Crowe Horwath LLP
Member Horwath International

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, 2008

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, 2008

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

Southern Illinois University
Board of Trustees and
Officers of Administration
Fiscal Year 2008

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Southern Illinois University

Annual Financial Report

Fiscal Year 2008

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Southern Illinois University – Board of Trustees

Board Treasurer
1400 Douglas Drive
Mailcode 6801
Phone: 618-536-3475 Carbondale, IL 62901 FAX: 618-536-3404

September 30, 2008

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, 2008.

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

The financial statements of the University have been audited by Crowe Horwath LLP, Certified Public Accountants, for fiscal year 2008. As Special Assistant Auditors for the Auditor General, they have issued reports covering their audits of the compliance of the University with applicable state and federal laws and regulations and a report containing supplementary financial information and special data requested by the Auditor General. These reports are available at the Office of the Auditor General, State of Illinois.

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

Respectfully submitted,

Duane Stucky
Board Treasurer

DS/lap

FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying basic financial statements of Southern Illinois University was conducted by Crowe Horwath LLP.

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

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Crowe Horwath LLP
Member Horwath International

Independent Auditors' Report

Honorable William G. Holland
Auditor General, State of Illinois
and Board of Trustees
Southern Illinois University

As Special Assistant Auditors for the Auditor General, we have audited the accompanying basic financial statements, as listed in the table of contents, of Southern Illinois University ("the University") and its aggregate discretely presented component units, collectively a component unit of the State of Illinois, as of and for the year ended June 30, 2008. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the University's 2007 financial statements and, in our report dated February 28, 2008, we expressed an unqualified opinion on those statements.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material aspects, the respective financial position of the University and of its aggregate discretely presented component units as of June 30, 2008, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 5, 2009, 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, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 5 through 9 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Crowe Horwath LLP

Crowe Horwath LLP

Oak Brook, Illinois
February 5, 2009

Southern Illinois University

Management's Discussion and Analysis

For the Year Ended June 30, 2008

Introduction

The following discussion and analysis of the financial statements of Southern Illinois University (the "University") provides an overview of the University's financial activities for the year ended June 30, 2008. This discussion has been prepared by management and should be read in conjunction with the financial statements and related footnotes.

This discussion focuses on the financial activities of the University (the primary unit). The seven 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; and SIU Physicians and Surgeons, Inc. 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 2008 financial report includes three basic financial statements: the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; and the Statement of Cash Flows. The notes to the basic financial statements include additional details and should be included as part of any review or analysis. These financial statements are prepared in accordance with accounting principles generally accepted in the United States of America and provide information on the University as a whole.

FINANCIAL HIGHLIGHTS

Statement of Net Assets

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

The following summarizes the University's assets, liabilities and net assets at June 30, 2008 and 2007:

	June 30, 2008	June 30, 2007
Assets:		
Current assets	$ 215,086,723	$ 191,961,159
Capital assets, net	605,188,397	572,516,218
Other assets	118,129,574	103,801,268
Total Assets	$ 938,404,694	$ 868,278,645
Liabilities:		
Current liabilities	128,967,010	119,105,457
Noncurrent liabilities	343,188,410	323,035,752
Total Liabilities	$ 472,155,420	$ 442,141,209
Net Assets:		
Invested in capital assets, net	342,131,114	330,124,020
Restricted - nonexpendable	3,623,621	4,058,461
Restricted - expendable	68,646,681	57,850,190
Unrestricted	51,847,858	34,104,765
Total Net Assets	$ 466,249,274	$ 426,137,436

The University's financial position remained strong at June 30, 2008, with assets of $938,404,694 and liabilities of $472,155,420. Net assets, the difference between total assets and total liabilities, increased $40,111,838, or almost 9%, compared to the previous year.

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets presents the results of the University's revenue and expense activity categorized as operating or nonoperating. All of the current year's 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.

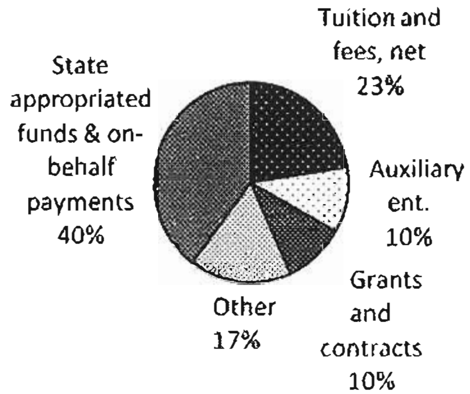
The following summarizes the University's financial activity for fiscal years 2008 and 2007:

	Year Ended June 30, 2008	Year Ended June 30, 2007
Operating revenues:		
Tuition and fees, net	$ 207,141,669	$ 182,140,804
Auxiliary enterprises	95,190,509	83,367,711
Grants and contracts	93,855,788	89,604,596
Other	102,928,925	92,132,855
Operating expenses	(860,778,633)	(793,238,172)
Operating loss	(361,661,742)	(345,992,206)
State appropriations	227,184,099	223,149,103
On-behalf payments	122,396,302	106,525,874
Other nonoperating revenues & expenses, net	37,421,596	34,315,848
Income (loss) before other revenues	25,340,255	17,998,619
Other revenues	14,771,583	32,650,797
Increase in net assets	40,111,838	50,649,416
Net assets at beginning of year	426,137,436	375,488,020
Net assets at end of year	$ 466,249,274	$ 426,137,436

The Statement of Revenues, Expenses and Changes in Net Assets reflects a positive year with an increase in net assets for the year of $40.1 million. A significant portion of this increase is in the unrestricted net assets of the University, which increased over $17.7 million.

The following is a graphic illustration of revenues by source (both operating and nonoperating), which were used to fund the University's operating activities for the year ended June 30, 2008. The revenue from charges for tuition and fees is shown net of the scholarship allowance of $26,702,187. Student tuition and state appropriations are 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 that includes conferences and seminars, investment income, and income from the Physicians and Surgeons practice plan.

REVENUES BY SOURCE:



Operating Expenses

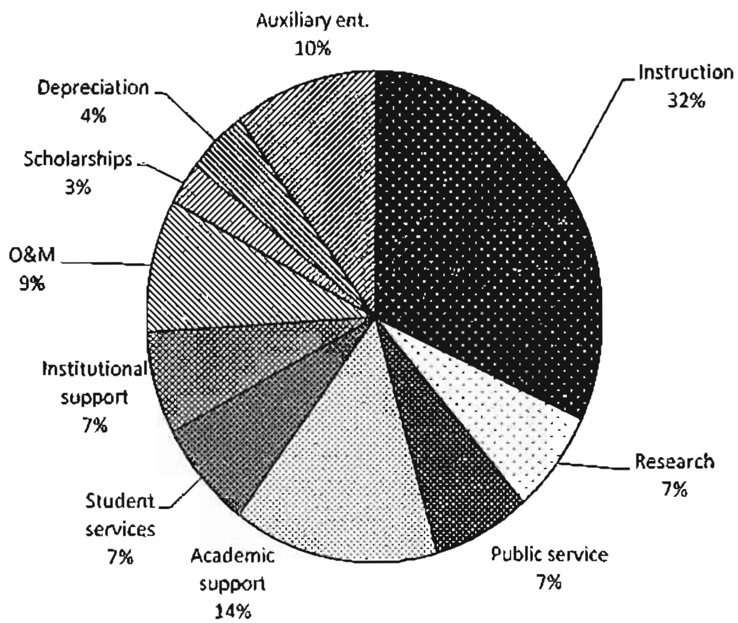
A summary of the University's operating expenses by functional classification for the years ended June 30, 2008 and 2007 is as follows:

	Year Ended June 30, 2008	Year Ended June 30, 2007
Instruction	$ 273,275,474	$ 259,860,902
Research	58,343,488	57,700,962
Public service	60,083,154	56,378,043
Academic support	125,357,888	112,268,877
Student services	61,419,481	55,192,637
Institutional support	58,097,621	54,640,752
Operation and maintenance of plant	75,374,645	65,398,396
Scholarships and fellowships	24,241,476	19,159,776
Depreciation	36,393,289	34,958,458
Auxiliary enterprises	87,621,293	77,328,543
Other expenditures	570,824	350,826
	$ 860,778,633	$ 793,238,172

Operating expenses include $122,396,302 for health care and retirement costs paid on-behalf of University employees by the State of Illinois. These expenses have been allocated by function.

The following is a graphic illustration of operating expenses by function for the year ended June 30, 2008:

EXPENSES BY FUNCTION:



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.

	Year Ended June 30, 2008	Year Ended June 30, 2007
Cash provided by (used in):		
Operating activities	$ (189,758,364)	$ (205,353,142)
Noncapital financing activities	257,788,627	250,858,575
Capital and related financing activities	(43,860,494)	(93,129,362)
Investing activities	(5,265,973)	59,369,660
Net increase (decrease) in cash	18,903,796	11,745,731
Cash and cash equivalents, beginning of year	107,846,583	96,100,852
Cash and cash equivalents, end of year	$ 126,750,379	$ 107,846,583

The University's cash and cash equivalents increased by $18,903,796 as the University maintained a more flexible and liquid cash position to address operating cash flow needs and construction account drawdown requirements. For additional information regarding the detail behind the four categories summarized above, please refer to the Statement of Cash Flows.

Capital Asset and Debt Administration

At the end of fiscal year 2008, the University had $342,131,114 invested in capital assets, net of accumulated depreciation and related debt. Depreciation expense for the current year was $36,393,289, with accumulated depreciation of $672,929,685.

The Housing and Auxiliary Facilities System Bonds, Series 2008A were authorized by the University Board under the Twelfth Supplemental Bond Resolution dated April 10, 2008. The bonds were issued May 8, 2008, in the par amount of $30,105,000. The bonds were issued for the construction of and equipping a Student Success Center on the Edwardsville campus; renovation, expansion and equipping of the Student Fitness Center at Edwardsville; installation of automatic sprinkler systems and associated upgrades in the Thompson Point and University Hall residence halls on the Carbondale campus; and installation of security cameras and electronic access control systems in Thompson Point.

For additional information concerning the University's Capital Assets and Debt Administration, see Notes 6, 8 and 10 in the Notes to Financial Statements.

Economic Outlook

State appropriations for fiscal year 2009 increased $8,624,700, or 3.8% above the fiscal year 2008 appropriation budget. The FY2009 state appropriation includes continuing support from the Governor and General Assembly for approximately $1.1 million to fund the James E. Walker Scholarship Fund and $1.2 million for on-going maintenance support of a newly renovated research lab at the SIU School of Medicine in Springfield. The State continues to appropriate funds for the payment of University employees' benefits; however, in fiscal year 2003, the State required the University to supplement the appropriated funds. The University will contribute $7 million toward employee health coverage in fiscal year 2009.

Southern Illinois University continues to develop and expand its resource base by seeking more revenue opportunities from grants and contracts, sales and services of educational activities that include clinics, conferences and seminars, other self-supporting activities, and fund raising efforts. This is demonstrated in the fiscal year 2009 operating budget where projected increases in these revenue sources are estimated to reach 5.2%. Fiscal year 2009 increases in tuition for first time resident freshmen were approved in the amount of 9.9% at the Carbondale campus and 11.9% at the Edwardsville campuses. Student fees were increased 11.3% for a full-time student at the Carbondale campus and 10.7% for full-time students at the Edwardsville campus. The Fall 2008 enrollment at the Edwardsville campus was 13,602, an increase of 204 students, the highest since 1975, with a full time equivalent of 11,635. Total enrollment at the Carbondale campus was 20,673, down 310 students.

During fiscal year 2008, the University successfully concluded its first ever comprehensive capital campaign at the Carbondale campus, *Opportunity Through Excellence.* The University through the Southern Illinois University Foundation (at Carbondale) secured $106 million in commitments toward the $100 million campaign goal. The Southern Illinois University at Edwardsville Foundation is in the leadership phase of a comprehensive campaign.

The University is committed to strong fiscal stewardship of its resources and maintaining a sound financial position. To that end, University management establishes institutional priorities that are linked to additional funding, sets funding guidelines for asset maintenance of facilities and equipment, and holds 2% of state appropriated funds and tuition income as a contingency reserve for fiscal emergencies.

The University is not aware of any additional facts, decision, or conditions that might be expected to have a significant effect on the financial position or results of operations during the next fiscal years beyond those unknown factors having a global effect on virtually all types of business operations.

