (19,358) | - |
| Inventories | (145,946) | - |
| Prepaid expenses | (97,671) | 43,700 |
| Other assets | 215,446 | (15,536) |
| Accounts payable | (1,934,271) | 1,266,740 |
| Accrued payroll | 3,951,902 | - |
| Unearned revenue | 840,670 | (31,266) |
| Compensated absences | (56,594) | - |
| Deposits held for others | 52,369 | 3,446 |
| Other liabilities | (16,090,163) | (9,167) |
| Due to/from related organizations | (432,031) | (2,488,334) |
| Net cash used in operating activities | \$ (197,605,413) | \$ (2,688,258) |
| Noncash investing, capital and financing activities: | | |
| Special funding situation for fringe benefits | \$ 114,719,061 | \$ - |
| Benefit payments on behalf of the University | 70,964,190 | - |
| Accretion on bonds payable | 2,646,437 | - |
| Gifts in kind | 1,246,692 | - |
| Capital assets in accounts payable | 6,109,412 | - |
| Capital asset acquisition by CDB | 2,482,933 | - |
| Capital assets acquired by leaseholds payable | - | - |
| Loss on disposals of capital assets | 1,238,409 | - |
| Other capital asset adjustments | 1,064,101 | - |

The accompanying notes are an integral part of this statement.

Southern Illinois University

Notes to Financial Statements

For the Year Ended June 30, 2019

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) ("SIUC Foundation"), the Southern Illinois University at Edwardsville Foundation ("SIUE Foundation"), the Association of Alumni, Former Students and Friends of Southern Illinois University, Inc. ("SIUC Alumni"), the Alumni Association of Southern Illinois University at Edwardsville ("SIUE Alumni"); University Park, Southern Illinois University at Edwardsville, Inc. ("SIUE University Park"), Southern Illinois Research Park, Inc., Carbondale ("SIUC Research Park"). SIU Physicians & Surgeons, Inc. ("SIU Physicians & Surgeons"), and the SIUE East St. Louis Charter School ("SIUE 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.

SIUC and SIUE Foundations were formed for the purpose of providing fundraising and other assistance to the University to attract private gifts to support the University's education, research, and public service goals. In this capacity, they solicit, receive, hold, and administer gifts for the benefit of the University. Complete financial statements for SIUC and SIUE 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 SIUC and SIUE Alumni 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, they 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 SIUC and SIUE Alumni may be obtained by writing: The Association of Alumni, Former Students and Friends of Southern Illinois University, Inc., MC 6809, Woody Hall, Carbondale, IL 62901-6809 and The Alumni Association of Southern Illinois University at Edwardsville, Southern Illinois University, Edwardsville, IL 62026-1031.

SIUE University Park 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.

SIUC Research Park 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, 2019

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

Physicians & Surgeons, 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 to conduct 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.

SIUE 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 SIUE University Park, SIUC Research Park, SIU, Inc., Carbondale; SIU Physicians & Surgeons, and SIUE Charter School comply with the Governmental Accounting Standards Board (GASB) presentation format as described above.

The SIUC and SIUE Foundations and SIUC and SIUE Alumni are private nonprofit organizations that follow Financial Accounting Standards Board (FASB) standards for financial statement presentation. As such, certain revenue recognition criteria and other accounting rules are different from the revenue recognition criteria and accounting rules promulgated by the Governmental Accounting Standards Board (GASB) that the University follows. 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, 2019

NOTE 2 - Significant accounting policies (continued)

Cash and cash equivalents

Cash deposits and cash equivalents of the University include bank accounts, money market funds and investments with original maturities of ninety days or less at the time of purchase. The University classifies its investment in The Illinois Funds as a deposit for financial statement purposes. The University has recorded restricted cash and cash equivalents which relate to funds restricted for segment reporting operations, self-insurance, and other restricted purposes.

Allowance for uncollectibles

The University provides allowances for uncollectible accounts and notes receivable based upon management's best estimate of uncollectible accounts and notes at the statement of net position date, considering type, age, collection history of receivables, and any other factors as considered appropriate. The University's accounts receivable and notes receivable are reported net of allowances of \$23,622,916 and \$358,149, respectively, at June 30, 2019.

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.

Deferred outflows of resources and deferred inflows of resources

In addition to assets and liabilities, the Statement of Net Position reports separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an expense until that time. The University's deferred outflows of resources are related to unamortized debt refundings, other post-employment benefit contributions, and retirement contributions. Deferred inflows of resources represent an acquisition of net position that applies to future periods and will not be recognized as revenue until that time. The University's only deferred inflow of resources is related to other post-employment benefits. See Note 6 for more information related to deferred outflows of resources.

Southern Illinois University

Notes to Financial Statements

For the Year Ended June 30, 2019

NOTE 2 - Significant accounting policies (continued)

Pensions

For purposes of measuring the net pension liability, deferred outflows and 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 have been determined on the same basis as they are reported by SURS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

For financial reporting purposes, the State of Illinois and its public universities and community colleges are under a special funding situation. A special funding situation exists when a non-employer entity (the State) is legally responsible for making contributions directly to a pension plan that is used to provide pensions to the employees of another entity (the University) and the non-employer (the State) is the only entity with a legal obligation to make contributions directly to a pension plan. The University recognizes its proportionate share of the State's pension expense relative to the University's employees as non-operating revenue and pension expense, with the expense further allocated to the related function performed by the employees.

Other post-employment benefits (OPEB)

The State Employees Group Insurance Act of 1971 (SEGIA) (5 ILCS 375), as amended, authorizes the State Employees Group Insurance Program (SEGIP), which includes activity for both active employees and retirees, to provide health, dental, vision and life insurance benefits as a single-employer defined benefit OPEB plan not administered as a trust. Substantially all State and university component unit employees become eligible for these OPEB plan benefits when they become annuitants of one of the State sponsored pension plans. CMS administers these benefits for the annuitants with the assistance of the public retirement systems sponsored by the State, including the General Assembly Retirement System (GARS), Judges Retirement System (JRS), State Employees Retirement System (SERS), Teachers' Retirement System (TRS), and SURS.

In order to fund SEGIP's pay-as-you-go obligations for both current employees and retirees, SEGIA (5 ILCS 375/11) requires contributions based upon total employee compensation paid from any State fund or university component unit, except the university component units shall not be required to make contributions for employees who are totally compensated from each individual university's Income Fund and auxiliary enterprises. Pursuant to a long-standing State policy, the State's General Fund covers the contributions for employees who are totally compensated from each individual university's Income Fund and auxiliary enterprises. This relationship may be modified through the enactment of a Public Act by the State's highest level of decision-making authority exercised by the Governor and the General Assembly pursuant to the State's Constitution.

Given the preceding environment, the University has two separate components of OPEB administered within SEGIP. The (1) State of Illinois and its public universities are under a special funding situation for employees paid from the University's Income Fund or auxiliary enterprises, while (2) the University is responsible for OPEB employer contributions for employees paid from trust, federal, and other funds.

Special Funding Situation Portion of OPEB

A special funding situation exists when a non-employer entity (the State) is legally responsible for making contributions directly to an OPEB plan that is used to provide OPEB to the employees of another entity (the University) and the non-employer (the State) is the only entity with a legal obligation to make contributions directly to an OPEB plan.

Southern Illinois University

Notes to Financial Statements

For the Year Ended June 30, 2019

NOTE 2 - Significant accounting policies (continued)

During the OPEB measurement period ended June 30, 2018, the University made a voluntary appropriation repayment from either its State appropriation or locally-held resources that was not considered a contribution of \$3,180,662 to help offset the amount the State needed to provide for retirees under the special funding situation described in the preceding paragraph.

The University recognizes the proportionate share of the State's OPEB expense relative to the University's employees as non-operating revenue and OPEB expense, with the expense further allocated to the related function performed by the employees.

University's Portion of OPEB

The University reports a liability, expense allocated to the related function performed by the employees, and related deferred inflows and outflows of resources for OPEB based on the University's proportionate share of amounts paid to SEGIP pursuant to SEGIA for its employees paid from trust, federal, and other funds compared to the collective amounts paid to SEGIP pursuant to SEGIA. The collective amounts paid to SEGIP pursuant to SEGIA includes (1) payments from State agencies for State employees, (2) the amount calculated by CMS to represent the amount paid by the General Fund related to the special funding situation, (3) the total voluntary appropriation repayment from all of the universities, and (4) the total of all payments from the universities for employees paid from trust, federal, and other funds. This methodology has been determined by the State to be the best estimate of how future OPEB payments will be determined.

Deferred inflows and outflows of resources are recognized in OPEB expense at the beginning of the current period, using a systematic and rational method over a closed period, equal to the average expected remaining service lives of all employees, either active or inactive, provided with OPEB through SEGIP, determined as of the beginning of the measurement period.

On-Behalf Transactions

The University had outside sources of financial assistance provided by the State of Illinois during the year ended June 30, 2019.

Substantially all active employees participate in group insurance plans provided by the State and administered by CMS, primarily providing healthcare benefits. In order to fund SEGIP's pay-as-you-go obligations for both current employees and retirees, SEGIA (5 ILCS 375/11) requires contributions based upon total employee compensation paid from any State fund or university component unit, except the university component units shall not be required to make contributions for employees who are totally compensated from each individual university's Income Fund and auxiliary enterprises. Pursuant to a long-standing State policy, the State's General Fund covers the contributions for employees who are totally compensated from each individual university's Income Fund and auxiliary enterprises. This relationship may be modified through the enactment of a Public Act by the State's highest level of decision-making authority exercised by the Governor and the General Assembly pursuant to the State's Constitution.

During the year ended June 30, 2019, total estimated group insurance contributions for the University's employees paid from the University's Income Fund and auxiliary enterprises were \$75,459,000. The University made a voluntary appropriation repayment from either its State appropriation or locally-held resources that was not considered a contribution of \$4,494,810 to help offset the amount the State needed to provide for current employees under the situation described in the preceding paragraph. As such, the State contributed the estimated remaining balance of \$70,964,190 on-behalf of the University to meet this obligation for current employees.

Southern Illinois University

Notes to Financial Statements

For the Year Ended June 30, 2019

NOTE 2 - Significant accounting policies (continued)

As the University is not legally responsible to pay for the on-behalf support provided by the State, the University recognizes non-operating revenues and operating expenses allocated to the related function performed by the employees within the University's financial statements for its current employees' participation in group insurance.

Classification of revenues and expenses

The University has classified its revenues and expenses as either operating or nonoperating 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.

Nonoperating: Nonoperating 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 nonoperating 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 nonoperating revenues in the year appropriated to the extent expended. Other nonoperating 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. Student tuition and fee revenue, and certain other payments recorded as auxiliary enterprises revenue, are net of scholarship discounts and allowances in the Statement of Revenue, Expenses, and Changes in Net Position. Scholarship discounts and allowances are the difference between the charge for tuition and fees, and the amount paid by students or by third parties on the students' behalf. Scholarship discounts and allowances were \$74,336,599 as of June 30, 2019 with \$64,157,075 netted against student tuition and fees and \$10,179,524 netted against auxiliary enterprise revenue.

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, 2019, the University estimates \$25,221,718 will be paid from state appropriated accounts funded by the State of Illinois and the Income Fund, and \$15,497,752 from local funds in subsequent years for a combined total of \$40,719,470.

Southern Illinois University

Notes to Financial Statements

For the Year Ended June 30, 2019

NOTE 2 - Significant accounting policies (continued)

Classification of Net Position

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

The June 30, 2019 expendable restricted balances are primarily restricted for capital projects, debt service, and the Housing Auxiliary System. There are also other restrictions for scholarships, research, instruction, student loans, and other purposes. The final category is unrestricted net position, which represents balances from operational activities that have not been restricted by parties external to the University and are available for use by the University. The University first applies restricted net position when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

New Governmental Accounting Standards

The Governmental Accounting Standards Board (GASB) has issued the following statements which are effective for periods beginning July 1, 2018, or later which may impact the University:

Statement No. 83 – *Certain Asset Retirement Obligations*, addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. Governments with legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on guidance from the statement. The statement was effective for fiscal years beginning after June 15, 2018. The statement did not impact the University's financial statements.

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

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

Statement No. 88 – *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. The statement also requires additional essential information related to debt be disclosed in notes to financial statements. The statement was effective for fiscal years beginning after June 15, 2018. In accordance with the statement, required information related to direct borrowings and direct placements has been included in the University's financial statement note disclosures related to debt (Note 9 Revenue bonds payable).

Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2019

NOTE 2 - Significant accounting policies (continued)

Statement No. 89 – *Accounting for Interest Cost Incurred before the End of a Construction Period*, establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The statement is effective for fiscal years beginning after December 15, 2019. The University early adopted the statement. In accordance with this statement, the University did not capitalize construction interest costs in its 2019 financial statements. This statement was implemented prospectively according to GASB. Therefore, no prior year restatement was necessary.

Statement No. 90 – *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61*, establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit. The statement is effective for fiscal years beginning after December 15, 2018. The impact on the University is being reviewed.

Statement No. 91 – *Conduit Debt Obligations*, provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with commitments extended by issuers, arrangements associated with conduit debt obligations, and related note disclosures. The statement is effective for fiscal years beginning after December 15, 2020. The impact on the University is being reviewed.

NOTE 3 - Cash, deposits and cash equivalents

At June 30, 2019, the actual bank balances related to the deposits of the University amounted to \$122,650,999; of this balance, \$108,135,018 was either covered by federal depository insurance or not required to be collateralized and \$14,515,981 was covered by collateral held by an agent in the University’s name.

Cash, deposits and cash equivalents at June 30, 2019 were:

| | |
|---|------------------------------|
| <u>UNIVERSITY:</u> | |
| Cash and cash equivalents | \$ 27,230,902 |
| The Illinois Funds | <u>86,597,662</u> |
| Total cash and cash equivalents | <u><u>\$ 113,828,564</u></u> |
| <u>UNIVERSITY RELATED ORGANIZATIONS:</u> | |
| Total cash and cash equivalents | <u><u>\$ 16,361,915</u></u> |

Southern Illinois University

Notes to Financial Statements

For the Year Ended June 30, 2019

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 obligations of U.S. corporations rated in the three highest rating classifications by at least two standard rating services provided such obligations do not mature in longer than 3 years from the time of purchase and the issuing entity has at least \$500 million in assets (limited to one-third of total funds); 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 University has recorded restricted investments which relate to pooled investments related to segment reporting and retirement of indebtedness.

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

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 amortized cost, which is the same value as the pool shares. State statutes require the Illinois Funds to comply with the *Illinois Public Funds Investment Act* (30 ILCS 235). The Illinois Funds is not registered with the Securities Exchange Commission as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, *Accounting and Financial Reporting for Certain External Investment Pools and Pool Participants*, which establishes accounting and financial reporting standards for qualifying external investment pools that elect to measure for financial reporting purposes all of their investments at amortized cost. For the year ended June 30, 2019, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemptions gates. Also, certain money market investments and non-negotiable certificates of deposit with redemption terms that do not consider market rates are carried at amortized cost.

The calculation of realized gains is independent of the calculation of the net increase in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year. The University has pooled its operating cash for investment purposes to provide for efficiencies and economies in their management. Proceeds related to revenue bond and certificate of participation financing activities are pooled to the extent allowed under their covenants.

Southern Illinois University

Notes to Financial Statements

For the Year Ended June 30, 2019

NOTE 4 – Investments (continued)

Restricted funds that are invested in the pool are presented as restricted cash or investments based on the ratio of cash and investments held in the pool. Investment income earned on the operating cash and investments, including realized gains and losses resulting from the sale or other disposition of investments, is distributed on a quarterly basis to the pooled participants based upon their respective aggregate balances over the prior three-month period. PFM Asset Management, LLC manages the external portfolios, while U.S. Bank keeps custody of these funds and assists in the accounting and reporting functions related to these investments.

Investment income net of realized and unrealized gains and losses on investments for the year ended June 30, 2019 is reflected below:

| <u>UNIVERSITY:</u> | |
|--------------------------------|----------------------|
| Interest earnings | \$ 7,612,632 |
| Realized loss on investments | (279,223) |
| Unrealized gain on investments | <u>5,814,667</u> |
| Net investment income | <u>\$ 13,148,076</u> |

| <u>UNIVERSITY RELATED ORGANIZATIONS:</u> | |
|---|---------------------|
| Interest earnings | \$ 6,185,912 |
| Realized loss on investments | (2,020,174) |
| Unrealized gain on investments | <u>4,657,330</u> |
| Net investment income | <u>\$ 8,823,068</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 3 years 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 include the Government National Mortgage Association, the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association 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.

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.

Southern Illinois University

Notes to Financial Statements

For the Year Ended June 30, 2019

NOTE 4 – Investments (continued)

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. 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 recorded at net asset value, as a practical expedient, to determine fair value of the investments. 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 account are allocated monthly to the individual endowments based on the relationship of the fair value of the interest of each endowment to the total fair value of the pooled investments accounts, as adjusted for additions to or deductions from those accounts.

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

The Foundation measures fair value using a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability. Inputs may be observable or unobservable and refer broadly to the assumptions that market participants would use in pricing the asset or liability. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. 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.

Southern Illinois University at Edwardsville Foundation

The long-term objective of the Foundation is to earn a return sufficient to preserve the purchasing power of the Foundation for generations to come, as well as to provide for current needs. As a result, the long-term return objective is the sum of distributions, inflation, administrative costs, and net of management fees. The Foundation portfolio has adopted a "total return" investment approach; current income is considered a secondary consideration. The investment objectives are based upon a long-term investment horizon allowing interim fluctuations to be viewed in an appropriate perspective. Over time, the Foundation will aim to achieve the total fund return goal while maintaining acceptable risk levels. To accomplish this goal, the fund will diversify its assets

Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2019

NOTE 4 – Investments (continued)

among several asset classes. Active managers are expected to provide returns greater than or equal to their appropriate benchmark while utilizing acceptable risk levels. Funds are invested in accordance with the approved Board policy for investments. The Foundation’s investment policy authorizes the Foundation to invest in US and international equities, fixed income, absolute return and real assets.

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 21 and 22.

Investment maturities

Interest rate risk is disclosed below using the segmented time distribution method. As of June 30, 2019, the University and the University Related Organizations 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 | \$ 75,082,858 | \$ 19,976,404 | \$ 35,019,049 | \$ 20,087,405 | \$ - | |
| U.S. Agencies | 96,076,084 | 12,178 | 66,565,197 | 29,498,709 | - | |
| The Illinois Funds | 86,597,662 | 86,597,662 | - | - | - | |
| Commercial Paper | 32,096,253 | 32,096,253 | - | - | - | |
| Corporate Debt | 13,369,613 | - | 13,369,613 | - | - | |
| Common Stock | 44,300 | - | - | - | 44,300 | |
| Subtotal | 303,266,770 | \$ 138,682,497 | \$ 114,953,859 | \$ 49,586,114 | \$ 44,300 | |
| Less: Investment in The Illinois Funds reported as cash | (86,597,662) | | | | | |
| Total Investments | \$ 216,669,108 | | | | | |

UNIVERSITY RELATED ORGANIZATIONS:

| Investment Type: | Fair Value | Investment Maturities (in Years) | | | | | No Maturity |
|-------------------------------|-----------------------|---|----------------------|----------------------|---------------------|----------------------|--------------------|
| | | Less Than 1 | 1-5 | 6-10 | Over 10 | | |
| Municipal Bonds | \$ 13,371,813 | \$ 1,028,347 | \$ 8,441,753 | \$ 3,901,713 | \$ - | \$ - | |
| Government Bonds | 403,949 | - | - | - | 403,949 | - | |
| Common Stock | 2,422,305 | - | - | - | - | 2,422,305 | |
| Corporate Bonds | 9,169,267 | 253,657 | 7,847,633 | 1,067,977 | - | - | |
| Commodities/Natural Resources | 8,867,309 | 6,063,079 | 2,804,230 | - | - | - | |
| Alternative Investments | 36,826,880 | 28,560,083 | 8,266,797 | - | - | - | |
| Real Estate | 8,690,128 | 4,585,040 | 4,105,088 | - | - | - | |
| Money Market Funds | 2,117,738 | 2,117,738 | - | - | - | - | |
| Mutual Funds | 182,308,033 | 142,607,356 | 4,553,785 | 9,763,151 | 4,239,058 | 21,144,683 | |
| Total Investments | \$ 264,177,422 | \$ 185,215,300 | \$ 36,019,286 | \$ 14,732,841 | \$ 4,643,007 | \$ 23,566,988 | |

Southern Illinois University

Notes to Financial Statements

For the Year Ended June 30, 2019

NOTE 4 – Investments (continued)

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: Inputs other than quoted prices that are observable, either directly or indirectly. These may include quoted prices for similar assets and liabilities in active markets, and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3: Unobservable inputs for an asset or liability.

The University uses Level 2 inputs to measure the fair value of all investments held except for common stock which is Level 1. The fair values are provided by both the University's external investment managers as well as the custodian bank.

The University's Foundations also hold "alternative investments" that are valued using the net asset value (NAV) per share (or its equivalent) and, unlike more traditional investments, these do not have readily obtainable market values.

The University Related Organizations had the following recurring fair value measurements as of June 30, 2019:

| Investments: | Fair Value | Level 1 | Level 2 | Level 3 | Net Asset Value |
|-------------------------------|-----------------------|-----------------------|----------------------|----------------|------------------------|
| Municipal Bonds | \$ 13,371,813 | \$ - | \$ 13,371,813 | \$ - | \$ - |
| Government Bonds | 403,949 | - | 403,949 | - | - |
| Common Stock | 2,422,305 | 2,422,305 | - | - | - |
| Corporate Bonds | 9,169,267 | - | 9,169,267 | - | - |
| Commodities/Natural Resources | 8,867,309 | 2,192,608 | - | - | 6,674,701 |
| Alternative Investments | 36,826,880 | 1,952,700 | - | - | 34,874,180 |
| Real Estate | 8,690,128 | 2,430,140 | - | - | 6,259,988 |
| Money Market Funds | 2,117,738 | 2,117,738 | - | - | - |
| Mutual Funds | 182,308,033 | 167,197,576 | - | - | 15,110,457 |
| Total Investments | \$ 264,177,422 | \$ 178,313,067 | \$ 22,945,029 | \$ - | \$62,919,326 |

Southern Illinois University

Notes to Financial Statements

For the Year Ended June 30, 2019

NOTE 5 - Accounts and notes receivable

Accounts and notes receivable consisted of the following at June 30, 2019:

UNIVERSITY:

| | Accounts Receivable | Notes Receivable |
|---------------------------------------|--------------------------------|-----------------------------|
| Student tuition and fees | \$ 11,892,463 | \$ - |
| Auxiliary enterprises | 13,383,838 | - |
| Grants and contracts | 12,472,566 | - |
| General operating | 23,367,609 | 40,000 |
| Student loans* | 29,954 | 16,087,592 |
| Other accounts receivable | 2,010,633 | - |
| | 63,157,063 | 16,127,592 |
| Less: Allowance for doubtful accounts | (23,622,916) | (358,149) |
| Net receivable | \$ 39,534,147 | \$ 15,769,443 |

*The student loan balance includes \$14,286,230 of Perkins Loans. Effective September 30, 2017, the federal government discontinued the Perkins Loan Program.

UNIVERSITY RELATED ORGANIZATIONS:

| | Accounts Receivable | Notes Receivable |
|---|--------------------------------|-----------------------------|
| Accounts receivable | \$ 48,913,521 | \$ - |
| Student loans | - | 12,348 |
| | 48,913,521 | 12,348 |
| Less: Allowances for assignment losses & doubtful accounts | (30,304,452) | - |
| Net receivable | \$ 18,609,069 | \$ 12,348 |

NOTE 6 - Deferred outflows of resources

Deferred outflows of resources consisted of the following at June 30, 2019:

UNIVERSITY:

| | |
|--------------------------------------|--------------|
| Unamortized debt refundings | \$ 2,341,921 |
| Employer OPEB contributions | 3,255,019 |
| Employer pension contributions | 2,716,085 |
| Total deferred outflows of resources | \$ 8,313,025 |

Southern Illinois University

Notes to Financial Statements

For the Year Ended June 30, 2019

NOTE 7 - Capital assets

Capital asset activity for the University for the fiscal year ended June 30, 2019 was as follows:

UNIVERSITY:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Deletions</u> | <u>Transfers</u> | <u>Ending Balance</u> |
|---|------------------------------|------------------------|---------------------|---------------------|---------------------------|
| Capital assets not being depreciated: | | | | | |
| Land | \$ 22,194,897 | \$ - | \$ - | \$ - | \$ 22,194,897 |
| Nondepreciable historical treasures and works of art | 12,404,140 | 40,415 | - | - | 12,444,555 |
| Construction in progress | 65,500,573 | 28,769,133 | 135,623 | (7,639,474) | 86,494,609 |
| Total capital assets not being depreciated | 100,099,610 | 28,809,548 | 135,623 | (7,639,474) | 121,134,061 |
| Capital assets being depreciated: | | | | | |
| Site improvements | 85,534,810 | 286,713 | - | 1,507,664 | 87,329,187 |
| Buildings | 1,311,147,736 | 1,908,010 | 6,253 | 7,761,547 | 1,320,811,040 |
| Equipment | 377,550,776 | 9,047,173 | 7,807,658 | - | 378,790,291 |
| Intangible assets | 7,340,787 | - | - | - | 7,340,787 |
| Infrastructure | 21,722,279 | - | - | - | 21,722,279 |
| Total capital assets being depreciated | 1,803,296,388 | 11,241,896 | 7,813,911 | 9,269,211 | 1,815,993,584 |
| Less accumulated depreciation for: | | | | | |
| Site improvements | 57,295,006 | 3,805,351 | - | - | 61,100,357 |
| Buildings | 663,196,329 | 35,931,307 | - | - | 699,127,636 |
| Equipment | 347,046,060 | 11,529,541 | 6,711,124 | - | 351,864,477 |
| Intangible assets | 6,713,465 | 627,322 | - | - | 7,340,787 |
| Infrastructure | 12,535,709 | 874,304 | - | - | 13,410,013 |
| Total accumulated depreciation | 1,086,786,569 | 52,767,825 | 6,711,124 | - | 1,132,843,270 |
| Total capital assets being depreciated, net | 716,509,819 | (41,525,929) | 1,102,787 | 9,269,211 | 683,150,314 |
| Capital assets, net | <u>\$ 816,609,429</u> | <u>\$ (12,716,381)</u> | <u>\$ 1,238,410</u> | <u>\$ 1,629,737</u> | <u>\$ 804,284,375</u> |

During fiscal year 2019, University Park, a University Related Organization at the Edwardsville campus, transferred two buildings with a depreciated value of \$1,629,737 to the University. The buildings that were transferred were the School of Dental Medicine Comprehensive Care Clinic and the Biotechnology Laboratory Incubator. Therefore, the University reported a capital asset transfer from University Park and University Park reported a capital asset transfer to the University.

Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2019

NOTE 7 - Capital assets (continued)

Capital asset activity for the University Related Organizations for the fiscal years ended June 30, 2019 was as follows:

UNIVERSITY RELATED ORGANIZATIONS:

| | Beginning Balance | Additions | Deletions | Transfers | Ending Balance |
|---|----------------------|--------------|-----------|----------------|-------------------|
| Capital assets not being depreciated: | | | | | |
| Land | \$ 307,216 | \$ - | \$ - | \$ - | \$ 307,216 |
| Construction in Progress | - | 45,335 | - | - | 45,335 |
| Total capital assets not being depreciated | 307,216 | 45,335 | - | - | 352,551 |
| Capital assets being depreciated: | | | | | |
| Site improvements | 310,765 | - | - | - | 310,765 |
| Buildings | 5,052,366 | - | - | (2,412,489) | 2,639,877 |
| Equipment | 6,238,365 | 366,339 | 170,214 | - | 6,434,490 |
| Total capital assets being depreciated | 11,601,496 | 366,339 | 170,214 | (2,412,489) | 9,385,132 |
| Less accumulated depreciation for: | | | | | |
| Site improvements | 310,765 | - | - | - | 310,765 |
| Buildings | 1,901,213 | 87,746 | - | (782,752) | 1,206,207 |
| Equipment | 4,434,666 | 616,802 | 170,214 | - | 4,881,254 |
| Total accumulated depreciation | 6,646,644 | 704,548 | 170,214 | (782,752) | 6,398,226 |
| Total capital assets being depreciated, net | 4,954,852 | (338,209) | - | (1,629,737) | 2,986,906 |
| Capital assets, net | \$ 5,262,068 | \$ (292,874) | \$ - | \$ (1,629,737) | \$ 3,339,457 |

NOTE 8 – Changes in long-term liabilities

Long-term liability activity for the year ended June 30, 2019 was as follows:

| UNIVERSITY: | Beginning Balance | Additions | Reductions | Ending Balance | Current Portion |
|--|------------------------------|------------------|-------------------|---------------------------|----------------------------|
| Compensated absences | \$ 40,772,689 | \$ 4,472,857 | \$ 4,526,076 | \$ 40,719,470 | \$ 4,034,786 |
| Revenue bonds payable | 207,765,097 | 7,686,437 | 19,075,000 | 196,376,534 | 19,879,505 |
| Unamortized debt premium on | 8,317,279 | - | 738,809 | 7,578,470 | 738,809 |
| Certificates of participation | 35,120,225 | - | 2,410,878 | 32,709,347 | 2,500,878 |
| Capitalized leases | 2,002,101 | - | 1,118,743 | 883,358 | 190,614 |
| Self insurance | 29,205,203 | 2,446,292 | 1,531,634 | 30,119,861 | 7,390,811 |
| Liability for OPEB | 174,634,628 | - | 37,034,599 | 137,600,029 | 3,219,776 |
| Federal loan programs refundable | 16,405,883 | 100,418 | 13 | 16,506,288 | - |
| Housing deposits | 193,675 | 127,101 | 131,251 | 189,525 | 85,286 |
| Total long-term liabilities | \$514,416,780 | \$ 14,833,105 | \$ 66,567,003 | \$462,682,882 | \$ 38,040,465 |
| UNIVERSITY RELATED ORGANIZATIONS: | Beginning Balance | Additions | Reductions | Ending Balance | Current Portion |
| Annuities payable | \$ 1,572,344 | \$ 227,199 | \$ 632,121 | \$ 1,167,422 | \$ 120,519 |
| Other accrued liabilities | 1,735,594 | - | 19,128 | 1,716,466 | - |
| Deposits held in custody for others | 2,837,629 | 159,033 | 141,798 | 2,854,864 | 18,220 |
| Total long-term liabilities | \$ 6,145,567 | \$ 386,232 | \$ 793,047 | \$ 5,738,752 | \$ 138,739 |

Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2019

NOTE 9 – Revenue Bonds payable

Revenue bonds payable activity for the year ended June 30, 2019:

| <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> |
|--|---------------------------|--------------------------|----------------------------|-------------------------------------|-----------------------|------------------------|
| Other Revenue Bonds: | | | | | | |
| 1999A | 2029 | \$ 48,525,097 | \$ 2,646,437 | \$ 5,670,000 | \$ 45,501,534 | \$ 5,780,000 |
| 2006A | 2021 | 10,940,000 | - | 3,640,000 | 7,300,000 | 3,835,000 |
| 2008A | 2028 | 19,335,000 | - | 1,785,000 | 17,550,000 | 1,900,000 |
| 2009A | 2030 | 36,310,000 | - | 2,460,000 | 33,850,000 | 2,545,000 |
| 2012A | 2032 | 21,465,000 | - | 1,230,000 | 20,235,000 | 1,260,000 |
| 2012B | 2035 | 37,160,000 | - | 1,795,000 | 35,365,000 | 1,890,000 |
| 2015B | 2031 | 18,360,000 | - | 295,000 | 18,065,000 | 210,000 |
| Direct Placements of Revenue Bonds: | | | | | | |
| 2015A | 2023 | 8,840,000 | - | 1,660,000 | 7,180,000 | 1,715,000 |
| 2015A | 2030 | 6,830,000 | - | 540,000 | 6,290,000 | 555,000 |
| 2019A | 2029 | - | 5,040,000 | - | 5,040,000 | 420,000 |
| | | <u>\$ 207,765,097</u> | <u>\$ 7,686,437</u> | <u>\$ 19,075,000</u> | 196,376,534 | 20,110,000 |
| Other Revenue Bonds: | | | | | | |
| | | | | | | (230,495) |
| | | | | | 7,578,470 | 738,809 |
| | | | | | <u>\$ 203,955,004</u> | <u>\$ 20,618,314</u> |

University revenue bonds payable:

The Housing and Auxiliary Facilities System Revenue 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 Revenue 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 Revenue 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, 2019

NOTE 9 – Revenue bonds payable (continued)

The Housing and Auxiliary Facilities System Revenue 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 | | | | Treasury | |
|---------------|----------------------|----------------------|-----------------------|----------------------|--|
| Ending | Principal | Interest | Rebate | Total | |
| 2020 | \$ 2,545,000 | \$ 2,010,818 | \$ (703,786) | \$ 3,852,032 | |
| 2021 | 2,635,000 | 1,877,205 | (657,022) | 3,855,183 | |
| 2022 | 2,725,000 | 1,733,597 | (606,759) | 3,851,838 | |
| 2023 | 2,825,000 | 1,580,998 | (553,349) | 3,852,649 | |
| 2024 | 2,930,000 | 1,418,560 | (496,496) | 3,852,064 | |
| 2025-29 | 16,485,000 | 4,288,650 | (1,501,028) | 19,272,622 | |
| 2030 | 3,705,000 | 229,710 | (80,398) | 3,854,312 | |
| Total | \$ 33,850,000 | \$ 13,139,538 | \$ (4,598,838) | \$ 42,390,700 | |

Note: The October 1, 2019 Treasury Rebate will be reduced by 6.2% 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 Revenue Bonds, Series 2012A were authorized by the University’s Board under the Fourteenth Supplemental Bond Resolution approved December 8, 2011. The bonds mature at varying amounts from 2013 to 2032 with interest ranging from 2.05 to 4.38 percent. Interest payments are due semi-annually. Debt service reserve funds of \$1,592,622 were released and used to refund a portion of Series 2001A debt service. The current refunding, which was undertaken by the Board to effect a cost savings, resulted in a net decrease in debt service payments of \$1,939,053 of which \$1,592,622 represents application of the debt service reserve released funds. The financing resulted in an economic gain of \$233,957 and an accounting loss of \$9,103.

