SOUTHERN ILLINOIS UNIVERSITY

Treasurer's Report to the Bondholders

Medical Facilities System
For the Year Ended June 30, 2014

Board of Trustees and Officers of Administration

State of Illinois

Southern Illinois University

Medical Facilities System

Report of the Treasurer

For the Year Ended

June 30, 2014

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The University also issues an Annual Financial Report

TREASURER'S COMMENTS

SOUTHERN ILLINOIS UNIVERSITY MEDICAL FACILITIES SYSTEM

I. SOUTHERN ILLINOIS UNIVERSITY REVENUE BOND OPERATIONS

FACILITIES

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

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

The Richard H. Moy, M.D. Building was completed and occupied by the University in May 1993. The building now houses outpatient clinics for the department of Internal Medicine and for Fertility and In Vitro Fertilization, offices and outpatient clinics for the Memory and Aging Center, Dermatology, Endocrinology, and the department of Neurology. Space is also included in the building for a medical records unit. The design of the Richard H. Moy, M.D. Building includes an allowance in the foundation and other component service areas for the addition of three more stories to the building. Each story would approximate an additional 22,000 square feet. No current plans exist for such expansion.

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

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

On June 30, 2014, 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. Eleven of the leased facilities are in Springfield, Illinois and the remaining five are located elsewhere in Illinois.

ADVANCED REFUNDING

During fiscal year 2005, the debt related to the acquisition of the original system facility was advance refunded without extending the final maturity date. The refunding was undertaken by the Board of Trustees ("the Board") for the purpose of affecting a cost savings.

The proceeds of the bonds issued in the refunding were used to purchase U.S. Government securities in amounts which, together with the earnings thereon, were sufficient to pay, on their redemption date of April 1, 2007, the interest, and principal of the refunded bonds.

II. ENROLLMENTS AT SOUTHERN ILLINOIS UNIVERSITY

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

	Head Count
Fall semester 2013	288
Fall semester 2012	301

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 2013 (2012) enrollment including the Physician's Assistant program was 353 (363).

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. Debt service coverage for the System, as defined by the bond resolution and based on actual pledged tuition, has been calculated as follows:

	Year Ended June 30	
	2014	2013
Receipts:		
Revenue Account:		
Operations	$ 41,340,036	$ 42,590,468
Investment Income	4,700	2,849
Retirement of Indebtedness – Investment Income	690	1,249
	41,345,426	42,594,566
Disbursements:		
Operation & Maintenance Account	39,373,283	40,409,355
Net Revenues	1,972,143	2,185,211
Plus: Pledged Tuition	132,429,265	142,432,232
Total Available for Debt Service	$134,401,408	$144,617,443
Annual Debt Service	$ 1,765,250	$ 1,742,500
Maximum Annual Debt Service	$ 1,985,750	$ 1,985,750
Coverage Ratio Based on Net Revenues	1.12	1.25
Coverage Ratio Based on Annual Debt Service	76.14	82.99
Coverage Ratio Based on Maximum Annual Debt Service	67.68	72.83

IV. RETIREMENT OF INDEBTEDNESS

Net position is restricted for the following purposes:

	June 30	
	2014	2013 (restated)
Bond and Interest Sinking Fund Account	$896,699	$949,065

V. RENEWALS AND REPLACEMENTS

The bond resolution 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% 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 Board, 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.

Moneys or investments to the credit of such Account are not pledged as security for the payment of the Bonds, but may be used to pay for the payment of Bonds when all Bonds are so paid or provided for.

Additions during the year included transfers from unrestricted net position of $198,575 ($198,575 in 2013), interest earned on investments of $9,463 (interest of $14,157 in 2013) and no nonoperating revenue ($0 in 2013).

There were expenditures in the amount of $690,943 charged to the reserve ($44,123 in 2013). The restricted net position of Renewals and Replacements consisted of the following:

	June 30	
	2014	2013
Cash	$ 1,241,649	$ 1,447,577
Accrued interest receivable	434	228
Accounts payable	(277,183)	-
	$ 964,900	$ 1,447,805

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 2005 issued and outstanding as of June 30, 2014.