Southern Illinois University

Statement of Net Assets

June 30, 2008 with Comparative Totals for 2007

	UNIVERSITY		UNIVERSITY RELATED ORGANIZATIONS	
	2008	2007	2008	2007
ASSETS				
Current Assets:				
Cash and cash equivalents	$ 126,750,379	$ 98,703,044	$ 5,715,344	$ 6,379,437
Short-term investments	34,958,191	40,369,884	29,696,025	34,228,494
Deposits with University	-	-	8,820,189	13,346,452
Appropriations receivable from State of Illinois General Revenue	107,860	374,564	-	-
Appropriations receivable from State of Illinois Capital Development	-	1	-	-
Reimbursement due from State Treasurer	3,031,700	2,356,137	-	-
Accounts receivable, net	34,769,430	35,742,540	21,484,138	21,577,695
Notes receivable, net	4,128,379	3,986,528	-	-
Accrued interest receivable	321,047	628,815	217,337	146,102
Due from related organizations	3,668,815	2,524,941	124,865	203,323
Inventories	6,586,133	6,362,336	-	-
Prepaid expenses and other assets	764,789	912,369	1,653,673	577,233
Total Current Assets	215,086,723	191,961,159	67,711,571	76,458,736
Noncurrent Assets:				
Cash and cash equivalents	-	9,143,539	8,505	8,505
Long-term investments	96,799,864	73,247,083	114,536,474	118,949,507
Notes receivable, net	15,402,552	15,583,678	30,225	54,174
Prepaid expenses and other assets	5,927,158	5,826,968	24,239,328	20,544,588
Due from related organizations	-	-	-	88,094
Capital assets, not depreciated	92,482,061	128,297,713	-	-
Capital assets, net of depreciation	512,706,336	444,218,505	5,542,225	4,932,462
Total Noncurrent Assets	723,317,971	676,317,486	144,356,757	144,577,330
TOTAL ASSETS	938,404,694	868,278,645	212,068,328	221,036,066
LIABILITIES				
Current Liabilities:				
Accounts payable	33,510,398	22,692,377	1,538,101	1,121,680
Notes payable	-	-	1,188,094	166,472
Accrued interest payable	2,530,135	2,368,346	28,188	34,238
Accrued payroll	8,374,830	7,208,596	4,448,220	4,270,813
Accrued compensated absences	4,121,442	3,765,472	-	-
Revenue bonds payable	12,751,244	11,816,500	-	1,650,000
Certificates of participation	2,666,576	2,586,088	-	-
Liabilities under capitalized leases	1,097,077	1,074,140	-	-
Annuities payable	-	-	597,147	553,500
Accrued liability for self-insurance	7,580,149	5,279,983	-	-
Deposits held for University related organizations	8,820,189	13,346,452	-	-
Deposits held in custody for others	1,120,793	1,098,729	56,628	43,933
Deferred revenue	46,155,276	47,554,520	768,634	730,432
Housing deposits	128,149	120,589	-	-
Due to related organizations	110,752	193,665	3,682,928	2,534,599
Total Current Liabilities	128,967,010	119,105,457	12,307,940	11,105,667
Noncurrent Liabilities:				
Notes payable	-	-	-	88,094
Accrued compensated absences	43,845,870	43,055,372	-	-
Revenue bonds payable	247,863,404	224,852,482	-	-
Certificates of participation	25,624,191	28,290,768	-	-
Liabilities under capitalized leases	313,874	2,041,100	-	-
Annuities payable	-	-	4,395,061	3,723,208
Accrued liability for self-insurance	8,107,571	7,419,377	-	-
Federal loan program contributions refundable	17,129,578	16,982,124	-	-
Due to related organizations	-	88,094	-	-
Housing deposits	156,626	147,386	-	-
Other accrued liabilities	147,296	159,049	2,334,866	1,559,489
Deposits held in custody for others	-	-	2,337,787	2,646,250
Total Noncurrent Liabilities	343,188,410	323,035,752	9,067,714	8,017,041
TOTAL LIABILITIES	472,155,420	442,141,209	21,375,654	19,122,708
NET ASSETS				
Invested in capital assets, net of related debt	342,131,114	330,124,020	4,442,225	3,282,462
Restricted for:				
Nonexpendable	3,623,621	4,058,461	82,204,826	79,997,422
Expendable	68,646,681	57,850,190	67,686,616	74,686,256
Unrestricted	51,847,858	34,104,765	36,359,007	43,947,218
TOTAL NET ASSETS	$ 466,249,274	$ 426,137,436	$ 190,692,674	$ 201,913,358

The accompanying notes are an integral part of this statement.

Southern Illinois University

Statement of Revenues, Expenses and Changes in Net Assets

Year Ended June 30, 2008 with Comparative Totals for 2007

	UNIVERSITY		UNIVERSITY RELATED ORGANIZATIONS	
	2008	2007	2008	2007
REVENUES				
Operating Revenues:				
Student tuition and fees (net of scholarship allowances of $26,702,187 for 2008)	$ 207,141,669	$ 182,140,804	$ -	$ -
Federal grants and contracts	33,842,043	34,312,568	-	-
State of Illinois grants and contracts	34,162,589	31,153,895	-	-
Other government grants and contracts	6,854,397	6,095,411	-	-
Private grants and contracts	18,996,759	18,042,722	-	-
Sales and services of educational departments	60,638,746	52,529,185	-	-
Physicians and Surgeons practice plan	42,002,122	39,342,615	-	-
Patient service revenue (net)	-	-	79,588,430	76,492,659
Auxiliary enterprises:				
Funded debt enterprises (net of scholarship allowances of $5,221,849 for 2008)	85,065,791	75,865,362	-	-
Other auxiliary enterprises (net of scholarship allowances of $737,386 for 2008)	10,124,718	7,502,349	-	-
Loan interest income	177,911	187,376	-	-
Other operating revenues	110,146	73,679	9,955,811	8,960,483
Total Operating Revenues	499,116,891	447,245,966	89,544,241	85,453,142
EXPENSES				
Operating Expenses:				
Instruction	273,275,474	259,860,902	-	-
Research	58,343,488	57,700,962	-	-
Public service	60,083,154	56,378,043	-	-
Academic support	125,357,888	112,268,877	-	-
Student services	61,419,481	55,192,637	-	-
Institutional support	58,097,621	54,640,752	128,964,554	113,954,665
Operation and maintenance of plant	75,374,645	65,398,396	-	-
Scholarships and fellowships	24,241,476	19,159,776	-	-
Depreciation	36,393,289	34,958,458	433,899	328,881
Auxiliary enterprises:				
Funded debt enterprises	75,871,309	68,415,537	-	-
Other auxiliary enterprises	11,749,984	8,913,006	-	-
Other operating expenses	570,824	350,826	-	-
Total Operating Expenses	860,778,633	793,238,172	129,398,453	114,283,546
Operating Loss	(361,661,742)	(345,992,206)	(39,854,212)	(28,830,404)
NONOPERATING REVENUES (EXPENSES)				
State appropriations - General Revenue fund	227,184,099	223,149,103	-	-
Gifts and contributions	7,623,196	6,464,905	35,782,668	22,247,192
Investment income (loss)	11,793,641	12,836,875	(8,256,419)	20,485,079
Grants and contracts	28,817,856	25,324,987	-	(4,352)
Interest on capital asset-related debt	(9,265,951)	(9,302,595)	(74,912)	(85,691)
Accretion on bonds payable	(4,307,544)	(4,229,132)	-	-
University related organizations	(142,811)	267,057	-	-
Payments on behalf of the university	122,396,302	106,525,874	-	-
Other nonoperating revenues (expenses)	2,903,209	2,953,751	(3,427,916)	1,516,807
Net Nonoperating Revenues	387,001,997	363,990,825	24,023,421	44,159,035
Income (Loss) Before Other Revenues	25,340,255	17,998,619	(15,830,791)	15,328,631
Other Revenues:				
Capital state appropriations	13,655,093	28,666,554	-	-
Additions to permanent endowments	19,404	165,200	2,715,723	4,449,837
Capital grants and gifts	1,097,086	3,819,043	1,894,384	925,488
Total Other Revenues	14,771,583	32,650,797	4,610,107	5,375,325
Increase (decrease) in Net Assets	40,111,838	50,649,416	(11,220,684)	20,703,956
NET ASSETS				
Net assets at beginning of year	426,137,436	375,488,020	201,913,358	181,209,402
Net assets at end of year	$ 466,249,274	$ 426,137,436	$ 190,692,674	$ 201,913,358

The accompanying notes are an integral part of this statement.

Southern Illinois University
Statement of Cash Flows
Year Ended June 30, 2008 with Comparative Totals for 2007

	UNIVERSITY		UNIVERSITY RELATED ORGANIZATIONS	
	2008	2007	2008	2007
Cash Flows from Operating Activities				
Tuition and fees	$ 208,022,458	$ 181,088,391	$ -	$ -
Grants and contracts	92,194,079	89,680,310	-	-
Sales and services of educational activities	55,967,533	54,433,540	-	-
Physicians and Surgeons	40,979,286	42,098,157	-	-
Auxiliary enterprise revenues:				
Funded debt	88,246,131	78,033,808	-	-
Other auxiliary	9,856,306	8,812,677	-	-
Payments to employees for salaries and benefits	(476,079,818)	(451,744,220)	(30,679,977)	(28,041,405)
Payments to suppliers	(241,326,777)	(246,137,050)	(68,488,843)	(65,641,837)
Payments for scholarships and fellowships	(53,399,341)	(53,204,825)	-	-
Loans issued to students	(3,188,559)	(4,671,381)	-	-
Interest earned on loans to students	177,198	188,785	-	-
Collection of loans from students	2,762,825	4,168,484	-	-
Patient service revenue	-	-	82,697,418	80,296,523
Other operating receipts	86,030,315	91,900,182	5,197,696	3,298,571
Net cash used in operating activities	(189,758,364)	(205,353,142)	(11,273,706)	(10,088,148)
Cash Flows from Noncapital Financing Activities				
State appropriations	227,442,327	222,817,475	-	-
Direct lending receipts	156,356,325	130,907,761	-	-
Direct lending payments	(156,474,818)	(130,750,769)	-	-
Grants and contracts	28,534,357	25,324,988	-	50,000
Government advances for federal loan funds	93,480	(83,193)	-	-
Payments to annuitants	-	-	(506,646)	(502,259)
Other	(309,644)	(486,904)	(61,960)	(16,698)
Gifts for other than capital purposes	2,146,600	3,129,217	13,099,585	12,404,672
Net cash provided by noncapital financing activities	257,788,627	250,858,575	12,530,979	11,935,715
Cash Flows from Capital and Related Financing Activities				
Capital appropriations	10,222,617	27,919,459	-	-
Capital gifts received	-	-	1,894,384	925,488
Capital grants	2,000,000	1,000,000	-	(23,070)
Payments received on capital financing leases	-	-	248,027	252,195
Sale of capital assets	18,000	18,000	-	51,248
Purchases of capital assets	(66,315,053)	(99,860,508)	(1,039,183)	(461,904)
Proceeds from capital debt	31,464,732	-	-	-
Other	2,638,601	-	-	-
Principal paid on capital debt	(14,405,000)	(13,265,000)	(716,472)	(161,558)
Interest paid on capital debt	(9,484,391)	(8,941,313)	(80,962)	(85,691)
Net cash provided by (used in) capital and related financing activities	(43,860,494)	(93,129,362)	305,794	496,708
Cash Flows from Investing Activities				
Purchases of investments	(58,345,133)	(32,494,930)	(17,054,723)	(10,887,347)
Proceeds from sales of investments and maturities	42,563,918	79,824,665	10,033,776	5,180,011
Investment income	10,515,242	12,039,925	4,793,787	4,842,604
Net cash provided by (used in) investing activities	(5,265,973)	59,369,660	(2,227,160)	(864,732)
Net increase (decrease) in cash	18,903,796	11,745,731	(664,093)	1,479,543
Cash and cash equivalents, beginning of the year	107,846,583	96,100,852	6,387,942	4,908,399
Cash and cash equivalents, end of the year	$ 126,750,379	$ 107,846,583	$ 5,723,849	$ 6,387,942

Southern Illinois University
Statement of Cash Flows
Year Ended June 30, 2008 with Comparative Totals for 2007

	UNIVERSITY		UNIVERSITY RELATED ORGANIZATIONS	
	2008	2007	2008	2007
Reconciliation of Operating Loss to Net Cash Used in Operating Activities				
Operating loss	$ (361,661,742)	$ (345,992,206)	$ (39,854,212)	$ (28,830,404)
Adjustments to reconcile operating loss to net cash used in operating activities:				
Depreciation expense	36,393,289	34,958,458	433,899	328,881
Amortization expense	-	-	357,126	357,126
Noncash grants to University	-	-	1,493,213	4,257,773
Noncash expenditures for the benefit of the University	-	-	20,268,276	11,828,975
Budget expended at University	(219,516)	(202,533)	-	-
Payments on behalf of the university	122,396,302	106,525,874	-	-
Change in assets and liabilities:				
Accounts receivable (net)	(611,819)	(8,321,731)	(1,157,180)	523,739
Deposits with University	-	-	4,575,770	3,137,448
Reimbursement due from State Treasurer	(671,111)	26,172	-	-
Inventories	(223,797)	382,088	-	-
Prepaid expenses	170,631	(152,031)	(3,076)	(785)
Other assets	(6,984)	4,276,653	(4,241)	(69,993)
Accounts payable	8,201,215	(3,997,087)	1,781,040	(1,697,074)
Accrued payroll	1,164,345	844,936	-	-
Deferred revenue	(930,261)	6,616,191	61,054	115,264
Compensated absences	1,146,468	1,510,365	-	-
Deposits held for others	(33,555)	(30,391)	12,695	16,806
Other liabilities	3,005,160	(1,813,568)	757,214	36,025
Due to/from related organizations	2,123,011	15,668	4,716	(91,929)
Net cash used in operating activities	$ (189,758,364)	$ (205,353,142)	$ (11,273,706)	$ (10,088,148)
Noncash investing, capital and financing activities:				
Payments on behalf of the university for fringe benefits	$ 122,396,302	$ 106,525,874	$ -	$ -
Accretion on bonds payable	4,307,544	4,229,132	-	-
Gifts in kind	1,031,956	4,193,196	20,271,838	12,158,318
Capital assets in accounts payable	12,290,319	4,483,578	-	-
Capital asset acquisition by CDB	13,655,093	28,666,553	-	-
Loss on disposals of capital assets	1,615,411	1,134,164	-	-
Other capital asset adjustments	1,130,613	3,459,286	-	-
Net interest capitalized	80,028	-	-	-

The accompanying notes are an integral part of this statement.