The Housing and Auxiliary Facilities System Revenue 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. 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.

Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2019

NOTE 9 – Revenue bonds payable (continued)

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 Ending | Principal | Interest | Treasury Rebate | Total |
|------------------------|---------------------|---------------------|----------------------------|---------------------|
| 2020 | \$ - | \$ 236,060 | \$ (157,731) | \$ 78,329 |
| 2021 | - | 236,060 | (157,731) | 78,329 |
| 2022 | - | 236,060 | (157,731) | 78,329 |
| 2023 | - | 236,060 | (157,731) | 78,329 |
| 2024 | - | 236,060 | (157,731) | 78,329 |
| 2025-29 | - | 1,180,300 | (788,655) | 391,645 |
| 2030-34 | - | 1,180,300 | (788,655) | 391,645 |
| 2035 | 5,365,000 | 236,060 | (157,731) | 5,443,329 |
| Total | \$ 5,365,000 | \$ 3,776,960 | \$ (2,523,696) | \$ 6,618,264 |

Note: The October 1, 2018 Treasury Rebate will be reduced by 6.2% 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 Revenue 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 Revenue 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 Revenue 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.

The Housing and Auxiliary Facilities System Revenue Bonds, Series 2019A were authorized by the University’s Board under the Eighteenth Supplemental Bond Resolution approved on March 28, 2019. The bonds mature at varying amounts from 2020 to 2029 with an interest rate of 4.35 percent. Interest payments are due semi-annually.

Southern Illinois University

Notes to Financial Statements

For the Year Ended June 30, 2019

NOTE 9 – Revenue bonds payable (continued)

Housing and Auxiliary Facilities System: These bonds, which are payable through 2035, do not constitute a debt of the State of Illinois or the individual members, officers or agents of the Board of Trustees of the University but, together with interest thereon, are payable from and secured by a pledge of and lien on (i) the net revenues of the System, (ii) pledged tuition in an amount not to exceed maximum annual debt service (subject to prior payment of operating and maintenance expenses of the System), (iii) the Bond and Interest Sinking Fund account, and (iv) the Repair and Replacement Reserve account. Unrefunded bonds issued in 2001 and prior are additionally secured by the Debt Service Reserve. Total principal and interest remaining on the debt is \$251,105,759 with annual requirements ranging from \$2,013,460 to \$25,353,207. For the current year, principal and interest paid was \$24,725,895, and the total revenues pledged were \$52,993,570. For fiscal year 2019, the total revenue pledged represents 100 percent of the net revenues of the System and 18 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, 2019, the maximum annual debt service was \$25,353,207 and the coverage was 209 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 \$26,252,790 at June 30, 2019.

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, 2019, 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), and (iii) the Bond and Interest Sinking Fund account. Total principal and interest remaining on the debt is \$7,480,383 with annual requirements ranging from \$1,833,470 to \$1,895,773. For the current year, principal and interest paid was \$1,805,470 and the total revenues pledged were \$112,491,067. For fiscal year 2019, the total revenue pledged represents 100 percent of the net revenues of the System and 81.61 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, 2019, the maximum annual debt service was \$1,805,860, and the coverage was 6,060 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 \$1,340,473 at June 30, 2019.

Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2019

NOTE 9 – Revenue bonds payable (continued)

As of June 30, 2019, future debt service requirements for all bonds outstanding are:

UNIVERSITY:

| | <u>Other Revenue Bonds</u> | | <u>Direct Placement Revenue Bonds</u> | | <u>Totals</u> |
|----------------|----------------------------|----------------------|---------------------------------------|---------------------|-----------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> | |
| 2020 | \$ 17,420,000 | \$ 6,565,183 | \$ 2,690,000 | \$ 511,494 | \$ 27,186,677 |
| 2021 | 17,810,000 | 5,990,202 | 2,770,000 | 454,591 | 27,024,793 |
| 2022 | 15,860,000 | 5,423,133 | 2,875,000 | 390,435 | 24,548,568 |
| 2023 | 16,130,000 | 4,927,605 | 2,940,000 | 323,707 | 24,321,312 |
| 2024 | 16,260,000 | 4,411,262 | 1,110,000 | 255,248 | 22,036,510 |
| 2025-29 | 82,770,000 | 14,049,967 | 5,555,000 | 687,870 | 103,062,837 |
| 2030-34 | 19,070,000 | 3,369,740 | 570,000 | 16,245 | 23,025,985 |
| 2035 | 7,075,000 | 304,460 | - | - | 7,379,460 |
| Total payments | <u>\$ 192,395,000</u> | <u>\$ 45,041,552</u> | <u>\$ 18,510,000</u> | <u>\$ 2,639,590</u> | <u>\$ 258,586,142</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

| | |
|---|-------------------|
| 2020 | \$ 229,457 |
| 2021 | 170,495 |
| 2022 | 166,210 |
| 2023 | 159,910 |
| 2024 | 153,610 |
| Later years | <u>128,101</u> |
| Total minimum lease payments | 1,007,783 |
| Less amount representing interest | <u>(124,425)</u> |
| Present value of net minimum lease payments | <u>\$ 883,358</u> |

Assets held under capital lease are:

UNIVERSITY:

| | |
|-------------------------------|---------------------|
| Land & improvements | \$ 56,052 |
| Buildings & improvements | 1,671,970 |
| Equipment | 1,824,823 |
| Less accumulated amortization | <u>(783,240)</u> |
| Total net assets | <u>\$ 2,769,605</u> |

Southern Illinois University

Notes to Financial Statements

For the Year Ended June 30, 2019

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 operating leases extending beyond 2019 have future payments of \$12,299,020 in 2020, \$5,740,180 in 2021, \$5,394,375 in 2022, and \$4,718,421 in 2023. There are no operating leases as of June 30, 2019 with future payments beyond 2023. Rental payments on operating leases totaled \$12,857,743 in 2019.

NOTE 12 - Certificates of participation payable

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

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

UNIVERSITY:

| | Certificates of Participation | | Direct Placements of Certificates of Participation | | Totals |
|----------------|-------------------------------|----------------------|--|-------------------|----------------------|
| | Principal | Interest | Principal | Interest | |
| 2020 | \$ 1,255,000 | \$ 1,126,790 | \$ 1,195,000 | \$ 225,300 | \$ 3,802,090 |
| 2021 | 1,320,000 | 1,064,040 | 1,230,000 | 189,450 | 3,803,490 |
| 2022 | 1,385,000 | 998,040 | 1,270,000 | 152,550 | 3,805,590 |
| 2023 | 1,440,000 | 942,640 | 1,305,000 | 114,450 | 3,802,090 |
| 2024 | 345,000 | 870,640 | 2,510,000 | 75,300 | 3,800,940 |
| 2025-29 | 8,290,000 | 3,623,725 | - | - | 11,913,725 |
| 2030-34 | 10,420,000 | 1,493,898 | - | - | 11,913,898 |
| Total payments | <u>\$ 24,455,000</u> | <u>\$ 10,119,773</u> | <u>\$ 7,510,000</u> | <u>\$ 757,050</u> | <u>\$ 42,841,823</u> |

Southern Illinois University

Notes to Financial Statements

For the Year Ended June 30, 2019

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 2019 included a 1% discount rate for self-insurance liabilities.

As of June 30, 2019, the accrual for self-insurance was \$30,119,861 for the general and professional liability fund. Because the amounts accrued and funded are estimates, the aggregate actual claims covered by the self-insurance funds could differ from the amount that has been accrued. Changes in these estimates will be reflected in the Statement of Revenues, Expenses, and Changes in Net Position in the period in which additional information becomes available. There were no material settlements that exceeded insurance coverage during the last three years.

Changes in the self-insurance accrual for the years ended June 30, 2019 and June 30, 2018 are reflected below:

| | June 30, 2019 |
|---------------------------------------|----------------------|
| Accrued liability, June 30, 2018 | \$ 29,205,203 |
| Current year claims and other changes | 2,446,292 |
| Payment of Claims | (1,531,634) |
| Accrued liability, June 30, 2019 | \$ 30,119,861 |
| | |
| | June 30, 2018 |
| Accrued liability, June 30, 2017 | \$ 35,093,630 |
| Current year claims and other changes | 5,039,763 |
| Payment of Claims | (10,928,190) |
| Accrued liability, June 30, 2018 | \$ 29,205,203 |

Southern Illinois University

Notes to Financial Statements

For the Year Ended June 30, 2019

NOTE 14 - 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 2019, there was an addition to the University's permanent endowments of \$180,616. For fiscal year 2019, realized losses on investments totaled \$7,586 and unrealized gains on investments totaled \$54,170, resulting in a balance of \$2,822,504 held by the Foundation at June 30, 2019. The Foundation distributes earnings to the University on a quarterly basis. Payments during fiscal year 2019 totaled \$91,158.

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.

NOTE 15 - State Universities Retirement System

General Information about the Pension Plan

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

Benefits Provided: A traditional benefit plan was established in 1941. Public Act 90-0448 enacted effective January 1, 1998, established an alternative defined benefit program known as the portable benefit package. The traditional and portable plan Tier 1 refers to members that began participation prior to January 1, 2011. Public Act 96-0889 revised the traditional and portable benefit plans for members who begin participation on or after January 1, 2011, and who do not have other eligible Illinois reciprocal system services. The revised plan is referred to as Tier 2. New employees are allowed 6 months after their date of hire to make an irrevocable election. A summary of the benefit provisions as of June 30, 2018 can be found in the SURS' comprehensive annual financial report (CAFR) Notes to the Financial Statements.

Southern Illinois University

Notes to Financial Statements

For the Year Ended June 30, 2019

NOTE 15 - State Universities Retirement System (continued)

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 2019 was 12.29% 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 except for police officers and fire fighters who contribute 9.5% of their earnings. 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), and Section 15-155(j-5)(relating to contributions payable due to earnings exceeding the salary set for the Governor).

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

Net Pension Liability: The net pension liability (NPL) was measured as of June 30, 2018. At June 30, 2018, SURS reported a NPL of \$27,494,556,682.

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. As of the current year measurement date of June 30, 2018, the University’s proportionate share of the State’s net pension liability associated with the University is \$2,471,128,271 or 8.99%, which was an increase of \$138,925,319 or .17% from its proportion measured as of the prior year measurement date of June 30, 2017. This amount is not recognized in the financial statements. The net pension liability was measured as of June 30, 2018, and the total pension used to calculate the net pension liability was determined based on the June 30, 2017 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 2018.

Pension Expense: At June 30, 2018, SURS reported a collective net pension expense of \$2,685,322,700.

Employer Proportionate Share of Pension Expense: The University’s proportionate share of collective pension expense is recognized as nonoperating revenue with matching operating expenses (compensation and benefits) 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 2018. As a result, the University recognized revenue and pension expense of \$241,348,748 from this special funding situation during the year ended June 30, 2019.

Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2019

NOTE 15 - State Universities Retirement System (continued)

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

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Difference between expected and actual experience | \$ 65,521,614 | \$ 181,032,053 |
| Changes in assumption | 1,286,257,095 | 123,218,306 |
| Net difference between projected and actual earnings on pension plan investments | 26,810,634 | - |
| Total | <u>\$ 1,378,589,343</u> | <u>\$ 304,250,359</u> |

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

| <u>Year Ending June 30</u> | <u>Net Deferred Outflows of Resources</u> |
|----------------------------|---|
| 2019 | \$ 763,171,084 |
| 2020 | 540,443,042 |
| 2021 | (192,612,398) |
| 2022 | (36,662,744) |
| 2023 | - |
| Thereafter | - |
| Total | <u>\$ 1,074,338,984</u> |

Employer Deferral of Fiscal Year 2019 Pension Expense

The University paid \$2,716,085 in federal, trust or grant contributions for the fiscal year ended June 30, 2019. These contributions were made subsequent to the pension liability measurement date of June 30, 2018 and are recognized as Deferred Outflows of Resources as of June 30, 2019.

Southern Illinois University

Notes to Financial Statements

For the Year Ended June 30, 2019

NOTE 15 - State Universities Retirement System (continued)

Assumptions and Other Inputs

Actuarial assumptions: The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period June 30, 2014-2017. The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|---|
| Inflation | 2.25 percent |
| Salary increases | 3.25 to 12.25 percent, including inflation |
| Investment rate of return | 6.75 percent beginning with the actuarial valuation as of June 30, 2018 |

Mortality rates were based on the RP-2014 Combined Mortality Table with projected generational mortality and a separate mortality assumption for disabled participants.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return were adopted by the plan's trustees after considering input from the plan's investment consultant(s) and actuary(s). For each major asset class that is included in the pension plan's target asset allocation as of June 30, 2018, 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% | 5.00% |
| Private Equity | 6% | 8.50% |
| Non-U.S. Equity | 19% | 6.45% |
| Global Equity | 8% | 6.00% |
| Fixed Income | 19% | 1.50% |
| Treasury-Inflation Protected Securities | 4% | 0.75% |
| Emerging Market Debt | 3% | 3.65% |
| Real Estate REITS | 4% | 5.45% |
| Direct Real Estate | 6% | 4.75% |
| Commodities | 2% | 2.00% |
| Hedged Strategies | 5% | 2.85% |
| Opportunity Fund | <u>1%</u> | <u>7.00%</u> |
| Total | 100% | 4.55% |
| Inflation | | <u>2.75%</u> |
| Expected Arithmetic Return | | 7.30% |

Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2019

NOTE 15 - State Universities Retirement System (continued)

Discount Rate: A single discount rate of 6.65% 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 6.75% and a municipal bond rate of 3.62% (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 2075. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2075, 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 6.65%, as well as what the plan's net pension liability would be if it were calculated using a single discount rate that is 1-percentage-point lower or 1-percentage-point higher:

| | Current Single Discount Rate | |
|---------------------|-------------------------------------|---------------------|
| 1% Decrease | Assumption | 1% Increase |
| <u>5.65%</u> | <u>6.65%</u> | <u>7.65%</u> |
| \$33,352,188,584 | \$27,494,556,682 | \$22,650,651,520 |

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 16 - Post-employment benefits

Plan description: SEGIA, as amended, authorizes SEGIP to provide health, dental, vision, and life insurance benefits for certain retirees and their dependents. Substantially all of the University's full-time employees are members of SEGIP. Members receiving monthly benefits from the GARS, JRS, SERS, TRS, and SURS are eligible for these OPEB. The eligibility provisions for SURS are defined within Note 15.

CMS administers OPEB for annuitants with the assistance of GARS, JRS, SERS, TRS, and SURS. The State recognizes SEGIP as a single-employer defined benefit plan, which does not issue a stand-alone financial report.

Southern Illinois University

Notes to Financial Statements

For the Year Ended June 30, 2019

NOTE 16 - Post-employment benefits (continued)

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

Funding Policy and Annual OPEB Cost: OPEB offered through SEGIP are financed through a combination of retiree premiums, SEGIP contributions pursuant to SEGIA (5 ILCS 375/11), and Federal government subsidies from the Medicare Part D program. These contributions are deposited in the Health Insurance Reserve Fund, which covers both active employees and retired members. Annuitants may be required to contribute towards health and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants who retired prior to January 1, 1998, and who are vested in GARS, JRS, SERS, TRS, and SURS do not contribute toward health and vision benefits. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced five percent for each year of credited service with the State allowing those annuitants with twenty or more years of credited service to not have to contribute towards health and vision benefits. All annuitants are required to pay for dental benefits regardless of retirement date. CMS' Director, on an annual basis, determines the amount of contributions necessary to fund the basic program of group benefits. The State's contributions are made primarily from the State's General Fund on a pay-as-you-go basis. No assets are accumulated or dedicated to funding the retiree benefits and a separate trust has not been established for the funding of OPEB.

For fiscal year 2019, the annual cost of the basic program of group health, dental, and vision benefits before the State's contribution was \$11,269 (\$6,699 if Medicare eligible) per member if the annuitant chose benefits provided by a health maintenance organization and \$13,824 (\$4,984 if Medicare eligible) per member if the annuitant chose other benefits. The State is not required to fund the plan other than the pay-as-you-go amount necessary to provide the current benefits to retirees.

CMS' Changes in Estimates: For the measurement date of June 30, 2018, CMS experienced two significant changes within its estimation process. The OPEB for both the special funding situation and the portion of OPEB where the University is responsible for employer contributions are both significantly impacted by (1) the University's number of participants in SEGIP and (2) the average cost per employee within SEGIP. CMS made changes to its estimation methodology that resulted in significant differences within its estimates which represent an outcome of estimation uncertainty that, as time has passed and new sources of better data have become available, continued to be refined to achieve a more representative reflection of the actual outcome of the estimate in future periods. As such, the University experienced a significant decrease in its own OPEB liability and expense and in the non-operating revenue and operating expenses recognized from the special funding situation.

Southern Illinois University

Notes to Financial Statements

For the Year Ended June 30, 2019

NOTE 16 - Post-employment benefits (continued)

Special Funding Situation Portion of OPEB: The proportionate share of the State's OPEB expense relative to the University's employees totaled \$126,629,687 during the year ended June 30, 2019. This amount was recognized by the University as non-operating special funding situation revenue and operating expense allocated to the related function performed by the employees during the year ended June 30, 2019.

While the University is not required to record the portion of the State's OPEB liability related to the University's employees resulting from the special funding situation, the University is required to disclose this amount. The following chart displays the proportionate share of the State's contributions related to the University's special funding situation relative to all employer contributions during the year ended June 30, 2018 based on the June 30, 2017 actuarial valuation rolled forward:

| | |
|---|-------------------------|
| Measurement Date: | <u>June 30, 2018</u> |
| State of Illinois' OPEB liability related to the University under the Special Funding Situation | \$1,904,874,439 |
| SEGIP total OPEB liability | <u>\$40,093,248,494</u> |
| Proportionate share of the total OPEB liability | 4.75% |

University's Portion of OPEB and Disclosures Related to SEGIP Generally:

Total OPEB liability, deferred outflows of resources, deferred inflows of resources, and expense related to OPEB: The University's total OPEB liability, as reported at June 30, 2019, was measured as of the measurement date on June 30, 2018, with an actuarial valuation as of June 30, 2017, which was rolled forward to the measurement date. The following chart displays the proportionate share of the University's contributions relative to all employer contributions during the year ended June 30, 2018, based on the June 30, 2017 actuarial valuation rolled forward:

| | |
|---|-------------------------|
| Measurement Date: | <u>June 30, 2018</u> |
| University's OPEB liability | \$137,600,029 |
| SEGIP total OPEB liability | <u>\$40,093,248,494</u> |
| Proportionate share of the total OPEB liability | .34% |

The University's portion of the OPEB liability was based on the University's proportionate share amount determined under the methodology described in Note 2 during the year ended June 30, 2018. As of the current year measurement date of June 30, 2018, the University's proportion declined .08% from its proportion measured as of the prior year measurement date of June 30, 2017.

Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2019

NOTE 16 - Post-employment benefits (continued)

The University recognized OPEB expense for the year ended June 30, 2019, of \$9,930,030. At June 30, 2019, the University reported deferred outflows and deferred inflows of resources, as of the measurement date of June 30, 2018, from the following sources:

| | |
|---|---------------------|
| Deferred outflows of resources | |
| Differences between expected and actual experience | \$35,243 |
| Changes in proportion | - |
| University contributions subsequent to the measurement date | 3,219,776 |
| Total deferred outflows of resources | <u>\$3,255,019</u> |
| | |
| Deferred inflows of resources | |
| Differences between expected and actual experience | \$3,029,911 |
| Changes in assumptions | 12,922,018 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 57,422,169 |
| Total deferred inflows of resources | <u>\$73,374,098</u> |

The amounts reported as deferred outflows of resources related to OPEB resulting from the University's contributions subsequent to the measurement date will be recognized as a reduction to the OPEB liability in the year ended June 30, 2020. Other amounts reported as deferred outflows and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| Fiscal Year Ending June 30, | Total Amount Recognized of Deferred Inflows and Outflows over the Remaining Service Life of All Employees (5.138662 years) |
|-----------------------------|--|
| 2020 | \$(19,601,528) |
| 2021 | (19,601,528) |
| 2022 | (19,601,528) |
| 2023 | (13,380,342) |
| 2024 | (1,153,929) |
| Total | <u><u>\$(73,338,855)</u></u> |

Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2019

NOTE 16 - Post-employment benefits (continued)

Actuarial methods and assumptions: The total OPEB liability was determined by an actuarial valuation using the following actuarial assumptions, applied to all periods included in the measurement unless otherwise specified. The actuarial valuation for the SEGIP was based on GARS, JRS, SERS, TRS, and SURS active, inactive, and retiree data as of June 30, 2017, for eligible SEGIP employees, and SEGIP retiree data as of June 30, 2017. The valuation date of June 30, 2017 below was rolled forward to June 30, 2018.

| | |
|---|--|
| Valuation Date | June 30, 2017 |
| Measurement Date | June 30, 2018 |
| Actuarial Cost Method | Entry Age Normal |
| Inflation Rate | 2.75% |
| Projected Salary Increases* | 3.00% - 15.00% |
| Discount Rate | 3.62% |
| Healthcare Cost Trend Rate: | |
| Medical (Pre-Medicare) | 8.0% grading down 0.5% in the first year to 7.5%, then grading down 0.08% in the second year to 7.42%, followed by grading down of 0.5% per year over 5 years to 4.92% in year 7 |
| Medical (Post-Medicare) | 9.0% grading down 0.5% per year over 9 years to 4.5% |
| Dental and Vision | 6.0% grading down 0.5% per year over 3 years to 4.5% |
| Retirees' share of benefit-related costs | Healthcare premium rates for members depend on the date of retirement and the years of service earned at retirement. Members who retired before January 1, 1998, are eligible for single coverage at no cost to the member. Members who retire after January 1, 1998, are eligible for single coverage provided they pay a portion of the premium equal to 5% for each year of service under 20 years. Eligible dependents receive coverage provided they pay 100% of the required dependent premium. Premiums for plan year 2018 and 2019 are based on actual premiums. Premiums after 2019 were projected based on the same healthcare cost trend rates applied to per capita claim costs but excluding the additional trend rate that estimates the impact of the Excise Tax. |

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

Southern Illinois University

Notes to Financial Statements

For the Year Ended June 30, 2019

NOTE 16 - Post-employment benefits (continued)

Additionally, the demographic assumptions used in this OPEB valuation are identical to those used in the June 30, 2017 valuations for GARS, JRS, SERS, TRS, and SURS as follows:

| | Retirement age experience study [^] | Mortality ^{^^} |
|-------------|--|---|
| GARS | July 2012 – June 2015 | RP-2014 White Collar Total Healthy Annuitant mortality table, sex distinct, set forward 1 year for males and set back 1 year for females and generational mortality improvements using MP-2014 two-dimensional mortality improvement scales |
| JRS | July 2012 – June 2015 | RP-2014 White Collar Total Healthy Annuitant mortality table, sex distinct, set forward 1 year for males and set back 1 year for females and generational mortality improvements using MP-2014 two-dimensional mortality improvement scales |
| SERS | July 2009 – June 2013 | 105% of the RP-2014 Healthy Annuitant mortality table, sex distinct, with rates projected to 2015; generational mortality improvement factors were added |
| TRS | July 2014 – June 2017 | RP-2014 with future mortality improvements on a fully generational basis using projection table MP-2017 |
| SURS | July 2014 – June 2017 | RP-2014 White Collar, gender distinct, projected using MP-2014 two-dimensional mortality improvement scale, set forward one year for male and female annuitants |

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

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

Since the last measurement date on June 30, 2018, the State has not made any significant changes to the benefit terms affecting the measurement of the collective total OPEB liability. Further, no changes have occurred since the measurement date and the University's fiscal year end on June 30, 2019, that are expected to have a significant impact on the University's proportionate share of the total collective OPEB liability.

Discount rate: Retirees contribute a percentage of the premium rate based on service at retirement. The State contributes additional amounts to cover claims and expenses in excess of retiree contributions. Because plan benefits are financed on a pay-as-you-go basis, the single discount rate is based on a tax-exempt municipal bond rate index of 20-year general obligation bonds with an average AA credit rating as of the measurement date. A single discount rate of 3.56% at June 30, 2017, and 3.62% as of June 30, 2018, was used to measure the total OPEB liability.

Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2019

NOTE 16 - Post-employment benefits (continued)

Sensitivity of total OPEB liability to changes in the single discount rate: The following presents the University's proportionate share of the plan's total OPEB liability measured at June 30, 2018, calculated using a Single Discount Rate of 3.62%, as well as what the University's proportionate share of the plan's total OPEB liability would be if it were calculated using a Single Discount rate that is one percentage point higher (4.62%) or lower (2.62%) than the current rate:

| | 1% Decrease (2.62%) | Current Single Discount Rate Assumption (3.62%) | 1% Increase (4.62%) |
|--|--------------------------------|--|--------------------------------|
| University's proportionate share of total OPEB liability | \$161,319,253 | \$137,600,029 | \$118,770,878 |

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rate: The following presents the University's proportionate share of the plan's total OPEB liability measured as of June 30, 2018, calculated using the healthcare cost trend rates as well as what the University's proportionate share of the plan's total OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point higher or lower than the current healthcare cost trend rates. For calculating the healthcare cost trend rates assumption, the key trend rates are 8% in 2019 decreasing to an ultimate trend rate of 4.92% in 2026 for non-Medicare coverage, and 9.0% decreasing to an ultimate trend rate of 4.5% in 2028 for Medicare coverage. For the 1% decrease for calculating the healthcare cost trend rates assumption, the key trend rates are 7.00% in 2019 decreasing to an ultimate trend rate of 3.92% in 2026, for non-Medicare coverage, and 8.00% in 2019 decreasing to an ultimate trend rate of 3.50% in 2028 for Medicare coverage. For the 1% increase for calculating the healthcare cost trend rates assumption, the key trend rates are 9.00% in 2019 decreasing to an ultimate trend rate of 5.92% in 2026, for non-Medicare coverage, and 10.00% in 2019 decreasing to an ultimate trend rate of 5.50% in 2028 for Medicare coverage.

| | 1% Decrease | Current Healthcare Cost Trend Rates Assumption | 1% Increase |
|--|--------------------|---|--------------------|
| | \$116,218,254 | \$137,600,029 | \$165,378,100 |

Total OPEB Liability Associated with the University, Regardless of Funding Source:

The University is required to disclose all OPEB liabilities related to it, including (1) the portion of the State's OPEB liability related to the University's employees resulting from the special funding situation the University is not required to record and (2) the portion of OPEB liability recorded by the University for its employees paid from trust, federal, and other funds. The following chart displays the proportionate share of contributions, regardless of funding source, associated with the University's employees relative to all employer contributions during the years ended June 30, 2018 based on the June 30, 2017 actuarial valuation rolled forward:

| | |
|---|-------------------------|
| Measurement Date: | <u>June 30, 2018</u> |
| State of Illinois' OPEB liability related to the University under the Special Funding Situation | \$1,904,874,439 |
| University's OPEB liability | <u>137,600,029</u> |
| Total OPEB liability associated with the University | \$2,042,474,468 |
| SEGIP total OPEB liability | <u>\$40,093,248,494</u> |
| Proportionate share of the OPEB liability associated with the University | <u>5.09%</u> |

Southern Illinois University

Notes to Financial Statements

For the Year Ended June 30, 2019

NOTE 17 - 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 2019 included the receipt of \$41,953,676 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 2019 totaled \$8,418,057.