VII. RESTRICTED NET POSITION - EXPENDABLE

Restricted net position as of June 30, 2014 and 2013 are comprised of the following:

	June 30	
	2014	2013 (restated)
Retirement of indebtedness	$ 896,699	$ 949,065
Renewals and replacements	964,900	1,447,805
	$ 1,861,599	$ 2,396,870

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

FINANCIAL STATEMENTS

SOUTHERN ILLINOIS UNIVERSITY
MEDICAL FACILITIES SYSTEM
STATEMENT OF NET POSITION
June 30, 2014
(with comparative totals for 2013)

	2014	Restated 2013
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents (Note 2)	$ 2,614,104	$ 2,571,505
Cash and cash equivalents, restricted (Note 2)	1,242,261	1,448,781
Short term investments, restricted (Note 2)	447,210	440,035
Accounts receivable	3,193,748	4,232,555
Accrued interest receivable	711	365
Prepaid expenses and other assets	4,661	4,661
TOTAL CURRENT ASSETS	7,502,695	8,697,902
NONCURRENT ASSETS:		
Prepaid expenses and other assets	50,108	54,770
Capital assets not being depreciated: (Note 4)		
Land	2,565,115	2,565,115
Total capital assets not being depreciated	2,565,115	2,565,115
Capital assets being depreciated, net: (Note 4)		
Equipment	6,426,630	6,365,686
Buildings	36,369,587	36,369,587
Less accumulated depreciation	(13,147,526)	(11,664,288)
Total capital assets being depreciated, net	29,648,691	31,070,985
TOTAL NONCURRENT ASSETS	32,263,914	33,690,870
TOTAL ASSETS	39,766,609	42,388,772
DEFERRED OUTFLOWS		
Deferred loss on refunding	570,609	635,821
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	662,142	563,393
Accrued interest payable	176,778	187,563
Accrued payroll	543,373	457,983
Accrued compensated absences (Note 5)	252,995	243,311
Revenue bonds payable (Notes 5 and 6)	1,131,775	1,064,302
TOTAL CURRENT LIABILITIES	2,767,063	2,516,552
NONCURRENT LIABILITIES:		
Accrued compensated absences (Note 5)	1,839,774	1,899,076
Revenue bonds payable (Notes 5 and 6)	13,537,927	14,669,702
TOTAL NONCURRENT LIABILITIES	15,377,701	16,568,778
TOTAL LIABILITIES	18,144,764	19,085,330
NET POSITION		
Net investment in capital assets	17,544,103	17,902,096
Restricted for:		
Expendable		
Capital projects and debt service	1,861,599	2,396,870
Unrestricted	2,786,752	3,640,297
TOTAL NET POSITION	$ 22,192,454	$ 23,939,263

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 Year Ended June 30, 2014

(with comparative totals for 2013)

	2014	Restated 2013
REVENUES		
OPERATING REVENUES		
Medical Facilities System	$ 40,301,094	$ 41,851,324
TOTAL OPERATING REVENUES	40,301,094	41,851,324
EXPENSES		
OPERATING EXPENSES		
Salaries and wages	48,949,230	47,577,138
Contractual services	10,242,120	12,068,067
Other	3,290,890	3,045,557
Depreciation (Note 4)	1,675,255	1,687,431
TOTAL OPERATING EXPENSES	64,157,495	64,378,193
OPERATING LOSS	(23,856,401)	(22,526,869)
NONOPERATING REVENUES (EXPENSES)		
Investment income (Note 3)	14,978	17,771
Gifts and contributions	115,842	115,842
Interest on capital asset-related debt	(760,038)	(810,115)
Payments on behalf of the system (Notes 1l and 8)	22,560,678	22,699,375
NET NONOPERATING REVENUES	21,931,460	22,022,873
LOSS BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES	(1,924,941)	(503,996)
OTHER REVENUES, EXPENSES, GAINS OR LOSSES		
Capital assets retired (Note 4)	(39,435)	(7,892)
Additions to plant facilities from other sources (Note 7)	217,567	168,097
TOTAL OTHER REVENUES, EXPENSES, GAINS OR LOSSES	178,132	160,205
DECREASE IN NET POSITION	(1,746,809)	(343,791)
NET POSITION		
Net position at beginning of year	23,939,263	24,430,337
Prior-period adjustment	-	(147,283)
NET POSITION AT END OF YEAR	$ 22,192,454	$ 23,939,263

The accompanying notes are an integral part of this statement.