Southern Illinois University
Notes to Financial Statements
June 30, 2008

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

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

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

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

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

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

The 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.

2. Significant accounting policies

Basis of presentation
The 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). The University has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The University has elected to not apply FASB pronouncements issued after the applicable date.

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.

The financial statements include prior year comparative information, which has been derived from the University's 2007 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 University's financial statements for the year ended June 30, 2007.

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

Allowance for uncollectibles
The University provides allowances for uncollectible accounts and notes receivable based upon management's best estimate of uncollectible accounts and notes at the statement of net assets 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 $15,203,889 and $2,270,394, respectively, at June 30, 2008.

Inventories
Inventories are stated at the lower of cost (first-in, first-out method) or market with the exception of the Textbook Rental Service at the Edwardsville campus. 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, 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, and 15 years for site or building improvements. 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 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.

Revenue and expense recognition
In accordance with GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance,* the University reported on-behalf payments of $122,396,302 for fiscal year 2008 for health care and retirement costs. These costs are reflected in the Statement of Revenues, Expenses and Changes in Net Assets as nonoperating revenues entitled "Payments on behalf of the University" and as operating expenses under the appropriate functional classifications.

Substantially all employees participate in group health insurance plans administered by the State of Illinois. The employer contributions to these plans for University employees paid from State appropriations and auxiliary enterprises are paid by the State on behalf of the University. On-behalf payments for health care costs totaled $88,923,901 for the year ended June 30,

2. Significant accounting policies (continued)

2008. The employer contributions to these plans for employees paid from other University held funds are paid by the University. On behalf-payments of $33,472,401 for the year ended June 30, 2008, were made for retirement costs.

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 nonexchange 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 General Revenue Fund 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.

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 deferred.

The University first applies restricted net assets when an expense is incurred for purposes for which both restricted and unrestricted net assets 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, 2008, the University estimates $37,167,188 will be paid from state appropriated accounts funded by the State of Illinois General Revenue Fund and the Income Fund, and $10,800,124 from local funds in subsequent years for a combined total of $47,967,312.

New Governmental Accounting Standards
The Governmental Accounting Standards Board (GASB) has issued the following statements which are effective for periods beginning July 1, 2007, or later which may impact the University:

Statement No. 45 – *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, establishes standards for the measurement, recognition and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local government employers. The statement is effective for the period beginning July 1, 2007. It did not impact the University.

Statement No. 48 – *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, establishes criteria that governments will use to ascertain whether proceeds received from collecting specific receivables or specific future revenues for immediate cash payments should be reported as revenue or as a liability. The statement is effective for the period beginning July 1, 2007. The University has disclosed pledged revenues in Note 8 to the financial statements.

Statement No. 49 – *Accounting and Financial Reporting for Pollution Remediation Obligations*, addresses accounting and financial reporting standards for remediation obligations to consider the current or potential detrimental effects of existing pollution. The statement is effective for the period beginning July 1, 2008. The University will consider potential liabilities and recognize them as required.

Statement No. 50 – *Pension Disclosures*, amends Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*. The statement is effective for the period beginning July 1, 2007. It did not impact the University.

Statement No. 51 – *Accounting and Financial Reporting for Intangible Assets*, provides guidance on the accounting for and reporting of intangible assets such as easements, computer software, water rights, timber rights, patents, and trademarks. The statement is effective for the period beginning July 1, 2009, but should be applied retroactively to intangible assets acquired since July 1, 1980. The University will identify and recognize intangible assets as required by the statement.

2. Significant accounting policies (continued)

Statement No. 52 – *Land and Other Real Estate Held as Investments by Endowments* establishes consistent standards for the reporting of land and other real estate held as investments. The statement is effective for the period beginning July 1, 2008. It is not expected to impact the University.

Statement No. 53 – *Accounting and Financial Reporting for Derivative Instruments*, establishes the recognition, measurement and disclosure of information regarding derivative instruments entered into by state and local governments. The statement is effective for the period beginning July 1, 2009. It is not expected to impact the University.

3. Cash, deposits and cash equivalents

At June 30, 2008, the actual bank balances related to the deposits of the University amounted to $133,976,670; all such balances were covered by federal depository insurance or collateral held by an agent in the University's name.

Cash, deposits and cash equivalents at June 30, 2008, are as follows:

UNIVERSITY:		
Cash and cash equivalents	$	1,878,413
The Illinois Funds		124,871,966
Total cash and cash equivalents	$	126,750,379
UNIVERSITY RELATED ORGANIZATIONS:		
Total cash and cash equivalents	$	5,723,849

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 *Illinois 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 U.S. Government or its agencies; 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, limited to 33 percent of the portfolio; money market mutual funds; Public Treasurer's Investment Pool (The Illinois Funds); repurchase agreements of Governments 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 securities mature at the same time as cash is needed 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 Related Organizations investment policies

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 Board of Directors of the Foundation is responsible for the management of the Foundation's investments. The Board, through the bylaws, has given authority to the Investment Committee to formulate an investment policy for funds and assets of the Foundation. Investment performance is reviewed quarterly. The Foundation's Treasurer is authorized by the Board of Directors to invest funds in compliance with state investment policies.

If a donor has not provided specific instructions, state law permits the Board of Directors to authorize for expenditure the net appreciation (realized and unrealized) of the investments of endowment funds. When administering its power to spend net appreciation, the Board is required to consider the Foundation's long and short-term needs, present and anticipated financial requirements, expected total return on its investments, price-level trends, and general economic conditions. Any net appreciation expended will be required to be spent for the purposes for which the endowment was established. The net appreciation on investments of donor-restricted endowments available for authorization for expenditure approximated $16,460,000 at June 30, 2008. The fair value of the assets of certain donor-restricted endowment funds was approximately $406,000 less at June 30, 2008, than the original principal amount of those funds.

4. Investments (continued)

The Board chooses to spend only a portion of the investment income, including changes in the value of investments, each year. Under the policy established by the board, 4.5 percent of the average fair value of the endowment investment pool at the end of the previous twelve quarters has been authorized for expenditure. The remaining income, if any, is retained to be used in future years when the amount computed using the spending policy exceeds the investment income.

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

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

Information relating to the specific investment policies of the other University Related Organizations can be obtained by contacting those entities listed in Note 1 on page 14.

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 (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 time of purchase 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 and investments to provide for efficiencies and economies in their management. Proceeds related to revenue bonds and certificate of participation financing activities are pooled to the extent allowed under covenants. Investment income earned on the operating cash and investments, including realized gains and losses resulting from the sale or other disposition of investments, is distributed on a quarterly basis to the pooled participants based upon their respective average balances over the prior three-month period.

Western Asset Management manages the external portfolio, and JPMorgan Chase keeps custody of these funds and assists in the accounting and reporting functions related to these investments. The funds are allocated into a Short Maturity Portfolio and an Intermediate Maturity Portfolio.

Investment income net of realized and unrealized gains and losses on investments for the year ended June 30, 2008, are reflected below:

UNIVERSITY:	
Interest earnings and realized gain on investments	$ 9,356,734
Unrealized gain on investments	2,436,907
Net investment income	$ 11,793,641
UNIVERSITY RELATED ORGANIZATIONS:	
Interest earnings and realized gain on investments	$ 6,539,910
Unrealized loss on investments	(14,796,329)
Net investment income	$ (8,256,419)

4. Investments (continued)

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;* pre-qualifying the financial institutions which are utilized; and diversifying the investment portfolio so that the failure of any one issue or backer will not place an undue financial burden on the University. U.S. Treasuries are federal government securities that do not require the disclosure of credit risk. The U.S. agencies investments typically include the Government National Mortgage Association, the Federal Home Loan Mortgage Corporation, and the Federal Home Loan Bank, all of which were rated AAA. The Illinois Funds are also 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.

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. 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 20 to 35 percent of assets held in cash equivalents; 10 to 40 percent of assets held in the short-term portfolio; and 35 to 60 percent of assets held in the intermediate-term portfolio.

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

Southern Illinois University Foundation (at Carbondale) risk disclosures

Credit Risk: The Foundation's general investment policy is to apply the prudent person rule: Investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and in general, avoid speculative investments. The Foundation has not set a limit on the credit rating of bonds in order to allow investment managers the opportunity to invest in securities such as high yield bonds.

Concentration of credit risk: The Foundation has various concentration risks depending on the type of investment and its manager. The asset allocation also limits the amount per issuer. The Foundation did not have more than five percent of its investments with any one issuer at June 30, 2008.

Custodial credit risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Foundation will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Foundation has $11,492,027 of securities which were at risk at June 30, 2008.

Interest rate risk: In order to capture the highest yield and because a majority of the Foundation's investments have a long time horizon, the Foundation has not set limits on investment maturities.

Foreign currency risk: The Foundation has investments in five different non-U.S. mutual funds. These funds invest in securities of various countries.

Southern Illinois University at Edwardsville Foundation risk disclosures

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

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

4. Investments (continued)

Custodial credit risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Foundation will not be able to recover the value of its investments that are in the possession of an outside party. The investment custodians hold these investments in their name for the benefit of the Foundation. The Foundation does not maintain a policy regarding custodial credit risk.

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

Foreign currency risk: The Foundation had no investment in common stocks of foreign companies at June 30, 2008. The Foundation's policy related to foreign currency risk is that no purchase of a foreign equity may be made if such purchase would cause the total value of foreign equity assets to exceed the lesser of ten percent of the total or 25 percent of the equity portion of the endowment portfolio.

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 page 14.