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

| University and University Related Organizations (UROs) Transactions | | | | | |
|---|-----------------------|-------------------------------|--|------------------------|----------------------|
| Statement of Net Position | | | | | |
| | Due from UROs | Accounts Receivable net | Noncurrent Prepaids and Other Assets | Due to UROs | Deposits |
| University | \$ 3,775,105 | \$ 52,414 | \$ 2,822,504 | \$ (46,547) | \$ (12,882,829) |
| | Due to University | Other Payables | Agency Funds Payable | Due from University | Deposits |
| SIUC Foundation | \$ (244,751) | \$ - | \$ (2,822,504) | \$ 13,925 | \$ - |
| SIUE Foundation | (386,188) | - | - | 12,730 | 611,775 |
| SIU Physicians & Surgeons | (3,062,546) | - | - | 19,892 | 12,172,446 |
| SIUC Alumni | (71,300) | - | - | - | - |
| SIUE Alumni | (4,282) | - | - | - | - |
| SIUC Research Park | (6,038) | - | - | - | 98,608 |
| SIUE University Park | - | - | - | - | - |
| SIUE Charter School | - | (52,414) | - | - | - |
| Totals | \$ (3,775,105) | \$ (52,414) | \$ (2,822,504) | \$ 46,547 | \$ 12,882,829 |
| Statement of Revenues & Expenses | | | | | |
| | Operating Revenue | Operating Expense | Non-Operating Revenue | | |
| University | \$ 50,371,733 | \$ 5,984,820 | \$ 17,586,765 | | |
| | Operating Revenue | Operating Expense | Non-Operating Expense | | |
| SIUC Foundation | (3,500,989) | (11,958,251) | - | | |
| SIUE Foundation | (659,496) | (1,413,459) | - | | |
| SIU Physicians & Surgeons | - | (50,371,733) | - | | |
| SIUC Alumni | (842,644) | (1,449,714) | - | | |
| SIUE Alumni | (220,449) | (145,449) | - | | |
| SIUC Research Park | (99,233) | (328,146) | - | | |
| SIUE University Park | (47,853) | (47,853) | (1,629,737) | | |
| SIUE Charter School | (614,156) | (614,156) | - | | |
| Totals | \$ (5,984,820) | \$ (66,328,761) | \$ (1,629,737) | | |

Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2019

NOTE 17 - University Related Organizations - transactions with related parties (continued)

Upon the receipt of the audited financial statements from the University Related Organizations, the University further breaks out the transactions with each entity as follows:

| SIUC Foundation | | | | | |
|-------------------------------------|--|----------------------|-------------------|-------------------|-------------------|
| Southern Illinois University | Accounts payable and other liabilities | Agency funds payable | Other receivables | Operating revenue | Operating expense |
| Due from UROs | \$ 244,751 | \$ 2,822,504 | \$ - | \$ - | \$ - |
| Due to UROs | - | - | 13,925 | - | - |
| Operating expense | - | - | - | 3,500,989 | - |
| Non-operating revenues | - | - | - | - | 11,958,251 |

| SIUE Foundation | | | | | |
|-------------------------------------|------------------|--------------------|---------------------|-------------------|-------------------|
| Southern Illinois University | Accounts payable | Deposits with SIUE | Accounts receivable | Operating revenue | Operating expense |
| Due from UROs | \$ 386,188 | \$ - | \$ - | \$ - | \$ - |
| Deposits held for UROs | - | 611,775 | - | - | - |
| Due to UROs | - | - | 12,730 | - | - |
| Operating expense | - | - | - | 659,496 | - |
| Non-operating revenues | - | - | - | - | 1,413,459 |

| SIUC Physicians & Surgeons | | | | |
|---------------------------------------|--|-------------------|--------------|-------------------|
| Southern Illinois University | Accounts payable and accrued liabilities | Deposits with SIU | Due from SIU | Operating expense |
| Due from UROs | \$ 3,062,546 | \$ - | \$ - | \$ - |
| Deposits held for UROs | - | 12,172,446 | - | - |
| Due to UROs | - | - | 19,892 | - |
| Operating revenue | - | - | - | 50,371,733 |

| SIUC Alumni | | | | |
|-------------------------------------|--|--------------------------|-------------------|-------------------|
| Southern Illinois University | Accounts payable and accrued liabilities | Deposits held for others | Operating revenue | Operating expense |
| Due from UROs | \$ 67,562 | \$ 3,738 | \$ - | \$ - |
| Operating expense | - | - | 842,644 | - |
| Non-operating revenues | - | - | - | 1,449,714 |

**Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2019**

NOTE 17 - University Related Organizations - transactions with related parties (continued)

| | SIUE Alumni | | |
|-------------------------------------|--------------------|-------------------|-------------------|
| | Accounts payable | Operating revenue | Operating expense |
| Southern Illinois University | | | |
| Due from UROs | \$ 4,282 | \$ - | \$ - |
| Operating expense | - | 220,449 | - |
| Non-operating revenues | - | - | 145,449 |

| | SIUC Research Park | | | |
|-------------------------------------|---------------------------|-------------------|-------------------|-------------------|
| | Refundable deposits | Deposits with SIU | Operating revenue | Operating expense |
| Southern Illinois University | | | | |
| Due from UROs | \$ 6,038 | \$ - | \$ - | \$ - |
| Deposits held for UROs | - | 98,608 | - | - |
| Operating expense | - | - | 99,233 | - |
| Non-operating revenues | - | - | - | 328,146 |

| | SIUE University Park | | |
|-------------------------------------|-----------------------------|-------------------|-----------------------|
| | Operating revenue | Operating expense | Non-operating expense |
| Southern Illinois University | | | |
| Operating expense | \$ 47,853 | - | - |
| Non-operating revenues | - | 47,853 | 1,629,737 |

| | SIUE Charter | | |
|-------------------------------------|---------------------|-------------------|-------------------|
| | Accrued expenses | Operating revenue | Operating expense |
| Southern Illinois University | | | |
| Due from UROs | \$ 52,414 | \$ - | \$ - |
| Operating expense | - | 614,156 | - |
| Non-operating revenues | - | - | 614,156 |

In addition, there are transactions between URO's as follows:

| | SIUC Alumni Association | |
|------------------------|--------------------------------|-------------------|
| | Operating revenue | Operating expense |
| SIUC Foundation | | |
| Operating expense | \$ 105,605 | \$ - |
| Non-operating revenues | - | 107,726 |

| | SIUE Alumni Association | SIUE Charter School |
|------------------------|--------------------------------|----------------------------|
| | Operating revenue | Non-operating revenues |
| SIUE Foundation | | |
| Operating expense | \$ 79,175 | \$ - |
| Non-operating expenses | - | 146,285 |

Additional information concerning transactions with related parties may be obtained by contacting the entities listed in Note 1 on pages 21 and 22.

Southern Illinois University

Notes to Financial Statements

For the Year Ended June 30, 2019

NOTE 18 - 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. During fiscal year 2019, SIUE paid the U.S Department of Education \$1,430,227 to satisfy the liability.

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, 2019, the University's annual commitment related to this contract is approximately \$9.25 million.

Construction projects

During fiscal year 2019, the University had ongoing general facility and infrastructure improvement projects taking place on both campuses. As of June 30, 2019, \$86,494,610 had been spent on these projects with \$24,272,867 being committed to the completion of these projects.

NOTE 19 - Operating Expenses by Natural Classification

University operating expenses by natural classification for the year ended June 30, 2019 are summarized as follows:

| | Compensation and benefits | Supplies and Services | Student Aid | Depreciation | Total |
|-------------------------------------|------------------------------|--------------------------|----------------|---------------|------------------|
| Instruction | \$ 251,140,374 | \$ 20,370,731 | \$ 14,879,886 | - | \$ 286,390,991 |
| Research | 25,883,943 | 12,810,623 | 2,026,208 | - | 40,720,774 |
| Public Service | 39,418,404 | 19,027,482 | 1,381,003 | - | 59,826,889 |
| Academic Support | 175,147,000 | 42,138,124 | 1,538,665 | - | 218,823,789 |
| Student Services | 41,536,944 | 28,790,399 | 4,681,231 | - | 75,008,574 |
| Institutional Support | 55,211,835 | 1,101,332 | 6,840,590 | - | 63,153,757 |
| Operations and maintenance of plant | 42,103,834 | 35,331,538 | 4,799 | - | 77,440,171 |
| Scholarships and fellowships | 621,750 | 217,838 | 49,628,661 | - | 50,468,249 |
| Auxiliary Enterprises | 31,693,874 | 45,172,243 | 3,012,900 | - | 79,879,017 |
| Other | - | - | - | - | - |
| Depreciation | - | - | - | 52,767,825 | 52,767,825 |
| Total | \$ 662,757,958 | \$ 204,960,310 | \$ 83,993,943 | \$ 52,767,825 | \$ 1,004,480,036 |

Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2019

NOTE 20 - Segment information

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

The University has issued revenue bonds with the net revenues from the two segments pledged to pay the bond interest and principal. The Housing and Auxiliary Facilities System segment is comprised of University owned housing units, student centers, recreation and athletic facilities, and similar auxiliary enterprise units. The operating revenues of the System largely consist of various student fees, various user fees, and room and board charges. The Medical Facilities System is comprised of clinical facilities used to provide patient care at the School of Medicine in Springfield. The operating revenues of the System consists of overhead charges the University receives for services provided to SIU P&S. Additional information relating to these segments is included in Note 9, Revenue bonds payable.

Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2019

NOTE 20 - Segment information (continued)

Condensed financial statements for the University's two segments for fiscal year 2019 are as follows:

| | <u>Housing and Auxiliary Facilities System</u> | <u>Medical Facilities System</u> |
|---|--|--------------------------------------|
| CONDENSED STATEMENTS OF NET POSITION | | |
| Assets and deferred outflows of resources: | | |
| Current assets | \$ 71,898,967 | \$ 7,540,587 |
| Capital assets, net | 242,232,358 | 26,439,049 |
| Other assets | 2,709,767 | - |
| Deferred outflows of resources | 2,214,152 | 481,061 |
| Total Assets and deferred outflows of resources | <u>319,055,244</u> | <u>34,460,697</u> |
| Liabilities: | | |
| Current liabilities | 26,792,229 | 3,683,814 |
| Noncurrent liabilities | 188,020,928 | 19,524,289 |
| Deferred inflows of resources | 4,689,428 | 6,720,334 |
| Total Liabilities | <u>219,502,585</u> | <u>29,928,437</u> |
| Net Position | | |
| Net investment in capital assets | 50,586,472 | 19,441,983 |
| Restricted - expendable | 38,388,563 | 1,775,318 |
| Unrestricted (deficit) | 10,577,624 | (16,685,041) |
| Total Net Position | <u>\$ 99,552,659</u> | <u>\$ 4,532,260</u> |
| CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION | | |
| Operating revenues | \$ 82,850,077 | \$ 40,424,001 |
| Operating expenses | (71,491,722) | (47,440,787) |
| Depreciation expense | (15,304,955) | (1,258,458) |
| Operating loss | (3,946,600) | (8,275,244) |
| Nonoperating revenues and expenses - net | <u>5,899,597</u> | <u>9,698,633</u> |
| Income before other revenues, expenses, gains or losses | 1,952,997 | 1,423,389 |
| Other revenues, expenses, gains or losses - net | 186,924 | 236,725 |
| Increase in net position | <u>2,139,921</u> | <u>1,660,114</u> |
| Net position at beginning of year | <u>97,412,738</u> | <u>2,872,146</u> |
| Net position at end of year | <u>\$ 99,552,659</u> | <u>\$ 4,532,260</u> |
| CONDENSED STATEMENTS OF CASH FLOWS | | |
| Cash provided by (used in): | | |
| Operating activities | \$ 18,276,984 | \$ 2,328,804 |
| Noncapital financing activities | 4,033,613 | 115,842 |
| Capital financing activities | (21,191,316) | (2,241,314) |
| Investing activities | <u>1,619,369</u> | <u>84,483</u> |
| Net increase in cash | 2,738,650 | 287,815 |
| Cash, beginning of year | <u>54,547,087</u> | <u>3,871,773</u> |
| Cash, end of year | <u>\$ 57,285,737</u> | <u>\$ 4,159,588</u> |

Southern Illinois University
Notes to Financial Statements
For the Year Ended June 30, 2019

Note 21 - University Related Organizations

Condensed financial statements for the component units of the University as of June 30, 2019 are as follows:

| | SIUC FOUNDATION | SIUE FOUNDATION | SIUC PHYSICIANS & SURGEONS | SIUC ALUMNI | SIUE ALUMNI | SIUC RESEARCH PARK | SIUE UNIV. PARK | SIUE CHARTER | Eliminations | TOTAL |
|--|-----------------------|----------------------|----------------------------------|---------------------|-------------------|--------------------------|--------------------|-------------------|--------------|-----------------------|
| CONDENSED STATEMENTS OF NET POSITION | | | | | | | | | | |
| JUNE 30, 2019 | | | | | | | | | | |
| Assets: | | | | | | | | | | |
| Current assets | \$ 45,911,302 | \$ 8,375,880 | \$ 39,433,912 | \$ 865,289 | \$ 6,201 | \$ 241,153 | \$ 431,968 | \$ 221,231 | \$ - | \$ 95,486,936 |
| Other non-current assets | 154,966,530 | 40,815,085 | 21,717,959 | 7,739,058 | 171,199 | - | - | - | - | 225,409,831 |
| Capital assets | 808,888 | 1,487,615 | 888,163 | 15,692 | 3,750 | 24,091 | - | 111,258 | - | 3,339,457 |
| Total Assets | 201,686,720 | 50,678,580 | 62,040,034 | 8,620,039 | 181,150 | 265,244 | 431,968 | 332,489 | - | 324,236,224 |
| Liabilities: | | | | | | | | | | |
| Current liabilities | 355,692 | 463,095 | 9,038,523 | 266,448 | 4,592 | 42,691 | - | 65,172 | - | 10,236,213 |
| Noncurrent liabilities | 3,841,005 | 42,541 | - | 1,716,466 | - | - | - | - | - | 5,600,012 |
| Total Liabilities | 4,196,697 | 505,636 | 9,038,523 | 1,982,914 | 4,592 | 42,691 | - | 65,172 | - | 15,836,225 |
| Net Position: | | | | | | | | | | |
| Net investment in capital assets | 808,888 | 1,487,615 | 888,163 | 15,692 | 3,750 | 24,091 | - | 111,258 | - | 3,339,457 |
| Restricted - nonexpendable | 110,936,571 | 23,573,962 | - | - | - | - | - | - | - | 134,510,533 |
| Restricted - expendable | 75,922,928 | 22,010,957 | - | - | - | - | - | - | - | 97,933,885 |
| Unrestricted | 9,821,636 | 3,100,410 | 52,113,348 | 6,621,433 | 172,808 | 198,462 | 431,968 | 156,059 | - | 72,616,124 |
| Total Net Position | \$ 197,490,023 | \$ 50,172,944 | \$ 53,001,511 | \$ 6,637,125 | \$ 176,558 | \$ 222,553 | \$ 431,968 | \$ 267,317 | \$ - | \$ 308,399,999 |
| CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION | | | | | | | | | | |
| Year ended June 30, 2019 | | | | | | | | | | |
| Operating revenues | \$ 3,925,060 | \$ 9,019,212 | \$ 115,831,726 | \$ 1,296,615 | \$ 320,704 | \$ 351,269 | \$ 47,853 | \$ 1,924,144 | \$ (184,780) | \$ 132,531,803 |
| Operating expenses | 15,426,387 | 5,338,178 | 106,165,277 | 2,165,725 | 324,598 | 358,263 | 123,437 | 1,911,220 | (292,506) | 131,520,579 |
| Operating income (loss) | (11,501,327) | 3,681,034 | 9,666,449 | (869,110) | (3,894) | (6,994) | (75,584) | 12,924 | 107,726 | 1,011,224 |
| Nonoperating revenues and expenses - net | 11,933,670 | 1,975,943 | 1,452,108 | 287,242 | 10,479 | 1,139 | (1,627,899) | 146,285 | (107,726) | 14,071,241 |
| Income (Loss) before other revenues | 432,343 | 5,656,977 | 11,118,557 | (581,868) | 6,585 | (5,855) | (1,703,483) | 159,209 | - | 15,082,465 |
| Other revenues | 6,947,608 | 2,325,699 | - | - | - | - | - | - | - | 9,273,307 |
| Increase (decrease) in net position | 7,379,951 | 7,982,676 | 11,118,557 | (581,868) | 6,585 | (5,855) | (1,703,483) | 159,209 | - | 24,355,772 |
| Net position at beginning of year | 190,110,072 | 42,190,268 | 41,882,954 | 7,218,993 | 169,973 | 228,408 | 2,135,451 | 108,108 | - | 284,044,227 |
| Net position at end of year | \$ 197,490,023 | \$ 50,172,944 | \$ 53,001,511 | \$ 6,637,125 | \$ 176,558 | \$ 222,553 | \$ 431,968 | \$ 267,317 | \$ - | \$ 308,399,999 |
| CONDENSED STATEMENTS OF CASH FLOWS | | | | | | | | | | |
| Year ended June 30, 2018 | | | | | | | | | | |
| Cash provided by (used in): | | | | | | | | | | |
| Operating activities | \$ (11,442,673) | \$ 2,810,423 | \$ 6,770,439 | \$ (806,508) | \$ (18,854) | \$ (8,321) | \$ (61,313) | \$ 68,549 | \$ - | \$ (2,688,258) |
| Noncapital financing activities | 11,618,636 | 2,335,653 | - | 18,694 | - | - | 2 | - | - | 13,972,985 |
| Capital financing activities | - | (45,884) | (199,795) | (6,532) | (3,343) | - | - | (8,493) | - | (264,047) |
| Investing activities | (500,008) | (170,319) | 238,779 | 825,000 | 108 | 1,139 | 1,836 | - | - | 396,535 |
| Net increase (decrease) in cash | (324,045) | 4,929,873 | 6,809,423 | 30,654 | (22,089) | (7,182) | (59,475) | 60,056 | - | 11,417,215 |
| Cash, beginning of year | 530,931 | 1,950,337 | 1,562,648 | 86,300 | 24,038 | 143,487 | 485,784 | 161,175 | - | 4,944,700 |
| Cash, end of year | \$ 206,886 | \$ 6,880,210 | \$ 8,372,071 | \$ 116,954 | \$ 1,949 | \$ 136,305 | \$ 426,309 | \$ 221,231 | \$ - | \$ 16,361,915 |

Southern Illinois University
Required Supplementary Information
For the Year Ended June 30,2019

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

| | FY2014 | FY2015 | FY2016 | FY2017 | FY2018 | FY2019 |
|--|------------------|------------------|------------------|------------------|------------------|---------------|
| (a) Proportion Percentage of the Collective Pension Liability | 0% | 0% | 0% | 0% | 0% | 0% |
| (b) Proportion Amount of the Collective Net Pension Liability | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| (c) Portion of Non-employer Contributing Entities' Total Proportion of Collective Net Pension Liability associated with Employer | | | | | | |
| | \$ 2,080,655,567 | \$ 2,249,485,883 | \$ 2,412,381,441 | \$ 2,333,202,952 | \$ 2,471,128,271 | |
| Total (b) + (c) | \$ 2,080,655,567 | \$ 2,249,485,883 | \$ 2,412,381,441 | \$ 2,333,202,952 | \$ 2,471,128,271 | |
| Employer DB Covered Payroll | \$ 345,273,428 | \$ 342,213,039 | \$ 335,537,035 | \$ 323,289,793 | \$ 321,010,532 | |
| Proportion of Collective Net pension Liability associated with Employer as a percentage of covered payroll | 602.61% | 657.33% | 718.96% | 721.71% | 769.80% | |
| SURS Plan Net position as a Percentage of Total Pension Liability | 44.39% | 42.37% | 39.57% | 42.04% | 41.27% | |

Southern Illinois University's Schedule of Contributions

| | FY2014 | FY2015 | FY2016 | FY2017 | FY2018 | FY2019 |
|---|----------------|----------------|----------------|----------------|----------------|----------------|
| Federal, Trust, Grant and Other contribution | \$ 2,793,781 | \$ 2,735,385 | \$ 2,880,150 | \$ 2,591,913 | \$ 2,583,469 | \$ 2,716,085 |
| Contribution in relation to required contribution | \$ 2,793,781 | \$ 2,735,385 | \$ 2,880,150 | \$ 2,591,913 | \$ 2,583,469 | \$ 2,716,085 |
| Contribution deficiency (excess) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Employer Covered Payroll | \$ 349,400,692 | \$ 347,637,400 | \$ 340,592,619 | \$ 328,056,298 | \$ 325,751,172 | \$ 329,958,236 |
| Contributions as a percentage of covered payroll | 0.80% | 0.79% | 0.85% | 0.79% | 0.79% | 0.82% |

Southern Illinois University
Required Supplementary Information
For the Year Ended June 30,2019

Changes of benefit terms. There were no benefit changes recognized in the Total Pension Liability as of June 30, 2018 or June 30, 2017.

Changes of assumptions. In accordance with the Illinois Compiled Statutes, and 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, 2014 to June 30, 2017 was performed in February 2018, resulting in the adoption of new assumptions as of June 30, 2018.

- *Salary increase. Decrease in the overall assumed salary increase rates, ranging from 3.25% to 12.25% based on years of service, with underlying wage inflation of 2.25%
- *Investment return. Decrease the investment return assumption to 6.75%. This reflects maintaining an assumed real rate of return of 4.5% and decreasing the underlying assumed price inflation to 2.25%
- *Effective rate of interest. Decrease the long-term assumption for the ERI for crediting the money purchase accounts to 6.75% (effective July 2, 2019)
- *Normal retirement rates. A slight increase in the retirement rate at age 50. No change to the rates for ages 60-61, 67-74 and 80+, but a slight decrease in rates at all other ages. A rate of 50% if the member has 40 or more years of service and is younger than age 80.
- *Early retirement rates. Decrease in rates for all Tier 1 early retirement eligibility ages (55-59)
- *Turnover rates. Change rates 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.
- *Mortality rates. Maintain the RP-2014 mortality tables with projected generational mortality improvement. Update the projection scale from the MP-2014 to the MP-2017 scale.
- *Disability rates. Decrease current rates to reflect that certain members who receive disability benefits do not receive the benefits on a long-term basis.

Changes of assumptions. In accordance with Illinois Compiled Statutes, an actuarial review is to be performed at least once every three years to determine the reasonableness of actuarial assumptions regarding the retirement, disability, mortality, turnover, interest and salary of the members and benefit recipients of SURS. An experience review for the years June 30, 2010 to June 30, 2014 was performed in February 2015, resulting in the adoption of new assumptions as of June 30, 2015.

- *Mortality rates. Change from the RP 2000 Mortality table projected to 2017, sex distinct, to the RP-2014 mortality tables with projected generational mortality improvement. Change to a separate mortality assumption for disabled participants.
 - *Salary increase. Change assumption to service-based rates, ranging from 3.75% to 15% based on years of service, with underlying wage inflation of 3.75%.
 - *Normal retirement rates. Change to retirement rates at ages younger than 60, age 66, and ages 70-79 to reflect observed experiences.
 - *Early retirement rates. Change to a slight increase to the rates at ages 55 and 56.
 - *Turnover rates. Change to produce lower expected turnover for members with less than 10 years of service and higher turnover for members with more than 10 years of service than the currently assumed rates.
 - *Disability rates. Decrease rates and have separate rates for males and females to reflect observed experience.
 - *Dependent assumption. Maintain the current assumption on marital status that varies by age and sex and the assumption that males are three years older than their spouses.
- **Note: The System implemented GASB No. 68 in fiscal year 2015. The information above is presented for as many years as available. The Schedule is intended to show information for 10 years.

Southern Illinois University
Required Supplementary Information
For the Year Ended June 30, 2019

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

| | FY2017 | FY2018 |
|--|---------------|---------------|
| Proportionate percentage of the collective total OPEB liability | 0.42% | 0.34% |
| Proportionate amount of the collective total OPEB Liability | \$174,634,628 | \$137,600,029 |
| Estimated proportionate amount of collective total OPEB liability associated with the University-State supported portion | 2,716,859,537 | 1,904,874,439 |
| Total OPEB Liability | 2,891,494,165 | 2,042,474,468 |
| Employer covered employee payroll | 461,829,674 | 460,985,006 |
| Proportionate share of total OPEB liability as a percentage of covered employee payroll | 626.10% | 443.07% |

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

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

Changes of Assumptions:

The single discount rate was changed from 3.56% to 3.62% for fiscal year 2018.

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

The healthcare trend assumptions were updated based on claim and enrollment experience through June 30, 2017, projected plan costs for plan year end June 30, 2018, premium changes through plan year end 2019, and expectation of future trend increases after June 30, 2018

The Cadillac Tax trend adjustment was updated based on available premium and enrollment information as of June 30, 2018

Per capita claim costs for plan year end June 30, 2018, were updated based on projected claims and enrollment experience through June 30, 2018, and updated premium rates through plan year 2019

Healthcare plan participation rates by plan were updated based on observed experience

Southern Illinois University
Supplementary Information
Table of Operating Expenses
For the Year Ended June 30, 2019

| | Compensation and Benefits | | | | | | | | Other Expenses | Total Operating Expenses | |
|--|---------------------------|-----------------------|-------------------|-----------------------|----------------------------|-------------------------|-----------------------|-----------------------|-----------------------|--------------------------------|-------------------------|
| | University Expenses | | | | State of Illinois Expenses | | | | | | |
| | Salaries ¹ | Benefits ² | OPEB ³ | Sub-Total | Benefits ² | OPEB ³ | Pension | Sub-Total | | | Total |
| Instruction | \$ 174,394,353 | \$ 2,074,974 | \$ - | \$ 176,469,327 | \$ 21,265,921 | \$ (37,947,266) | \$ 91,352,392 | \$ 74,671,047 | \$ 251,140,374 | \$ 35,250,617 | \$ 286,390,991 |
| Research | 18,931,739 | 2,409,486 | - | 21,341,225 | 1,695,052 | (3,024,680) | 5,872,346 | 4,542,718 | 25,883,943 | 14,836,831 | 40,720,774 |
| Public service | 28,409,643 | 7,863,517 | - | 36,273,160 | 1,327,734 | (2,369,230) | 4,186,740 | 3,145,244 | 39,418,404 | 20,408,485 | 59,826,889 |
| Academic support | 123,093,051 | 2,324,826 | - | 125,417,877 | 18,938,470 | (33,794,124) | 64,584,777 | 49,729,123 | 175,147,000 | 43,676,789 | 218,823,789 |
| Student services | 29,272,364 | 273,613 | - | 29,545,977 | 5,271,469 | (9,406,497) | 16,125,995 | 11,990,967 | 41,536,944 | 33,471,630 | 75,008,574 |
| Institutional support | 35,843,326 | 3,032,049 | - | 38,875,375 | 10,307,230 | (18,392,393) | 24,421,623 | 16,336,460 | 55,211,835 | 7,941,922 | 63,153,757 |
| Scholarships and fellowships | 621,717 | 33 | - | 621,750 | - | - | - | - | 621,750 | 49,846,499 | 50,468,249 |
| Depreciation | - | - | - | - | - | - | - | - | - | 52,767,825 | 52,767,825 |
| Operations and maintenance of plant | 25,410,164 | 14,524 | - | 25,424,688 | 6,736,213 | (12,020,210) | 21,963,143 | 16,679,146 | 42,103,834 | 35,336,337 | 77,440,171 |
| Auxiliary facilities | 22,414,526 | 690,802 | - | 23,105,328 | 5,422,101 | (9,675,287) | 12,841,732 | 8,588,546 | 31,693,874 | 48,185,143 | 79,879,017 |
| Total | \$ 458,390,883 | \$ 18,683,824 | \$ - | \$ 477,074,707 | \$ 70,964,190 | \$ (126,629,687) | \$ 241,348,748 | \$ 185,683,251 | \$ 662,757,958 | \$ 341,722,078 | \$ 1,004,480,036 |

¹Salaries include employer contributions for Social Security, Medicare and unemployment.

²Benefits include certain group insurance costs, such as healthcare and life insurance. For the University, it also includes employer Section 403(b) contributions.

³OPEB refers to other post-employment benefits.

Southern Illinois University
Other Information (Unaudited)
Table of Operating Expenses (Unaudited)
For the Year Ended June 30, 2018

| | Compensation and Benefits | | | | | | | | Total | Other | Total | | |
|--|---------------------------|-----------------------|-------------------|-----------------------|----------------------------|----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-------------------------|----------|-----------|
| | University Expenses | | | | State of Illinois Expenses | | | | | | | Expenses | Operating |
| | Salaries ¹ | Benefits ² | OPEB ³ | Sub-Total | Benefits ² | OPEB ³ | Pension | Sub-Total | | | | | |
| Instruction | \$ 176,073,846 | \$ 2,156,607 | \$ - | \$ 178,230,453 | \$ 21,052,806 | \$ 36,086,897 | \$ 85,748,304 | \$ 142,888,007 | \$ 321,118,460 | \$ 38,918,622 | \$ 360,037,082 | | |
| Research | 18,842,299 | 2,525,838 | - | 21,368,137 | 1,374,301 | 2,355,708 | 5,162,677 | 8,892,686 | 30,260,823 | 16,531,930 | 46,792,753 | | |
| Public service | 26,544,648 | 7,455,461 | - | 34,000,109 | 1,020,927 | 1,749,984 | 3,730,027 | 6,500,939 | 40,501,048 | 19,458,813 | 59,959,861 | | |
| Academic support | 112,491,432 | 2,063,767 | - | 114,555,199 | 15,297,045 | 26,220,867 | 56,865,859 | 98,383,771 | 212,938,970 | 42,677,569 | 255,616,539 | | |
| Student services | 27,260,613 | 285,787 | - | 27,546,400 | 3,902,752 | 6,689,759 | 13,755,081 | 24,347,591 | 51,893,991 | 36,515,555 | 88,409,546 | | |
| Institutional support | 35,992,242 | 4,711,946 | - | 40,704,188 | 6,313,143 | 10,821,441 | 22,993,458 | 40,128,042 | 80,832,230 | 5,141,483 | 85,973,713 | | |
| Scholarships and fellowships | 484,813 | - | - | 484,813 | - | - | - | - | 484,813 | 47,422,744 | 47,907,557 | | |
| Depreciation | - | - | - | - | - | - | - | - | - | 53,196,616 | 53,196,616 | | |
| Auxiliary facilities | 24,753,146 | 687,352 | - | 25,440,498 | 4,049,509 | 6,941,317 | 13,230,706 | 24,221,532 | 49,662,030 | 55,879,915 | 105,541,945 | | |
| Operations and maintenance of plant | 24,444,726 | 18,206 | - | 24,462,932 | 5,231,869 | 8,968,015 | 19,455,149 | 33,655,033 | 58,117,965 | 32,475,906 | 90,593,871 | | |
| Other | - | - | - | - | - | - | - | - | - | 193,773 | 193,773 | | |
| Total | \$ 446,887,765 | \$ 19,904,964 | \$ - | \$ 466,792,729 | \$ 58,242,352 | \$ 99,833,988 | \$ 220,941,261 | \$ 379,017,601 | \$ 845,810,330 | \$ 348,412,926 | \$ 1,194,223,256 | | |

¹Salaries include employer contributions for Social Security, Medicare and unemployment.

²Benefits include certain group insurance costs, such as healthcare and life insurance. For the University, it also includes employer Section 403(b) contributions

³OPEB refers to other post-employment benefits.

STATE OF ILLINOIS

SOUTHERN ILLINOIS UNIVERSITY

HOUSING AND AUXILIARY FACILITIES SYSTEM

FINANCIAL AUDIT

For the Year Ended June 30, 2019

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

**STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY
HOUSING AND AUXILIARY FACILITIES SYSTEM
ANNUAL FINANCIAL REPORT
For the Year Ended June 30, 2019**

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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

January 21, 2020

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

I am pleased to submit the annual Treasurer's Report to the Bondholders for the Southern Illinois University Housing and Auxiliary Facilities System for the fiscal year ended June 30, 2019.

The Series 2019A Housing and Auxiliary Facilities System bonds were issued in April 2019 in the amount of \$5,040,000. These bonds were sold to finance the cost of reconstruction of parking lots and related curbs, ramps, sidewalks, lighting, charging stations and emergency phones.

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

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

Respectfully submitted,

SIGNED COPY ON FILE

Duane Stucky
Board Treasurer

DS/sjp

**SOUTHERN ILLINOIS UNIVERSITY HOUSING AND AUXILIARY FACILITIES SYSTEM
TREASURER'S COMMENTS (UNAUDITED)
For the Year Ended June 30, 2019**

I. SOUTHERN ILLINOIS UNIVERSITY REVENUE BOND OPERATIONS - FACILITIES

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

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

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

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

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

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

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

The eighth phase expanded the System to include Wall and Grand Apartments on the Carbondale campus. The residence hall consists of approximately 169,000 gross square feet and is designed to provide apartment-style living quarters for 400 on-campus students. This phase also includes the installation of automatic sprinkler

**SOUTHERN ILLINOIS UNIVERSITY HOUSING AND AUXILIARY FACILITIES SYSTEM
TREASURER'S COMMENTS (UNAUDITED)
For the Year Ended June 30, 2019**

systems in Schneider Hall, Mae Smith Hall and Neely Hall on the Carbondale campus as well as modification of the HVAC systems and humidity controls in Prairie Hall, Bluff Hall, and Woodland Hall on the Edwardsville campus. The funds for construction and improvements were provided through the issuance of bonds totaling \$40,390,000.

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

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

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

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

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

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

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

The sixteenth phase expanded the System to include improvements to multiple parking lots as well as the installation of emergency phones at Korte Stadium on the Edwardsville campus. The funds for construction and improvements were provided through the issuance of bonds totaling \$5,040,000.