SOUTHERN ILLINOIS UNIVERSITY
MEDICAL FACILITIES SYSTEM
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2014
(with comparative totals for 2013)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Medical Facilities System	$ 41,340,036	$ 42,590,468
Payments to employees	(26,354,328)	(24,995,806)
Payments for utilities	(429,714)	(376,618)
Payments to suppliers	(13,003,001)	(15,036,931)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,552,993	2,181,113
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Contributions for other than capital purposes	115,842	115,842
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	115,842	115,842
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Purchases of capital assets	(74,828)	(359,803)
Principal paid on capital debt	(1,015,000)	(945,000)
Interest paid on capital debt	(750,250)	(797,500)
NET CASH USED BY CAPITAL FINANCING ACTIVITIES	(1,840,078)	(2,102,303)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	1,829,174	1,630,913
Investment income	14,647	18,842
Purchase of investments	(1,836,499)	(1,636,061)
NET CASH PROVIDED BY INVESTING ACTIVITIES	7,322	13,694
NET INCREASE (DECREASE) IN CASH	(163,921)	208,346
CASH AND CASH EQUIVALENTS - BEGINNING OF THE YEAR	4,020,286	3,811,940
CASH AND CASH EQUIVALENTS - END OF THE YEAR	$ 3,856,365	$ 4,020,286
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating loss	$ (23,856,401)	$ (22,526,869)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Depreciation expense	1,675,255	1,687,431
Payments on behalf of the system	22,560,678	22,699,375
Changes in assets and liabilities:		
Receivables, net	1,038,942	739,144
Prepaid expense	-	87,483
Accounts payable	98,749	(385,594)
Accrued payroll	85,389	(96,376)
Accrued compensated absences	(49,619)	(23,481)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 1,552,993	$ 2,181,113
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
On behalf payments for fringe benefits	$ 22,560,678	$ 22,699,375
Capital asset acquisitions from other sources	217,567	168,097
Loss on disposal of capital assets	39,435	7,892

The accompanying notes are an integral part of this statement.

1. Significant Accounting Policies

(A) Basis of Presentation

These financial statements have been prepared to satisfy the requirements of the Southern Illinois University Medical Facilities System ("System") Revenue Bonds master resolution. The financial balances and activities of the System, included in these financial statements, are included in the University's financial statements. The System is not a separate legal entity. The financial statements include prior year comparative information, which has been derived from the System's 2013 financial statements. Such information does not include all of the information required to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the System's financial statements for the year ended June 30, 2013.

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB), including Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities.* Additionally, the System has adopted GASB Statement No. 37, *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures.* The System follows the business-type activity reporting requirements of GASB Statement Nos. 35, 37 and 38 that provide a comprehensive, entity-wide perspective of the System's financial activities and replaces the fund group presentations previously required. Effective July 1, 2004, the System adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures.* The objective of this statement is to update the custodial credit risk disclosure requirements and to establish more comprehensive disclosure requirements addressing the common risks of deposits and investments. Effective July 1, 2007, the System adopted GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. The System has disclosed pledged revenues in Note 6 to the financial statements. Effective July 1, 2012, the System adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* GASB Statement No. 63 identifies net position, rather than net assets, as the residual of all other elements presented in a statement of financial position. Effective July 1, 2013, the System adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities.* This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Incorporating GASB Statement No. 65 in the System's 2014 financial statements resulted in the presentation of the deferred loss on refunding, previously reported as a reduction of revenue bonds payable, as a deferred outflow on the Statement of Net Position. It also resulted in the expensing of the unamortized non-insurance components of the bond issuance costs, which were previously reported as prepaid expenses. This change resulted in a ($147,283) adjustment to beginning net position. Comparative totals for 2013 have been restated to reflect these changes.

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

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

(B) Compensated Absences

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

(C) Buildings, Improvements and Equipment

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

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

(D) Revenues and Expenses

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

(E) Cash and Cash Equivalents

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

(F) Investments

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

(G) Allowance for Uncollectibles

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

(H) Bond Issuance Costs

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

(I) On-Behalf Payments

In accordance with GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, the System reported on-behalf payments made by agencies of the State of Illinois for health care and retirement. These costs are reflected in an equal amount in both the revenues and expenses of the System. On-behalf payments for the year ended June 30, 2014, amounted to $22,560,678. Substantially all employees of the System participate in the State Universities Retirement System of Illinois (SURS).

(J) Classifications of Net Position

Net position represents the difference between System assets and deferred outflows and liabilities and deferred inflows and is divided into three major categories. The first category, Net investment in capital assets, represents the System's equity in property, plant and equipment. The next category is restricted. 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 its use. The final category is unrestricted, 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.