Investment maturities

Interest rate risk is disclosed below using the segmented time distribution method. As of June 30, 2008, the University and University Related Organizations had the following investment balances:

UNIVERSITY:

		Investment Maturities (In Years)			
Investment Type:	Fair Value	Less Than 1	1-5	6-10	No Maturity
U.S. Treasuries	$ 34,010,198	$ 10,709,971	$ 18,021,060	$ 5,279,167	$ -
U.S. Agencies	97,703,557	24,248,220	57,442,921	16,012,416	-
The Illinois Funds	124,871,966	124,871,966	-	-	-
Common Stock	44,300	-	-	-	44,300
Subtotal	256,630,021	$ 159,830,157	$ 75,463,981	$ 21,291,583	$ 44,300
Less: Investment in The Illinois Funds reported as cash	(124,871,966)				
Total Investments	$ 131,758,055				

UNIVERSITY RELATED ORGANIZATIONS:

		Investment Maturities (in Years)				
Investment Type:	Fair Value	Less Than 1	1-5	6-10	More Than 10	No Maturity
U.S. Treasuries	$ 296,220	$ 296,220	$ -	$ -	$ -	$ -
U.S. Agencies	1,918,443	1,731,948	155,204	-	31,291	-
Certificates of Deposit	5,201,358	921,769	4,083,477	196,112	-	-
Commercial paper	11,492,027	11,492,027	-	-	-	-
Alternatives	6,107,281	5,666,682			440,599	
Corporate Equity Securities	174,270	-	23,164	-	-	151,106
Money Market Funds	2,562,751	2,562,751	-	-	-	-
Open Ended Mutual Funds	116,480,149	97,447,870	254,292	-	-	18,777,987
Total Investments	$ 144,232,499	$ 120,119,267	$ 4,516,137	$ 196,112	$ 471,890	$ 18,929,093

5. Accounts and notes receivable

Accounts and notes receivable consisted of the following at June 30, 2008:

UNIVERSITY:

	Accounts Receivable	Notes Receivable
Student tuition and fees	$ 18,236,589	$ -
Auxiliary enterprises	8,093,020	-
Grants and contracts	12,468,747	-
General operating	10,721,394	-
Student loans	6,866	21,636,570
Plant funds	-	164,755
Other accounts receivable	446,703	-
	49,973,319	21,801,325
Less: Allowance for doubtful accounts	(15,203,889)	(2,270,394)
Net receivable	$ 34,769,430	$ 19,530,931

UNIVERSITY RELATED ORGANIZATIONS:

	Accounts Receivable	Notes Receivable
Accounts receivable	$ 53,497,602	$ -
Student loans	-	30,225
	53,497,602	30,225
Less: Allowances for assignment losses and doubtful accounts	(32,013,464)	-
Net receivable	$ 21,484,138	$ 30,225

During fiscal year 2003, Southern Illinois University entered into a contract for deed agreement with Equipping the Saints Ministry, International, Inc. for the sale of the Auburn Clinic building in Auburn, Illinois. The contract is in the amount of $240,000 at an interest rate of 4%, to be paid over a term of ten years in eighteen semi-annual installments of $9,000, including interest, beginning June 19, 2003, with a final installment of $124,790 due on December 19, 2011. A down payment of $24,000 was paid upon signing of the contract. As of June 30, 2008, the outstanding balance of the note was $164,755.

6. Capital assets

Capital asset activity for the year ended June 30, 2008, was as follows:

UNIVERSITY:

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Capital assets not being depreciated:					
Land	$ 21,879,553	$ -	$ 335,214	$ -	$ 21,544,339
Nondepreciable historical treasures and works of art	6,220,141	57,036	-	26,916	6,304,093
Construction in progress	100,198,019	46,704,872	382,899	(81,886,363)	64,633,629
Total capital assets not being depreciated	128,297,713	46,761,908	718,113	(81,859,447)	92,482,061
Capital assets being depreciated:					
Site improvements	44,060,555	108,240	57,782	2,506,569	46,617,582
Buildings	745,490,905	8,325,567	2,449,041	79,207,965	830,575,396
Equipment	291,848,500	15,540,959	7,699,056	144,913	299,835,316
Infrastructure	8,607,727	-	-	-	8,607,727
Total capital assets being depreciated	1,090,007,687	23,974,766	10,205,879	81,859,447	1,185,636,021
Less accumulated depreciation for:					
Site improvements	32,267,490	1,220,409	57,782	-	33,430,117
Buildings	370,724,218	18,605,162	1,780,656	-	387,548,724
Equipment	234,202,613	16,554,852	7,414,348	-	243,343,117
Infrastructure	8,594,861	12,866	-	-	8,607,727
Total accumulated depreciation	645,789,182	36,393,289	9,252,786	-	672,929,685
Total capital assets being depreciated, net	444,218,505	(12,418,523)	953,093	81,859,447	512,706,336
Capital assets, net	$ 572,516,218	$ 34,343,385	$ 1,671,206	$ -	$ 605,188,397

UNIVERSITY RELATED ORGANIZATIONS:

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Capital assets being depreciated:					
Site improvements	$ 315,630	$ -	$ -	$ -	$ 315,630
Buildings	4,080,610	191,066	-	-	4,271,676
Equipment	2,243,785	858,381	72,551	-	3,029,615
Total capital assets being depreciated	6,640,025	1,049,447	72,551	-	7,616,921
Less accumulated depreciation for:					
Site improvements	45,357	31,400	-	-	76,757
Buildings	437,409	117,758	-	-	555,167
Equipment	1,224,797	284,741	66,766	-	1,442,772
Total accumulated depreciation	1,707,563	433,899	66,766	-	2,074,696
Capital assets, net	$ 4,932,462	$ 615,548	$ 5,785	$ -	$ 5,542,225

7. Changes in liabilities

Liability activity for the year ended June 30, 2008, is as follows:

UNIVERSITY:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Compensated absences	$ 46,820,844	$ 5,398,058	$ 4,251,590	$ 47,967,312	$ 4,121,442
Revenue bonds payable	236,668,982	35,772,276	11,826,610	260,614,648	12,751,244
Certificates of participation	30,876,856	-	2,586,089	28,290,767	2,666,576
Capitalized leases	3,115,240	88,150	1,792,439	1,410,951	1,097,077
Self insurance	12,699,360	10,459,718	7,471,358	15,687,720	7,580,149
Federal loan programs refundable	16,982,124	147,454	-	17,129,578	-
Due to related organizations	281,759	-	171,007	110,752	110,752
Other accrued liabilities	159,049	-	11,753	147,296	-
Housing deposits	267,975	148,375	131,575	284,775	128,149
Total long-term liabilities	$ 347,872,189	$ 52,014,031	$ 28,242,421	$ 371,643,799	$ 28,455,389

UNIVERSITY RELATED ORGANIZATIONS:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Notes payable	$ 254,566	$ 1,100,000	$ 166,472	$ 1,188,094	$ 1,188,094
Revenue bonds payable	1,650,000	-	1,650,000	-	-
Annuities payable	4,276,708	2,274,034	1,558,534	4,992,208	597,147
Other accrued liabilities	1,559,489	1,652,454	877,077	2,334,866	-
Deposits held in custody for others	2,690,183	198,127	493,895	2,394,415	56,628
Total long-term liabilities	$ 10,430,946	$ 5,224,615	$ 4,745,978	$ 10,909,583	$ 1,841,869

8. Revenue bonds payable

Revenue bonds payable activity for the year ended June 30, 2008, is as follows:

UNIVERSITY:

Series	Annual Maturity To	Beginning Balance	Accretion/ New Debt	Principal Paid/Debt Refunded	Ending Balance	Current Portion
1993A	2018	$ 20,150,183	$ 1,252,150	$ -	$ 21,402,333	$ -
1997A	2009	1,180,000	-	575,000	605,000	605,000
1997A	2018	24,570,019	1,333,958	2,875,000	23,028,977	2,975,000
1999A	2029	30,949,048	1,721,436	370,000	32,300,484	370,000
2000A	2010	885,000	-	280,000	605,000	295,000
2001A	2017	11,370,000	-	1,845,000	9,525,000	1,945,000
2003A	2029	16,035,000	-	2,645,000	13,390,000	2,715,000
2004A	2035	39,510,000	-	840,000	38,670,000	870,000
2005	2026	20,265,000	-	660,000	19,605,000	715,000
2006A	2036	68,840,000	-	1,725,000	67,115,000	1,820,000
2008A	2028	-	30,105,000	-	30,105,000	505,000
		$ 233,754,250	$ 34,412,544	$ 11,815,000	256,351,794	12,815,000
Unaccreted appreciation						$ (127,537)
Unamortized debt premium					6,295,533	311,989
Unamortized loss on refunding					(2,032,679)	(248,208)
Total					$ 260,614,648	$ 12,751,244

UNIVERSITY RELATED ORGANIZATIONS:

	Annual Maturity To	Beginning Balance	New Debt	Refinanced as Note Payable	Ending Balance	Current Portion
SIUE Fdn.	2008	$ 1,650,000	$ -	$ 1,650,000	$ -	$ -

8. Revenue bonds payable (continued)

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

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

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

The Housing and Auxiliary Facilities System Bonds, Series 2000A were authorized by the University's Board under the Seventh Supplemental Bond Resolution dated May 11, 2000. The bonds mature at varying amounts from 2002 to 2010. Interest payments are due semi-annually.

The Housing and Auxiliary Facilities System Bonds, Series 2001A were authorized by the University's Board under the Eighth Supplemental Bond Resolution dated July 12, 2001, as amended on December 11, 2003. The bonds mature at varying amounts from 2002 to 2017. Interest payments are due semi-annually.

The Housing and Auxiliary Facilities System Bonds, Series 2003A were authorized by the University's Board under the Ninth Supplemental Bond Resolution dated December 12, 2002. The bonds mature at varying amounts from 2004 to 2029. Interest payments are due semi-annually.

The Housing and Auxiliary Facilities System Bonds, Series 2004A were authorized by the University's Board under the Tenth Supplemental Bond Resolution dated October 14, 2004. The bonds mature at varying amounts from 2006 to 2035. Interest payments are due semi-annually.

The Medical Facilities System Bonds, Series 2005 were authorized by the board on October 13, 2005. The bonds mature at varying amounts from 2006 to 2026. Interest payments are due semi-annually.

The Housing and Auxiliary Facilities System Bonds, Series 2006A were authorized by the University's Board under the Eleventh Supplemental Bond Resolution dated March 9, 2006, as amended and restated on May 2, 2006, and as further amended on November 9, 2006. The bonds mature at varying amounts from 2007 to 2036. Interest payments are due semi-annually.

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

Housing and Auxiliary Facilities System: These bonds, which are payable through 2036, do not constitute a debt of the State of Illinois or the individual members, officers or agents of the Board of Trustees of the University but, together with interest thereon, are payable from and secured by a pledge of and lien on (i) the net revenues of the System, (ii) pledged tuition in an amount not to exceed maximum annual debt service (subject to prior payment of operating and maintenance expenses of the System), (iii) the Bond and Interest Sinking Fund account, and (iv) the Repair and Replacement Reserve account. Unrefunded bonds issued in 2001 and prior are additionally secured by the Debt Service Reserve. Total principal and interest remaining on the debt is \$392,116,100 with annual requirements ranging from \$2,604,000 to \$20,468,319. For the current year, principal and interest paid was \$17,713,506, and the total revenues pledged were \$42,813,488. Total revenue pledged represents 100 percent of the net revenues of the System and 14 percent of net tuition revenue. 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, 2008, the maximum annual debt requirement was \$20,468,319, 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 assets the sum of 10 percent of the maximum annual net debt service requirement or such portion thereof as is available for transfer. The net assets of Renewals and Replacements were \$15,715,905 at June 30, 2008.

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, 2008, \$12,090,000 of the bonds refunded in 2006 was outstanding. The market value of the related escrow fund was \$12,403,949.

8. Revenue bonds payable (continued)

Medical Facilities System: 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 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 $28,942,300 with annual requirements ranging from $543,400 to $1,985,750. For the current year, principal and interest paid was $1,618,212, and the total revenues pledged were $126,472,600. Total revenue pledged represents 100 percent of the net revenues of the System and 86 percent of net tuition revenue. 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, 2008, the maximum annual debt service was $1,985,750, and the coverage was 6,369 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 assets of Renewals and Replacements were $882,580 at June 30, 2008.

Edwardsville Foundation revenue bond payable:
On October 22, 1999, the Southern Illinois University Edwardsville Foundation issued a revenue bond payable in the amount of $2,000,000 for the purpose of financing the construction of a new office building. The bond was refinanced on March 14, 2003, and principal was paid down in the amount of $350,000. Principal was paid down in the amount of $550,000 on March 31, 2008. The bond was refinanced and held as a note in the amount of $1,100,000 until July 2, 2008. Additional information concerning the debt is disclosed in Note 10.

Future debt service requirements for all bonds outstanding are:

UNIVERSITY:

	Principal	Interest
2009	$ 12,815,000	$ 8,437,322
2010	13,190,000	8,218,198
2011	14,100,000	7,842,087
2012	14,465,000	7,532,624
2013	15,015,000	7,195,819
2014-18	77,080,000	30,551,992
2019-23	70,290,000	20,450,268
2024-28	59,900,000	11,703,423
2029-33	24,940,000	5,498,417
2034-36	10,830,000	1,003,250
Total payments	312,625,000	$ 108,433,400
Unaccreted appreciation	(56,273,206)	
Subtotal	256,351,794	
Unamortized premiums on bonds	6,295,533	
Unamortized deferred loss on refunding	(2,032,679)	
Total bonds payable	$ 260,614,648	

9. 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		
2009	$	1,145,125
2010		203,667
2011		122,104
2012		4,064
Total minimum lease payments		1,474,960
Less amount representing interest		(64,009)
Present value of net minimum lease payments	$	1,410,951

Assets held under capital lease are:

UNIVERSITY:		
Buildings	$	3,240,000
Equipment		1,665,789
Subtotal		4,905,789
Less accumulated depreciation		(1,838,741)
Total net assets	$	3,067,048

The University also leases the Evergreen Terrace apartment complex from Southern Illinois University Foundation (at Carbondale) under a capital lease agreement through the year 2009. It has been classified and accounted for as a liability reported as an amount "Due to Related Organizations." The agreement obligates the University to make rental payments in an amount sufficient to cover principal and interest payments and the required deposits to the repair and replacement reserve and the hazard insurance escrow account.