**SOUTHERN ILLINOIS UNIVERSITY HOUSING AND AUXILIARY FACILITIES SYSTEM
TREASURER'S COMMENTS (UNAUDITED)
For the Year Ended June 30, 2019**

II. ENROLLMENTS AT SOUTHERN ILLINOIS UNIVERSITY

The University reports the following enrollments, by campus:

| | <u>Head Count*</u> | <u>Full-Time Equivalency**</u> |
|--------------------------------------|--------------------|------------------------------------|
| Carbondale Campus (semester basis) | | |
| Fall semester 2018 | 12,817 | 10,851 |
| Fall semester 2017 | 14,554 | 12,463 |
| Edwardsville Campus (semester basis) | | |
| Fall semester 2018 | 13,281 | 10,942 |
| Fall semester 2017 | 13,796 | 11,523 |

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

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

III. HISTORICAL OCCUPANCY OF SYSTEM FACILITIES

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

| Building Location | Range of Occupancy Charges for 2019 | Occupancy Rates | | | | |
|-------------------------------|--|------------------------|-------------|-------------|-------------|-------------|
| | | 2019 | 2018 | 2017 | 2016 | 2015 |
| Evergreen Terrace (C) | | | | | | |
| 302 Apartments | \$4,060 - \$9,720 | 79.5% | 86.6% | 80.3% | 84.1% | 80.3% |
| Thompson Point (C) | | | | | | |
| 1,246 Persons | \$10,622 - \$14,276 | 95.6% | 74.2% | 79.1% | 91.6% | 96.3% |
| Towers (C) | | | | | | |
| 2,278 Persons | \$10,622 - \$14,276 | -- -- | 40.7% | 66.0% | 83.8% | 96.1% |
| University Hall (C) | | | | | | |
| 327 Persons | \$6,292 - \$14,276 | 95.1% | 15.4% | 38.7% | 64.5% | 93.3% |
| Wall & Grand (C) | | | | | | |
| 396 Persons (Bldg I,II & III) | \$6,410 - \$7,784 | 90.5% | 94.3% | 97.1% | 97.2% | 97.8% |
| Cougar Village (E) | | | | | | |
| 496 Apartments | \$4,690 - \$15,250 | 82.4% | 83.8% | 89.1% | 90.0% | 95.0% |
| Woodland Hall (E) | | | | | | |
| 257 Rooms | \$9,730 - \$17,260 | 79.3% | 81.0% | 85.3% | 94.0% | 95.7% |
| Prairie Hall (E) | | | | | | |
| 260 Rooms | \$9,730 - \$17,260 | 76.1% | 76.8% | 81.2% | 93.4% | 96.1% |
| Bluff Hall (E) | | | | | | |
| 260 Rooms | \$9,730 - \$17,260 | 82.9% | 80.3% | 86.1% | 94.6% | 97.0% |
| Evergreen Hall (E) | | | | | | |
| 131 Apartments | \$6,560 - \$12,260 | 94.3% | 97.6% | 96.9% | 97.2% | 98.1% |

(C) Carbondale Campus, (E) Edwardsville Campus

Rates did not change in FY19. Towers were unused during the 2018-2019 academic year.

SOUTHERN ILLINOIS UNIVERSITY HOUSING AND AUXILIARY FACILITIES SYSTEM
TREASURER'S COMMENTS (UNAUDITED)
For the Year Ended June 30, 2019

IV. DEBT SERVICE COVERAGES

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

| | Year ended June 30, | |
|--|----------------------|----------------------|
| | 2019 | 2018 |
| Receipts: | | |
| Revenue Account: | | |
| Operating Receipts | \$ 86,830,904 | \$ 94,518,544 |
| Revenue Bond Fees | 1,188,959 | 1,257,391 |
| Retirement of Indebtedness – Investment Income | 420,113 | 344,913 |
| Total Receipts | <u>88,439,976</u> | <u>96,120,848</u> |
| Disbursements: | | |
| Operation and Maintenance Account | <u>60,799,613</u> | <u>67,866,276</u> |
| Net Revenues | 27,640,363 | 28,254,572 |
| Plus: Pledged Retained Tuition | <u>25,353,207</u> | <u>24,725,895</u> |
| Total Available for Debt Service | <u>\$ 52,993,570</u> | <u>\$ 52,980,467</u> |
| Maximum Annual Debt Service | <u>\$ 25,353,207</u> | <u>\$ 24,725,895</u> |
| Coverage Ratio Based on Net Revenues | 109% | 114% |
| Coverage Ratio as Defined in the Bond Resolution | 209% | 214% |

V. RETIREMENT OF INDEBTEDNESS

The net position is restricted for the following purposes:

| | June 30, | |
|--|----------------------|----------------------|
| | 2019 | 2018 |
| Bond and Interest Sinking Fund Account | \$ 6,107,444 | \$ 5,990,820 |
| Debt Service Reserve Account | <u>6,100,000</u> | <u>6,100,000</u> |
| | <u>\$ 12,207,444</u> | <u>\$ 12,090,820</u> |

VI. RENEWALS AND REPLACEMENTS

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

Additions during the year included transfers from unrestricted net position of \$2,801,975 (\$4,222,040 in 2018) and investment income of \$424,857 in 2019 and \$252,651 in 2018. Expenditures charged to the reserve amounted to \$4,926,771 in 2019 and \$5,301,152 in 2018.

SOUTHERN ILLINOIS UNIVERSITY HOUSING AND AUXILIARY FACILITIES SYSTEM
TREASURER'S COMMENTS (UNAUDITED)
For the Year Ended June 30, 2019

The net position of Renewals and Replacements consisted of the following:

| | June 30, | |
|-----------------------------|----------------------|----------------------|
| | <u>2019</u> | <u>2018</u> |
| Pooled Cash and Investments | \$ 27,320,191 | \$ 29,122,930 |
| Accrued Interest Receivable | 146,605 | 112,675 |
| Accounts Payable | <u>(1,214,006)</u> | <u>(1,282,876)</u> |
| | <u>\$ 26,252,790</u> | <u>\$ 27,952,729</u> |

VII. SCHEDULE OF BONDS PAYABLE OUTSTANDING

A Schedule of Bonds Payable Outstanding is shown as supplementary information and lists the amount of Housing and Auxiliary Facilities System Revenue Project and Refunding Bonds and Revenue Bonds Series 2019A, 2015B, 2015A, 2012B, 2012A, 2009A, 2008A, 2006A and 1999A issued and outstanding as of June 30, 2019.

VIII. RESTRICTED NET POSITION – EXPENDABLE

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

| | <u>2019</u> | <u>2018</u> |
|----------------------------|----------------------|----------------------|
| Retirement of indebtedness | \$ 12,207,444 | \$ 12,090,820 |
| Renewals and replacements | 26,252,790 | 27,952,729 |
| Unexpended | <u>(71,671)</u> | <u>-</u> |
| | <u>\$ 38,388,563</u> | <u>\$ 40,043,549</u> |

**Southern Illinois University
Board of Trustees and
Officers of Administration
Fiscal Year 2019**

BOARD OF TRUSTEES OF SOUTHERN ILLINOIS UNIVERSITY

| | |
|--|--------------|
| Amy Sholar, member; Chair (7/01/18 to 02/14/19) | Alton |
| J. Phil Gilbert, Vice Chair (07/01/18 to 02/14/19), Chair (02/14/19 to 06/30/19) | Carbondale |
| Ed Hightower, member (3/22/19); Vice Chair (03/27/19 to 06/30/19) | Edwardsville |
| Joel Sambursky, Secretary (07/01/18 to 03/22/19) | Carbondale |
| Roger Tedrick, member (3/22/19); Secretary (03/27/19 to 06/30/19) | Mt. Vernon |
| Thomas Britton (7/01/18 to 3/22/19) | Makanda |
| Shirley Portwood, member; Vice Chair (02/14/19 to 03/22/19) | Godfrey |
| Marsha Ryan (07/01/18 to 03/22/19) | Carbondale |
| Randal Thomas (07/01/18 to 03/22/19) | Springfield |
| Edgar Curtis (03/22/19 to 06/30/19) | Springfield |
| Brione Lockett – Student Elected | Carbondale |
| Subhash Sharma (03/22/19 to 06/30/19) | Carbondale |
| John Simmons (03/22/19 to 06/30/19) | Alton |
| Molly Smith – Student Elected | Edwardsville |

OFFICERS OF SOUTHERN ILLINOIS UNIVERSITY

Randy J. Dunn, President (7/1/18 to 7/15/18)
J. Kevin Dorsey, Interim President (7/16/18 to 6/30/19)
Lucas Crater, General Counsel
W. Bradley Colwell, Vice President, Student and Academic Affairs (7/1/18 to 4/3/19)
James S. Allen, Acting Vice President, Student and Academic Affairs (4/15/19 to 6/30/19)
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

Carlo Montemagno, Chancellor (7/1/18 to 10/11/18)
John M. Dunn, Interim Chancellor (1/1/19 to 6/30/19)
Meera Komaraju, Provost and Vice Chancellor for Academic Affairs
Jerry Kruse, Dean and Provost, Chief Executive Officer, SIU School of Medicine
Judith M. Marshall, Vice Chancellor for Administration and Finance
James Garvey, Interim Vice Chancellor for Research
Lori Stettler, Vice Chancellor for Student Affairs
James Salmo, Vice Chancellor for Development and Alumni Relations (7/1/18 to 12/31/18)
Rae Goldsmith, Interim Vice Chancellor for Development and Alumni Relations (1/1/19 to 6/30/19)

OFFICERS OF ADMINISTRATION, SOUTHERN ILLINOIS UNIVERSITY EDWARDSVILLE

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

BOARD OFFICES

The Agency's primary administrative offices are located at:

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

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

**STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY
HOUSING and AUXILIARY FACILITIES SYSTEM
FINANCIAL AUDIT
For the Year Ended June 30, 2019**

FINANCIAL STATEMENT REPORT

Summary

The audit of the accompanying financial statements of Southern Illinois University Housing and Auxiliary Facilities System was performed by Plante & Moran, PLLC.

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

Exit Conference

An exit conference was waived in correspondence from Kim Labonte, Executive Director of Internal Audit on January 17, 2020.

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the business-type activities of Southern Illinois University Housing and Auxiliary Facilities System (the "System"), a segment of Southern Illinois University, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the System as of June 30, 2019 and the changes in its financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

Emphasis of Matter

As discussed in Note 1 to the financial statements, the financial statements of the System are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the business-type activities of Southern Illinois University that is attributable to the transactions of the System. They do not purport to, and do not, present fairly the financial position of Southern Illinois University as of June 30, 2019 and its change in financial position and its cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Schedule of Housing and Auxiliary Facilities System's Proportionate Share of the Net Pension Liability and Housing and Auxiliary Facilities System's Schedule of Pension Contributions on page 38, and the Schedule of Housing and Auxiliary Facilities System's Proportionate Share of the Net OPEB Liability on page 40 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements.

The Schedule of Bonds Payable Outstanding on pages 41-44, and the Table of Operating Expenses for the year ended June 30, 2019 on page 45, are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit and the procedures performed as described above, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Treasurer's Letter of Transmittal on page 1, the Treasurers' Comments on pages 2-6, the Board of Trustees and Officers of Administration on pages 7-8, and the Table of Operating Expenses for the year ended June 30, 2018 on page 46, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

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

In connection with our audit, nothing came to our attention that caused us to believe that the System was not in compliance with any of the fund accounting covenants of the Resolutions of the Board of Trustees of Southern Illinois University, which provided for the issuance of the Southern Illinois University Housing and Auxiliary Facilities System Revenue Bonds Series 2019A, Revenue Bonds Series 2015B, Revenue Bonds Series 2015A, Revenue Bonds Series 2012B1, Revenue Bonds Series 2012B2, Revenue Bonds Series 2012A, Revenue Bonds Series 2009A, Revenue Bonds Series 2008A, Revenue Bonds Series 2006A, Revenue Bonds Series 2004A, Revenue Bonds Series 1999A, Revenue Bonds Series 1997A, and Revenue Bonds Series 1993A adopted April 10, 2019, July 16, 2015, March 19, 2015, November 8, 2012, November 8, 2012, December 8, 2011, April 2, 2009, April 10, 2008, March 9, 2006, October 14, 2004, May 13, 1999, July 10, 1997, and May 13, 1993, respectively, insofar as they related to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the System's noncompliance with the above-referenced terms, covenants, provisions, or conditions of the Resolution of the Board of Trustees of Southern Illinois University, insofar as they relate to accounting matters.

Restricted Use Relating to the Other Matter

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 21, 2020 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to solely describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

SIGNED COPY ON FILE

Plante & Moran, PLLC

Portage, Michigan
January 21, 2020

SOUTHERN ILLINOIS UNIVERSITY
HOUSING AND AUXILIARY FACILITIES SYSTEM
STATEMENT OF NET POSITION
June 30, 2019

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

CURRENT ASSETS:

| | |
|---|---------------|
| Pooled cash and investments | \$ 25,634,301 |
| Pooled cash and investments, restricted | 31,651,436 |
| Short term investments, restricted | 11,077,552 |
| Accounts receivable, net | 2,302,986 |
| Accrued interest receivable | 237,564 |
| Merchandise for resale | 839,928 |
| Prepaid expenses and other assets | 155,200 |

TOTAL CURRENT ASSETS 71,898,967

NONCURRENT ASSETS:

| | |
|-------------------------------------|-------------|
| Long term investments, restricted | 2,173,760 |
| Prepaid expenses and other assets | 536,007 |
| Capital assets, not depreciated | 7,867,624 |
| Capital assets, net of depreciation | 234,364,734 |

TOTAL NONCURRENT ASSETS 244,942,125

DEFERRED OUTFLOWS OF RESOURCES 2,214,152

TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES 319,055,244

LIABILITIES AND DEFERRED INFLOWS OF RESOURCES

CURRENT LIABILITIES:

| | |
|--|------------|
| Accounts payable | 3,072,031 |
| Accrued interest payable | 1,738,181 |
| Accrued payroll | 755,058 |
| Accrued compensated absences | 192,579 |
| Housing deposits | 85,286 |
| Liability for other post employment benefits | 205,780 |
| Unearned revenue | 1,840,000 |
| Revenue bonds payable | 18,903,314 |

TOTAL CURRENT LIABILITIES 26,792,229

NONCURRENT LIABILITIES:

| | |
|--|-------------|
| Accrued compensated absences | 1,456,594 |
| Housing deposits | 104,239 |
| Revenue bonds payable | 177,871,690 |
| Liability for other post employment benefits | 8,588,405 |

TOTAL NONCURRENT LIABILITIES 188,020,928

DEFERRED INFLOWS OF RESOURCES 4,689,428

TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES 219,502,585

NET POSITION

| | |
|-----------------------------------|------------|
| Net investment in capital assets | 50,586,472 |
| Restricted for: | |
| Expendable | |
| Capital projects and debt service | 38,388,563 |
| Unrestricted | 10,577,624 |

TOTAL NET POSITION \$ 99,552,659

The accompanying notes are an integral part of this statement.

SOUTHERN ILLINOIS UNIVERSITY
HOUSING AND AUXILIARY FACILITIES SYSTEM
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Year Ended June 30, 2019

REVENUES

OPERATING REVENUES:

| | |
|--|-------------------|
| Residence halls and apartments | \$ 38,699,353 |
| University student centers | |
| Sales and services | 15,228,222 |
| Student fees | 7,134,873 |
| Student recreation and fitness centers | |
| Sales and services | 1,034,039 |
| Student fees | 4,810,355 |
| Child care center | 1,040,543 |
| Student health center | 6,477,397 |
| Student services building | 2,593,383 |
| Traffic and parking | 3,064,698 |
| Student success center | 1,562,809 |
| Revenue bond fees | 1,204,405 |
| TOTAL OPERATING REVENUES | <u>82,850,077</u> |

EXPENSES

OPERATING EXPENSES:

| | |
|---------------------------------|--------------------|
| Salaries and wages | 29,885,556 |
| Merchandise for resale | 7,618,389 |
| Utilities | 6,767,745 |
| Maintenance and repairs | 11,483,908 |
| Administrative | 11,800,451 |
| Other | 3,935,673 |
| Depreciation | 15,304,955 |
| TOTAL OPERATING EXPENSES | <u>86,796,677</u> |
| OPERATING LOSS | <u>(3,946,600)</u> |

NONOPERATING REVENUES (EXPENSES)

| | |
|--|------------------|
| Investment income | 1,844,051 |
| Gifts and contributions | 958,225 |
| Special funding situation for fringe benefits | 2,724,071 |
| Benefit payments on behalf of the System | 4,884,496 |
| Interest on capital asset-related debt | (6,838,198) |
| Accretion on bonds payable | (2,646,437) |
| Other nonoperating revenue | 4,973,389 |
| NET NONOPERATING REVENUES | <u>5,899,597</u> |
| INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES | <u>1,952,997</u> |

OTHER REVENUES, EXPENSES, GAINS OR LOSSES

| | |
|--|------------------|
| Capital assets retired | (32,779) |
| Additions to plant facilities from other sources | 219,703 |
| TOTAL OTHER REVENUES, EXPENSES, GAINS OR LOSSES | <u>186,924</u> |
| INCREASE IN NET POSITION | <u>2,139,921</u> |

NET POSITION

| | |
|------------------------------------|----------------------|
| Net position at beginning of year | <u>97,412,738</u> |
| NET POSITION AT END OF YEAR | <u>\$ 99,552,659</u> |

The accompanying notes are an integral part of this statement.

SOUTHERN ILLINOIS UNIVERSITY
HOUSING AND AUXILIARY FACILITIES SYSTEM
STATEMENT OF CASH FLOWS
Year Ended June 30, 2019

| | |
|---|----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Residence halls and apartments | \$ 37,037,197 |
| University student centers | |
| Sales and services | 15,579,451 |
| Student fees | 7,160,179 |
| Student recreation and fitness centers | |
| Sales and services | 1,021,078 |
| Student fees | 4,801,209 |
| Child care center | 1,041,958 |
| Student health center | 6,422,892 |
| Student services building | 2,553,630 |
| Traffic and parking | 3,025,043 |
| Student success center | 1,599,578 |
| Revenue bond fees | 1,188,959 |
| Payments to employees | (23,513,533) |
| Payments for utilities | (6,967,367) |
| Payments to suppliers | (32,673,290) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>18,276,984</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | |
| Gifts for other than capital purposes | 5,234 |
| Other nonoperating revenue | 4,028,379 |
| NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES | <u>4,033,613</u> |
| CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES | |
| Purchases of capital assets | (3,305,294) |
| Principal paid on capital debt | (17,415,000) |
| Interest paid on capital debt | (7,408,930) |
| Retained bond proceeds | 5,040,000 |
| Other | 1,897,908 |
| NET CASH USED IN CAPITAL FINANCING ACTIVITIES | <u>(21,191,316)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Proceeds from sales and maturities of investments | 26,453,346 |
| Investment income | 1,588,657 |
| Purchase of investments | (26,422,634) |
| NET CASH PROVIDED BY INVESTING ACTIVITIES | <u>1,619,369</u> |
| NET INCREASE IN CASH | 2,738,650 |
| POOLED CASH AND INVESTMENTS - BEGINNING OF THE YEAR | <u>54,547,087</u> |
| POOLED CASH AND INVESTMENTS - END OF THE YEAR | <u>\$ 57,285,737</u> |
| RECONCILIATION OF OPERATING LOSS | |
| TO NET CASH PROVIDED BY OPERATING ACTIVITIES | |
| Operating loss | \$ (3,946,600) |
| Adjustments to reconcile operating loss to net cash provided by operating activities: | |
| Depreciation expense | 15,304,955 |
| Special funding situation for fringe benefits | 2,724,071 |
| Benefit payments on behalf of the System | 4,884,496 |
| Change in assets and liabilities: | |
| Receivables, net | 37,318 |
| Merchandise for resale | 174,742 |
| Prepaid expenses and other assets | 27,351 |
| Accounts payable | 1,804,169 |
| Accrued payroll | 275,903 |
| Accrued compensated absences | (150,393) |
| Housing deposits | (4,150) |
| Unearned revenue | (33,628) |
| Other liabilities | (2,821,250) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>\$ 18,276,984</u> |
| NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES | |
| Special funding situation for fringe benefits | \$ 2,724,071 |
| Benefit payments on behalf of the System | 4,884,496 |
| Capital assets in accounts payable | 352,519 |
| Accretion on bonds payable | 2,646,437 |
| Other capital asset adjustments | 197,988 |
| Loss on disposal of capital assets | 2,640 |

The accompanying notes are an integral part of this statement.

SOUTHERN ILLINOIS UNIVERSITY
HOUSING AND AUXILIARY FACILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

Note 1 - Significant Accounting Policies

Basis of Presentation - These financial statements have been prepared to satisfy the requirements of the Housing and Auxiliary Facilities System's (the "System") Revenue Bonds master indenture. The financial balances and activities of the System, included in these financial statements, are included in the University's financial statements. The System is not a separate legal entity and consists of only those University assets, deferred inflows, liabilities, deferred outflows, net position, revenues, and expenses related to the master indenture and over which the System exercises direct responsibility. The System combines the operations of the individual housing units, the student centers, the student recreation center, the student fitness center, the Carbondale child care center, the Carbondale student health center, the Carbondale student information system, the Carbondale softball field, the Carbondale football stadium, the Carbondale SIU Arena, the Carbondale Student Services Building, Edwardsville traffic and parking and the Edwardsville student success center into one operation. The Revenue Bonds of 2019A, 2015B, 2015A, 2012B, 2012A, 2009A, 2008A, 2006A and 1999A (the "Bonds") are secured in part by the revenues from these operations. These financial statements reflect the combined operations of the System as of and for the year ended June 30, 2019. The individual facilities included in the System are as follows:

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

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

SOUTHERN ILLINOIS UNIVERSITY
HOUSING AND AUXILIARY FACILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

Note 1 - Significant Accounting Policies (Continued)

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.

Pooled Cash and Investments - Pooled cash and investments include the System's portion of the University's internal investments pool as described in Note 2. The System has recorded restricted pooled cash and investments which relate to funds restricted for operations and retirement of indebtedness.

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

Allowance for Uncollectibles - The System provides allowances for uncollectible accounts based upon management's best estimate of uncollectible accounts at the statement of net position date, considering type, age, collection history of receivables, and any other factors as considered appropriate. The System's accounts receivable balance is reported net of allowance of \$9,720,989 at June 30, 2019.

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

Merchandise for Resale - Merchandise for resale includes inventories which are stated at the lower of cost and net realizable value. Cost is determined principally by the average cost method or the first-in, first-out method, depending on the type of inventory.

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

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

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

SOUTHERN ILLINOIS UNIVERSITY
HOUSING AND AUXILIARY FACILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

Note 1 - Significant Accounting Policies (continued)

Deferred Outflows of Resources and Deferred Inflows of Resources - In addition to assets and liabilities, the Statement of Net Position reports separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an expense until that time. The System's deferred outflows of resources are related to unamortized debt refundings and other post-employment benefit contributions. Deferred inflows of resources represent an acquisition of net position that applies to future periods and will not be recognized as revenue until that time. The System's only deferred inflow of resources is related to other post-employment benefits. See Note 5 for more information.

Revenue and Expense Recognition - In accordance with GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, the System reported revenue and expense of \$2,724,071 and benefit payments on behalf of the System of \$4,884,496 for fiscal year 2019 for health care and retirement costs. These amounts are reflected in the Statement of Revenues, Expenses and Changes in Net Position as nonoperating revenues entitled "Special funding situation for fringe benefits" and "Benefit payments on behalf of the System", and as operating expenses under the appropriate functional classifications.

Pension - For the purpose of measuring the net pension liability, deferred outflows and 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 have been determined on the same basis as they are reported by SURS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

For financial reporting purposes, the State of Illinois and its public universities and community colleges are under a special funding situation. A special funding situation exists when a non-employer entity (the State) is legally responsible for making contributions directly to a pension plan that is used to provide pensions to the employees of another entity (the System) and the non-employer (the State) is the only entity with a legal obligation to make contributions directly to a pension plan. The System recognizes its proportionate share of the State's pension expense relative to the University's employees as non-operating revenue and pension expense, with the expense further allocated to the related function performed by the employees.

Other Postemployment Benefits (OPEB) - The State Employees Group Insurance Act of 1971 (SEGIA) (5 ILCS 375), as amended, authorizes the State Employees Group Insurance Program (SEGIP), which includes activity for both active employees and retirees, to provide health, dental, vision and life insurance benefits as a single-employer defined benefit OPEB plan not administered as a trust. Substantially all State and university component unit employees become eligible for these OPEB plan benefits when they become annuitants of one of the State sponsored pension plans. CMS administers these benefits for the annuitants with the assistance of the public retirement systems sponsored by the State, including the General Assembly Retirement System (GARS), Judges Retirement System (JRS), State Employees Retirement System (SERS), Teachers' Retirement System (TRS), and SURS.

In order to fund SEGIP's pay-as-you-go obligations for both current employees and retirees, SEGIA (5 ILCS 375/11) requires contributions based upon total employee compensation paid from any State fund or university component unit, except the university component units shall not be required to make contributions for employees who are totally compensated from each individual university's Income Fund and auxiliary enterprises. Pursuant to a long-standing State policy, the State's General Fund covers the contributions for employees who are totally compensated from each individual university's Income Fund and auxiliary enterprises. This relationship may be modified through the enactment of a Public Act by the State's highest level of decision-making authority exercised by the Governor and the General Assembly pursuant to the State's Constitution.

SOUTHERN ILLINOIS UNIVERSITY
HOUSING AND AUXILIARY FACILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

Note 1 - Significant Accounting Policies (continued)

Given the preceding environment, the University has two separate components of OPEB administered within SEGIP. The (1) State of Illinois and its public universities are under a special funding situation for employees paid from the University's Income Fund or auxiliary enterprises, while (2) the University is responsible for OPEB employer contributions for employees paid from trust, federal, and other funds.

Special Funding Situation Portion of OPEB

A special funding situation exists when a non-employer entity (the State) is legally responsible for making contributions directly to an OPEB plan that is used to provide OPEB to the employees of another entity (the University) and the non-employer (the State) is the only entity with a legal obligation to make contributions directly to an OPEB plan.

During the OPEB measurement period ended June 30, 2018, the University made a voluntary appropriation repayment from either its State appropriation or locally-held resources that was not considered a contribution of \$3,180,662 to help offset the amount the State needed to provide for retirees under the special funding situation described in the preceding paragraph.

The System recognizes its proportionate share of the University's OPEB expense relative to the System's employees as non-operating revenue and OPEB expense, with the expense further allocated to the related function performed by the employees.

University's Portion of OPEB

The University reports a liability, expense allocated to the related function performed by the employees, and related deferred inflows and outflows of resources for OPEB based on the University's proportionate share of amounts paid to SEGIP pursuant to SEGIA for its employees paid from trust, federal, and other funds compared to the collective amounts paid to SEGIP pursuant to SEGIA. The collective amounts paid to SEGIP pursuant to SEGIA includes (1) payments from State agencies for State employees, (2) the amount calculated by CMS to represent the amount paid by the General Fund related to the special funding situation, (3) the total voluntary appropriation repayment from all of the universities, and (4) the total of all payments from the universities for employees paid from trust, federal, and other funds. This methodology has been determined by the State to be the best estimate of how future OPEB payments will be determined.

Deferred inflows and outflows of resources are recognized in OPEB expense at the beginning of the current period, using a systematic and rational method over a closed period, equal to the average expected remaining service lives of all employees, either active or inactive, provided with OPEB through SEGIP, determined as of the beginning of the measurement period.

On-Behalf Transactions - The System had outside sources of financial assistance provided by the State on behalf of the University during the year ended June 30, 2019.

Substantially all active employees participate in group insurance plans provided by the State and administered by CMS, primary providing healthcare benefits. In order to fund SEGIP's pay-as-you-go obligations for both current employees and retirees, SEGIA (5 ILCS 375/11) requires contributions based upon total employee compensation paid from any State fund or university component unit, except the university component units shall not be required to make contributions for employees who are totally compensated from each individual university's Income Fund and auxiliary enterprises. Pursuant to a long-standing State policy, the State's General Fund covers the contributions for employees who are totally compensated from each individual university's Income Fund and auxiliary enterprises. This relationship may be modified through the enactment of a Public Act by the State's highest level of decision-making authority exercised by the Governor and the General Assembly pursuant to the State's Constitution.

SOUTHERN ILLINOIS UNIVERSITY
HOUSING AND AUXILIARY FACILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

Note 1 - Significant Accounting Policies (continued)

During the year ended June 30, 2019, total estimated group insurance contributions for the University's employees paid from the University's Income Fund and auxiliary enterprises were \$75,459,000. The University made a voluntary appropriation repayment from either its State appropriation or locally-held resources that was not considered a contribution of \$4,494,810 to help offset the amount the State needed to provide for current employees under the situation described in the preceding paragraph. As such, the State contributed the estimated remaining balance of \$70,964,190 on-behalf of the University to meet this obligation for current employees.

As the University is not legally responsible to pay for the on-behalf support provided by the State, the University, recognizes non-operating revenues and operating expenses allocated to the related function performed by the employees within the University's financial statements for its current employees' participation in group insurance.

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

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.

New Governmental Accounting Standards - The Governmental Accounting Standards Board (GASB) has issued the following statements which are effective for periods beginning July 1, 2018, or later which may impact the System:

Statement No. 83 – *Certain Asset Retirement Obligations*, addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. Governments with legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on guidance from the statement. The statement is effective for fiscal years beginning after June 15, 2018. The statement did not impact the System's financial statements.

Statement No. 86 – *Certain Debt Extinguishment Issues*, focuses on improving consistency in accounting and financial reporting for defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources are placed in an irrevocable trust for the sole purpose of extinguishing debt. The statement is effective for fiscal years beginning after June 15, 2017. The statement did not impact the System's financial statements.

Statement No. 87 - *Leases*, which increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. This Statement establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The provisions of this statement are effective for the System's financial statements for the 2021 fiscal year. The impact on the System is being reviewed.

SOUTHERN ILLINOIS UNIVERSITY
HOUSING AND AUXILIARY FACILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

Note 1 - Significant Accounting Policies (continued)

Statement No. 88 – *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. The statement also requires additional essential information related to debt be disclosed in notes to financial statements. In accordance with this statement, required information related to direct borrowings and direct placements has been included in the System's note disclosures related to debt (Note 7 Revenue Bonds Payable).

Statement No. 89 – *Accounting for Interest Cost Incurred before the End of a Construction Period*, establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The statement is effective for fiscal years beginning after December 15, 2019. The System has early adopted the statement. In accordance with this statement, the System did not capitalize construction interest costs in its 2019 financial statements. This statement was implemented prospectively according to GASB. Therefore, no prior year restatement was necessary.

Note 2 - Pooled Cash and Investments

It is University policy to invest funds in a manner which will provide investment returns and security consistent with good business practices, while meeting the daily cash flow demands of the University and conforming to all statutes governing the investments of funds. Funds are invested in accordance with the provisions of the Illinois Compiled Statutes, Chapter 30, Sections 235/0.01 – 235/8, the *Public Funds Investment Act*; the policies of the Board; and covenants provided from the University's bond and certificate of participation issuance activities. The University's Investment Policy authorizes the University to invest in securities of the United States of America, its agencies, and its instrumentalities; interest bearing savings accounts, certificates of deposit, interest bearing time deposits, and other direct obligations of any bank defined in the Illinois Banking Act; certain obligations of U.S. corporations rated in the three highest rating classifications by at least two standard rating services provided such obligations do not mature in longer than 3 years from the time of purchase and the issuing entity has at least \$500 million in assets (limited to one-third of total funds); money market mutual funds provided they are comprised of only U.S. Treasuries, agencies and instrumentalities; Public Treasurer's Investment Pool-State Treasurer's Office; repurchase agreements of Government securities; and other specifically defined repurchase agreements.

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

The University has pooled certain cash and investments for the purpose of securing a greater return on investment and providing a more equitable distribution of investment return. Pooled investments, which consist principally of government securities, are stated at market. Income is distributed quarterly based upon average balances invested in the pool over the prior 13 week period. There are no investments in foreign currency. It is not feasible to separately determine the System's bank balance at June 30, 2019 due to the pooling of the University's cash and investments.

**SOUTHERN ILLINOIS UNIVERSITY
HOUSING AND AUXILIARY FACILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2019**

Note 2 - Pooled Cash and Investments (Continued)

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 3 years from the date of purchase; and diversifying the investment portfolio so that the failure of any one issuer or backer will not place an undue financial burden on the University. U.S. Treasuries are federal government securities that do not require the disclosure of credit risk. The U.S. agencies investments typically include the Government National Mortgage Association, the Federal Home Loan Mortgage Corporation, Fannie Mae and the Federal Home Loan Bank, all of which carry a rating in the AA category or higher. The Public Treasurer's Investment Pool is rated AAA.