2. Pooled Cash and Investments

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

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

The University has pooled certain cash and investments for the purpose of securing a greater return on investment and providing a more equitable distribution of investment return. Pooled investments, which consist principally of government securities, are stated at market. Income is distributed quarterly based upon average balances invested in the pool over the prior 13 week period. There are no investments in foreign currency. It is not feasible to separately determine the System's bank balance at June 30, 2014, 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 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 equivalents and other short maturity investments and by establishing an asset allocation policy that is consistent with the expected cash flows of the University. The internally managed portfolio is managed in accordance with covenants provided from the University's debt issuance activities. The externally managed portfolio is typically allocated with a minimum of $40 million held in cash equivalents and $65 to $115 million held in the intermediate-term portfolio. However, circumstances may occur that cause the allocations to temporarily fall outside the prescribed ranges.

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

Interest rate risk is disclosed below using the segmented time distribution method. As of June 30, 2014, the System had the following cash and investment balances:

		Investment Maturities (in Years)			
Investment Type	**Fair Value**	**Less Than 1**	**1-5**	**6-10**	**More than 10**
U.S. Treasuries	$ 447,210	$ 447,210	$ -	$ -	$ -
Total Investments	447,210	$ 447,210	$ -	$ -	$ -
Cash and Equivalents					
The Illinois Funds	3,856,365				
Total Cash & Equivalents	3,856,365				
Total Cash & Investments	$ 4,303,575				

3. Investments and Investment Income

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

The calculation of realized gains is independent of the calculation of the net increase in the fair value of investments. Realized gains and losses of investments that had been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year. Investment income for the fiscal year end June 30, 2014 is comprised of the following:

Interest Income	$ 14,965
Increase in Fair Market Value	13
Net Investment Income	$ 14,978

4. Capital Assets

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets not being depreciated				
Land	$ 2,565,115	$ -	$ -	$ 2,565,115
Total capital assets not being depreciated	2,565,115	-	-	2,565,115
Capital assets being depreciated				
Equipment	6,365,686	292,396	231,452	6,426,630
Buildings	36,369,587	-	-	36,369,587
Total capital assets being depreciated	42,735,273	292,396	231,452	42,796,217
Total capital assets	45,300,388	292,396	231,452	45,361,332
Accumulated depreciation				
Equipment	3,392,329	740,861	192,017	3,941,173
Building	8,271,959	934,394	-	9,206,353
Total accumulated depreciation	11,664,288	$ 1,675,255	$ 192,017	13,147,526
Capital assets - net	$ 33,636,100			$ 32,213,806

5. Changes in Liabilities

Liability activity for the year ended June 30, 2014 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Revenue bonds payable	$ 15,734,004	$ -	$ 1,064,302	$ 14,669,702	$1,131,775
Compensated absences	2,142,387	180,832	230,450	2,092,769	252,995
Total	$ 17,876,391	$ 180,832	$ 1,294,752	$ 16,762,471	$1,384,770

Amounts shown as ending balance include both current and long-term portions. Beginning balance of revenue bonds payable was restated for GASB 65.

6. Revenue Bonds Payable

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

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

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

The current bonds bear interest at rates ranging from 4.25% to 5.00% payable semi-annually and principal installments ranging from $480,000 to $1,825,000 are payable annually April 1 through the year 2026.

Bonds maturing after April 1, 2016 are subject to redemption at the option of the Board, on or after April 1, 2015, in whole or in part at any time, and if in part, from such maturities as determined by the Board and within any maturity by lot, at a price of 100% of the principal amount of the Series 2005 Bonds to be redeemed, plus accrued interest to the date fixed for redemption.