The University leases office and instructional space and equipment (principally office machines, automobiles, and farm equipment) under contracts which are renewable annually and many of which are subject to escalation upon proper notice by the lessor. Rental payments on these operating leases totaled $15,113,954 in 2008.

10. Notes and certificates of participation payable

(A) Carbondale Foundation mortgage note payable

On July 3, 1967, the Southern Illinois University Foundation (at Carbondale) entered into a financing agreement with the Federal Housing Administration (FHA) to construct on behalf of the University a 304-unit apartment complex known as Evergreen Terrace (FHA Project No. 072-55010-NP). The original mortgage note was issued in the amount of $4,000,000 and bears interest at the rate of 3%. It is payable in monthly installments of $14,319 through February 2009. It is secured by a pledge of thirty-eight acres of land, including buildings and improvements. As of June 30, 2008, the mortgage note was outstanding in the amount of $88,094.

(B) Edwardsville Foundation note payable

On March 1, 2008, the Southern Illinois University at Edwardsville Foundation entered into a note payable due July 2, 2008. The purpose of the note was for refinancing the construction of an office building. The original debt issued in October 1999 was recorded as a revenue bond (see Note 8). At June 30, 2008, the note principal was $1,100,000 and accrued interest of $28,188 was outstanding. The note was subsequently refinanced on July 2, 2008, in the principal amount of $1,100,000. The interest rate is 3.95% and the note matures in 2013. Annual payment requirements range from $43,450 to $1,143,450.

(C) Certificates of Participation

Series 2004A: On June 17, 2004, the University issued Certificates of Participation (COPS) in the par amount of $32,740,000. The COPS were issued at a discount of $91,480. The certificates were issued to finance, in combination with University funds, the renovation of Morris Library, the construction of a library storage facility, the construction of a Research Park, the replacement of campus signage, the purchase of computer and research equipment, and energy conservation measures, all at

10. Notes and certificates of participation payable (continued)

Carbondale; the construction of a Pharmacy building and the renovation of the Dental School building, both at Edwardsville; and energy performance measures at the School of Medicine in Springfield. The certificates bear interest at rates ranging from 2% to 5% payable semi-annually, and principal installments ranging from $1,070,000 to $2,720,000 are payable annually on February 15 beginning 2005 through the year 2024. As of June 30, 2008, these certificates were outstanding in the amount of $26,002,293.

Series 2002: On June 5, 2002, the University issued Certificates of Participation (COPS) in the par amount of $4,180,000. The COPS were issued at a premium of $10,540. The certificates were issued to finance, in combination with University funds, the construction of a new support services building to house business services offices and warehouse space for the University's Springfield medical campus. The certificates bear interest at rates ranging from 3.25% to 4.40% payable semi-annually, and principal installments ranging from $355,000 to $495,000 are payable annually on August 15 beginning 2003 through the year 2012. As of June 30, 2008, these certificates were outstanding in the amount of $2,288,474.

Annual aggregate principal and interest payments required for years subsequent to June 30, 2008, are:

UNIVERSITY:

	Certificates of Participation	
	Principal	Interest
2009	$ 2,670,000	$ 1,217,090
2010	2,770,000	1,121,140
2011	2,875,000	1,015,410
2012	2,105,000	898,843
2013	2,190,000	812,540
2014-18	6,320,000	3,082,238
2019-23	6,710,000	1,696,475
2024	2,720,000	136,000
Total payments	28,360,000	$ 9,979,736
Unamortized premiums (discounts) on COPS	(69,233)	
Total payable	$ 28,290,767	

UNIVERSITY RELATED ORGANIZATIONS:

	Notes Payable	
	Principal	Interest
2009	$ 1,188,094	$ 28,985

11. 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 Student Medical Insurance Plan (the "Plan") was established on August 15, 1995, as a secondary coverage plan to supplement the On-Campus Student Health Services in Carbondale and Springfield. The Plan is supported by student fees and covers all students enrolled at the Carbondale campus with the exception of those students who have demonstrated comparable coverage and have applied for a refund. The Plan provides a maximum benefit per student while covered under the Plan of $250,000, subject to other limits of the Plan. To protect against excessive losses, the University established a gap-reserve fund and purchased a stop-loss insurance policy with a commercial carrier in the amount of $5,000,000. Contributions to the Student Medical Insurance Plan are based on historic and estimated future year claims.

11. Accrued self insurance (continued)

As of June 30, 2008, the accrual for self-insurance was $13,201,868 for the general and professional liability fund and $2,485,852 for the Student Medical Insurance Plan, for a total accrued liability for self-insurance of $15,687,720. 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 Assets in the period in which additional information becomes available.

Changes in the self-insurance accrual for the years ended June 30, 2008, and June 30, 2007, are reflected below:

	June 30, 2008		
	Total	General and Professional	Student Plan
Accrued liability, June 30, 2007	$ 12,699,360	$ 9,689,796	$ 3,009,564
Current year claims & other changes	10,459,718	5,737,663	4,722,055
Payment of Claims	(7,471,358)	(2,225,591)	(5,245,767)
Accrued liability, June 30, 2008	$ 15,687,720	$ 13,201,868	$ 2,485,852

	June 30, 2007		
	Total	General and Professional	Student Plan
Accrued liability, June 30, 2006	$ 14,520,503	$ 10,574,664	$ 3,945,839
Current year claims & other changes	4,912,223	1,205,932	3,706,291
Payment of Claims	(6,733,366)	(2,090,800)	(4,642,566)
Accrued liability, June 30, 2007	$ 12,699,360	$ 9,689,796	$ 3,009,564

12. Net Assets

Net asset balances by major categories at June 30, 2008:

UNIVERSITY:	
Invested in capital assets, net of related debt	$ 342,131,114
Restricted for:	
Nonexpendable	3,623,621
Expendable	
Quasi-endowment	235,445
Scholarships, research, instruction and other	9,333,775
Loans	4,670,609
Self insurance	4,953,855
Capital projects	30,438,875
Debt service	19,014,122
Unrestricted	51,847,858
Total	$ 466,249,274
UNIVERSITY RELATED ORGANIZATIONS:	
Invested in capital assets, net of related debt	$ 4,442,225
Restricted for:	
Nonexpendable	82,204,826
Expendable	
Scholarships, research, instruction and other	64,105,393
Loans	521,128
Capital projects	3,060,095
Unrestricted	36,359,007
Total	$ 190,692,674

13. 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 2008, realized gains on investments totaled $78,128, unrealized losses on investments totaled ($349,014), and an additional $19,404 was deposited with the Foundation, resulting in a balance of $1,992,254 held by the Foundation at June 30, 2008. The Foundation distributes earnings to the University on a quarterly basis. Payments during fiscal year 2008 totaled $83,433.

14. State Universities Retirement System

The University contributes to the State Universities Retirement System of Illinois (SURS), a cost-sharing multiple-employer defined benefit pension plan with 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 is 12.88% 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 contribution to SURS for the years ended June 30, 2008, 2007, and 2006 were $36,446,327, $27,308,064, and $19,113,578, respectively, equal to the required contributions for the year. The fiscal year 2008 contribution consisted of $33,472,401 from State appropriations and $2,973,926 from other current funds.

All full-time employees of the Foundations, the Alumni Associations, University Park, and the Research Park are paid as University employees. Accordingly, the benefits related to these employees are covered by the University's plan.

15. Post-employment benefits

In addition to providing the above pension benefits, the State provides certain health, dental, and life insurance benefits to the University's annuitants who participate in SURS. Substantially all University employees become eligible for post-employment benefits if they eventually become annuitants. Health and dental benefits include basic benefits for annuitants under the State's self-insurance plan and insurance contracts currently in force. Life insurance benefits for annuitants under the age of 60 are equal to their annual salary at the time of retirement; life insurance benefits for annuitants age 60 and older are limited to five thousand dollars per annuitant.

Currently, the State does not segregate payments made to annuitants from those made to current employees for health, dental, and life insurance benefits. These costs are funded by the State except for certain non-appropriated funds funded by the University.

16. 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 2008 included the receipt of $36,915,365 from SIU Physicians & Surgeons, Inc. (SIU P&S) for services provided by the University. Also, SIU P&S contributed $8,000,048 to the University for Academic Development for the School of Medicine. Additional information concerning transactions with related parties may be obtained by contacting those entities listed in Note 1 on page 14.

17. 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. 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 2008 a granting agency initiated an audit that will likely result in disallowed costs, but the amount of this potential liability cannot be estimated. The University administration believes that any disallowances or adjustments resulting from this or any other reviews would not have a material effect on the University's financial position.

Legal action

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

18. Segment information

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

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

	Housing and Auxiliary Facilities System	Medical Facilities System
CONDENSED STATEMENTS OF NET ASSETS		
	June 30, 2008	
Assets:		
Current assets	$ 76,553,988	$ 10,931,594
Capital assets, net	180,891,925	35,183,568
Other assets	10,939,152	418,861
Total Assets	268,385,065	46,534,023
Liabilities:		
Current liabilities	24,551,761	4,073,023
Noncurrent liabilities	231,552,672	20,728,701
Total Liabilities	256,104,433	24,801,724
Net Assets (Deficit)		
Invested in capital assets, net of related debt	(33,728,832)	16,264,389
Restricted - expendable	33,437,223	1,895,961
Unrestricted	12,572,241	3,571,949
Total Net Assets	$ 12,280,632	$ 21,732,299
CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS		
	Year ended June 30, 2008	
Operating revenues	$ 89,909,404	$ 36,796,147
Operating expenses	81,426,768	44,660,604
Depreciation expense	7,692,473	645,007
Operating gain (loss)	790,163	(8,509,464)
Nonoperating revenues and expenses - net	4,590,842	8,632,737
Gain before other revenues, expenses, gains or losses	5,381,005	123,273
Other revenues, expenses, gains or losses - net	181,993	5,871,350
Increase in net assets	5,562,998	5,994,623
Net assets at beginning of year	6,717,634	15,737,676
Net assets at end of year	$ 12,280,632	$ 21,732,299
CONDENSED STATEMENTS OF CASH FLOWS		
	Year ended June 30, 2008	
Cash provided by (used in):		
Operating activities	$ 18,067,712	$ 1,031,352
Noncapital financing activities	967,529	-
Capital financing activities	546,157	(6,151,131)
Investing activities	(8,385,793)	368,682
Net increase (decrease) in cash	11,195,605	(4,751,097)
Cash, beginning of year	33,154,111	11,939,621
Cash, end of year	$ 44,349,716	$ 7,188,524

19. University Related Organizations

Condensed financial statements for the component units of the University are as follows:

	SIUC FOUNDATION	SIUE FOUNDATION	SIUC PHYSICIANS & SURGEONS	SIUC ALUMNI	SIUE ALUMNI	SIUC RESEARCH PARK	SIUE UNIV. PARK	TOTAL
CONDENSED STATEMENTS OF NET ASSETS								
JUNE 30, 2008								
Assets:								
Current assets	$ 28,608,217	$ 4,356,324	$ 32,629,371	$ 736,816	$ 34,363	$ 158,436	$ 1,188,044	$ 67,711,571
Noncurrent assets	104,764,658	30,508,530	1,253,683	5,772,065	277,456	235,405	1,544,960	144,356,757
Total Assets	133,372,875	34,864,854	33,883,054	6,508,881	311,819	393,841	2,733,004	212,068,328
Liabilities:								
Current liabilities	1,218,216	1,450,691	8,641,241	754,545	161,359	33,416	48,472	12,307,940
Noncurrent liabilities	6,253,622	487,724	-	1,493,982	-	-	832,386	9,067,714
Total Liabilities	7,471,838	1,938,415	8,641,241	2,248,527	161,359	33,416	880,858	21,375,654
Net Assets:								
Invested in capital assets, net of related debt	238,681	1,113,662	1,055,651	253,866	-	235,405	1,544,960	4,442,225
Restricted - nonexpendable	67,398,275	14,806,551	-	-	-	-	-	82,204,826
Restricted - expendable	52,562,091	15,124,525	-	-	-	-	-	67,686,616
Unrestricted	5,701,990	1,881,701	24,186,162	4,006,488	150,460	125,020	307,186	36,359,007
Total Net Assets	$ 125,901,037	$ 32,926,439	$ 25,241,813	$ 4,260,354	$ 150,460	$ 360,425	$ 1,852,146	$ 190,692,674
CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS								
Year ended June 30, 2008								
Operating revenues	$ 4,980,123	$ 1,028,704	$ 80,401,367	$ 2,032,734	$ 327,469	$ 309,070	$ 464,774	$ 89,544,241
Operating expenses	37,142,994	4,047,594	85,018,881	1,875,358	413,859	343,319	556,448	129,398,453
Operating income (loss)	(32,162,871)	(3,018,890)	(4,617,514)	157,376	(86,390)	(34,249)	(91,674)	(39,854,212)
Nonoperating revenues and expenses - net	22,152,971	1,703,444	544,895	(381,961)	(23,238)	5,048	22,262	24,023,421
Income before other revenues	(10,009,900)	(1,315,446)	(4,072,619)	(224,585)	(109,628)	(29,201)	(69,412)	(15,830,791)
Other revenues	4,232,587	377,520	-	-	-	-	-	4,610,107
Increase in net assets	(5,777,313)	(937,926)	(4,072,619)	(224,585)	(109,628)	(29,201)	(69,412)	(11,220,684)
Net assets at beginning of year	131,678,350	33,864,365	29,314,432	4,484,939	260,088	389,626	1,921,558	201,913,358
Net assets at end of year	$ 125,901,037	$ 32,926,439	$ 25,241,813	$ 4,260,354	$ 150,460	$ 360,425	$ 1,852,146	$ 190,692,674
CONDENSED STATEMENTS OF CASH FLOWS								
Year ended June 30, 2008								
Cash provided by (used in):								
Operating activities	$ (10,195,609)	$ (2,142,152)	$ 65,408	$ 386,647	$ (61,584)	$ (2,307)	$ 675,891	$ (11,273,706)
Noncapital financing activities	9,203,091	3,289,168	44,038	23,696	185	-	(29,199)	12,530,979
Capital financing activities	1,736,862	(846,119)	(334,949)	(250,000)	-	-	-	305,794
Investing activities	(589,290)	(978,609)	(525,747)	(18,790)	(140,107)	5,048	20,335	(2,227,160)
Net increase (decrease) in cash	155,054	(677,712)	(751,250)	141,553	(201,506)	2,741	667,027	(664,093)
Cash, beginning of year	403,572	3,648,218	1,565,264	-	219,126	55,262	496,500	6,387,942
Cash, end of year	$ 558,626	$ 2,970,506	$ 814,014	$ 141,553	$ 17,620	$ 58,003	$ 1,163,527	$ 5,723,849

20. University Related Organizations - Subsequent decline in investments

During 2008, investment markets experienced significant volatility and a general decline in values. As a result, the value of the University Related Organizations' investment portfolios has declined. Generally the declines are primarily due to unrealized losses partially offset by investment gains and reinvested dividends.

As of October 31, 2008, the fair value of the SIUC Foundation's investments was $89,630,864, a decline of 23% since June 30, 2008.

The fair value of the SIUE Foundation's long-term investments declined in value from $18,206,869 to approximately $14,700,000.

The fair value of the SIUC Alumni Association's investments declined in value from $4,048,376 to $3,816,282, and the fair value of the life member investments declined in value from $1,469,823 to $1,360,063.

The fair value of the SIUE Alumni Association's investments declined in value from $277,456 to $228,642.

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Crowe Horwath LLP
Member Horwath International

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Honorable William G. Holland
Auditor General, State of Illinois
and Board of Trustees
Southern Illinois University

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of Southern Illinois University (the "University") as of and for the year ended June 30, 2008, and have issued our report thereon dated February 5, 2009. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the Board of Trustees, University management, and federal awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.

Crowe Horwath LLP

Crowe Horwath LLP

Oak Brook, Illinois
February 5, 2009

Crowe Horwath LLP
Member Horwath International

STATE OF ILLINOIS

SOUTHERN ILLINOIS UNIVERSITY

HOUSING AND AUXILIARY FACILITIES SYSTEM

Report of the Treasurer

For the Year Ended June 30, 2008

Southern Illinois University
Board of Trustees and
Officers of Administration
Fiscal Year 2008

BOARD OF TRUSTEES OF SOUTHERN ILLINOIS UNIVERSITY

OFFICERS OF SOUTHERN ILLINOIS UNIVERSITY

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John S. Haller, Jr., Vice President, Academic Affairs
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Paul W. Ferguson, Provost and Vice Chancellor for Academic Affairs
Kenneth Neher, Vice Chancellor for Administration
Narbeth Emmanuel, Vice Chancellor for Student Affairs
Gary Giamartino, Interim Vice Chancellor for University Relations

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The University also issues an Annual Financial Report.

Southern Illinois University – Board of Trustees

Board Treasurer
1400 Douglas Drive
Mailcode 6801
Carbondale, IL 62901

Phone: 618-536-3475

FAX: 618-536-3404

September 30, 2008

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, 2008.

The Series 2008A bonds were issued in May 2008 in the amount of $30,105,000. These bonds were sold to finance: (i) the construction of and equipping a Student Success Center on the Edwardsville Campus; (ii) renovation of, expansion of, and equipping the Student Fitness Center on the Edwardsville Campus; (iii) installation of automatic sprinkler systems and associated upgrades in the Thompson Point and University Hall residence halls on the Carbondale Campus; and, (iv) installation of security cameras and electronic access control systems in the Thompson Point residential facilities on the Carbondale Campus.

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,

Duane Stucky
Board Treasurer

DS/lap

TREASURER'S COMMENTS

SOUTHERN ILLINOIS UNIVERSITY HOUSING AND AUXILIARY FACILITIES SYSTEM

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 ten 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; four buildings leased to national organizations of fraternities and sororities for student housing; two buildings which are designated as housing for professional students; and five 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 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.

ADVANCE REFUNDINGS

The additional debt related to the System facilities has been advance refunded either partially or in full, without extending the final maturity date, in 2006. The refunding has been undertaken by the Board of Trustees (the "Board") for the purposes of consolidating the debt, effecting a cost savings, or resolving operational and parity issues related to the separate bond indentures.

The proceeds of the bonds issued for the above refunding were used to purchase U.S. Government securities in amounts which, together with the earnings thereon, will be sufficient to pay, when due or on their redemption date, the interest, premium and principal of the refunded bonds. The

U.S. Government securities purchased for the Advance Refunding of 2006 are held in trust by the LaSalle Bank N.A., 135 South LaSalle Street, Chicago, Illinois. The principal amount outstanding as of June 30, 2008, relating to the advance refunding, is as follows:

ADVANCE REFUNDING OF 2006:

Housing and Auxiliary Facilities System Revenue Bonds of 1997, 2000 and 2001 – Final Maturity April 1, 2012	$ 12,090,000
	$ 12,090,000

All of the bonds in the above advance refunding are considered "defeased" and have debt service needs covered by cash, cash equivalents, and U.S. Government securities which are held in special trusts as noted above.

II. ENROLLMENTS AT SOUTHERN ILLINOIS UNIVERSITY

The University reports the following enrollments, by campus:

	Head Count*	Full-Time Equivalency**
Carbondale Campus (semester basis)		
Fall semester 2007	20,983	17,453
Fall semester 2006	21,003	17,430
Edwardsville Campus (semester basis)		
Fall semester 2007	13,398	11,280
Fall semester 2006	13,449	11,205

*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 school year (9 months) except for Southern Hills and Wall & Grand, the charges and rates for which are based on the length of the housing contract (12 months).

	Range of Occupancy Charges for 2008	Occupancy Rates 2008	2007	2006	2005	2004
Southern Hills Apartments (C) 271 Apartments	$5,520 - $6,360	81.2%	88.4%	89.9%	86.9%	87.3%
Greek Row (C) 66 Persons*	$6,300 - $8,770	66.2%	70.1%	81.0%	52.1%	72.6%
Thompson Point (C) 1,187 Persons	$6,636 - $8,770	95.5%	94.9%	94.3%	92.9%	95.4%
Towers (C)** 2,161 Persons	$6,636 - $8,770	91.5%	88.0%	93.2%	-- --	-- --
Triads (C)** 979 Persons	$6,350 - $8,318	36.8%	35.7%	69.4%	-- --	-- --
East Campus (C)**		-- --	-- --	-- --	85.9%	91.3%
University Hall (C) 359 Persons	$6,636 - $8,770	89.7%	78.0%	81.4%	76.0%	-- --
Wall & Grand (C)*** 400 Persons (Bldg I,II & III)	$6,432 - $7,812	78.9%	90.7%	-- --	-- --	-- --
Cougar Village (E) 496 Apartments	$3,460 - $11,200	92.7%	95.8%	94.2%	94.8%	96.0%
Woodland Hall (E) 257 Rooms	$5,460 - $10,120	86.9%	97.9%	98.1%	97.2%	98.2%
Prairie Hall (E) 260 Rooms	$5,460 - $10,120	90.6%	97.3%	98.7%	97.9%	97.3%
Bluff Hall (E) 260 Rooms	$5,460 - $10,120	89.3%	96.7%	99.0%	97.5%	97.9%
Evergreen Hall (E)**** 131 Apartments	$4,650 - $8,700	97.4%	-- --	-- --	-- --	-- --

(C) Carbondale Campus, (E) Edwardsville Campus

*Certain properties are also leased to national organizations of fraternities and sororities for housing (four buildings) and to the University for administrative and student service purposes (five buildings).
**East Campus is reported as Towers and Triads by University Housing beginning in 2006.
***Wall & Grand apartments (Bldg I) opened for occupancy Spring 2007; Bldg II & III opened for occupancy Fall 2007.
****Evergreen Hall apartments opened for occupancy Fall 2007.

TREASURER'S COMMENTS – Continued

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, 2008	2007
Receipts:		
Revenue Account:		
Operating Receipts	$ 86,567,764	$ 77,435,746
Revenue Bond Fees	2,408,845	1,407,750
Retirement of Indebtedness – Investment Income	839,932	662,631
Total Receipts	89,816,541	79,506,127
Disbursements:		
Operation and Maintenance Account	67,471,372	60,725,537
Net Revenues	22,345,169	18,780,590
Plus: Pledged Retained Tuition	20,468,319	18,103,756
Total Available for Debt Service	$ 42,813,488	$ 36,884,346
Maximum Annual Debt Service	$ 20,468,319	$ 18,103,756
Coverage Ratio Based on Net Revenues	109%	104%
Coverage Ratio as Defined in the Bond Resolution	209%	204%

V. RETIREMENT OF INDEBTEDNESS

The net assets are restricted for the following purposes:

	June 30, 2008	2007
Bond and Interest Sinking Fund Account	$ 7,018,860	$ 6,458,003
Debt Service Reserve Account	9,066,125	9,066,125
	$ 16,084,985	$ 15,524,128

VI. RENEWALS AND REPLACEMENTS

The bond resolution requires the Treasurer to transfer annually to Renewals and Replacements from the funds remaining in unrestricted net assets, 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 assets of $6,188,364 ($4,796,647 in 2007) and investment income (loss) of $502,442 in 2008 and $400,427 in 2007. Expenditures charged to the reserve amounted to $2,746,439 in 2008 and $2,033,185 in 2007. The net assets of Renewals and Replacements consisted of the following:

	June 30, 2008	2007
Pooled Cash and Investments	$ 16,275,471	$ 12,123,016
Accrued Interest Receivable	43,092	31,762
Accounts Payable	(602,658)	(383,240)
	$ 15,715,905	$ 11,771,538

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 2008A, 2006A, 2004A, 2003A, 2001A, 2000A, 1999A, 1997A and 1993A issued and outstanding as of June 30, 2008.

VIII. RESTRICTED NET ASSETS – EXPENDABLE

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

	2008	2007
Retirement of indebtedness	$ 16,084,985	$ 15,524,128
Renewals and replacements	15,715,905	11,771,538
Unexpended	1,636,333	1,274,023
	$ 33,437,223	$ 28,569,689

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Independent Auditors' Report

Honorable William G. Holland
Auditor General, State of Illinois
and Board of Trustees
Southern Illinois University

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements, as listed in the table of contents, of Southern Illinois University Housing and Auxiliary Facilities System ("the System") as of and for the year ended June 30, 2008. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the System's 2007 financial statements and, in a report dated February 28, 2008, we expressed an unqualified opinion on those financial statements.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in note 1A, the financial statements of the System are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the 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, 2008, and the changes 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the System as of June 30, 2008, and the changes 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 5, 2009, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the System. The accompanying Schedule of Bonds Payable Outstanding is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements, and in our opinion, is stated fairly, in all material respects, in relation to the financial statements taken as a whole.