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

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

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

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

Interest rate risk is disclosed below using the segmented time distribution method. As of June 30, 2019, the System has the following cash and investment balances:

| Investment Type | Fair Value | Investment Maturities (in Years) | | | |
|-------------------------------------|----------------------|---|---------------------|-------------|---------------------|
| | | Less than 1 | 1-5 | 6-10 | More than 10 |
| U.S. Treasuries | \$ 13,251,312 | \$ 11,077,552 | \$ 2,173,760 | \$ - | \$ - |
| Total Investments | 13,251,312 | \$ 11,077,552 | \$ 2,173,760 | \$ - | \$ - |
| Cash and Equivalents | | | | | |
| The Illinois Funds | 25,683,956 | | | | |
| Cash and Equivalents | 31,601,781 | | | | |
| Total Cash & Equivalents | 57,285,737 | | | | |
| Total Cash & Investments | \$ 70,537,049 | | | | |

**SOUTHERN ILLINOIS UNIVERSITY
HOUSING AND AUXILIARY FACILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2019**

Note 2 - Pooled Cash and Investments (Continued)

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

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

Level 2: Inputs other than quoted prices that are observable, either directly or indirectly. These may include quoted prices for similar assets and liabilities in active markets, and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3: Unobservable inputs for an asset or liability.

The System uses Level 2 inputs to measure the fair value of all investments held. Fair values are provided by the University's custodian bank.

Note 3 - Investments and Investment Income

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 reported at amortized cost, which is the same value as the pool shares. State statutes require the Illinois Funds to comply with the *Illinois Public Funds Investment Act* (30 ILCS 235). The Illinois Funds is not registered with the Securities Exchange Commission as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, *Accounting and Financial Reporting for Certain External Investment Pools and Pool Participants*, which establishes accounting and financial reporting standards for qualifying external investment pools that elect to measure for financial reporting purposes all of their investments at amortized cost. For the year ended June 30, 2019, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemptions gates. Also, certain money market investments and non-negotiable certificates of deposit with redemption terms that do not consider market rates are carried at amortized cost.

The calculation of realized gains is independent of the calculation of the net increase in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year. Investment income net of realized and unrealized gains and losses on investments for the year ended June 30, 2019 is reflected below.

| | <u>2019</u> |
|---------------------------------------|----------------------------|
| Interest earnings | \$ 1,738,117 |
| Unrealized gain (loss) on investments | <u>105,934</u> |
| Net investment income | <u><u>\$ 1,844,051</u></u> |

**SOUTHERN ILLINOIS UNIVERSITY
HOUSING AND AUXILIARY FACILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2019**

Note 4 - Capital Assets

Capital asset activity for the year ended June 30, 2019 is as follows:

| | Beginning Balance | Additions | Deletions | Transfers | Ending Balance |
|---|-----------------------|-----------------------|-------------------|-------------|-----------------------|
| Capital assets not being depreciated: | | | | | |
| Land | \$ 605,395 | \$ - | \$ - | \$ - | \$ 605,395 |
| Construction in progress | 6,027,460 | 3,499,012 | - | (2,264,243) | 7,262,229 |
| Total capital assets not being depreciated | 6,632,855 | 3,499,012 | - | (2,264,243) | 7,867,624 |
| Capital assets being | | | | | |
| Buildings | 477,263,203 | 319,308 | - | 2,324,088 | 479,906,599 |
| Improvements | 20,285,379 | 510 | - | (59,845) | 20,226,044 |
| Equipment | 15,070,345 | 333,557 | 764,012 | - | 14,639,890 |
| Total capital assets being depreciated | 512,618,927 | 653,375 | 764,012 | 2,264,243 | 514,772,533 |
| Less accumulated depreciation | | | | | |
| Buildings | 241,270,219 | 13,130,057 | (137,198) | - | 254,537,474 |
| Improvements | 11,392,291 | 1,025,135 | - | - | 12,417,426 |
| Equipment | 13,054,482 | 1,149,763 | 751,346 | - | 13,452,899 |
| Total accumulated | 265,716,992 | 15,304,955 | 614,148 | - | 280,407,799 |
| Total capital assets being depreciated, net | 246,901,935 | (14,651,580) | 149,864 | 2,264,243 | 234,364,734 |
| Capital assets, net | <u>\$ 253,534,790</u> | <u>\$(11,152,568)</u> | <u>\$ 149,864</u> | <u>\$ -</u> | <u>\$ 242,232,358</u> |

Note 5 - Deferred Outflows of Resources

Deferred outflows of resources consisted of the following at June 30, 2019:

| | |
|--------------------------------------|---------------------|
| Unamortized debt refundings | \$ 2,006,119 |
| Employer OPEB contributions | 208,033 |
| Total deferred outflows of resources | <u>\$ 2,214,152</u> |

Note 6 - Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2019 is as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Current Portion |
|--|----------------------|--------------------|---------------------|----------------------|---------------------|
| Revenue Bonds payable | \$198,925,097 | \$7,686,437 | \$17,415,000 | \$189,196,534 | \$18,164,505 |
| Unamortized debt premium other revenue bonds | 8,317,279 | - | 738,809 | 7,578,470 | 738,809 |
| Postemployment benefits | 12,499,363 | - | 3,705,178 | 8,794,185 | 205,780 |
| Compensated absences | 1,799,566 | 25,605 | 175,998 | 1,649,173 | 192,579 |
| Housing deposits | 193,675 | 127,101 | 131,251 | 189,525 | 85,286 |
| Total long-term liabilities | <u>\$221,734,980</u> | <u>\$7,839,143</u> | <u>\$22,166,236</u> | <u>\$207,407,887</u> | <u>\$19,386,959</u> |

**SOUTHERN ILLINOIS UNIVERSITY
HOUSING AND AUXILIARY FACILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2019**

Note 7 – Revenue Bonds Payable

Revenue bonds payable activity for the year ended June 30, 2019:

| Series | Annual Maturity To | Beginning Balance | Accretion/ New Debt | Principal Paid/Debt Refunded | Ending Balance | Current Portion |
|--|--------------------|-----------------------|------------------------|------------------------------|-----------------------|----------------------|
| Other Revenue Bonds: | | | | | | |
| 1999A | 2029 | \$ 48,525,097 | \$ 2,646,437 | \$ 5,670,000 | \$ 45,501,534 | \$ 5,780,000 |
| 2006A | 2021 | 10,940,000 | - | 3,640,000 | 7,300,000 | 3,835,000 |
| 2008A | 2028 | 19,335,000 | - | 1,785,000 | 17,550,000 | 1,900,000 |
| 2009A | 2030 | 36,310,000 | - | 2,460,000 | 33,850,000 | 2,545,000 |
| 2012A | 2032 | 21,465,000 | - | 1,230,000 | 20,235,000 | 1,260,000 |
| 2012B | 2035 | 37,160,000 | - | 1,795,000 | 35,365,000 | 1,890,000 |
| 2015B | 2031 | 18,360,000 | - | 295,000 | 18,065,000 | 210,000 |
| Direct Placements of Revenue Bonds: | | | | | | |
| 2015A | 2030 | 6,830,000 | - | 540,000 | 6,290,000 | 555,000 |
| 2019A | 2029 | - | 5,040,000 | - | 5,040,000 | 420,000 |
| | | <u>\$ 198,925,097</u> | <u>\$ 7,686,437</u> | <u>\$ 17,415,000</u> | 189,196,534 | 18,395,000 |
| Other Revenue Bonds: | | | | | | |
| | | | | | | (230,495) |
| | | | | | 7,578,470 | 738,809 |
| | | | | | <u>\$ 196,775,004</u> | <u>\$ 18,903,314</u> |

On April 10, 2019, the Board adopted the “Eighteenth Supplemental System Revenue Bond Resolution” which amended and supplemented the Original Resolution of August 29, 1984, the First Supplemental Resolution of November 13, 1986, the Second Supplemental Resolution of February 13, 1992, the Third Supplemental Resolution of May 13, 1993, the Fourth Supplemental Resolution of September 12, 1996, the Fifth Supplemental Resolution of July 10, 1997, the Sixth Supplemental Resolution of May 13, 1999, the Seventh Supplemental Resolution of May 11, 2000, the Eighth Supplemental Bond Resolution of July 12, 2001, as amended and restated on December 11, 2003, the Ninth Supplemental Resolution of December 12, 2002, the Tenth Supplemental Resolution of October 14, 2004, the Eleventh Supplemental Bond Resolution of March 9, 2006, as amended and restated on May 2, 2006 and November 9, 2006, the Twelfth Supplemental Bond Resolution of April 10, 2008, the Thirteenth Supplemental System Revenue Bond Resolution of April 2, 2009, the Fourteenth Supplemental System Revenue Bond Resolution of December 8, 2011, the Fifteenth Supplemental System Revenue Bond Resolution of November 8, 2012, the Sixteenth Supplemental System Revenue Bond Resolution of March 19, 2015 and the Seventeenth Supplemental System Revenue Bond Resolution of July 16, 2015. The outstanding bond issues related to the respective bond resolutions of the System are as follows:

Series 2019A Bonds - These Direct Placement bonds were authorized by the Board under the Eighteenth Supplemental Bond Resolution dated April 10, 2019 and were issued as current interest bonds in the original amount of \$5,040,000. The bonds were issued at par with an interest rate of 4.35 percent. The bonds mature at varying amounts from 2020 to 2029. Proceeds will be used to resurface/rebuild multiple parking lots, install new pavement markings/curbs, replace/construct accessible curb ramps/sidewalks and convert to low level LED lighting in all parking lots. EV (electric vehicle) charging stations will be installed in Lot A and emergency phones will be added at Korte Stadium. All projects financed by the Series 2019A bonds are associated with the Edwardsville campus. As of June 30, 2019, these bonds mature in 2029 and were outstanding in the amount of \$5,040,000.

SOUTHERN ILLINOIS UNIVERSITY
HOUSING AND AUXILIARY FACILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

Note 7 – Revenue Bonds Payable (Continued)

Series 2015B Bonds - These bonds were authorized by the Board under the Seventeenth Supplemental Bond Resolution dated July 16, 2015 and were issued as current interest bonds in the original amount of \$20,735,000. The bonds were sold on August 13, 2015 at a premium of \$2,503,381. The bonds mature at varying amounts from 2016 to 2031 with interest rates ranging from 3.00 to 5.00 percent. Proceeds will be used to refund a portion of the Series 2006A current interest bonds. The advance refunding, which was undertaken by the Board to effect a cost savings, resulted in a net decrease in debt service payments of \$16,292,964. The financing resulted in an economic gain of \$3,417,083 and an accounting loss of \$452,331. As of June 30, 2019, these bonds mature in 2031 and were outstanding in the amount of \$19,946,704.

Series 2015A Bonds - These Direct Placement bonds were authorized by the Board under the Sixteenth Supplemental Bond Resolution dated March 19, 2015 and were issued as current interest bonds in the original amount of \$8,205,000. The bonds were issued at par with an interest rate of 2.85 percent. Proceeds will be used for the reconstruction of parking lots including installation of new light poles and pay-by-space equipment on the Edwardsville campus; an expansion of the Student Fitness Center on the Edwardsville campus; and renovation of the Baseball Stadium on the Carbondale Campus. As of June 30, 2019, these bonds mature in 2030 and were outstanding in the amount of \$6,290,000.

Series 2012B Bonds - These bonds were authorized by the Board under the Fifteenth Supplemental Bond Resolution dated November 8, 2012, and were issued in two series. Series 2012B-1 were issued as tax-exempt, current interest bonds in the original amount of \$39,335,000 and Series 2012B-2 were issued as taxable Qualified Energy Conservation bonds in the original amount of \$5,365,000. The bonds were sold on December 19, 2012 at a premium of \$6,245,917 with interest rates ranging from 1.00 to 5.00 percent. The Series 2012B-1 bonds were issued for the purpose of refunding the Series 2003A and a portion of the Series 2004A current interest bonds; and demolition of student residence halls, Allen, Boomer and Wright, commonly referred to as the Triads, on the Carbondale campus. The Series 2012B-2 bonds were issued for financing improvements of the Student Recreation Center. The advance refundings, which were undertaken by the Board to effect cost savings, resulted in a net decrease in debt service payments of \$6,293,473. The financing resulted in an economic gain of \$4,829,291 and an accounting loss of \$2,216,389. As of June 30, 2019, these bonds mature in 2035 and were outstanding in the amount of \$39,757,365.

Series 2012A Bonds - These bonds were authorized by the Board under the Fourteenth Supplemental Bond Resolution dated December 8, 2011 and were issued as current interest bonds in the original amount of \$29,805,000. The bonds were sold on January 11, 2012 at a premium of \$273,628 with interest rates ranging from 2.05 to 4.38 percent. Proceeds will be used for the construction and equipping of a Student Services Building on the Carbondale Campus and refund a portion of the Series 2001A current interest bonds. Debt service reserve funds of \$1,592,622 were released and used to pay a portion of Series 2001A debt service. The current refunding, which was undertaken by the Board to effect a cost savings, resulted in a net decrease in debt service payments of \$1,939,053 of which \$1,592,622 represents application of the debt service reserve released funds. The financing resulted in an economic gain of \$233,957 and an accounting loss of \$9,103. As of June 30, 2019, these bonds mature in 2032 and were outstanding in the amount of \$20,406,449.

Series 2009A Bonds - These bonds were authorized by the Board under the Thirteenth Supplemental Bond Resolution dated April 2, 2009 and were issued as taxable Build America Bonds in the original amount of \$53,735,000. The bonds were issued as current interest bonds on May 15, 2009 at a premium of \$226,028 with interest rates ranging from 2.50 to 6.20 percent. Proceeds will be used for the construction and equipping of a new football stadium on the Carbondale campus, including the relocation of certain tennis courts and playing fields from the project site and the renovation and equipping of the SIU Arena and the construction of a new addition thereto on the Carbondale Campus. As of June 30, 2019, these bonds mature in 2030 and were outstanding in the amount of \$33,967,010.

SOUTHERN ILLINOIS UNIVERSITY
HOUSING AND AUXILIARY FACILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

Note 7 – Revenue Bonds Payable (Continued)

Series 2008A Bonds - These bonds were authorized by the Board under the Twelfth Supplemental Bond Resolution dated April 10, 2008 and were issued as current interest bonds in the original amount of \$30,105,000. The bonds were sold on May 8, 2008 at a premium of \$1,359,732 with interest rates ranging from 3.00 to 5.50 percent and were issued to finance the construction and equipping of a Student Success Center on the Edwardsville campus; the construction and equipping of an expansion to the Student Fitness Center on the Edwardsville campus; and the installation of sprinklers and other safety/security enhancements to housing on the Carbondale campus. As of June 30, 2019, these bonds mature in 2028 and were outstanding in the amount of \$18,147,960.

Series 2006A Bonds - These bonds were authorized by the Board under the Eleventh Supplemental Bond Resolution dated March 9, 2006, as amended and restated on May 2, 2006 and November 9, 2006, and were issued as current interest bonds in the original amount of \$69,715,000. The bonds were sold on May 24, 2006 at a premium of \$3,155,475 with interest rates ranging from 4.00 to 5.25 percent. The bonds were issued for the purpose of refunding a portion of the Series 1997A, 2000A and 2001A current interest bonds; financing the construction of a student residence hall with an adjoining parking lot for the Edwardsville campus; construction of an additional 350 space parking lot for the Edwardsville campus; funding various safety/security enhancements and other replacements to, and renovations of, the facilities of the System on the Carbondale campus; and purchasing and implementing a student information system for the Carbondale campus. As of June 30, 2019, these bonds mature in 2021 and were outstanding in the amount of \$7,700,368.

Series 1999A Bonds - These bonds were authorized by the Board under the Sixth Supplemental Bond Resolution dated May 13, 1999 and were issued as capital appreciation bonds in the original amount of \$21,001,900. The bonds were issued at a premium of \$53,851 with interest rates ranging from 4.10 to 5.55 percent. The capital appreciation bonds are non-interest bearing and will accrete the interest factor as additional bonds payable over the term of the bonds. These bonds were issued to finance the construction of a residence hall and renovations of the University Center food service facilities. All projects financed by the Series 1999A bonds are associated with the Edwardsville campus. The bonds mature in 2029. As of June 30, 2019, after accreting the capital appreciation, these bonds were outstanding in the amount of \$45,519,148.

These bonds, which are payable through 2035, do not constitute a debt of the State of Illinois or the individual members, officers or agents of the Board of Trustees of the University but, together with interest thereon, are payable from and secured by a pledge of and lien on (i) the net revenues of the System, (ii) pledged tuition in an amount not to exceed maximum annual debt service (subject to prior payment of operating and maintenance expenses of the System), (iii) the Bond and Interest Sinking Fund account, and (iv) the Repair and Replacement Reserve account. Unrefunded bonds issued in 2001 and prior are additionally secured by the Debt Service Reserve. Total principal and interest remaining on the debt is \$251,105,759 with annual requirements ranging from \$2,013,460 to \$25,353,207. For the current year, principal and interest paid was \$24,725,895, and the total revenues pledged were \$52,993,570. For fiscal year 2019, the total revenue pledged represents 100 percent of the net revenues of the System and 18 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, 2019, the maximum annual debt service was \$25,353,207 and the coverage was 209 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 \$26,252,790 at June 30, 2019.

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, 2019, there were no outstanding balances of defeased bonds.

**SOUTHERN ILLINOIS UNIVERSITY
HOUSING AND AUXILIARY FACILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2019**

Note 7 – Revenue Bonds Payable (Continued)

Bond debt service requirements to maturity are as follows as of June 30, 2019:

| | <u>Other Revenue Bonds</u> | | <u>Direct Placement Revenue Bonds</u> | | <u>Totals</u> |
|----------------|----------------------------|----------------------|---------------------------------------|---------------------|-----------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> | |
| 2020 | \$ 17,420,000 | \$ 6,565,183 | \$ 975,000 | \$ 393,024 | \$ 25,353,207 |
| 2021 | 17,810,000 | 5,990,202 | 1,000,000 | 364,418 | 25,164,620 |
| 2022 | 15,860,000 | 5,423,133 | 1,045,000 | 329,467 | 22,657,600 |
| 2023 | 16,130,000 | 4,927,605 | 1,075,000 | 292,935 | 22,425,540 |
| 2024 | 16,260,000 | 4,411,262 | 1,110,000 | 255,248 | 22,036,510 |
| 2025-29 | 82,770,000 | 14,049,967 | 5,555,000 | 687,870 | 103,062,837 |
| 2030-34 | 19,070,000 | 3,369,740 | 570,000 | 16,245 | 23,025,985 |
| 2035 | <u>7,075,000</u> | <u>304,460</u> | - | - | <u>7,379,460</u> |
| Total payments | <u>\$ 192,395,000</u> | <u>\$ 45,041,552</u> | <u>\$ 11,330,000</u> | <u>\$ 2,339,207</u> | <u>\$ 251,105,759</u> |

Note 8 - Related Party Transactions

Expenditures to maintain the University Housing Office and Auxiliary Fiscal Reports Office are allocated by the University to the various related operations, including those of the System, on the basis of gross revenues generated by each. In addition, three of the buildings on Greek Row, a portion of the Northwest Annex (29,100 net sq. ft.), one room of the Lentz Hall dining facilities at Thompson Point, and the Student Services Building are leased by the University from the System on a year-to-year basis and are used for a variety of academic, administrative, and student service purposes. The lease rentals (\$749,972 in 2019) are inclusive of the debt service requirements, insurance, administrative overhead and grounds maintenance costs. In addition, the University pays all operating and building maintenance costs for the leased properties.

Expenditures capitalized in 2019 include \$219,703 paid for by other University funds.

Note 9 - Retirement Benefits

General Information about the Pension Plan

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

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, 2018 can be found in the SURS' comprehensive annual financial report (CAFR) Notes to the Financial Statements.

SOUTHERN ILLINOIS UNIVERSITY
HOUSING AND AUXILIARY FACILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

Note 9 - Retirement Benefits (Continued)

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 2019 was 12.29% 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 except for police officers and fire fighters who contribute 9.5% of their earnings. 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), and Section 15-155(j-5) (relating to contributions payable due to earnings exceeding the salary set for the Governor).

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

Net Pension Liability: The net pension liability (NPL) was measured as of June 30, 2018. At June 30, 2018, SURS reported an NPL of \$27,494,556,682.

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. As of the current year measurement date of June 30, 2018, the proportionate share of the State’s net pension liability associated with the University is \$2,471,128,271 or 8.99%, which was an increase of \$138,925,319 or .17% from its proportion measured as of the prior year measurement date of June 30, 2017. This amount is not recognized in the University financial statements. The net pension liability was measured as of June 30, 2017, and the total pension used to calculate the net pension liability was determined based on the June 30, 2018 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 2018. The System’s proportionate share of the University’s net pension liability was \$132,946,701 or 5.38% of the University total, which was a decrease of .31% over the prior year.

Pension Expense: At June 30, 2018, SURS reported a collective net pension expense of \$2,685,322,700.

Employer Proportionate Share of Pension Expense: The University’s proportionate share of collective pension expense is recognized as nonoperating revenue and matching operating expense (compensation benefits) 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 2018. As a result, the University recognized revenue and pension expense of \$241,348,748 from this special funding situation for the year ended June 30, 2019.

**SOUTHERN ILLINOIS UNIVERSITY
HOUSING AND AUXILIARY FACILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2019**

Note 9 - Retirement Benefits (Continued)

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 | \$ 65,521,614 | \$ 181,032,053 |
| Changes in assumption | 1,286,257,095 | 123,218,306 |
| Net difference between projected and actual earnings on pension plan investments | 26,810,634 | 0 |
| Total | \$ 1,378,589,343 | \$ 304,250,359 |

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 |
|--------------------------------|---|
| 2019 | \$ 763,171,084 |
| 2020 | 540,443,042 |
| 2021 | (192,612,398) |
| 2022 | (36,662,744) |
| 2023 | - |
| Thereafter | - |
| Total | \$ 1,074,338,984 |

Employer Deferral of Fiscal Year 2019 Pension Expense

The University paid \$2,716,085 in federal, trust or grant contributions for the fiscal year ended June 30, 2019. These contributions were made subsequent to the pension liability measurement date of June 30, 2018 and are recognized as Deferred Outflows of Resources as of June 30, 2019.

Assumptions and Other Inputs

Actuarial assumptions: The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period June 30, 2014-2017. The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|---|
| Inflation | 2.25 percent |
| Salary increases | 3.25 to 12.25 percent, including inflation |
| Investment rate of return | 6.75 percent beginning with the actuarial valuation as of June 30, 2018 |

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

**SOUTHERN ILLINOIS UNIVERSITY
HOUSING AND AUXILIARY FACILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2019**

Note 9 - Retirement Benefits (Continued)

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, 2018, 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% | 5.00% |
| Private Equity | 6% | 8.50% |
| Non-U.S. Equity | 19% | 6.45% |
| Global Equity | 8% | 6.00% |
| Fixed Income | 19% | 1.50% |
| Treasury-Inflation Protected Securities | 4% | 0.75% |
| Emerging Market Debt | 3% | 3.65% |
| Real Estate-REITS | 4% | 5.45% |
| Direct Real Estate-REITS | 6% | 4.75% |
| Commodities | 2% | 2.00% |
| Hedged Strategies | 5% | 2.85% |
| Opportunity Fund | <u>1%</u> | <u>7.00%</u> |
| Total | 100% | 4.55% |
| Inflation | | <u>2.75%</u> |
| Expected Arithmetic Return | | 7.30% |

Discount Rate: A single discount rate of 6.65% 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 6.75% and a municipal bond rate of 3.62% (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 2075. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2075, 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 6.65%, 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 |
|------------------|--|------------------|
| 5.65% | 6.65% | 7.65% |
| \$33,352,188,584 | \$27,494,556,682 | \$22,650,651,520 |

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.

SOUTHERN ILLINOIS UNIVERSITY
HOUSING AND AUXILIARY FACILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

Note 10 - Post-Employment Benefits

Plan description: SEGIA, as amended, authorizes SEGIP to provide health, dental, vision, and life insurance benefits for certain retirees and their dependents. Substantially all of the University's full-time employees are members of SEGIP. Members receiving monthly benefits from the GARS, JRS, SERS, TRS, and SURS are eligible for these OPEB. The eligibility provisions for SURS are defined within Note 9.

CMS administers OPEB for annuitants with the assistance of GARS, JRS, SERS, TRS, and SURS. The State recognizes SEGIP as a single-employer defined benefit plan, which does not issue a stand-alone financial report.

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

Funding Policy and Annual OPEB Cost: OPEB offered through SEGIP are financed through a combination of retiree premiums, SEGIP contributions pursuant to SEGIA (5 ILCS 375/11), and Federal government subsidies from the Medicare Part D program. These contributions are deposited in the Health Insurance Reserve Fund, which covers both active employees and retired members. Annuitants may be required to contribute towards health and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants who retired prior to January 1, 1998, and who are vested in GARS, JRS, SERS, TRS, and SURS do not contribute toward health and vision benefits. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced five percent for each year of credited service with the State allowing those annuitants with twenty or more years of credited service to not have to contribute towards health and vision benefits. All annuitants are required to pay for dental benefits regardless of retirement date. CMS' Director, on an annual basis, determines the amount of contributions necessary to fund the basic program of group benefits. The State's contributions are made primarily from the State's General Fund on a pay-as-you-go basis. No assets are accumulated or dedicated to funding the retiree benefits and a separate trust has not been established for the funding of OPEB.

For fiscal year 2019, the annual cost of the basic program of group health, dental, and vision benefits before the State's contribution was \$11,269 (\$6,699 if Medicare eligible) per member if the annuitant chose benefits provided by a health maintenance organization and \$13,824 (\$4,984 if Medicare eligible) per member if the annuitant chose other benefits. The State is not required to fund the plan other than the pay-as-you-go amount necessary to provide the current benefits to retirees.

CMS' Changes in Estimates: For the measurement date of June 30, 2018, CMS experienced two significant changes within its estimation process. The OPEB for both the special funding situation and the portion of OPEB where the University is responsible for employer contributions are both significantly impacted by (1) the University's number of participants in SEGIP and (2) the average cost per employee within SEGIP. CMS made changes to its estimation methodology that resulted in significant differences within its estimates which represent an outcome of estimation uncertainty that, as time has passed and new sources of better data have become available, continued to be refined to achieve a more representative reflection of the actual outcome of the estimate in future periods. As such, the University experienced a significant decrease in its own OPEB liability and expense and in the non-operating revenue and operating expenses recognized from the special funding situation.

**SOUTHERN ILLINOIS UNIVERSITY
HOUSING AND AUXILIARY FACILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2019**

Note 10 - Post-Employment Benefits (Continued)

Special Funding Situation Portion of OPEB: The proportionate share of the State's OPEB expense relative to the University's employees totaled \$126,629,687 during the year ended June 30, 2019. This amount was recognized by the University as non-operating special funding situation revenue and operating expense allocated to the related function performed by the employees during the year ended June 30, 2019. The System's proportionate share of the State's OPEB expense totaled \$8,715,976, or 6.88% of the University total as of the current year measurement date, and was recognized by the System as non-operating special funding situation revenue and operating expense allocated to the related function performed by the employees during the year ended June 30, 2019.

While the System is not required to record the portion of the State's OPEB liability related to the System's employees resulting from the special funding situation, the System is required to disclose this amount. The following chart displays the proportionate share of the State's contributions related to the System's special funding situation relative to all employer contributions during the year ended June 30, 2018 based on the June 30, 2017 actuarial valuation rolled forward:

| Measurement Date: | June 30, 2018 |
|---|-------------------------|
| State of Illinois' OPEB liability related to the System under the Special Funding Situation | \$ 121,742,839 |
| SEGIP total OPEB liability | <u>\$40,093,248,494</u> |
| Proportionate share of the total OPEB liability | 0.30% |

System's Portion of OPEB and Disclosures Related to SEGIP Generally:

Total OPEB liability, deferred outflows of resources, deferred inflows of resources, and expense related to OPEB: The University's total OPEB liability, as reported at June 30, 2019, was measured as of the measurement date on June 30, 2018, with an actuarial valuation as of June 30, 2017, which was rolled forward to the measurement date. The following chart displays the proportionate share of the University's contributions relative to all employer contributions for the System during the year ended June 30, 2018, based on the June 30, 2017 actuarial valuation rolled forward:

| Measurement Date: | June 30, 2018 |
|---|-------------------------|
| System's OPEB liability | \$ 8,794,185 |
| SEGIP total OPEB liability | <u>\$40,093,248,494</u> |
| Proportionate share of the total OPEB liability | 0.02% |

The University's portion of the OPEB liability was based on the University's proportionate share amount determined under the methodology described in Note 2 during the year ended June 30, 2018. As of the current year measurement date of June 30, 2018, the University's proportion declined .08% from its proportion measured as of the prior year measurement date of June 30, 2017. The System's proportionate share declined .77% from its proportion measured as of the prior year measurement date of June 30, 2017.

**SOUTHERN ILLINOIS UNIVERSITY
HOUSING AND AUXILIARY FACILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2019**

Note 10 - Post-Employment Benefits (Continued)

The University recognized OPEB expense for the year ended June 30, 2019, of \$9,930,030. At June 30, 2019, the University reported deferred outflows and deferred inflows of resources, as of the measurement date of June 30, 2018, from the following sources:

| | |
|---|---------------------|
| Deferred outflows of resources | |
| Differences between expected and actual experience | \$ 35,243 |
| Changes in proportion | - |
| University contributions subsequent to the measurement date | <u>3,219,776</u> |
| Total deferred outflows of resources | <u>\$ 3,255,019</u> |
| | |
| Deferred inflows of resources | |
| Differences between expected and actual experience | \$ 3,029,911 |
| Changes in assumptions | 12,922,018 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | <u>57,422,169</u> |
| Total deferred inflows of resources | <u>\$73,374,098</u> |

The amounts reported as deferred outflows of resources related to OPEB resulting from the University's contributions subsequent to the measurement date will be recognized as a reduction to the OPEB liability in the year ended June 30, 2020. Other amounts reported as deferred outflows and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| Fiscal Year Ending June 30, | Total Amount Recognized of Deferred Inflows and Outflows over the Remaining Service Life of All Employees (5.138662 years) |
|-----------------------------|--|
| 2020 | \$ (19,601,528) |
| 2021 | (19,601,528) |
| 2022 | (19,601,528) |
| 2023 | (13,380,342) |
| 2024 | <u>(1,153,929)</u> |
| Total | <u>\$ (73,338,855)</u> |

**SOUTHERN ILLINOIS UNIVERSITY
HOUSING AND AUXILIARY FACILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2019**

Note 10 - Post-Employment Benefits (Continued)

Actuarial methods and assumptions: The total OPEB liability was determined by an actuarial valuation using the following actuarial assumptions, applied to all periods included in the measurement unless otherwise specified. The actuarial valuation for the SEGIP was based on GARS, JRS, SERS, TRS, and SURS active, inactive, and retiree data as of June 30, 2017, for eligible SEGIP employees, and SEGIP retiree data as of June 30, 2017. The valuation date of June 30, 2017 below was rolled forward to June 30, 2018.

| | |
|---|--|
| Valuation Date | June 30, 2017 |
| Measurement Date | June 30, 2018 |
| Actuarial Cost Method | Entry Age Normal |
| Inflation Rate | 2.75% |
| Projected Salary Increases* | 3.00% - 15.00% |
| Discount Rate | 3.62% |
| Healthcare Cost Trend Rate: | |
| Medical (Pre-Medicare) | 8.0% grading down 0.5% in the first year to 7.5%, then grading down 0.08% in the second year to 7.42%, followed by grading down of 0.5% per year over 5 years to 4.92% in year 7 |
| Medical (Post-Medicare) | 9.0% grading down 0.5% per year over 9 years to 4.5% |
| Dental and Vision | 6.0% grading down 0.5% per year over 3 years to 4.5% |
| Retirees' share of benefit-related costs | Healthcare premium rates for members depend on the date of retirement and the years of service earned at retirement. Members who retired before January 1, 1998, are eligible for single coverage at no cost to the member. Members who retire after January 1, 1998, are eligible for single coverage provided they pay a portion of the premium equal to 5% for each year of service under 20 years. Eligible dependents receive coverage provided they pay 100% of the required dependent premium. Premiums for plan year 2018 and 2019 are based on actual premiums. Premiums after 2019 were projected based on the same healthcare cost trend rates applied to per capita claim costs but excluding the additional trend rate that estimates the impact of the Excise Tax. |

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

Additionally, the demographic assumptions used in this OPEB valuation are identical to those used in the June 30, 2017 valuations for GARS, JRS, SERS, TRS, and SURS as follows:

| | Retirement age experience study[^] | Mortality^{^^} |
|-------------|--|---|
| GARS | July 2012 – June 2015 | RP-2014 White Collar Total Healthy Annuitant mortality table, sex distinct, set forward 1 year for males and set back 1 year for females and generational mortality improvements using MP-2014 two-dimensional mortality improvement scales |
| JRS | July 2012 – June 2015 | RP-2014 White Collar Total Healthy Annuitant mortality table, sex distinct, set forward 1 year for males and set back 1 year for females and generational mortality improvements using MP-2014 two-dimensional mortality improvement scales |
| SERS | July 2009 – June 2013 | 105% of the RP-2014 Healthy Annuitant mortality table, sex distinct, with rates projected to 2015; generational mortality improvement factors were added |
| TRS | July 2014 – June 2017 | RP-2014 with future mortality improvements on a fully generational basis using projection table MP-2017 |
| SURS | July 2014 – June 2017 | RP-2014 White Collar, gender distinct, projected using MP-2014 two-dimensional mortality improvement scale, set forward one year for male and female annuitants |

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

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

**SOUTHERN ILLINOIS UNIVERSITY
HOUSING AND AUXILIARY FACILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2019**

Note 10 - Post-Employment Benefits (Continued)

Since the last measurement date on June 30, 2018, the State has not made any significant changes to the benefit terms affecting the measurement of the collective total OPEB liability. Further, no changes have occurred since the measurement date and the University's fiscal year end on June 30, 2019, that are expected to have a significant impact on the University's proportionate share of the total collective OPEB liability.