Year Ending June 30	Principal	Interest	Total
2015	1,085,000	707,112	1,792,112
2016	1,155,000	661,000	1,816,000
2017	1,240,000	603,250	1,843,250
2018	1,330,000	541,250	1,871,250
2019	1,425,000	474,750	1,899,750
2020-2024	7,200,000	1,202,750	8,402,750
2025-2026	1,020,000	69,300	1,089,300
Total Payments	$ 14,455,000	$ 4,259,412	$18,714,412
Unamortized debt premium	214,702		
Total Bonds Payable	$ 14,669,702		

These bonds, which are payable through 2026, do not constitute a debt of the State of Illinois or the individual members, officers or agents of the Board of Trustees of the University but, together with interest thereon, are payable from and secured by a pledge of and lien on (i) the net revenues of the System, (ii) pledged tuition (subject to prior payment of necessary operating and maintenance expenses of the Housing and Auxiliary Facilities System, debt service of the Housing and Auxiliary Facilities System not to exceed the maximum annual debt service, and then necessary operating and maintenance expenses of the System), and (iii) the Bond and Interest Sinking Fund Account. Total principal and interest remaining on the debt is $18,714,412 with annual requirements ranging from $543,400 to $1,985,750. For the current year, principal and interest paid was $1,765,250, and the total revenues pledged were $134,401,408. Total revenue pledged represents 100 percent of the net revenues of the System and 83.1 percent of net tuition revenue received in fiscal year 2014. 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.

7. Related Party Transactions

Expenditures capitalized in 2014 include $217,567 paid for by other University funds. 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 and used for payment of debt.

8. Retirement and Post-Employment Benefits

Substantially all employees of the System participate in the State Universities Retirement System of Illinois (SURS), which offers a cost-sharing multiple-employer defined benefit pension plan as well as a defined contribution plan. These plans have a special funding situation whereby the State of Illinois makes substantially all actuarially determined required contributions on behalf of the participating employers. SURS was established July 21, 1941 to provide retirement annuities and other benefits for staff members and employees of state universities, certain affiliated organizations, and certain other state educational and scientific agencies and for survivors, dependents, and other beneficiaries of such employees. SURS is considered a component unit of the State of Illinois' financial reporting entity and is included in the state's financial reports as a pension trust fund. SURS is governed by Section 5/15, Chapter 40, of the *Illinois Compiled Statutes*. SURS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by accessing the website at www.SURS.org or calling 1-800-275-7877.

Plan members are required to contribute 8% of their annual covered salary, and substantially all employer contributions are made by the State of Illinois on behalf of the individual employers at an actuarially determined rate. The current rate for fiscal year 2015 is 35.8% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the Illinois General Assembly. The employer contributions to SURS for the University for the years ended June 30, 2014, 2013, and 2012 were $149,491,589, $139,770,149, and $102,861,965, respectively, equal to the required contributions for the year. The fiscal year 2014 contribution consisted of $146,697,808 from State appropriations and $2,793,781 from other current funds, and the fiscal year 2013 contribution consisted of $136,823,379 from State appropriations and $2,946,770 from other current funds

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

The State pays the System's portion of employer costs for the benefits provided. The total costs of the State's portion of health, dental, vision, and life insurance benefits of all members, including post-employment health, dental, vision, and life insurance benefits, is recognized as an expenditure by the State in the Illinois Comprehensive Annual Financial Report. The State finances the costs on a pay-as-you-go basis. The total costs incurred for health, dental, vision, and life insurance benefits are not separated by department or component unit for annuitants and their dependents nor active employees and their dependents. A summary of post-employment benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the financial statements of the Department of Healthcare and Family Services. A copy of the financial statements of the Department of Healthcare and Family Services may be obtained by writing to the Department of Healthcare and Family Services, 201 South Grand Ave., Springfield, Illinois, 62763-3838.

9. Insurance

The University has established a Self Insurance Program (the "Program") to cover its general liability, its hospital and medical professional liability, and certain other liability exposures. Funds for the Program have been reserved in amounts to cover the major portion of the estimated liability as determined by the Program's actuary. The University has also purchased excess insurance coverages with commercial carriers to cap the risk of loss retained by the Program. The System's buildings, contents and boilers are insured either through self insurance or with commercial insurance companies.

An insurance package policy purchased under the auspices of the Illinois Public Higher Education Cooperative (IPHEC), through the Midwestern Higher Education Commission (MHEC) program, provides all risk coverage on buildings and contents. The following insurance coverages are in force at the University (including the System's facilities) through June 30, 2015:

		Approximate Amount
1.	Lexington Insurance Company, Policy No. 66095349 and Zurich North America, Policy No. ERP-0147162-00: Policies providing $100,000,000 all risk coverage on scheduled buildings and other property totaling $3,707,085,754 with a $1,000,000 per occurrence deductible. The University has established a self insurance reserve in amounts to cover the portion of estimated liability between $25,000 and the $1,000,000 per occurrence and $2,000,000 aggregate deductibles. There is a shared captive retention layer of $1,000,000 per occurrence and $7,315,325 aggregate through the Midwestern Higher Education Compact (MHEC).	$100,000,000 per occurrence
1a.	Boiler & Machinery coverage included in the Lexington and Zurich policies listed above carries the same deductibles as noted above.	$100,000,000 per occurrence
1b.	Flood coverage included in the Lexington and Zurich policies listed above is limited to $100,000,000 and carries the same per occurrence deductible noted above unless the flood involves property located in a FEMA-defined flood hazard area which there is then a limit of $25,000,000 and a deductible of 2% of the total insured value subject to a minimum of $1,000,000 per occurrence.	$100,000,000 per occurrence
1c.	Earthquake coverage included in the Lexington and Zurich policies listed above is limited to $100,000,000 and carries a per occurrence deductible of 1% of total insured value subject to a minimum of $50,000 per occurrence.	$100,000,000 per occurrence
2.	Lexington Insurance Company, Policy No. 66095363: furnishes the secondary layer of $400,000,000 excess of the Lexington's and Zurich's $100,000,000 layer.	$400,000,000 per occurrence
3.	Swiss Re, Policy No. 31-3-77712; RSUI Indemnity, Policy No. NHD388516; Starr Specialty Lines, Policy Nos. 44732524-02, SLSTPTY10675714 and T0234451401437; and Zurich North America, Policy No. XPP 0177448-00: furnishes the third layer of coverage, which is $500,000,000 excess of the $500,000,000.	$500,000,000 per occurrence
4.	XL Insurance (Bermuda) LTD, Policy No. XLPRP113186114: furnishes the fourth layer of coverage, which is $250,000,000 excess of the $1,000,000,000.	$250,000,000 per occurrence
5.	Endurance American Specialty, Policy No. CPN10005181600; RSUI Indemnity, Policy No. NHD388515; and National Fire & Marine, Policy No. 42-XPR-000012-02: furnishes earthquake coverage in excess of coverage included in Lexington and Zurich North America Policy No's. 66095349 and ERP-0147162-00, respectively, with limits of $50,000,000 that is shared with the University of Illinois.	$50,000,000 per occurrence

6. Self Insurance: The University, pursuant to the provisions of Illinois Public Act 84-0010, has established a Self Insurance Program (the "Program") for its traditional liability insurance coverages. Funds have been reserved in amounts to cover the major portion of the estimated liability as determined by the Program's actuary. The University has also purchased excess liability insurance policies to cover certain of its general liability exposures not elsewhere covered.

10. Operating Expenses by Functional and Natural Classification

Operating expenses by natural classification for the years ended June 30, 2014 and June 30, 2013 are summarized as follows:

June 30, 2014	Compensation and benefits	Supplies and services	Depreciation	Total
Academic support	$ 49,257,320	$ 6,181,761	$	$ 55,439,081
Operations and maintenance of plant	754,534	6,268,612		7,023,146
Public Service	19,230	782		20,012
Depreciation			1,675,255	1,675,255
Total	$ 50,031,084	$12,451,155	$ 1,675,255	$ 64,157,494

June 30, 2013	Compensation and benefits	Supplies and services	Depreciation	Total
Academic support	$ 47,854,059	$ 8,445,010	$	$ 56,299,069
Operations and maintenance of plant	760,408	5,631,285		6,391,693
Depreciation			1,687,431	1,687,431
Total	$ 48,614,467	$14,076,295	$ 1,687,431	$ 64,378,193

SUPPLEMENTARY INFORMATION

SOUTHERN ILLINOIS UNIVERSITY
MEDICAL FACILITIES SYSTEM
SCHEDULE OF BONDS PAYABLE OUTSTANDING
June 30, 2014

	Principal Amount	Interest Rate
Interest Bearing Bonds		
Serial Bonds Maturing as follows:		
2015	1,085,000	4.25%
2016	1,155,000	5.00%
2017	1,240,000	5.00%
2018	1,330,000	5.00%
2019	1,425,000	5.00%
2020	1,525,000	5.00%
2021	1,630,000	5.00%
2022	1,740,000	5.00%
2023	1,825,000	5.00%
Term Bonds maturing as follows:		
2024	480,000	4.500%
2025	500,000	4.500%
2026	520,000 *	4.500%
Total Interest Bearing Bonds	$ 14,455,000	

* Subject to mandatory redemption in the years indicated

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