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 2008A, Revenue Bonds Series 2006A, Revenue Bonds Series 2004A, Revenue Bonds Series 2003A, Revenue Bonds Series 2001A, Revenue Bonds Series 2000A, Revenue Bonds Series 1999A, Revenue Bonds 1997A, Revenue Refunding Bonds Series 1996A, and Revenue Bonds Series 1993A adopted May 8, 2008, May 24, 2006, October 14, 2004, December 12, 2002, July 12, 2001, May 11, 2000, May 13, 1999, July 10, 1997, September 12, 1996, 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.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the Board of Trustees, the System's management, and the bondholders and is not intended to be and should not be used by anyone other than these specified parties.

Crowe Horwath LLP

Crowe Horwath LLP

Oak Brook, Illinois
February 5, 2009

SOUTHERN ILLINOIS UNIVERSITY
HOUSING AND AUXILIARY FACILITIES SYSTEM
STATEMENT OF NET ASSETS
June 30, 2008
(with comparative totals for 2007)

	2008	2007
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 44,349,716	$ 33,154,111
Short term investments	27,713,859	18,116,186
Accounts receivable, net	2,794,735	1,958,430
Accrued interest receivable	398,528	429,682
Merchandise for resale	1,060,339	1,042,663
Prepaid expenses and other assets	236,811	218,474
TOTAL CURRENT ASSETS	76,553,988	54,919,546
NONCURRENT ASSETS:		
Long term investments	7,725,557	6,039,078
Prepaid expenses and other assets	3,213,595	2,806,222
Capital assets, net:		
Land	605,395	605,395
Buildings	153,935,003	118,619,701
Improvements	5,360,928	3,508,887
Equipment	3,151,512	2,179,985
Construction in progress	17,839,087	48,254,322
TOTAL NONCURRENT ASSETS	191,831,077	182,013,590
TOTAL ASSETS	268,385,065	236,933,136
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	6,144,422	5,670,675
Accrued interest payable	1,840,921	1,639,627
Accrued payroll	593,853	386,888
Accrued compensated absences	185,907	157,552
Housing deposits	128,149	120,589
Deferred revenue	3,631,557	3,339,415
Revenue bonds payable	12,026,952	11,141,157
TOTAL CURRENT LIABILITIES	24,551,761	22,455,903
NONCURRENT LIABILITIES:		
Accrued compensated absences	2,041,885	1,993,267
Housing deposits	156,626	147,386
Revenue bonds payable	229,354,161	205,618,946
TOTAL NONCURRENT LIABILITIES	231,552,672	207,759,599
TOTAL LIABILITIES	256,104,433	230,215,502
NET ASSETS (DEFICIT)		
Invested in capital assets, net of related debt	(33,728,832)	(31,336,049)
Restricted for:		
Expendable		
Capital projects and debt service	33,437,223	28,569,689
Unrestricted	12,572,241	9,483,994
TOTAL NET ASSETS	$ 12,280,632	$ 6,717,634

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 ASSETS
Year Ended June 30, 2008
(with comparative totals for 2007)

	2008	2007
REVENUES		
OPERATING REVENUES:		
Residence halls and apartments	$ 48,480,456	$ 41,409,650
University student centers		
Sales and services	13,125,943	12,293,984
Student fees	7,833,398	7,216,728
Student recreation and fitness centers		
Sales and services	1,185,189	1,129,117
Student fees	5,557,849	4,917,778
Child care center	810,967	866,734
Student health center	8,494,529	8,338,915
Traffic and parking	2,380,950	2,163,486
Student success center	100,528	- ----
Revenue bond fees	1,939,595	1,877,000
TOTAL OPERATING REVENUES	89,909,404	80,213,392
EXPENSES		
OPERATING EXPENSES:		
Salaries and wages	38,223,853	34,570,753
Merchandise for resale	9,048,402	8,019,377
Utilities	9,618,118	7,715,157
Maintenance and repairs	10,686,598	8,976,878
Administrative	8,611,078	7,619,063
Other	5,238,719	5,030,723
Depreciation	7,692,473	6,307,855
TOTAL OPERATING EXPENSES	89,119,241	78,239,806
OPERATING INCOME	790,163	1,973,586
NONOPERATING REVENUES (EXPENSES)		
Investment income	2,867,206	4,551,982
Gifts for other than capital purposes	50,934	6,853
Payments on-behalf of the system	9,250,021	8,042,784
Interest on capital asset-related debt	(6,857,419)	(6,764,421)
Accretion on bonds payable	(4,307,544)	(4,229,132)
Other nonoperating revenue	3,587,644	1,131,069
NET NONOPERATING REVENUES	4,590,842	2,739,135
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES	5,381,005	4,712,721
OTHER REVENUES, EXPENSES, GAINS OR LOSSES		
Capital assets retired	(61,099)	(5,873)
Capital grants and gifts	- ---	20,363
Additions to plant facilities from other sources	243,092	44,421
TOTAL OTHER REVENUES, EXPENSES, GAINS OR LOSSES	181,993	58,911
INCREASE IN NET ASSETS	5,562,998	4,771,632
NET ASSETS		
Net assets at beginning of year	6,717,634	1,946,002
NET ASSETS AT END OF YEAR	$ 12,280,632	$ 6,717,634

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, 2008
(with comparative totals for 2007)

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Residence halls and apartments	$ 46,571,960	$ 39,827,324
University student centers		
Sales and services	13,288,687	12,488,931
Student fees	7,691,010	7,217,553
Student recreation and fitness centers		
Sales and services	1,096,528	1,045,023
Student fees	5,454,177	4,909,537
Child care center	812,179	850,602
Student health center	8,216,082	7,975,534
Traffic and parking	2,358,458	2,177,867
Student success center	90,541	- ---
Revenue bond fees	2,408,845	1,407,750
Payments to employees	(26,545,180)	(24,381,336)
Payments for utilities	(9,608,314)	(7,401,151)
Payments to suppliers	(33,767,261)	(29,943,612)
NET CASH PROVIDED BY OPERATING ACTIVITIES	18,067,712	16,174,022
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Gifts for other than capital purposes	4,886	6,918
Other nonoperating revenue	962,643	1,097,070
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	967,529	1,103,988
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Purchases of capital assets	(15,218,024)	(56,136,529)
Principal paid on capital debt	(11,155,000)	(10,300,000)
Interest paid on capital debt	(7,170,551)	(6,548,514)
Retained bond proceeds	31,464,732	- ---
Other	2,625,000	- ----
NET CASH PROVIDED BY (USED IN) CAPITAL FINANCING ACTIVITIES	546,157	(72,985,043)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	31,588,899	62,369,230
Investment income	2,944,817	4,461,552
Purchase of investments	(42,919,509)	(26,763,190)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(8,385,793)	40,067,592
NET INCREASE (DECREASE) IN CASH	11,195,605	(15,639,441)
CASH AND CASH EQUIVALENTS - BEGINNING OF THE YEAR	33,154,111	48,793,552
CASH AND CASH EQUIVALENTS - END OF THE YEAR	$ 44,349,716	$ 33,154,111
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$ 790,163	$ 1,973,586
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	7,692,473	6,307,855
Payments on-behalf of the system	9,250,021	8,042,784
Change in assets and liabilities:		
Receivables, net	(836,305)	(178,065)
Merchandise for resale	(17,676)	121,851
Prepaid expenses and other assets	12,422	(14,318)
Accounts payable	583,734	(233,169)
Accrued payroll	206,965	111,898
Accrued compensated absences	76,973	54,161
Housing deposits	16,800	7,575
Deferred revenue	292,142	(20,136)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 18,067,712	$ 16,174,022
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Payments on-behalf of the system	$ 9,250,021	$ 8,042,784
Capital assets in accounts payable	4,221,991	4,272,182
Accretion on bonds payable	4,307,544	4,229,132
Gifts in kind	- ----	20,363
Net interest capitalized	80,028	- ---
Other capital asset adjustments	- ---	33,998
Loss on disposal of capital assets	- ---	5,873

The accompanying notes are an integral part of this statement.

SOUTHERN ILLINOIS UNIVERSITY
HOUSING AND AUXILIARY FACILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

1. **Significant Accounting Policies**

(A) Basis of Presentation

These financial statements include all financial activities over which the Southern Illinois University Housing and Auxiliary Facilities System (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 child care center, Edwardsville traffic and parking, Carbondale softball field and football astroturf, the Carbondale student health center, the Carbondale student information system and the Edwardsville student success center into one operation. The Revenue Project Bonds of 2008A, 2006A, 2004A, 2003A, 2001A, 2000A, 1999A, 1997A and 1993A (the "Bonds") are secured in part by the revenues from these operations. The financial statements reflect the combined operations of the System as of and for the year ended June 30, 2008. The individual facilities included in the System are as follows:

Carbondale Campus
- Southern Hills Apartments
- Greek Row
- Thompson Point
- Towers
- Triads
- University Hall
- Northwest Annex
- Student Center
- Student Recreation Center
- Child Care Center
- Football Stadium Turf
- Softball Field
- Student Health Center
- Wall and Grand Apartments
- Student Information System

Edwardsville Campus
- University Center
- Cougar Village
- Student Fitness Center
- Woodland Hall
- Prairie Hall
- Traffic and Parking
- Bluff Hall
- Evergreen Hall
- Student Success Center

These financial statements have been prepared to satisfy the requirements of the System's 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 therefore has not presented management's discussion and analysis. The financial statements include prior year comparative information, which has been derived from the System's 2007 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, 2007.

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB), including Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. Additionally, effective July 1, 2001, the System adopted GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments : Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. The System now follows the business-type activity reporting requirements of GASB Statements No. 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.

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 System has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The System has elected to not apply FASB pronouncements issued after the applicable date.

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) Merchandise For Resale

Merchandise for resale includes inventories which are stated at the lower of cost (first-in, first-out) method or market. The Student Center University Bookstore on the Carbondale campus has been leased to Follett Higher Education Group Inc. since May 8, 2001.

(C) 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 and University Hall 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 policy is to capitalize all equipment items with an acquisition cost of $5,000 or more.

(D) Classification of 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 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 assets when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

(E) Cash and Cash Equivalents

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

(F) Investments

Investments are stated at market. The investments, which consist of U.S. Treasury notes, U.S. Treasury State and Local Government Series securities, the Federal Home Loan Mortgage Corporation, and the Federal Home Loan Bank, are held in the University's name by its agent.

(G) Allowance for Uncollectibles

The System provides allowances for uncollectible accounts based upon management's best estimate of uncollectible accounts at the statement of net assets 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 allowances of $3,548,569 at June 30, 2008.

(H) Revenue Bond Fee

Transfers from other University funds of the revenue bond fee are based upon the amount budgeted. Fees in the amount of $10,205 have been collected in excess of the budgetary transfer and are available for future budgetary transfers.

(I) 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.

(J) On-Behalf Payments

In accordance with GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, the System reported on-behalf payments made by agencies of the State of Illinois for health care and retirement. These costs are reflected in an equal amount in both the nonoperating revenues and salaries and wages of the System. On behalf payments for the year ended June 30, 2008 amounted to $8,918,071 for group insurance, retirement and post-employment benefits, and $331,950 for social security and medicare.

(K) Classification of Net Assets

Net assets represent the difference between System assets and liabilities and are divided into three major categories. The first category, invested in capital assets, net of related debt, represents the System's equity in property, plant and equipment. The next asset category is restricted net assets. Expendable restricted net assets are 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 assets, which represent 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

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, 2008 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*; pre-qualifying the financial institutions which are utilized; and diversifying the investment portfolio so that the failure of any one issuer or backer will not place an undue financial burden on the University. U.S. Treasuries are federal government securities that do not require the disclosure of credit risk. The U.S. agencies investments typically include the Government National Mortgage Association, the Federal Home Loan Mortgage Corporation, and the Federal Home Loan Bank, all of which are 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.

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 fair value of portfolio securities will fall or rise due to changes in general interest rates. Interest rate risk is mitigated by maintaining significant balances in cash equivalent and other short maturity investments and by establishing an asset allocation policy that is consistent with the expected cash flows of the University. The internally managed portfolio is managed in accordance with covenants provided from the University's debt issuance activities. The externally managed portfolio is typically allocated with 20 to 35 percent of assets held in cash equivalents; 10 to 40 percent of assets held in the short-term portfolio; and 35 to 60 percent of assets held in the intermediate-term portfolio.