Discount rate: Retirees contribute a percentage of the premium rate based on service at retirement. The State contributes additional amounts to cover claims and expenses in excess of retiree contributions. Because plan benefits are financed on a pay-as-you-go basis, the single discount rate is based on a tax-exempt municipal bond rate index of 20-year general obligation bonds with an average AA credit rating as of the measurement date. A single discount rate of 3.56% at June 30, 2017, and 3.62% as of June 30, 2018, was used to measure the total OPEB liability.

Sensitivity of total OPEB liability to changes in the single discount rate: The following presents the University's proportionate share of the plan's total OPEB liability measured as of June 30, 2018, calculated using a Single Discount Rate of 3.62%, as well as what the University's proportionate share of the plan's total OPEB liability would be if it were calculated using a Single Discount rate that is one percentage point higher (4.62%) or lower (2.62%) than the current rate:

| | 1% Decrease (2.62%) | Current Single Discount Rate Assumption (3.62%) | 1% Increase (4.62%) |
|--|------------------------------------|--|--------------------------------|
| University's proportionate share of total OPEB liability | \$161,319,253 | \$137,600,029 | \$118,770,878 |

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rate: The following presents the University's proportionate share of the plan's total OPEB liability measured as of June 30, 2018, calculated using the healthcare cost trend rates as well as what the University's proportionate share of the plan's total OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point higher or lower than the current healthcare cost trend rates. For calculating the healthcare cost trend rates assumption, the key trend rates are 8% in 2019 decreasing to an ultimate trend rate of 4.92% in 2026 for non-Medicare coverage, and 9.0% decreasing to an ultimate trend rate of 4.5% in 2028 for Medicare coverage. For the 1% decrease for calculating the healthcare cost trend rates assumption, the key trend rates are 7.00% in 2019 decreasing to an ultimate trend rate of 3.92% in 2026, for non-Medicare coverage, and 8.00% in 2019 decreasing to an ultimate trend rate of 3.50% in 2028 for Medicare coverage. For the 1% increase for calculating the healthcare cost trend rates assumption, the key trend rates are 9.00% in 2019 decreasing to an ultimate trend rate of 5.92% in 2026, for non-Medicare coverage, and 10.00% in 2019 decreasing to an ultimate trend rate of 5.50% in 2028 for Medicare coverage.

| | Current Healthcare Cost Trend Rates Assumption | |
|--------------------|---|--------------------|
| 1% Decrease | | 1% Increase |
| \$116,218,254 | \$137,600,029 | \$165,378,100 |

**SOUTHERN ILLINOIS UNIVERSITY
HOUSING AND AUXILIARY FACILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2019**

Note 10 - Post-Employment Benefits (Continued)

Total OPEB Liability Associated with the University, Regardless of Funding Source

HAFS The University is required to disclose all OPEB liabilities related to it, including (1) the portion of the State's OPEB liability related to the University's employees resulting from the special funding situation the University is not required to record and (2) the portion of OPEB liability recorded by the University for its employees paid from trust, federal, and other funds. The following chart displays the proportionate share of contributions, regardless of funding source, associated with the System's employees relative to all employer contributions during the years ended June 30, 2018 based on the June 30, 2017 actuarial valuation rolled forward:

| | |
|---|-----------------------|
| Measurement Date: | June 30, 2018 |
| State of Illinois' OPEB liability related to the System under the Special Funding Situation | \$ 121,742,839 |
| System's OPEB liability | <u>8,794,185</u> |
| Total OPEB liability associated with the System | 130,537,024 |
| SEGIP total OPEB liability | <u>40,093,248,494</u> |
| Proportionate share of the OPEB liability associated with the System | <u>0.33%</u> |

Note 11 - Insurance

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

The general and professional liability self-insurance fund provides for comprehensive general and professional liability coverage. The University also purchases excess insurance coverage with commercial carriers for claims that may result in catastrophic losses. The University makes contributions to the general and professional liability self-insurance fund based on yearly actuarial analysis. The actuarial analysis for 2018 included a 2% discount rate for self-insurance liabilities. All self-insurance claims are paid centrally by administration and are not allocated to the System.

Note 12 - Contingencies and Commitments

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

**SOUTHERN ILLINOIS UNIVERSITY
HOUSING AND AUXILIARY FACILITIES SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30,2019**

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

| | FY2014 | FY2015 | FY2016 | FY2017 | FY2018 | FY2019 |
|--|-------------------|------------------|-------------------|-------------------|-------------------|---------------|
| (a) Proportion Percentage of the Collective Pension Liability | 0% | 0% | 0% | 0% | 0% | 0% |
| (b) Proportion Amount of the Collective Net Pension Liability | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| (c) Portion of Non-employer Contributing Entities' Total Proportion of Collective Net Pension Liability associated with Employer | | | | | | |
| | \$ 124,839,334.00 | \$ 79,948,499.00 | \$ 133,163,456.00 | \$ 132,759,248.00 | \$ 132,946,700.97 | |
| Total (b) + (c) | \$ 124,839,334.00 | \$ 79,948,499.00 | \$ 133,163,456.00 | \$ 132,759,248.00 | \$ 132,946,700.97 | |
| Employer DB Covered Payroll | \$ 20,716,406.00 | \$ 12,148,563.00 | \$ 18,521,644.00 | \$ 18,395,189.00 | \$ 17,270,366.62 | |
| Proportion of Collective Net pension Liability associated with Employer as a percentage of covered payroll | 602.61% | 658.09% | 718.96% | 721.71% | 769.80% | |
| SURS Plan Net position as a Percentage of Total Pension Liability | 44.39% | 42.37% | 39.57% | 42.04% | 41.27% | |

Housing and Auxiliary Facilities System's Schedule of Pension Contribution:

| | FY2014 | FY2015 | FY2016 | FY2017 | FY2018 | FY2019 |
|---|---------------|---------------|---------------|---------------|---------------|---------------|
| Federal, Trust, Grant and Other contribution | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Contribution in relation to required contribution | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Contribution deficiency (excess) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Employer Covered Payroll | \$ 20,883,340 | \$ 12,355,307 | \$ 18,816,453 | \$ 18,667,379 | \$ 17,530,360 | \$ 15,145,087 |
| Contributions as a percentage of covered payroll | 0% | 0% | 0% | 0% | 0% | 0% |

**SOUTHERN ILLINOIS UNIVERSITY
HOUSING AND AUXILIARY FACILITIES SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30,2019**

Changes of benefit terms. There were no benefit changes recognized in the Total Pension Liability as of June 30, 2018.

Changes of assumptions. In accordance with the Illinois Compiled Statutes, and 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, 2014 to June 30, 2017 was performed in February 2018, resulting in the adoption of new assumptions as of June 30, 2018.

*Salary increase. Decrease in the overall assumed salary increase rates, ranging from 3.25% to 12.25% based on years of service, with underlying wage inflation of 2.25%.

*Investment return. Decrease the investment return assumption to 6.75%. This reflects maintaining an assumed real rate of return of 4.5% and decreasing the underlying assumed price inflation to 2.25%

*Effective rate of interest. Decrease the long-term assumption for the ERI for crediting the money purchase accounts to 6.75% (effective July 2, 2019)

*Normal retirement rates. A slight increase in the retirement rate at age 50. No change to the rates for ages 60-61, 67-74 and 80+, but a slight decrease in rates at all other ages. A rate of 50% if the member has 40 or more years of service and is younger than age 80.

*Early retirement rates. Decrease in rates for all Tier 1 early retirement eligibility ages (55-59)

*Turnover rates. Change rates 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.

*Mortality rates. Maintain the RP-2014 mortality tables with projected generational mortality improvement. Update the projection scale from the MP-2014 to the MP-2017 scale.

*Disability rates. Decrease current rates to reflect that certain members who receive disability benefits do not receive the benefits on a long-term basis.

**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.

Changes of assumptions. In accordance with Illinois Compiled Statutes, an actuarial review is to be performed at least once every three years to determine the reasonableness of actuarial assumptions regarding the retirement, disability, mortality, turnover, interest and salary of the members and benefit recipients of SURS. An experience review for the years June 30, 2010 to June 30, 2014 was performed in February 2015, resulting in the adoption of new assumptions as of June 30, 2015.

*Mortality rates. Change from the RP 2000 Mortality table projected to 2017, sex distinct, to the RP-2014 mortality tables with projected generational mortality improvement. Change to a separate mortality assumption for disabled participants.

*Salary increase. Change assumption to service-based rates, ranging from 3.75% to 15% based on years of service, with underlying wage inflation of 3.75%.

*Normal retirement rates. Change to retirement rates at ages younger than 60, age 66, and ages 70-79 to reflect observed experiences

*Early retirement rates. Change to a slight increase to the rates at ages 55 and 56

*Turnover rates. Change to produce lower expected turnover for members with less than 10 years of service and higher turnover for members with more than 10 years of service than the currently assumed rates

*Disability rates. Decrease rates and have separate rates for males and females to reflect observed experience

*Dependent assumption. Maintain the current assumption on marital status that varies by age and sex and the assumption that males are three years older than their spouses

**Note: The System implemented GASB No. 68 in fiscal year 2015. The information above is presented for as many years as available. The Schedule is intended to show information for 10 years.

**SOUTHERN ILLINOIS UNIVERSITY
HOUSING AND AUXILIARY FACILITIES SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30,2019**

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

| | FY2017 | FY2018 |
|--|-----------------------|-----------------------|
| Proportionate percentage of the collective total OPEB liability | 0.03% | 0.02% |
| Proportionate amount of the collective total OPEB Liability | \$ 12,499,363 | \$ 8,794,185 |
| Estimated proportionate amount of collective total OPEB liability associated with the University-State supported portion | <u>\$ 194,457,502</u> | <u>\$ 121,742,839</u> |
| Total OPEB Liability | <u>\$ 206,956,865</u> | <u>\$ 130,537,024</u> |
| Employer covered employee payroll | \$ 21,652,524 | \$ 22,157,350 |
| Proportionate share of total OPEB liability as a percentage of covered employee payroll | 955.81% | 589.14% |

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

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

Changes of Assumptions:

- The single discount rate was changed from 3.56% to 3.62% for fiscal year 2018.
- The single discount rate was changed from 2.85% to 3.56% for fiscal year 2017.

The healthcare trend assumptions were updated based on claim and enrollment experience through June 30, 2017, projected plan costs for plan year end June 30, 2018, premium changes through plan year end 2019, and expectation of future trend increases after June 30, 2018

The Cadillac Tax trend adjustment was updated based on available premium and enrollment information as of June 30, 2018

Per capita claim costs for plan year end June 30, 2018, were updated based on projected claims and enrollment experience through June 30, 2018, and updated premium rates through plan year 2019

Healthcare plan participation rates by plan were updated based on observed experience

**SOUTHERN ILLINOIS UNIVERSITY
HOUSING AND AUXILIARY FACILITIES SYSTEM
SCHEDULE OF BONDS PAYABLE OUTSTANDING
June 30, 2019**

| | TOTAL | REVENUE BONDS | | |
|--|-----------------------|----------------------|----------------------------|---------------|
| | | Principal Amount | Accreted Value at Maturity | Interest Rate |
| SERIES 1999A | | | | |
| Interest Bearing Bonds: | | | | |
| Serial Bonds maturing as follows: | | | | |
| 2020 | \$ 12,615,000 | - ---- | - ---- | - ---- |
| 2021 | 12,860,000 | - ---- | - ---- | - ---- |
| 2022 | 10,905,000 | - ---- | - ---- | - ---- |
| 2023 | 11,205,000 | - ---- | - ---- | - ---- |
| 2024 | 11,370,000 | - ---- | - ---- | - ---- |
| 2025 | 11,970,000 | - ---- | - ---- | - ---- |
| 2026 | 8,840,000 | - ---- | - ---- | - ---- |
| 2027 | 6,645,000 | - ---- | - ---- | - ---- |
| 2028 | 4,640,000 | - ---- | - ---- | - ---- |
| 2029 | 4,495,000 | - ---- | - ---- | - ---- |
| 2030 | 4,255,000 | - ---- | - ---- | - ---- |
| 2031 | 2,210,000 | - ---- | - ---- | - ---- |
| 2032 | 1,940,000 | - ---- | - ---- | - ---- |
| 2033 | - ---- | - ---- | - ---- | - ---- |
| 2034 | - ---- | - ---- | - ---- | - ---- |
| 2035 | - ---- | - ---- | - ---- | - ---- |
| Term Bonds maturing as follows: | | | | |
| 2020 | - ---- | - ---- | - ---- | - ---- |
| 2021 | - ---- | - ---- | - ---- | - ---- |
| 2022 | - ---- | - ---- | - ---- | - ---- |
| 2023 | - ---- | - ---- | - ---- | - ---- |
| 2024 | - ---- | - ---- | - ---- | - ---- |
| 2025 | - ---- | - ---- | - ---- | - ---- |
| 2026 | 3,165,000 | - ---- | - ---- | - ---- |
| 2027 | 4,875,000 | - ---- | - ---- | - ---- |
| 2028 | 7,395,000 | - ---- | - ---- | - ---- |
| 2029 | 6,000,000 | - ---- | - ---- | - ---- |
| 2030 | 5,070,000 | - ---- | - ---- | - ---- |
| 2031 | 1,435,000 | - ---- | - ---- | - ---- |
| 2032 | 1,505,000 | - ---- | - ---- | - ---- |
| 2033 | 1,580,000 | - ---- | - ---- | - ---- |
| 2034 | 1,645,000 | - ---- | - ---- | - ---- |
| 2035 | 1,710,000 | - ---- | - ---- | - ---- |
| Qualified Energy Conservation Bonds maturing as follows: | | | | |
| 2035 | 5,365,000 | - ---- | - ---- | - ---- |
| Total Interest Bearing Bonds | \$ 143,695,000 | - ---- | - ---- | - ---- |
| Capital Appreciation Bonds maturing as follows: | | | | |
| 2020 | 5,549,505 | 5,549,505 | 5,780,000 | 5.500% |
| 2021 | 5,409,538 | 5,409,538 | 5,950,000 | 5.510% |
| 2022 | 5,164,536 | 5,164,536 | 6,000,000 | 5.520% |
| 2023 | 4,888,548 | 4,888,548 | 6,000,000 | 5.530% |
| 2024 | 4,626,504 | 4,626,504 | 6,000,000 | 5.540% |
| 2025 | 4,380,144 | 4,380,144 | 6,000,000 | 5.540% |
| 2026 | 4,144,140 | 4,144,140 | 6,000,000 | 5.550% |
| 2027 | 3,988,461 | 3,988,461 | 6,100,000 | 5.550% |
| 2028 | 3,775,741 | 3,775,741 | 6,100,000 | 5.550% |
| 2029 | 3,574,417 | 3,574,417 | 6,100,000 | 5.550% |
| Total Capital Appreciation Bonds | 45,501,534 | 45,501,534 | | |
| Total | \$ 189,196,534 | \$ 45,501,534 | | |

**Approximate yield to maturity.

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

**SOUTHERN ILLINOIS UNIVERSITY
HOUSING AND AUXILIARY FACILITIES SYSTEM
SCHEDULE OF BONDS PAYABLE OUTSTANDING
June 30, 2019**

| | REVENUE BONDS | | REVENUE BONDS | | REVENUE BONDS | |
|--|---------------------|------------------|----------------------|------------------|----------------------|------------------|
| | SERIES 2006A | | SERIES 2008A | | SERIES 2009A | |
| | Principal Amount | Interest Rate | Principal Amount | Interest Rate | Principal Amount | Interest Rate |
| Interest Bearing Bonds: | | | | | | |
| Serial Bonds maturing as follows: | | | | | | |
| 2020 | \$ 3,835,000 | 5.250% | \$ 1,900,000 | 5.250% | \$ 2,545,000 | 5.250% |
| 2021 | 3,465,000 | 5.250% | 2,055,000 | 4.000% | 2,635,000 | 5.450% |
| 2022 | - | - | 2,175,000 | 5.500% | 2,725,000 | 5.600% |
| 2023 | - | - | 2,285,000 | 5.500% | 2,825,000 | 5.750% |
| 2024 | - | - | 1,690,000 | 4.250% | 2,930,000 | 5.900% |
| 2025 | - | - | 1,770,000 | 4.500% | 3,045,000 | 6.000% |
| 2026 | - | - | 1,815,000 | 4.500% | - | - |
| 2027 | - | - | 1,890,000 | 4.500% | - | - |
| 2028 | - | - | 1,970,000 | 4.500% | - | - |
| 2029 | - | - | - | - | - | - |
| 2030 | - | - | - | - | - | - |
| 2031 | - | - | - | - | - | - |
| 2032 | - | - | - | - | - | - |
| 2033 | - | - | - | - | - | - |
| 2034 | - | - | - | - | - | - |
| 2035 | - | - | - | - | - | - |
| Term Bonds maturing as follows: | | | | | | |
| 2020 | - | - | - | - | - | - |
| 2021 | - | - | - | - | - | - |
| 2022 | - | - | - | - | - | - |
| 2023 | - | - | - | - | - | - |
| 2024 | - | - | - | - | - | - |
| 2025 | - | - | - | - | - | - |
| 2026 | - | - | - | - | 3,165,000 | 6.200% |
| 2027 | - | - | - | - | 3,290,000 | 6.200% |
| 2028 | - | - | - | - | 3,425,000 | 6.200% |
| 2029 | - | - | - | - | 3,560,000 | 6.200% |
| 2030 | - | - | - | - | 3,705,000 | 6.200% |
| 2031 | - | - | - | - | - | - |
| 2032 | - | - | - | - | - | - |
| 2033 | - | - | - | - | - | - |
| 2034 | - | - | - | - | - | - |
| 2035 | - | - | - | - | - | - |
| Qualified Energy Conservation Bonds maturing as follows: | | | | | | |
| 2035 | - | - | - | - | - | - |
| Total Interest Bearing Bonds | \$ 7,300,000 | | \$ 17,550,000 | | \$ 33,850,000 | |
| Capital Appreciation Bonds maturing as follows: | | | | | | |
| 2020 | - | - | - | - | - | - |
| 2021 | - | - | - | - | - | - |
| 2022 | - | - | - | - | - | - |
| 2023 | - | - | - | - | - | - |
| 2024 | - | - | - | - | - | - |
| 2025 | - | - | - | - | - | - |
| 2026 | - | - | - | - | - | - |
| 2027 | - | - | - | - | - | - |
| 2028 | - | - | - | - | - | - |
| 2029 | - | - | - | - | - | - |
| Total Capital Appreciation Bonds | - | | - | | - | |
| Total | \$ 7,300,000 | | \$ 17,550,000 | | \$ 33,850,000 | |

**Approximate yield to maturity.

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

**SOUTHERN ILLINOIS UNIVERSITY
HOUSING AND AUXILIARY FACILITIES SYSTEM
SCHEDULE OF BONDS PAYABLE OUTSTANDING
June 30, 2019**

| | <u>REVENUE BONDS</u> | | <u>REVENUE BONDS</u> | |
|--|----------------------|-----------------|----------------------|-----------------|
| | <u>SERIES 2012A</u> | | <u>SERIES 2012B</u> | |
| | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> |
| | <u>Amount</u> | <u>Rate</u> | <u>Amount</u> | <u>Rate</u> |
| Interest Bearing Bonds: | | | | |
| Serial Bonds maturing as follows: | | | | |
| 2020 | \$ 1,260,000 | 2.800% | \$ 1,890,000 | 5.000% |
| 2021 | 1,295,000 | 3.000% | 1,990,000 | 5.000% |
| 2022 | 1,335,000 | 3.150% | 2,080,000 | 5.000% |
| 2023 | 1,380,000 | 3.350% | 1,820,000 | 5.000% |
| 2024 | 1,425,000 | 3.500% | 1,905,000 | 5.000% |
| 2025 | 1,475,000 | 3.650% | 2,005,000 | 5.000% |
| 2026 | 1,530,000 | 3.800% | 2,105,000 | 5.000% |
| 2027 | - ---- | ----- | 2,205,000 | 5.000% |
| 2028 | - ---- | ----- | - ---- | ----- |
| 2029 | 1,715,000 | 4.100% | - ---- | ----- |
| 2030 | 1,785,000 | 4.200% | - ---- | ----- |
| 2031 | 1,860,000 | 4.300% | - ---- | ----- |
| 2032 | 1,940,000 | 4.375% | - ---- | ----- |
| 2033 | - ---- | ----- | - ---- | ----- |
| 2034 | - ---- | ----- | - ---- | ----- |
| 2035 | - ---- | ----- | - ---- | ----- |
| Term Bonds maturing as follows: | | | | |
| 2020 | - ---- | ----- | - ---- | ----- |
| 2021 | - ---- | ----- | - ---- | ----- |
| 2022 | - ---- | ----- | - ---- | ----- |
| 2023 | - ---- | ----- | - ---- | ----- |
| 2024 | - ---- | ----- | - ---- | ----- |
| 2025 | - ---- | ----- | - ---- | ----- |
| 2026 | - ---- | ----- | - ---- | ----- |
| 2027 | 1,585,000 | 4.000% | - ---- | ----- |
| 2028 | 1,650,000 | 4.000% | 2,320,000 | 5.000% |
| 2029 | - ---- | ----- | 2,440,000 | 5.000% |
| 2030 | - ---- | ----- | 1,365,000 | 5.000% |
| 2031 | - ---- | ----- | 1,435,000 | 5.000% |
| 2032 | - ---- | ----- | 1,505,000 | 5.000% |
| 2033 | - ---- | ----- | 1,580,000 | 4.000% |
| 2034 | - ---- | ----- | 1,645,000 | 4.000% |
| 2035 | - ---- | ----- | 1,710,000 | 4.000% |
| Qualified Energy Conservation Bonds maturing as follows: | | | | |
| 2035 | - ---- | ----- | 5,365,000 | 4.400% |
| Total Interest Bearing Bonds | <u>\$ 20,235,000</u> | | <u>\$ 35,365,000</u> | |
| Capital Appreciation Bonds maturing as follows: | | | | |
| 2020 | - ---- | ----- | - ---- | ----- |
| 2021 | - ---- | ----- | - ---- | ----- |
| 2022 | - ---- | ----- | - ---- | ----- |
| 2023 | - ---- | ----- | - ---- | ----- |
| 2024 | - ---- | ----- | - ---- | ----- |
| 2025 | - ---- | ----- | - ---- | ----- |
| 2026 | - ---- | ----- | - ---- | ----- |
| 2027 | - ---- | ----- | - ---- | ----- |
| 2028 | - ---- | ----- | - ---- | ----- |
| 2029 | - ---- | ----- | - ---- | ----- |
| Total Capital Appreciation Bonds | <u>- ----</u> | | <u>- ----</u> | |
| Total | <u>\$ 20,235,000</u> | | <u>\$ 35,365,000</u> | |

**Approximate yield to maturity.

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

**SOUTHERN ILLINOIS UNIVERSITY
HOUSING AND AUXILIARY FACILITIES SYSTEM
SCHEDULE OF BONDS PAYABLE OUTSTANDING
June 30, 2019**

| | REVENUE BONDS | | REVENUE BONDS | | REVENUE BONDS | |
|---|---------------------|------------------|----------------------|------------------|---------------------|------------------|
| | SERIES 2015A | | SERIES 2015B | | SERIES 2019A | |
| | Principal Amount | Interest Rate | Principal Amount | Interest Rate | Principal Amount | Interest Rate |
| Interest Bearing Bonds: | | | | | | |
| Serial Bonds maturing as follows: | | | | | | |
| 2020 | \$ 555,000 | 2.850% | \$ 210,000 | 5.000% | \$ 420,000 | 4.350% |
| 2021 | 570,000 | 2.850% | 420,000 | 5.000% | 430,000 | 4.350% |
| 2022 | 595,000 | 2.850% | 1,545,000 | 5.000% | 450,000 | 4.350% |
| 2023 | 605,000 | 2.850% | 1,820,000 | 5.000% | 470,000 | 4.350% |
| 2024 | 620,000 | 2.850% | 2,310,000 | 5.000% | 490,000 | 4.350% |
| 2025 | 640,000 | 2.850% | 2,525,000 | 5.000% | 510,000 | 4.350% |
| 2026 | 510,000 | 2.850% | 2,350,000 | 5.000% | 530,000 | 4.350% |
| 2027 | 525,000 | 2.850% | 1,470,000 | 5.000% | 555,000 | 4.350% |
| 2028 | 545,000 | 2.850% | 1,545,000 | 5.000% | 580,000 | 4.350% |
| 2029 | 555,000 | 2.850% | 1,620,000 | 5.000% | 605,000 | 4.350% |
| 2030 | 570,000 | 2.850% | 1,900,000 | 4.350% | - ---- | - ---- |
| 2031 | - ---- | - ---- | 350,000 | 3.750% | - ---- | - ---- |
| 2032 | - ---- | - ---- | - ---- | - ---- | - ---- | - ---- |
| 2033 | - ---- | - ---- | - ---- | - ---- | - ---- | - ---- |
| 2034 | - ---- | - ---- | - ---- | - ---- | - ---- | - ---- |
| 2035 | - ---- | - ---- | - ---- | - ---- | - ---- | - ---- |
| Term Bonds maturing as follows: | | | | | | |
| 2020 | - ---- | - ---- | - ---- | - ---- | - ---- | - ---- |
| 2021 | - ---- | - ---- | - ---- | - ---- | - ---- | - ---- |
| 2022 | - ---- | - ---- | - ---- | - ---- | - ---- | - ---- |
| 2023 | - ---- | - ---- | - ---- | - ---- | - ---- | - ---- |
| 2024 | - ---- | - ---- | - ---- | - ---- | - ---- | - ---- |
| 2025 | - ---- | - ---- | - ---- | - ---- | - ---- | - ---- |
| 2026 | - ---- | - ---- | - ---- | - ---- | - ---- | - ---- |
| 2027 | - ---- | - ---- | - ---- | - ---- | - ---- | - ---- |
| 2028 | - ---- | - ---- | - ---- | - ---- | - ---- | - ---- |
| 2029 | - ---- | - ---- | - ---- | - ---- | - ---- | - ---- |
| 2030 | - ---- | - ---- | - ---- | - ---- | - ---- | - ---- |
| 2031 | - ---- | - ---- | - ---- | - ---- | - ---- | - ---- |
| 2032 | - ---- | - ---- | - ---- | - ---- | - ---- | - ---- |
| 2033 | - ---- | - ---- | - ---- | - ---- | - ---- | - ---- |
| 2034 | - ---- | - ---- | - ---- | - ---- | - ---- | - ---- |
| 2035 | - ---- | - ---- | - ---- | - ---- | - ---- | - ---- |
| Qualified Energy Conservation Bonds maturing as follows: | | | | | | |
| 2035 | - ---- | - ---- | - ---- | - ---- | - ---- | - ---- |
| Total Interest Bearing Bonds | \$ 6,290,000 | | \$ 18,065,000 | | \$ 5,040,000 | |
| Capital Appreciation Bonds maturing as follows: | | | | | | |
| 2020 | - ---- | - ---- | - ---- | - ---- | - ---- | - ---- |
| 2021 | - ---- | - ---- | - ---- | - ---- | - ---- | - ---- |
| 2022 | - ---- | - ---- | - ---- | - ---- | - ---- | - ---- |
| 2023 | - ---- | - ---- | - ---- | - ---- | - ---- | - ---- |
| 2024 | - ---- | - ---- | - ---- | - ---- | - ---- | - ---- |
| 2025 | - ---- | - ---- | - ---- | - ---- | - ---- | - ---- |
| 2026 | - ---- | - ---- | - ---- | - ---- | - ---- | - ---- |
| 2027 | - ---- | - ---- | - ---- | - ---- | - ---- | - ---- |
| 2028 | - ---- | - ---- | - ---- | - ---- | - ---- | - ---- |
| 2029 | - ---- | - ---- | - ---- | - ---- | - ---- | - ---- |
| Total Capital Appreciation Bonds | - ---- | | - ---- | | - ---- | |
| Total | \$ 6,290,000 | | \$ 18,065,000 | | \$ 5,040,000 | |

**Approximate yield to maturity.

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

**SOUTHERN ILLINOIS UNIVERSITY
HOUSING AND AUXILIARY FACILITIES SYSTEM
SUPPLEMENTARY INFORMATION
TABLE OF OPERATING EXPENSES
For the Year Ended June 30, 2019**

| | Compensation and Benefits | | | | | | | | Other Expenses | Total Operating Expenses | |
|----------------------|---------------------------|-----------------------|-------------------|----------------------|----------------------------|-----------------------|----------------------|---------------------|----------------------|--------------------------------|----------------------|
| | University Expenses | | | | State of Illinois Expenses | | | | | | |
| | Salaries ¹ | Benefits ² | OPEB ³ | Sub-Total | Benefits ² | OPEB ³ | Pension | Sub-Total | | | Total |
| Depreciation | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 15,304,955 | \$ 15,304,955 |
| Auxiliary facilities | 19,754,183 | 641,153 | - | 20,395,336 | 4,884,496 | (8,715,976) | 11,440,047 | 7,608,567 | 28,003,903 | 43,487,819 | 71,491,722 |
| Totals | <u>\$ 19,754,183</u> | <u>\$ 641,153</u> | <u>\$ -</u> | <u>\$ 20,395,336</u> | <u>\$ 4,884,496</u> | <u>\$ (8,715,976)</u> | <u>\$ 11,440,047</u> | <u>\$ 7,608,567</u> | <u>\$ 28,003,903</u> | <u>\$ 58,792,774</u> | <u>\$ 86,796,677</u> |

¹Salaries include employer contributions for Social Security, Medicare and unemployment.

²Benefits include certain group insurance costs, such as healthcare and life insurance. For the System, it also includes employer Section 403(b) contributions

³OPEB refers to other post-employment benefits.

**SOUTHERN ILLINOIS UNIVERSITY
HOUSING AND AUXILIARY FACILITIES SYSTEM
OTHER INFORMATION (UNAUDITED)
TABLE OF OPERATING EXPENSES (UNAUDITED)
For the Year Ended June 30, 2018**

| | Compensation and Benefits | | | | | | | | Total | Other | Total Operating Expenses | |
|----------------------|---------------------------|-----------------------|-------------------|----------------------|----------------------------|---------------------|----------------------|----------------------|----------------------|----------------------|--------------------------------|---------------|
| | University Expenses | | | | State of Illinois Expenses | | | | | | | |
| | Salaries ¹ | Benefits ² | OPEB ³ | Sub-Total | Benefits ² | OPEB ³ | Pension | Sub-Total | | | | Total |
| Depreciation | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 14,898,422 | \$ 14,898,422 |
| Auxiliary facilities | 22,025,115 | 654,948 | - | 22,680,063 | 4,500,163 | 7,713,787 | 11,944,527 | 24,158,477 | 46,838,540 | 47,851,317 | 94,689,857 | |
| Totals | <u>\$ 22,025,115</u> | <u>\$ 654,948</u> | <u>\$ -</u> | <u>\$ 22,680,063</u> | <u>\$ 4,500,163</u> | <u>\$ 7,713,787</u> | <u>\$ 11,944,527</u> | <u>\$ 24,158,477</u> | <u>\$ 46,838,540</u> | <u>\$ 62,749,739</u> | <u>\$ 109,588,279</u> | |

¹Salaries include employer contributions for Social Security, Medicare and unemployment.

²Benefits include certain group insurance costs, such as healthcare and life insurance. For the System, it also includes employer Section 403(b) contributions

³OPEB refers to other post-employment benefits.

STATE OF ILLINOIS

SOUTHERN ILLINOIS UNIVERSITY

MEDICAL FACILITIES SYSTEM

FINANCIAL AUDIT

For the Year Ended June 30, 2019

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

**STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY
MEDICAL FACILITIES SYSTEM
ANNUAL FINANCIAL REPORT
For the Year Ended June 30, 2019**

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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

January 21, 2020

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

I am pleased to submit the annual Treasurer's Report to the Bondholders for the Southern Illinois University Medical Facilities System for the fiscal year ended June 30, 2019.

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

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

Respectfully submitted,

SIGNED COPY ON FILE

Duane Stucky
Board Treasurer

DS/sjp

**SOUTHERN ILLINOIS UNIVERSITY MEDICAL FACILITIES SYSTEM
TREASURER'S COMMENTS (UNAUDITED)
For the Year Ended June 30, 2019**

I. SOUTHERN ILLINOIS UNIVERSITY REVENUE BOND OPERATIONS - FACILITIES

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

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

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

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

The third phase expanded the system to include the purchase and renovation of property located at 401 N. Walnut in Springfield. The building is currently vacant but we are exploring several options including using the space for the WSU radio station or rental of the property to an outside entity.

On June 30, 2019, the School of Medicine Medical Facilities System owned or occupied nineteen locations where clinics and/or clinical faculty and/or clinical administration were housed. Owned by the University are the Richard H. Moy, M.D. Building, 401 N. Walnut, and the Simmons Cancer Institute. The sixteen remaining locations are leased by the University using revenues generated by the clinical practice of medicine. Thirteen of the leased facilities are in Springfield, Illinois and the remaining three are located elsewhere in Illinois.

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

**SOUTHERN ILLINOIS UNIVERSITY MEDICAL FACILITIES SYSTEM
TREASURER’S COMMENTS (UNAUDITED)
For the Year Ended June 30, 2019**

II. ENROLLMENTS AT SOUTHERN ILLINOIS UNIVERSITY

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

| | <u>Head Count</u> |
|--------------------|-------------------|
| Fall semester 2018 | 286 |
| Fall semester 2017 | 292 |

All students are enrolled full time. The first year is spent in Carbondale with a core curriculum of basic science courses. The remaining three years are spent at the Springfield campus. Beginning with Summer semester 2012 the Physician’s Assistant program was moved to the School of Medicine. The Fall semester 2018 (2017) enrollment including the Physician’s Assistant program was 365 (370).

III. DEBT SERVICE COVERAGE

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

| | <u>Year Ended June 30</u> | |
|---|---------------------------|----------------------|
| | <u>2019</u> | <u>2018</u> |
| Receipts: | | |
| Revenue Account: | | |
| Operations | \$ 40,268,319 | \$ 38,214,811 |
| Investment Income | 34,395 | 14,083 |
| Retirement of Indebtedness – Investment Income | <u>23,270</u> | <u>11,739</u> |
| | 40,325,984 | 38,240,633 |
| Disbursements: | | |
| Operation & Maintenance Account | <u>37,939,515</u> | <u>36,238,890</u> |
| Net Revenues | 2,386,469 | 2,001,743 |
| Plus: Pledged Tuition | <u>112,491,067</u> | <u>117,700,313</u> |
| Total Available for Debt Service | <u>\$114,877,536</u> | <u>\$119,702,056</u> |
| Annual Debt Service | <u>\$ 1,805,860</u> | <u>\$ 1,777,343</u> |
| Maximum Annual Debt Service | <u>\$ 1,895,773</u> | <u>\$ 1,895,773</u> |
| Coverage Ratio Based on Net Revenues | 1.32 | 1.13 |
| Coverage Ratio Based on Annual Debt Service | 63.61 | 67.35 |
| Coverage Ratio Based on Maximum Annual Debt Service | 60.60 | 63.14 |

IV. RETIREMENT OF INDEBTEDNESS

Net position is restricted for the following purposes:

| | <u>June 30</u> | |
|--|----------------|-------------|
| | <u>2019</u> | <u>2018</u> |
| Bond and Interest Sinking Fund Account | \$434,845 | \$416,829 |

**SOUTHERN ILLINOIS UNIVERSITY MEDICAL FACILITIES SYSTEM
TREASURER'S COMMENTS (UNAUDITED)
For the Year Ended June 30, 2019**

V. RENEWALS AND REPLACEMENTS

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

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

Additions during the year included transfers from unrestricted net position of \$189,577 (\$189,577 in 2018), interest earned on investments of \$18,772 (interest of \$12,516 in 2018) and no nonoperating revenue (\$0 in 2018).

There were no expenditures charged to the reserve (\$523,344 in 2018). The restricted net position of Renewals and Replacements consisted of the following:

| | June 30 | |
|-----------------------------|--------------------|--------------------|
| | 2019 | 2018 |
| Cash | \$1,333,478 | \$1,126,753 |
| Accrued interest receivable | 6,995 | 5,371 |
| Accounts payable | <u>0</u> | <u>0</u> |
| | <u>\$1,340,473</u> | <u>\$1,132,124</u> |

VI. SCHEDULE OF BONDS PAYABLE OUTSTANDING

A Schedule of Bonds Payable Outstanding is shown as supplementary information and lists the amount of Medical Facilities System Revenue Bonds, Series 2015A issued and outstanding as of June 30, 2019.

VII. RESTRICTED NET POSITION - EXPENDABLE

Restricted net position as of June 30, 2019 and 2018 are comprised of the following:

| | June 30 | |
|----------------------------|---------------------|---------------------|
| | 2019 | 2018 |
| Retirement of indebtedness | \$ 434,845 | \$ 416,829 |
| Renewals and replacements | <u>1,340,473</u> | <u>1,132,124</u> |
| | <u>\$ 1,775,318</u> | <u>\$ 1,548,953</u> |

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

**SOUTHERN ILLINOIS UNIVERSITY
BOARD OF TRUSTEES AND
OFFICERS OF ADMINISTRATION
Fiscal Year 2019**

BOARD OF TRUSTEES OF SOUTHERN ILLINOIS UNIVERSITY

| | |
|--|--------------|
| Amy Sholar, member; Chair (7/01/18 to 02/14/19) | Alton |
| J. Phil Gilbert, Vice Chair (07/01/18 to 02/14/19), Chair (02/14/19 to 06/30/19) | Carbondale |
| Ed Hightower, member (3/22/19); Vice Chair (03/27/19 to 06/30/19) | Edwardsville |
| Joel Sambursky, Secretary (07/01/18 to 03/22/19) | Carbondale |
| Roger Tedrick, member (3/22/19); Secretary (03/27/19 to 06/30/19) | Mt.Vernon |
| Thomas Britton (7/01/18 to 3/22/19) | Makanda |
| Shirley Portwood, member; Vice Chair (02/14/19 to 03/22/19) | Godfrey |
| Marsha Ryan (07/01/18 to 03/22/19) | Carbondale |
| Randal Thomas (07/01/18 to 03/22/19) | Springfield |
| Edgar Curtis (03/22/19 to 06/30/19) | Springfield |
| Brione Lockett – Student Elected | Carbondale |
| Subhash Sharma (03/22/19 to 06/30/19) | Carbondale |
| John Simmons (03/22/19 to 06/30/19) | Alton |
| Molly Smith – Student Elected | Edwardsville |

OFFICERS OF SOUTHERN ILLINOIS UNIVERSITY

Randy J. Dunn, President (7/1/18 to 7/15/18)
J. Kevin Dorsey, Interim President (7/16/18 to 6/30/19)
Lucas Crater, General Counsel
W. Bradley Colwell, Vice President, Student and Academic Affairs (7/1/18 to 4/3/19)
James S. Allen, Acting Vice President, Student and Academic Affairs (4/15/19 to 6/30/19)
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

Carlo Montemagno, Chancellor (7/1/18 to 10/11/18)
John M. Dunn, Interim Chancellor (1/1/19 to 6/30/19)
Meera Komarraju, Provost and Vice Chancellor for Academic Affairs
Jerry Kruse, Dean and Provost, Chief Executive Officer, SIU School of Medicine
Judith M. Marshall, Vice Chancellor for Administration and Finance
James Garvey, Interim Vice Chancellor for Research
Lori Stettler, Vice Chancellor for Student Affairs
James Salmo, Vice Chancellor for Development and Alumni Relations (7/1/18 to 12/31/18)
Rae Goldsmith, Interim Vice Chancellor for Development and Alumni Relations (1/1/19 to 6/30/19)

OFFICERS OF ADMINISTRATION, SOUTHERN ILLINOIS UNIVERSITY EDWARDSVILLE

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

BOARD OFFICES

The Agency's primary administrative offices are located at:

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

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

**STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY
MEDICAL FACILITIES SYSTEM
FINANCIAL AUDIT
For the Year Ended June 30, 2019**

FINANCIAL STATEMENT REPORT

Summary

The audit of the accompanying financial statements of Southern Illinois University Medical Facilities System was performed by Plante & Moran, PLLC.

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

Exit Conference

An exit conference was waived in correspondence from Kim Labonte, Executive Director of Internal Audit on January 17, 2020.

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the business-type activities of the Southern Illinois University Medical Facilities System (the "System"), a segment of Southern Illinois University, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Southern Illinois University Medical Facilities System's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities for the Southern Illinois University Medical Facilities System as of June 30, 2019 and the changes in its financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

Emphasis of Matter

As discussed in Note 1 to the financial statements, the financial statements of the System are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the activities of Southern Illinois University that is attributable to the transactions of the System. They do not purport to, and do not, present fairly the financial position of Southern Illinois University as of June 30, 2019 and its change in financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Schedule of Medical Facilities System's Proportionate Share of the Net Pension Liability and Medical Facilities System's Schedule of Pension Contributions on page 34 and the Schedule of Medical Facilities System's Proportionate Share of the Net OPEB Liability on page 36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements.

The Schedule of Bonds Payable Outstanding on page 37 and the Table of Operating Expenses for the year ended June 30, 2019 on page 38, are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit and the procedures performed as described above, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

In addition, the Treasurer's Letter of Transmittal on page 1, the Treasurer's Comments on pages 2-4, the Board of Trustees and Officers of Administration on page 5-6, and the Table of Operating Expenses for the year ended June 30, 2018 on page 39, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

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

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

Restricted Use Relating to the Other Matter

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 21, 2020 on our consideration of the Southern Illinois University Medical Facilities System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the internal controls over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Southern Illinois University Medical Facilities System's internal control over financial reporting and compliance.

SIGNED COPY ON FILE

Plante & Moran, PLLC

Portage, Michigan
January 21, 2020

**SOUTHERN ILLINOIS UNIVERSITY
MEDICAL FACILITIES SYSTEM
STATEMENT OF NET POSITION
June 30, 2019**

| | 2019 |
|---|--------------|
| ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | |
| CURRENT ASSETS: | |
| Pooled cash and investments | \$ 2,806,354 |
| Pooled cash and investments, restricted | 1,353,234 |
| Short term investments, restricted | 443,116 |
| Accounts receivable | 2,929,297 |
| Accrued interest receivable | 8,586 |
| TOTAL CURRENT ASSETS | 7,540,587 |
| NONCURRENT ASSETS: | |
| Capital assets not being depreciated: | |
| Land | 2,565,115 |
| Total capital assets not being depreciated | 2,565,115 |
| Capital assets being depreciated, net: | |
| Equipment | 6,830,097 |
| Buildings | 36,369,587 |
| Less accumulated depreciation | (19,325,750) |
| Total capital assets being depreciated, net | 23,873,934 |
| TOTAL NONCURRENT ASSETS | 26,439,049 |
| DEFERRED OUTFLOWS OF RESOURCES | |
| Deferred outflows related to other post-employment benefits | 298,127 |
| Deferred loss on refunding | 182,934 |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | 34,460,697 |
| LIABILITIES AND DEFERRED INFLOWS OF RESOURCES | |
| CURRENT LIABILITIES: | |
| Accounts payable | 699,503 |
| Accrued interest payable | 29,618 |
| Accrued payroll | 749,999 |
| Accrued compensated absences | 194,795 |
| Liability for other post-employment benefits | 294,899 |
| Revenue bonds payable | 1,715,000 |
| TOTAL CURRENT LIABILITIES | 3,683,814 |
| NONCURRENT LIABILITIES: | |
| Accrued compensated absences | 1,751,402 |
| Liability for other post-employment benefits | 12,307,887 |
| Revenue bonds payable | 5,465,000 |
| TOTAL NONCURRENT LIABILITIES | 19,524,289 |
| TOTAL LIABILITIES | 23,208,103 |
| DEFERRED INFLOWS OF RESOURCES | |
| Deferred inflows related to other post-employment benefits | 6,720,334 |
| TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES | 29,928,437 |
| NET POSITION | |
| Net investment in capital assets | 19,441,983 |
| Restricted for: | |
| Expendable | |
| Capital projects and debt service | 1,775,318 |
| Unrestricted (Deficit) | (16,685,041) |
| TOTAL NET POSITION | \$ 4,532,260 |

The accompanying notes are an integral part of this statement.

**SOUTHERN ILLINOIS UNIVERSITY
MEDICAL FACILITIES SYSTEM
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Years Ended June 30, 2019**

| | 2019 |
|--|---------------|
| REVENUES | |
| OPERATING REVENUES | |
| Medical Facilities System | \$ 40,424,001 |
| EXPENSES | |
| OPERATING EXPENSES | |
| Salaries and wages | 35,110,301 |
| Contractual services | 9,883,487 |
| Other | 2,446,999 |
| Depreciation | 1,258,458 |
| TOTAL OPERATING EXPENSES | 48,699,245 |
| OPERATING LOSS | (8,275,244) |
| NONOPERATING REVENUES (EXPENSES) | |
| Investment income | 82,331 |
| Gifts and contributions | 115,842 |
| Interest on capital asset-related debt | (187,795) |
| Special funding situation for fringe benefits | 2,759,865 |
| Benefit payments on behalf of the System | 6,928,390 |
| NET NONOPERATING REVENUES | 9,698,633 |
| GAIN BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES | 1,423,389 |
| OTHER REVENUES, EXPENSES, GAINS OR LOSSES | |
| Capital assets retired | (9,852) |
| Additions to plant facilities from other sources | 246,577 |
| TOTAL OTHER REVENUES, EXPENSES, GAINS OR LOSSES | 236,725 |
| INCREASE IN NET POSITION | 1,660,114 |
| NET POSITION | |
| Net position, beginning of year | 2,872,146 |
| NET POSITION AT END OF YEAR | \$ 4,532,260 |

The accompanying notes are an integral part of this statement.

**SOUTHERN ILLINOIS UNIVERSITY
MEDICAL FACILITIES SYSTEM
STATEMENT OF CASH FLOWS
For the Years Ended June 30, 2019**

| | 2019 |
|--|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Medical Facilities System | \$ 40,268,319 |
| Payments to employees | (24,840,821) |
| Payments for utilities | (367,136) |
| Payments to suppliers | (12,731,558) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 2,328,804 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | |
| Contributions for other than capital purposes | 115,842 |
| NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES | 115,842 |
| CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES | |
| Purchases of capital assets | (435,454) |
| Principal paid on capital debt | (1,660,000) |
| Interest paid on capital debt | (145,860) |
| NET CASH USED IN CAPITAL FINANCING ACTIVITIES | (2,241,314) |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Proceeds from sales and maturities of investments | 1,783,272 |
| Investment income | 74,813 |
| Purchase of investments | (1,773,602) |
| NET CASH PROVIDED BY INVESTING ACTIVITIES | 84,483 |
| NET DECREASE IN CASH | 287,815 |
| POOLED CASH AND INVESTMENTS - BEGINNING OF THE YEAR | 3,871,773 |
| POOLED CASH AND INVESTMENTS - END OF THE YEAR | \$ 4,159,588 |
| RECONCILIATION OF OPERATING LOSS TO NET | |
| CASH PROVIDED (USED) BY OPERATING ACTIVITIES: | |
| Operating loss | \$ (8,275,244) |
| Adjustments to reconcile operating loss to net cash provided by operating activities | |
| Depreciation expense | 1,258,458 |
| Special funding situation for fringe benefits | 6,928,390 |
| Pension and OPEB revenue recognized on behalf of the system | 2,759,865 |
| Changes in assets and liabilities: | |
| Receivables, net | (155,682) |
| Accounts payable | 279,381 |
| Accrued payroll | 517,335 |
| Accrued compensated absences | 70,802 |
| Liability for Other Post-Employment Benefits | (1,054,501) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | \$ 2,328,804 |
| NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES | |
| Special funding situation for fringe benefits | \$ 6,928,390 |
| Pension and OPEB revenue recognized on behalf of the system | 2,759,865 |
| Capital asset acquisitions from other sources | 246,577 |
| Loss on disposal of capital assets | 9,852 |

The accompanying notes are an integral part of this statement.

**SOUTHERN ILLINOIS UNIVERSITY
MEDICAL FACILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2019**

Note 1 - Significant Accounting Policies

Basis of Presentation - These financial statements have been prepared to satisfy the requirements of the Southern Illinois University Medical Facilities System ("System") Revenue Bonds master resolution. The financial balances and activities of the System, included in these financial statements, are included within the University's financial statements. The System is not a separate legal entity and consists of only those University assets, deferred inflows, liabilities, deferred outflows, net position, revenues and expenses related to the master resolution.

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

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

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

Pooled Cash and Investments - Pooled cash and investments include bank accounts and investments with original maturities of 90 days or less at the time of purchase, primarily U.S. Treasury Bills and money market funds. The System has recorded restricted pooled cash and investments which relate to funds restricted for operations and retirement of indebtedness.

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

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

Bond Issuance Insurance Costs - The system incurred no bond issuance insurance costs on the Series 2015A bonds.

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

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

SOUTHERN ILLINOIS UNIVERSITY
MEDICAL FACILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

Note 1 - Significant Accounting Policies (Continued)

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

Pension - For the purpose of measuring the net pension liability, deferred outflows and 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 have been determined on the same basis as they are reported by SURS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

For financial reporting purposes, the State of Illinois and its public universities and community colleges are under a special funding situation. A special funding situation exists when a non-employer entity (the State) is legally responsible for making contributions directly to a pension plan that is used to provide pensions to the employees of another entity (the System) and the non-employer (the State) is the only entity with a legal obligation to make contributions directly to a pension plan. The System recognizes its proportionate share of the State’s pension expense relative to the University’s employees as non-operating revenue and pension expense, with the expense further allocated to the related function performed by the employees.

Other Postemployment Benefits (OPEB) - The State Employees Group Insurance Act of 1971 (SEGIA) (5 ILCS 375), as amended, authorizes the State Employees Group Insurance Program (SEGIP), which includes activity for both active employees and retirees, to provide health, dental, vision and life insurance benefits as a single-employer defined benefit OPEB plan not administered as a trust. Substantially all State and university component unit employees become eligible for these OPEB plan benefits when they become annuitants of one of the State sponsored pension plans. CMS administers these benefits for the annuitants with the assistance of the public retirement systems sponsored by the State, including the General Assembly Retirement System (GARS), Judges Retirement System (JRS), State Employees Retirement System (SERS), Teachers’ Retirement System (TRS), and SURS.

In order to fund SEGIP’s pay-as-you-go obligations for both current employees and retirees, SEGIA (5 ILCS 375/11) requires contributions based upon total employee compensation paid from any State fund or university component unit, except the university component units shall not be required to make contributions for employees who are totally compensated from each individual university’s Income Fund and auxiliary enterprises. Pursuant to a long-standing State policy, the State’s General Fund covers the contributions for employees who are totally compensated from each individual university’s Income Fund and auxiliary enterprises. This relationship may be modified through the enactment of a Public Act by the State’s highest level of decision-making authority exercised by the Governor and the General Assembly pursuant to the State’s Constitution.

Given the preceding environment, the University has two separate components of OPEB administered within SEGIP. The (1) State of Illinois and its public universities are under a special funding situation for employees paid from the University’s Income Fund or auxiliary enterprises, while (2) the University is responsible for OPEB employer contributions for employees paid from trust, federal, and other funds.

SOUTHERN ILLINOIS UNIVERSITY
MEDICAL FACILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

Note 1 - Significant Accounting Policies (Continued)

Special Funding Situation Portion of OPEB

A special funding situation exists when a non-employer entity (the State) is legally responsible for making contributions directly to an OPEB plan that is used to provide OPEB to the employees of another entity (the University) and the non-employer (the State) is the only entity with a legal obligation to make contributions directly to an OPEB plan.

During the OPEB measurement period ended June 30, 2018, the University made a voluntary appropriation repayment from either its State appropriation or locally-held resources that was not considered a contribution of \$3,180,662 to help offset the amount the State needed to provide for retirees under the special funding situation described in the preceding paragraph.

The System recognizes the proportionate share of the University's OPEB expense relative to the System's employees as non-operating revenue and OPEB expense, with the expense further allocated to the related function performed by the employees.

University's Portion of OPEB

The University reports a liability, expense allocated to the related function performed by the employees, and related deferred inflows and outflows of resources for OPEB based on the University's proportionate share of amounts paid to SEGIP pursuant to SEGIA for its employees paid from trust, federal, and other funds compared to the collective amounts paid to SEGIP pursuant to SEGIA. The collective amounts paid to SEGIP pursuant to SEGIA includes (1) payments from State agencies for State employees, (2) the amount calculated by CMS to represent the amount paid by the General Fund related to the special funding situation, (3) the total voluntary appropriation repayment from all of the universities, and (4) the total of all payments from the universities for employees paid from trust, federal, and other funds. This methodology has been determined by the State to be the best estimate of how future OPEB payments will be determined.

Deferred inflows and outflows of resources are recognized in OPEB expense at the beginning of the current period, using a systematic and rational method over a closed period, equal to the average expected remaining service lives of all employees, either active or inactive, provided with OPEB through SEGIP, determined as of the beginning of the measurement period.

On Behalf Transactions - The University had outside sources of financial assistance provided by the State on behalf of the System during the year ended June 30, 2019.

Substantially all active employees participate in group insurance plans provided by the State and administered by CMS, primary providing healthcare benefits. In order to fund SEGIP's pay-as-you-go obligations for both current employees and retirees, SEGIA (5 ILCS 375/11) requires contributions based upon total employee compensation paid from any State fund or university component unit, except the university component units shall not be required to make contributions for employees who are totally compensated from each individual university's Income Fund and auxiliary enterprises. Pursuant to a long-standing State policy, the State's General Fund covers the contributions for employees who are totally compensated from each individual university's Income Fund and auxiliary enterprises. This relationship may be modified through the enactment of a Public Act by the State's highest level of decision-making authority exercised by the Governor and the General Assembly pursuant to the State's Constitution.

SOUTHERN ILLINOIS UNIVERSITY
MEDICAL FACILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

Note 1 - Significant Accounting Policies (Continued)

During the year ended June 30, 2019, total estimated group insurance contributions for the University's employees paid from the University's Income Fund and auxiliary enterprises were \$75,459,000. The University made a voluntary appropriation repayment from either its State appropriation or locally-held resources that was not considered a contribution of \$4,494,810 to help offset the amount the State needed to provide for current employees under the situation described in the preceding paragraph. As such, the State contributed the estimated remaining balance of \$70,964,190 on-behalf of the System to meet this obligation for current employees.

As the University is not legally responsible to pay for the on-behalf support provided by the State, the University and therefore, the System, recognizes non-operating revenues and operating expenses allocated to the related function performed by the employees within the System's financial statements for its current employees' participation in group insurance.

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

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.

New Governmental Accounting Standards – The Governmental Accounting Standards Board (GASB) has issued the following statements which are effective for periods beginning July 1, 2018 or later which may impact the System:

GASB Statement No. 83 – *Certain Asset Retirement Obligations*, addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. Governments with legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on guidance from the statement. The statement is effective for fiscal years beginning after June 15, 2018. The statement did not impact the System's financial statements.

GASB Statement No. 86 – *Certain Debt Extinguishment Issues*, focuses on improving consistency in accounting and financial reporting for defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources are placed in an irrevocable trust for the sole purpose of extinguishing debt. The statement is effective for fiscal years beginning after June 15, 2017. The statement did not impact the System's financial statements.

GASB Statement No. 87 – *Leases*, which increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. This Statement establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The new lease standard is expected to have a significant effect on the System's financial

SOUTHERN ILLINOIS UNIVERSITY
MEDICAL FACILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

Note 1 - Significant Accounting Policies (Continued)

statements as a result of the leases for clinical and office space classified as operating leases disclosed in Note 11. The provisions of this statement are effective for the System's financial statements for the fiscal year 2021.

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. The statement also requires additional essential information related to debt be disclosed in notes to financial statements. The statement is effective for fiscal years beginning after June 15, 2018. In accordance with the statement, required information related to direct borrowings and direct placements has been included in the System's financial statement note disclosures related to debt (Note 6 Revenue Bonds Payable).

GASB Statement No. 89 – *Accounting for Interest Cost Incurred before the End of a Construction Period*, establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The statement is effective for fiscal years beginning after December 15, 2019. The System has early adopted the statement. In accordance with this statement, the System did not capitalize construction interest costs in its 2019 financial statements. This statement was implemented prospectively according to GASB. Therefore, no prior year restatement was necessary.

Note 2 - Pooled Cash and Investments

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

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

**SOUTHERN ILLINOIS UNIVERSITY
MEDICAL FACILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2019**

Note 2 - Pooled Cash and Investments (Continued)

The University has pooled certain cash and investments for the purpose of securing a greater return on investment and providing a more equitable distribution of investment return. Pooled investments, which consist principally of government securities, are stated at market. Income is distributed quarterly based upon average balances invested in the pool over the prior 13 week period. There are no investments in foreign currency. It is not feasible to separately determine the System's bank balance at June 30, 2019, due to the pooling of the University's cash and investments.

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

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

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

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

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

Interest rate risk is disclosed below using the segmented time distribution method. As of June 30, 2019, the System had the following cash and investment balances:

| Investment Type | Fair Value | AS OF JUNE 30, 2019 | | | |
|-------------------------------------|--------------------|----------------------------------|------|------|--------------|
| | | Investment Maturities (in Years) | | | |
| | | Less Than 1 | 1-5 | 6-10 | More than 10 |
| U.S. Treasuries | \$ 443,116 | \$ 443,116 | \$ - | \$ - | \$ - |
| Total Investments | 443,116 | \$ 443,116 | \$ - | \$ - | \$ - |
| Cash and Equivalents | | | | | |
| US Bank—Interest Sinking Fund | 19,756 | | | | |
| The Illinois Funds | 4,139,832 | | | | |
| Total Cash & Equivalents | 4,159,588 | | | | |
| Total Cash & Investments | \$4,602,704 | | | | |

SOUTHERN ILLINOIS UNIVERSITY
MEDICAL FACILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

Note 2 - Pooled Cash and Investments (Continued)

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

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

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

Note 3 - Investments and Investment Income

The investment with the Public Treasurer's Investment Pool-State Treasurer's Office is at amortized cost, which is the same value as the pool shares. State statutes require the Illinois Funds to comply with the Illinois Public Funds Investment Act (30 ILCS 235). The Illinois Funds is not registered with the Securities Exchange Commission as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, Accounting and Financial Reporting for Certain External Investment Pools and Pool Participants, which establishes accounting and financial reporting standards for qualifying external investment pools that elect to measure for financial reporting purposes all of their investments at amortized cost. For the year ended June 30, 2019, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemptions gates. Also, certain money market investments having a remaining maturity of one year or less at time of purchase and non-negotiable certificates of deposit with redemption terms that do not consider market rates are carried at amortized cost. Also, certain money market investments having a remaining maturity of one year or less at the time of purchase and nonnegotiable certificates of deposit with redemption terms that do not consider market rates, are carried at amortized cost.

The calculation of realized gains is independent of the calculation of the net increase in the fair value of investments. Realized gains and losses of investments that had been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year. Investment income net of realized and unrealized gains and losses on investments for the years ended June 30, 2019 is reflected below.

| | |
|--------------------------------|-----------------|
| | <u>2019</u> |
| Interest earnings | \$82,331 |
| Unrealized gain on investments | <u>1,107</u> |
| Net Investment Income | <u>\$83,438</u> |

**SOUTHERN ILLINOIS UNIVERSITY
MEDICAL FACILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2019**

Note 4 - Capital Assets

Capital asset activity for the System for the fiscal year ended June 30, 2019 was as follows:

| | Beginning <u>Balance</u> | <u>Additions</u> | <u>Deletions</u> | Ending <u>Balance</u> |
|--|-----------------------------|---------------------|-------------------|--------------------------|
| Capital assets not being depreciated | | | | |
| Land | \$ 2,565,115 | \$ - | \$ - | \$ 2,565,115 |
| Total capital assets not being depreciated | <u>2,565,115</u> | <u>-</u> | <u>-</u> | <u>2,565,115</u> |
| Capital assets being depreciated | | | | |
| Equipment | 6,503,728 | 682,032 | 355,663 | 6,830,097 |
| Buildings | <u>36,369,587</u> | <u>-</u> | <u>-</u> | <u>36,369,587</u> |
| Total capital assets being depreciated | 42,873,315 | 682,032 | 355,663 | 43,199,684 |
| Total capital assets | <u>45,438,430</u> | <u>682,032</u> | <u>355,663</u> | <u>45,764,799</u> |
| Accumulated depreciation | | | | |
| Equipment | 5,469,169 | 324,063 | 345,811 | 5,447,421 |
| Building | <u>12,943,934</u> | <u>934,395</u> | <u>-</u> | <u>13,878,329</u> |
| Total accumulated depreciation | <u>18,413,103</u> | <u>\$ 1,258,458</u> | <u>\$ 345,811</u> | <u>19,325,750</u> |
| Capital assets - net | <u>\$ 27,025,327</u> | | | <u>\$ 26,439,049</u> |

Note 5- Changes in Long-Term Liabilities

Liability activity for the year ended June 30, 2019 was as follows:

| | Beginning <u>Balance</u> | <u>Additions</u> | <u>Reductions</u> | Ending <u>Balance</u> | Current <u>Portion</u> |
|--|-----------------------------|---------------------|---------------------|--------------------------|---------------------------|
| Direct placement revenue bonds payable | \$ 8,840,000 | \$ - | \$ 1,660,000 | \$ 7,180,000 | \$ 1,715,000 |
| Postemployment benefits | 15,630,952 | 3,692,168 | 6,720,334 | 12,602,786 | 294,899 |
| Compensated absences | <u>1,875,395</u> | <u>313,020</u> | <u>242,218</u> | <u>1,946,197</u> | <u>194,795</u> |
| Total | <u>\$ 26,346,347</u> | <u>\$ 4,005,188</u> | <u>\$ 8,622,552</u> | <u>\$ 21,728,983</u> | <u>\$ 2,204,694</u> |

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

Note 6- Revenue Bonds Payable

Revenue bonds payable activity for the year ended June 30, 2019:

| Series | Annual Maturity To | Beginning Balance | Accretion/New Debt | Principal Paid/Debt Refunded | Ending Balance | Current Portion |
|---------------------------|--------------------------|----------------------|-----------------------|------------------------------------|-------------------|--------------------|
| Direct Placements: | | | | | | |
| 2015A | 2035 | \$8,840,000 | \$ - | \$1,660,000 | \$7,180,000 | \$1,715,000 |

**SOUTHERN ILLINOIS UNIVERSITY
MEDICAL FACILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2019**

Note 6- Revenue Bonds Payable (Continued)

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

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

- a. Bond proceeds of \$14,699,511 and Board funds of \$1,069,888 from the System were deposited in the bond escrow account in either cash or U.S. Government securities which, together with the interest earned thereon is used to finance the advance refunding of the Boards Series 1997 bonds. The advance refunding, which was undertaken by the Board to affect a cost savings, resulted in a net decrease in debt service payments of \$3,153,133 and an economic gain of \$1,146,547. The accounting loss on the refunding was \$1,185,421.
- b. Bond proceeds of \$6,783,042 were deposited in an Unexpended Plant account to finance the costs of constructing and equipping a new Cancer Institute building on the Springfield campus.
- c. Bond proceeds of \$315,726 were provided for the payment of capitalized interest through October 1, 2006 and accrued interest payable.
- d. Bond proceeds of \$339,331 were reserved to pay the underwriter's fees and certain other costs related to the issuance of the bonds.

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

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

| <u>Year Ending June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------------|--------------------|------------------|--------------------|
| 2020 | 1,715,000 | 118,470 | 1,833,470 |
| 2021 | 1,770,000 | 90,172 | 1,860,172 |
| 2022 | 1,830,000 | 60,967 | 1,890,967 |
| 2023 | <u>1,865,000</u> | <u>30,773</u> | <u>1,895,773</u> |
| Total Payments | <u>\$7,180,000</u> | <u>\$300,382</u> | <u>\$7,480,382</u> |

SOUTHERN ILLINOIS UNIVERSITY
MEDICAL FACILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

Note 6- Revenue Bonds Payable (Continued)

These bonds do not constitute a debt of the State of Illinois or the individual members, officers or agents of the Board of Trustees of the University but, together with interest thereon, are payable from and secured by a pledge of and lien on (i) the net revenues of the System, (ii) pledged tuition (subject to prior payment of necessary operating and maintenance expenses of the Housing and Auxiliary Facilities System, debt service of the Housing and Auxiliary Facilities System not to exceed the maximum annual debt service, and the 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 \$7,480,382 with annual requirements ranging from \$1,833,470 to \$1,895,773.

For the current year, principal and interest paid was \$1,805,860 and the total revenues pledged were \$112,491,067. Total revenue pledged represents 100 percent of the net revenues of the System and 81.61 percent of net tuition revenue received in fiscal year 2019. Although net tuition is pledged, it is not expected to be needed to meet debt service requirements.

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

Note 7 - Related Party Transactions

Expenditures capitalized include \$246,577 paid for by other University funds in fiscal year 2019. The expenditures were for the purchase of equipment to be utilized in the various Medical Facilities System facilities. In addition, \$115,842 was received from other University funds in fiscal year 2019 and used for payment of debt.

Note 8 - Retirement Benefits

General Information about the Pension Plan

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

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, 2018 can be found in the SURS' comprehensive annual financial report (CAFR) Notes to the Financial Statements.

SOUTHERN ILLINOIS UNIVERSITY
MEDICAL FACILITIES SYSTEM
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June 30, 2019

Note 8 - Retirement Benefits (Continued)

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 2019 was 12.29% 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 except for police officers and fire fighters who contribute 9.5% of their earnings. 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), and Section 15-155(j-5)(relating to contributions payable due to earnings exceeding the salary set for the Governor).

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

Net Pension Liability: The net pension liability (NPL) was measured as of June 30, 2018. At June 30, 2018, SURS reported an NPL of \$27,494,556,682.

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. As of the current year measurement date of June 30, 2018, the University’s proportionate share of the State’s net pension liability associated with the University is \$2,471,128,271 or 8.99%, which was an increase of \$138,925,319 or .17% from its proportion measured as of the prior year measurement date of June 30, 2017. This amount is not recognized in the financial statements. The net pension liability was measured as of June 30, 2018, and the total pension used to calculate the net pension liability was determined based on the June 30, 2017 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 2018. The System’s proportionate share of the University’s net pension liability was \$160,870,450 or 6.51% of the University total, which was an increase of .14% over the prior year.

Pension Expense: At June 30, 2018 SURS reported a collective net pension expense of \$2,685,322,700.

Employer Proportionate Share of Pension Expense: The University’s proportionate share of collective pension expense is recognized as nonoperating revenue with matching operating expense (compensation and benefits) 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 2018. As a result, the University recognized revenue and pension expense of \$241,348,748 from this special funding situational for the year ended June 30, 2019.

**SOUTHERN ILLINOIS UNIVERSITY
MEDICAL FACILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2019**

Note 8 - Retirement Benefits (Continued)

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 | \$ 65,521,614 | \$181,032,053 |
| Changes in assumption | 1,286,257,095 | 123,218,306 |
| Net difference between projected and actual earnings on pension plan investments | \$26,810,634 | - |
| Total | \$1,378,589,343 | \$304,250,359 |

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 |
|---------------------|---------------------------------------|
| 2019 | \$763,171,084 |
| 2020 | 540,443,042 |
| 2021 | (192,612,398) |
| 2022 | (36,662,744) |
| 2023 | - |
| Thereafter | - |
| Total | \$1,074,338,984 |

Employer Deferral of Fiscal Year 2019 Pension Expense

The University paid \$2,716,085 in federal, trust or grant contributions for the fiscal year ended June 30, 2019. These contributions were made subsequent to the pension liability measurement date of June 30, 2018 and are recognized as Deferred Outflows of Resources as of June 30, 2019.

Assumptions and Other Inputs

Actuarial assumptions: The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period June 30, 2014-2017. The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|---|
| Inflation | 2.25 percent |
| Salary increases | 3.25 to 12.25 percent, including inflation |
| Investment rate of return | 6.75 percent beginning with the actuarial valuation as of June 30, 2018 |

Mortality rates were based on the RP-2014 Combined Mortality Table with projected generational mortality and a separate mortality assumption for disabled participants.

**SOUTHERN ILLINOIS UNIVERSITY
MEDICAL FACILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2019**

Note 8 - Retirement Benefits (Continued)

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, 2018, 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% | 5.00% |
| Private Equity | 6% | 8.50% |
| Non-U.S. Equity | 19% | 6.45% |
| Global Equity | 8% | 6.00% |
| Fixed Income | 19% | 1.50% |
| Treasury-Inflation Protected Securities | 4% | 0.75% |
| Emerging Market Debt | 3% | 3.65% |
| Real Estate REITS | 4% | 5.45% |
| Direct Real Estate | 6% | 4.75% |
| Commodities | 2% | 2.00% |
| Hedged Strategies | 5% | 2.85% |
| Opportunity Fund | <u>1%</u> | <u>7.00%</u> |
| Total | 100% | 4.55% |
| Inflation | | <u>2.75%</u> |
| Expected Arithmetic Return | | 7.30% |

Discount Rate: A single discount rate of 6.65% 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 6.75% and a municipal bond rate of 3.62% (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 2075. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2075, and the municipal bond rate was applied to all benefit payments after that date.

**SOUTHERN ILLINOIS UNIVERSITY
 MEDICAL FACILITIES SYSTEM
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2019**

Note 8 - Retirement Benefits (Continued)

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 6.65%, 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 |
|------------------|--|------------------|
| 5.65% | 6.65% | 7.65% |
| \$33,352,188,584 | \$27,494,556,682 | \$22,650,651,520 |

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 9 - Post-Employment Benefits

Plan description: SEGIA, as amended, authorizes SEGIP to provide health, dental, vision, and life insurance benefits for certain retirees and their dependents. Substantially all of the University's full-time employees are members of SEGIP. Members receiving monthly benefits from the GARS, JRS, SERS, TRS, and SURS are eligible for these OPEB. The eligibility provisions for SURS are defined within Note 9.

CMS administers OPEB for annuitants with the assistance of GARS, JRS, SERS, TRS, and SURS. The State recognizes SEGIP as a single-employer defined benefit plan, which does not issue a stand-alone financial report.

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

Funding Policy and Annual OPEB Cost: OPEB offered through SEGIP are financed through a combination of retiree premiums, SEGIP contributions pursuant to SEGIA (5 ILCS 375/11), and Federal government subsidies from the Medicare Part D program. These contributions are deposited in the Health Insurance Reserve Fund, which covers both active employees and retired members. Annuitants may be required to contribute towards health and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants who retired prior to January 1, 1998, and who are vested in GARS, JRS, SERS, TRS, and SURS do not contribute toward health and vision benefits. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced five percent for each year of credited service with the State allowing those annuitants with twenty or more years of credited service to not have to contribute towards health and vision benefits. All annuitants are required to pay for dental benefits regardless of retirement date. CMS' Director, on an annual basis, determines the amount of contributions necessary to fund the basic program of group benefits. The State's contributions are made primarily from the State's General Fund on a pay-as-you-go basis. No assets are accumulated or dedicated to funding the retiree benefits and a separate trust has not been established for the funding of OPEB.

**SOUTHERN ILLINOIS UNIVERSITY
 MEDICAL FACILITIES SYSTEM
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2019**

Note 9 - Post-Employment Benefits (Continued)

For fiscal year 2019, the annual cost of the basic program of group health, dental, and vision benefits before the State's contribution was \$11,269 (\$6,699 if Medicare eligible) per member if the annuitant chose benefits provided by a health maintenance organization and \$13,824 (\$4,984 if Medicare eligible) per member if the annuitant chose other benefits. The State is not required to fund the plan other than the pay-as-you-go amount necessary to provide the current benefits to retirees.

CMS' Changes in Estimates: For the measurement date of June 30, 2018, CMS experienced two significant changes within its estimation process. The OPEB for both the special funding situation and the portion of OPEB where the University is responsible for employer contributions are both significantly impacted by (1) the University's number of participants in SEGIP and (2) the average cost per employee within SEGIP. CMS made changes to its estimation methodology that resulted in significant differences within its estimates which represent an outcome of estimation uncertainty that, as time has passed and new sources of better data have become available, continued to be refined to achieve a more representative reflection of the actual outcome of the estimate in future periods. As such, the University experienced a significant decrease in its own OPEB liability and expense and in the non-operating revenue and operating expenses recognized from the special funding situation.

Special Funding Situation Portion of OPEB: The proportionate share of the State's OPEB expense relative to the University's employees totaled \$126,629,687 during the year ended June 30, 2019. This amount was recognized by the University as non-operating special funding situation revenue and operating expense allocated to the related function performed by the employees during the year ended June 30, 2019. The System's proportionate share of the State's OPEB expense totaled \$12,363,135, or 9.76% of the University total as of the current year measurement date, and was recognized by the System as non-operating special funding situation revenue and operating expense allocated to the related function performed by the employees during the year ended June 30, 2019.

While the System is not required to record the portion of the State's OPEB liability related to the System's employees resulting from the special funding situation, the System is required to disclose this amount. The following chart displays the proportionate share of the State's contributions related to the System's special funding situation relative to all employer contributions during the year ended June 30, 2018 based on the June 30, 2017 actuarial valuation rolled forward:

| Measurement Date: | June 30, 2018 |
|---|------------------|
| State of Illinois' OPEB liability related to the System under the Special Funding Situation | \$ 174,467,441 |
| SEGIP total OPEB liability | \$40,093,248,494 |
| Proportionate share of the total OPEB liability | 0.44% |

System's Portion of OPEB and Disclosures Related to SEGIP Generally:

Total OPEB liability, deferred outflows of resources, deferred inflows of resources, and expense related to OPEB: The University's total OPEB liability, as reported at June 30, 2019, was measured as of the measurement date on June 30, 2018, with an actuarial valuation as of June 30, 2017, which was rolled forward to the measurement date.

**SOUTHERN ILLINOIS UNIVERSITY
MEDICAL FACILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2019**

Note 9 - Post-Employment Benefits (Continued)

The following chart displays the proportionate share of the University's contributions relative to all employer contributions for the System during the year ended June 30, 2018, based on the June 30, 2017 actuarial valuation rolled forward:

| | |
|---|--------------------------|
| Measurement Date: | <u>June 30, 2018</u> |
| System's OPEB liability | \$ 12,602,786 |
| SEGIP total OPEB liability | <u>\$ 40,093,248,494</u> |
| Proportionate share of the total OPEB liability | 0.03% |

The University's portion of the OPEB liability was based on the University's proportionate share amount determined under the methodology described in Note 1 during the year ended June 30, 2018. As of the current year measurement date of June 30, 2018, the University's proportion declined .08% from its proportion measured as of the prior year measurement date of June 30, 2017. The System's proportionate share declined .21% from its proportion measured as of the prior year measurement date of June 30, 2017.

The University recognized OPEB expense for the year ended June 30, 2019, of \$9,930,030. At June 30, 2019, the University reported deferred outflows and deferred inflows of resources, as of the measurement date of June 30, 2018, from the following sources:

Deferred outflows of resources

| | |
|---|---------------------|
| Differences between expected and actual experience | \$ 35,243 |
| Changes in proportion | - |
| University contributions subsequent to the measurement date | <u>3,219,776</u> |
| Total deferred outflows of resources | <u>\$ 3,255,019</u> |

Deferred inflows of resources

| | |
|---|---------------------|
| Differences between expected and actual experience | \$ 3,029,911 |
| Changes in assumptions | 12,922,018 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | <u>57,422,169</u> |
| Total deferred inflows of resources | <u>\$73,374,098</u> |

The amounts reported as deferred outflows of resources related to OPEB resulting from the University's contributions subsequent to the measurement date will be recognized as a reduction to the OPEB liability in the year ended June 30, 2020. Other amounts reported as deferred outflows and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| <u>Fiscal Year Ending June 30,</u> | <u>Total Amount Recognized of Deferred Inflows and Outflows over the Remaining Service Life of All Employees (5.138662 years)</u> |
|------------------------------------|---|
| 2020 | \$ (19,601,528) |
| 2021 | (19,601,528) |
| 2022 | (19,601,528) |
| 2023 | (13,380,342) |
| 2024 | <u>(1,153,929)</u> |
| Total | <u>\$ (73,338,855)</u> |

**SOUTHERN ILLINOIS UNIVERSITY
 MEDICAL FACILITIES SYSTEM
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2019**

Note 9 - Post-Employment Benefits (Continued)

Actuarial methods and assumptions: The total OPEB liability was determined by an actuarial valuation using the following actuarial assumptions, applied to all periods included in the measurement unless otherwise specified. The actuarial valuation for the SEGIP was based on GARS, JRS, SERS, TRS, and SURS active, inactive, and retiree data as of June 30, 2017, for eligible SEGIP employees, and SEGIP retiree data as of June 30, 2017. The valuation date of June 30, 2017 below was rolled forward to June 30, 2018.

| | |
|---|--|
| Valuation Date | June 30, 2017 |
| Measurement Date | June 30, 2018 |
| Actuarial Cost Method | Entry Age Normal |
| Inflation Rate | 2.75% |
| Projected Salary Increases* | 3.00% - 15.00% |
| Discount Rate | 3.62% |
| Healthcare Cost Trend Rate: | |
| Medical (Pre-Medicare) | 8.0% grading down 0.5% in the first year to 7.5%, then grading down 0.08% in the second year to 7.42%, followed by grading down of 0.5% per year over 5 years to 4.92% in year 7 |
| Medical (Post-Medicare) | 9.0% grading down 0.5% per year over 9 years to 4.5% |
| Dental and Vision | 6.0% grading down 0.5% per year over 3 years to 4.5% |
| Retirees' share of benefit-related costs | Healthcare premium rates for members depend on the date of retirement and the years of service earned at retirement. Members who retired before January 1, 1998, are eligible for single coverage at no cost to the member. Members who retire after January 1, 1998, are eligible for single coverage provided they pay a portion of the premium equal to 5% for each year of service under 20 years. Eligible dependents receive coverage provided they pay 100% of the required dependent premium. Premiums for plan year 2018 and 2019 are based on actual premiums. Premiums after 2019 were projected based on the same healthcare cost trend rates applied to per capita claim costs but excluding the additional trend rate that estimates the impact of the Excise Tax. |

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

**SOUTHERN ILLINOIS UNIVERSITY
MEDICAL FACILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2019**

Note 9 - Post-Employment Benefits (Continued)

Additionally, the demographic assumptions used in this OPEB valuation are identical to those used in the June 30, 2017 valuations for GARS, JRS, SERS, TRS, and SURS as follows:

| | Retirement age experience study[^] | Mortality^{^^} |
|-------------|--|---|
| GARS | July 2012 – June 2015 | RP-2014 White Collar Total Healthy Annuitant mortality table, sex distinct, set forward 1 year for males and set back 1 year for females and generational mortality improvements using MP-2014 two-dimensional mortality improvement scales |
| JRS | July 2012 – June 2015 | RP-2014 White Collar Total Healthy Annuitant mortality table, sex distinct, set forward 1 year for males and set back 1 year for females and generational mortality improvements using MP-2014 two-dimensional mortality improvement scales |
| SERS | July 2009 – June 2013 | 105% of the RP-2014 Healthy Annuitant mortality table, sex distinct, with rates projected to 2015; generational mortality improvement factors were added |
| TRS | July 2014 – June 2017 | RP-2014 with future mortality improvements on a fully generational basis using projection table MP-2017 |
| SURS | July 2014 – June 2017 | RP-2014 White Collar, gender distinct, projected using MP-2014 two-dimensional mortality improvement scale, set forward one year for male and female annuitants |

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

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

Since the last measurement date on June 30, 2018, the State has not made any significant changes to the benefit terms affecting the measurement of the collective total OPEB liability. Further, no changes have occurred since the measurement date and the University's fiscal year end on June 30, 2019, that are expected to have a significant impact on the University's proportionate share of the total collective OPEB liability.

Discount rate: Retirees contribute a percentage of the premium rate based on service at retirement. The State contributes additional amounts to cover claims and expenses in excess of retiree contributions. Because plan benefits are financed on a pay-as-you-go basis, the single discount rate is based on a tax-exempt municipal bond rate index of 20-year general obligation bonds with an average AA credit rating as of the measurement date. A single discount rate of 3.56% at June 30, 2017, and 3.62% as of June 30, 2018, was used to measure the total OPEB liability.

Sensitivity of total OPEB liability to changes in the single discount rate: The following presents the University's proportionate share of the plan's total OPEB liability measured as of June 30, 2018, calculated using a Single Discount Rate of 3.62%, as well as what the University's proportionate share of the plan's total OPEB liability would be if it were calculated using a Single Discount rate that is one percentage point higher (4.62%) or lower (2.62%) than the current rate:

| | 1% Decrease (2.62%) | Current Single Discount Rate Assumption (3.62%) | 1% Increase (4.62%) |
|--|--------------------------------|--|--------------------------------|
| University's proportionate share of total OPEB liability | \$161,319,253 | \$137,600,029 | \$118,770,878 |

**SOUTHERN ILLINOIS UNIVERSITY
MEDICAL FACILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2019**

Note 9 - Post-Employment Benefits (Continued)

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rate: The following presents the University's proportionate share of the plan's total OPEB liability measured as of June 30, 2018, calculated using the healthcare cost trend rates as well as what the University's proportionate share of the plan's total OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point higher or lower, than the current healthcare cost trend rates. For calculating the healthcare cost trend rates assumption, the key trend rates are 8% in 2019 decreasing to an ultimate trend rate of 4.92% in 2026 for non-Medicare coverage, and 9.0% decreasing to an ultimate trend rate of 4.5% in 2028 for Medicare coverage. For the 1% decrease for calculating the healthcare cost trend rates assumption, the key trend rates are 7.00% in 2019 decreasing to an ultimate trend rate of 3.92% in 2026, for non-Medicare coverage, and 8.00% in 2019 decreasing to an ultimate trend rate of 3.50% in 2028 for Medicare coverage. For the 1% increase for calculating the healthcare cost trend rates assumption, the key trend rates are 9.00% in 2019 decreasing to an ultimate trend rate of 5.92% in 2026, for non-Medicare coverage, and 10.00% in 2019 decreasing to an ultimate trend rate of 5.50% in 2028 for Medicare coverage.

| 1% Decrease | Current Healthcare Cost Trend Rates Assumption | 1% Increase |
|---------------|---|---------------|
| \$116,218,254 | \$137,600,029 | \$165,378,100 |

Total OPEB Liability Associated with the University, Regardless of Funding Source

MFS notes The University is required to disclose all OPEB liabilities related to it, including (1) the portion of the State's OPEB liability related to the University's employees resulting from the special funding situation the University is not required to record and (2) the portion of OPEB liability recorded by the University for its employees paid from trust, federal, and other funds. The following chart displays the proportionate share of contributions, regardless of funding source, associated with the System's employees relative to all employer contributions during the year ended June 30, 2018 based on the June 30, 2017 actuarial valuation rolled forward:

| | |
|---|-------------------|
| Measurement Date: | June 30, 2018 |
| State of Illinois' OPEB liability related to the System under the Special Funding Situation | \$ 174,467,441 |
| System's OPEB liability | \$12,602,786 |
| Total OPEB liability associated with the System | 187,070,227 |
| SEGIP total OPEB liability | \$ 40,093,248,494 |
| Proportionate share of the OPEB liability associated with the System | 0.47% |

Note 10 - Operating Expenses by Function Classification

System operating expenses by function classification for the year ended June 30, 2019 are summarized as follows:

| | Compensation and Benefits | Supplies and Services | Depreciation | Total |
|-------------------------------------|------------------------------|--------------------------|--------------|--------------|
| Academic Support | \$35,577,986 | \$ 5,456,947 | \$1,258,458 | \$42,293,391 |
| Operations and Maintenance of Plant | 534,772 | 5,871,082 | - | 6,405,854 |
| Total | \$36,112,758 | \$11,328,029 | \$1,258,458 | \$48,699,245 |

SOUTHERN ILLINOIS UNIVERSITY
MEDICAL FACILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

Note 11 - Operating leases

The System leases clinical and office space under contracts, some of which are renewable annually and others for multiple years with renewal options at the end of the initial lease period. Many of the renewals are subject to escalation upon proper notice by the lessor. Rental payments on these operating leases totaled \$5,324,842 in 2019 and \$3,036,895 in 2018 and are included in contractual services on the Statements of Revenues, Expenses and Changes in Net Position. Leases extending beyond 2019 have future payments of \$7,895,916 in 2020, \$5,273,193 in 2021, \$5,140,801 in 2022 and \$4,449,675 in 2023. There are no leases as of June 30, 2019 with future payments beyond 2023.

Note 12 - 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 2019 included a 1% discount rate for self-insurance liabilities.

**SOUTHERN ILLINOIS UNIVERSITY
MEDICAL FACILITIES SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2019**

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

| | <u>FY2014</u> | <u>FY2015</u> | <u>FY2016</u> | <u>FY2017</u> | <u>FY2018</u> | <u>FY2019</u> |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|---------------|
| (a) Proportion Percentage of the Collective Pension Liability | 0% | 0% | 0% | 0% | 0% | 0% |
| (b) Proportion Amount of the Collective Net Pension Liability | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| (c) Portion of Non-employer Contributing Entities' Total Proportion of Collective Net Pension Liability associated with Employer | <u>145,645,890</u> | <u>142,572,127</u> | <u>149,567,649</u> | <u>148,648,360</u> | <u>160,870,450</u> | |
| Total (b) + (c) | \$145,645,890 | \$142,572,127 | \$149,567,649 | \$148,648,360 | \$160,870,450 | |
| Employer DB Covered Payroll | \$24,169,140 | \$21,696,307 | \$20,803,296 | \$20,596,793 | \$20,897,786 | |
| Proportion of Collective Net Pension Liability associated With Employer as a percentage of covered-employee payroll | 602.61% | 657.13% | 718.96% | 721.71% | 769.80% | |
| SURS Plan Net Position as a Percentage of Total Pension Liability | 44.39% | 42.37% | 39.57% | 42.04% | 41.27% | |

Medical Facilities System's Schedule of Pension Contributions

| | | | | | | |
|---|--------------|--------------|--------------|--------------|--------------|--------------|
| Federal, Trust, Grant and Other contribution | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| Contribution in relation to required contribution | <u>\$ 0</u> | <u>\$ 0</u> | \$ 0 | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> |
| Contribution deficiency (excess) | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| Employer Covered-employee payroll | \$24,125,159 | \$22,033,214 | \$21,125,750 | \$20,901,279 | \$21,218,309 | \$20,890,552 |
| Contributions as a percentage of covered-employee payroll | 0% | 0% | 0% | 0% | 0% | 0% |

**SOUTHERN ILLINOIS UNIVERSITY
MEDICAL FACILITIES SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2019**

Changes of benefit terms. There were no benefit changes recognized in the Total Pension Liability as of June 30, 2018.

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, 2014 to June 30, 2017 was performed in February 2018, resulting in the adoption of new assumptions as of June 30, 2018.

- Salary increase. Decrease in the overall assumed salary increase rates, ranging from 3.25% to 12.25% based on years of service, with underlying wage inflation of 2.25%.
- Investment return. Decrease the investment return assumption to 6.75%. This reflects maintaining an assumed real rate of return of 4.5% and decreasing the underlying assumed price inflation to 2.25%.
- Effective rate of interest. Decrease the long-term assumption for the ERI for crediting the money purchase accounts to 6.75% (effective July 2, 2019).
- Normal retirement rates. A slight increase in the retirement rate at age 50. No change to the rates for ages 60-61, 67-74 and 80+, but a slight decrease in rates at all other ages. A rate of 50% if the member has 40 or more years of service and is younger than age 80.
- Early retirement rates. Decrease in rates for all Tier 1 early retirement eligibility ages (55-59).
- Turnover rates. Change rates 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.
- Mortality rates. Maintain the RP-2014 mortality tables with projected generational mortality improvement. Update the projection scale from the MP-2014 to the MP-2017 scale.
- Disability rates. Decrease current rates to reflect that certain members who receive disability benefits do not receive the benefits on a long-term basis.

Changes of assumptions. In accordance with Illinois Compiled Statutes, an actuarial review is to be performed at least once every three years to determine the reasonableness of actuarial assumptions regarding the retirement, disability, mortality, turnover, interest and salary of the members and benefit recipients of SURS. An experience review for the years June 30, 2010 to June 30, 2014 was performed in February 2015, resulting in the adoption of new assumptions as of June 30, 2015.

- Mortality rates. Change from the RP 2000 Mortality table projected to 2017, sex distinct, to the RP-2014 mortality tables with projected generational mortality improvement. Change to a separate mortality assumption for disabled participants.
- Salary increase. Change assumption to service-based rates, ranging from 3.75% to 15% based on years of service, with underlying wage inflation of 3.75%.
- Normal retirement rates. Change to retirement rates at ages younger than 60, age 66, and ages 70-79 to reflect observed experiences.
- Early retirement rates. Change to a slight increase to the rates at ages 55 and 56.
- Turnover rates. Change to produce lower expected turnover for members with less than 10 years of service and higher turnover for members with more than 10 years of service than the currently assumed rates.
- Disability rates. Decrease rates and have separate rates for males and females to reflect observed experience.
- Dependent assumption. Maintain the current assumption on marital status that varies by age and sex and the assumption that males are three years older than their spouses

Note: The System implemented GASB No. 68 in fiscal year 2015. The information above is presented for as many years as available. The Schedule is intended to show information for 10 years

**SOUTHERN ILLINOIS UNIVERSITY
 MEDICAL FACILITIES SYSTEM
 REQUIRED SUPPLEMENTARY INFORMATION
 For the Year Ended June 30, 2019**

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

| | <u>FY2017</u> | <u>FY2018</u> |
|--|----------------------|----------------------|
| Proportionate percentage of the collective total OPEB liability | .04% | .03% |
| Proportionate amount of the collective total OPEB Liability | \$ 15,630,952 | \$ 12,602,786 |
| Estimated proportionate amount of collective total OPEB liability associated with the University-State supported portion | 243,176,863 | 174,467,441 |
| Total OPEB Liability | <u>\$258,807,815</u> | <u>\$187,070,227</u> |
| Employer covered employee payroll | \$ 23,659,893 | \$ 23,663,582 |
| Proportionate share of total OPEB liability as a percentage of covered employee payroll | 1093.87% | 790.54% |

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

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

Changes of Assumptions:

The single discount rate was changed from 3.56% to 3.62% for fiscal year 2018.

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

**SOUTHERN ILLINOIS UNIVERSITY
 MEDICAL FACILITIES SYSTEM
 SCHEDULE OF BONDS PAYABLE OUTSTANDING
 For the Year Ended June 30, 2019**

| | Principal Amount | Interest Rate |
|--------------------------------------|-----------------------------|--------------------------|
| Interest Bearing Bonds | | |
| Serial Bonds Maturing as follows: | | |
| 2020 | \$1,715,000 | 1.65% |
| 2021 | 1,770,000 | 1.65% |
| 2022 | 1,830,000 | 1.65% |
| 2023 | 1,865,000 | 1.65% |
| Total Interest Bearing Bonds | \$7,180,000 | |

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

**SOUTHERN ILLINOIS UNIVERSITY
MEDICAL FACILITIES SYSTEM
SUPPLEMENTARY INFORMATION
TABLE OF OPERATING EXPENSES
June 30, 2019**

| | Compensation and Benefits | | | | | | | | Total | Other | Total | | |
|--|---------------------------|-----------------------|-------------------|----------------------|----------------------------|------------------------|----------------------|---------------------|----------------------|----------------------|----------------------|----------|-----------|
| | University Expenses | | | | State of Illinois Expenses | | | | | | | Expenses | Operating |
| | Salaries ¹ | Benefits ² | OPEB ³ | Sub-Total | Benefits ² | OPEB ³ | Pension | Sub-Total | | | | | |
| Academic support | \$ 25,389,915 | \$ 654,885 | \$ - | \$ 26,044,800 | \$ 6,827,201 | \$ (12,182,572) | \$ 14,888,557 | \$ 9,533,186 | \$ 35,577,986 | \$ 5,456,947 | \$ 41,034,933 | | |
| Operations and maintenance of plant | 379,702 | - | - | 379,702 | 101,189 | (180,563) | 234,444 | 155,070 | 534,772 | 5,871,082 | 6,405,854 | | |
| Depreciation | - | - | - | - | - | - | - | - | - | 1,258,458 | 1,258,458 | | |
| Totals | <u>\$ 25,769,617</u> | <u>\$ 654,885</u> | <u>\$ -</u> | <u>\$ 26,424,502</u> | <u>\$ 6,928,390</u> | <u>\$ (12,363,135)</u> | <u>\$ 15,123,001</u> | <u>\$ 9,688,256</u> | <u>\$ 36,112,758</u> | <u>\$ 12,586,487</u> | <u>\$ 48,699,245</u> | | |

¹Salaries include employer contributions for Social Security, Medicare and unemployment.

²Benefits include certain group insurance costs, such as healthcare and life insurance. For the System, it also includes employer Section 403(b) contributions

³OPEB refers to other post-employment benefits.

**SOUTHERN ILLINOIS UNIVERSITY
MEDICAL FACILITIES SYSTEM
OTHER INFORMATION (UNAUDITED)
TABLE OF OPERATING EXPENSES (UNAUDITED)
June 30, 2018**

| | Compensation and Benefits | | | | | | | | Total | Other | Total Operating Expenses |
|--|---------------------------|-----------------------|-------------------|----------------------|----------------------------|---------------------|----------------------|----------------------|----------------------|----------------------|--------------------------------|
| | University Expenses | | | | State of Illinois Expenses | | | | | | |
| | Salaries ¹ | Benefits ² | OPEB ³ | Sub-Total | Benefits ² | OPEB ³ | Pension | Sub-Total | | | |
| Academic support | \$ 23,621,844 | \$ 661,411 | \$ - | \$ 24,283,255 | \$ 5,463,452 | \$ 9,364,974 | \$ 13,486,411 | \$ 28,314,837 | \$ 52,598,092 | \$ 8,758,932 | \$ 61,357,024 |
| Operations and maintenance of plant | 363,090 | - | - | 363,090 | 95,673 | 163,994 | 215,112 | 474,779 | 837,869 | 3,493,188 | 4,331,057 |
| Depreciation | - | - | - | - | - | - | - | - | - | 1,264,194 | 1,264,194 |
| Totals | <u>\$ 23,984,934</u> | <u>\$ 661,411</u> | <u>\$ -</u> | <u>\$ 24,646,345</u> | <u>\$ 5,559,125</u> | <u>\$ 9,528,968</u> | <u>\$ 13,701,523</u> | <u>\$ 28,789,616</u> | <u>\$ 53,435,961</u> | <u>\$ 13,516,314</u> | <u>\$ 66,952,275</u> |

¹Salaries include employer contributions for Social Security, Medicare and unemployment.

²Benefits include certain group insurance costs, such as healthcare and life insurance. For the System, it also includes employer Section 403(b) contributions

³OPEB refers to other post-employment benefits.