Interest rate risk is disclosed below using the segmented time distribution method. As of June 30, 2008, 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	$ 14,335,991	$ 10,194,644	$ 4,141,347	$ -	$ -
U.S. Agencies	21,103,425	17,519,215	3,584,210	-	-
Total Investments	35,439,416	$ 27,713,859	$ 7,725,557	$ -	$ -
Cash and Equivalents					
The Illinois Funds	18,063,120				
Cash and Equivalents	26,286,596				
Total Cash & Equivalents	44,349,716				
Total Cash & Investments	$ 79,789,132				

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 value and that unrealized gains and losses be recorded in income. The fair value is determined to be the amount at which financial instruments could be exchanged in a current transaction between willing parties, usually quoted market prices. The investment with the Public Treasurer's Investment Pool (The Illinois Funds) is at fair value, which is the same value as the pool shares. State statutes require the Illinois Funds to comply with the *Illinois Public Funds Investment Act* (30 ILCS 235). Also, certain money market investments having a remaining maturity of one year or less at time of purchase and nonnegotiable certificates of deposit with redemption terms that do not consider market rates are carried at amortized cost. The statement has been applied to investments and income for fiscal years 2008 and 2007.

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, 2008, is reflected below.

Interest earnings	$ 2,738,479
Unrealized gain on investments	128,727
	$ 2,867,206

4. Capital Assets

Capital asset activity for the year ended June 30, 2008 was as follows:

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Land	$ 605,395	$ -	$ -	$ -	$ 605,395
Buildings	238,744,507	2,736,634	11,969	39,289,154	280,758,326
Improvements	7,799,034	-	-	2,151,762	9,950,796
Equipment	4,635,144	1,674,995	171,471	-	6,138,668
Construction in progress	48,254,322	11,025,681	-	(41,440,916)	17,839,087
Total cost of capital assets	$ 300,038,402	$ 15,437,310	$ 183,440	$ -	$ 315,292,272
Less accumulated depreciation for:					
Buildings	$ 120,124,806	$ 6,698,517	$ -	$ -	$ 126,823,323
Improvements	4,290,147	299,721	-	-	4,589,868
Equipment	2,455,159	694,235	162,238	-	2,987,156
Total accumulated depreciation	126,870,112	$ 7,692,473	$ 162,238	$ -	$ 134,400,347
Capital assets – net	$ 173,168,290				$ 180,891,925

The following estimated useful lives are used to compute depreciation:

Buildings	40 years
Improvements	15 years
Equipment	5 - 10 years

5. Changes In Liabilities

Liability activity for the year ended June 30, 2008 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Revenue bonds payable	$ 216,760,103	$ 35,772,276	$ 11,151,266	$ 241,381,113	$ 12,026,952
Compensated absences	2,150,819	125,847	48,874	2,227,792	185,907
Housing deposits	267,975	148,375	131,575	284,775	128,149
Total noncurrent liabilities	$ 219,178,897	$ 36,046,498	$ 11,331,715	$ 243,893,680	$ 12,341,008

Note: Amounts shown in ending balance of noncurrent liabilities include both current and noncurrent portions.

6. **Revenue Bonds Payable**

On April 10, 2008, the Board adopted the "Twelfth 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 and the Eleventh Supplemental Bond Resolution of March 9, 2006, as amended and restated on May 2, 2006 and November 9, 2006. The outstanding bond issues related to the respective bond resolutions of the System are as follows:

(A) 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 and were used as follows:

(a) Bond proceeds of $30,839,881 were deposited in an Unexpended Plant account to finance the construction and equipping of a 68,000 square foot Student Success Center on the Edwardsville campus; the construction and equipping of an expansion to the Student Fitness Center on the Edwardsville campus; the installation of automatic sprinkler systems and associated upgrades in the residential facilities at Thompson Point and University Hall on the Carbondale campus; and the installation of security cameras and an electronic access control system at all exterior entries to the Thompson Point residential facility on the Carbondale campus.
(b) Bond proceeds of $624,851 were reserved to pay the underwriter's fees and certain other costs related to the issuance of the bonds.

As of June 30, 2008, these bonds were outstanding in the amount of $31,454,623.

(B) 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. 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, 2008, these bonds were outstanding in the amount of $69,349,542.

(C) Series 2004A Bonds

These bonds were authorized by the Board under the Tenth Supplemental Bond Resolution dated October 14, 2004 and were issued as current interest bonds in the original amount of $40,390,000. The bonds were sold at a premium of $1,349,890 on February 25, 2003. The bonds were issued to finance the design and construction of a new apartment-style residence hall, Wall and Grand Apartments, and install automatic sprinkler systems in three existing residence halls on the Carbondale campus; and to finance the costs to modify the HVAC systems and humidity controls in three existing residence halls and remediate damage caused by excess humidity at two of such existing residence halls on the Edwardsville campus. As of June 30, 2008, these bonds were outstanding in the amount of $39,859,131.

(D) Series 2003A Bonds

These bonds were authorized by the Board under the Ninth Supplemental Bond Resolution dated December 12, 2002 and were issued as current interest bonds in the original amount of $17,020,000. The bonds were sold at par on February 25, 2003. The bonds were issued to finance the design and construction of a new Student Health Center building addition on the Carbondale campus and to redeem the Series 1993A outstanding bonds. As of June 30, 2008, these bonds were outstanding in the amount of $13,245,208.

(E) Series 2001A Bonds

These bonds were authorized by the Board under the Eighth Supplemental Bond Resolution dated July 12, 2001, as amended on December 11, 2003, and were issued as current interest bonds in the original amount of $27,730,000. The bonds were sold on January 9, 2002 at a premium of $440,042. The bonds were issued to finance improvements to the University Center on the Edwardsville campus; the design and construction of a new softball complex on the Carbondale campus; a complete replacement of the turf at McAndrew Stadium on the Carbondale campus; modifications of the heating, ventilation, air conditioning and humidity control systems in Prairie Hall, Bluff Hall and Woodland Hall on the Edwardsville campus; and to redeem the Series 1992A outstanding bonds. On March 9, 2006, as amended and restated on May 2, 2006 and November 9, 2006, the Board authorized the advance refunding of a portion of the bonds of the Series 2001A. Bonds in the amount of $7,850,000 were advance refunded. As of June 30, 2008, the remaining bonds were outstanding in the amount of $9,501,563.

(F) Series 2000A Bonds

These bonds were authorized by the Board under the Seventh Supplemental Bond Resolution dated May 11, 2000 and were issued as current interest bonds in the original amount of $6,525,000. The bonds were issued at a discount of $45,359. These bonds were issued to finance energy conservation improvements at the East Campus housing area on the Carbondale campus. On March 9, 2006, as amended and restated on May 2, 2006 and November 9, 2006, the Board authorized the advance refunding of a portion of the bonds of the Series 2000A. Bonds in the amount of $4,240,000 were advance refunded. As of June 30, 2008, the remaining bonds were outstanding in the amount of $599,474.

(G) 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. 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. As of June 30, 2008, after accreting the capital appreciation, these bonds were outstanding in the amount of $32,337,968.

(H) Series 1997A Bonds

These bonds were authorized by the Board under the Fifth Supplemental Bond Resolution dated July 10, 1997 and were issued as current interest bonds and capital appreciation bonds in the original amounts of $8,575,000 and $29,521,284, respectively. The current interest bonds were issued at a nominal discount while the capital appreciation bonds were issued at par. 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 Prairie Hall, a residence hall, renovations of existing housing and food service facilities, and construction and improvement to the parking facilities. All projects financed by the Series 1997A bonds are associated with the Edwardsville campus. On March 9, 2006, as amended and restated on May 2, 2006 and November 9, 2006, the Board authorized the advance refunding of a portion of the current interest bonds of the Series 1997A. Bonds in the amount of $2,915,000 were advance refunded. As of June 30, 2008, after accreting the capital appreciation, the remaining bonds were outstanding in the amount of $23,631,271.

(I) Series 1993A Bonds

These bonds were authorized by the Board under the Third Supplemental Bond Resolution dated May 13, 1993 and were issued as current interest bonds and capital appreciation bonds in the original amounts of $8,010,000 and $8,660,506, respectively. The current interest bonds were issued at a nominal discount while the capital appreciation bonds were issued at par. 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 acquisition of the Northwest Annex, an existing facility, and the construction of the Child Care Center at the Carbondale campus and the construction of Woodland Hall at the Edwardsville campus. On December 12, 2002, the Board authorized the current refunding of the current interest bond portion of the Series 1993A Bonds. The bonds were called and redeemed in full on April 1, 2003. As of June 30, 2008, after accreting the capital appreciation, the remaining capital appreciation bonds were outstanding in the amount of $21,402,333.

These bonds, which are payable through 2036, do not constitute a debt of the State of Illinois or the individual members, officers or agents of the Board of Trustees of the University but, together with interest thereon, are payable from and secured by a pledge of and lien on (i) the net revenues of the System, (ii) pledged tuition in an amount not to exceed maximum annual debt service (subject to prior payment of operating and maintenance expenses of the System), (iii) the Bond and Interest Sinking Fund account, and (iv) the Repair and Replacement Reserve account. Unrefunded bonds issued in 2001 and prior are additionally secured by the Debt Service Reserve. Total principal and interest remaining on the debt is $392,116,100 with annual requirements ranging from $2,604,000 to $20,468,319. For the current year, principal and interest paid was $17,713,506, and the total revenues pledged were $42,813,488. Total revenue pledged represents 100 percent of the net revenues of the System and 14 percent of net tuition revenue. 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, 2008, the maximum annual debt service was $20,468,319 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 assets the sum of 10 percent of the maximum annual net debt service requirement or such portion thereof as is available for transfer. The net assets of Renewals and Replacements were $15,715,905 at June 30, 2008.

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, 2008, $12,090,000 of the bonds refunded in 2006 was outstanding. The market value of the related escrow fund was $12,403,949.

Revenue bond debt service requirements to maturity are as follows:

Year Ending June 30,	Principal	Interest
2009	$ 12,100,000	$ 7,508,809
2010	12,425,000	7,314,711
2011	13,275,000	6,976,849
2012	13,580,000	6,699,724
2013	14,070,000	6,398,319
2014 – 2018	71,255,000	27,289,131
2019 – 2023	62,145,000	18,840,268
2024 – 2028	58,400,000	11,566,622
2029 – 2033	24,940,000	5,498,417
2034 – 2036	10,830,000	1,003,250
Total Payments	$ 293,020,000	$ 99,096,100
Less Unaccreted Appreciation	(56,273,206)	
Total Payable	236,746,794	
Unamortized debt premium	5,705,115	
Unamortized deferred loss on refunding	(1,070,796)	
Total Bonds Payable	$ 241,381,113	

7. **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, five of the buildings on Greek Row, a portion of the Northwest Annex (29,100 net sq. ft.) and one room of the Lentz Hall dining facilities at Thompson Point 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 ($208,500 in 2008) 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 2008 include $243,092 paid for by other University funds.

8. **Retirement and Post-Employment Benefits**

Substantially all employees of the System participate in the State Universities Retirement System of Illinois (SURS), a cost-sharing multiple employer defined benefit pension plan with 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 is 12.88% 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 contribution to SURS for the University for the years ended June 30, 2008, 2007 and 2006 were $36,446,327, $27,308,064, and $19,113,578, respectively, equal to the required contributions for the year.

In addition to providing pension benefits, the State provides certain health, dental and life insurance benefits to annuitants who are former State employees. This includes annuitants of the System. Substantially all State employees, including the System's employees, may become eligible for post-employment benefits if they eventually become annuitants. Health and dental benefits include basic benefits for annuitants under the State's self insurance plan and insurance contracts currently in force. Life insurance benefits for annuitants under age 60 are equal to their annual salary at the time of retirement; for annuitants age 60 and older, life insurance benefits are limited to five thousand dollars per annuitant.

Currently, the State does not segregate payments made to annuitants from those made to current employees for health, dental and life insurance benefits. The cost of health, dental and life insurance benefits is recognized by the State on a pay-as-you-go basis. These costs are funded by the State except for certain non-appropriated funds funded by the University.

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, 2009:

		Approximate Amount
1.	Lexington Insurance Company, Policy No. 8757177: Primary policy providing $100,000,000 all risk coverage on scheduled buildings and other property totaling $2,539,864,249. Academic and bonded buildings generally have a per occurrence deductible of $250,000. There is a $500,000 per occurrence deductible for many of the non-bonded academic buildings. The University has established a self insurance reserve in amounts to cover the portion of estimated liability between $25,000 and the per occurrence deductibles noted above. Coverage is the first layer of a structured program providing coverage up to $1,000,000,000 per occurrence.	$100,000,000 per occurrence
1a.	Boiler & Machinery coverage included in the Lexington policy listed above carries the same deductibles as noted above.	$100,000,000 per occurrence
1b.	Flood coverage included in the Lexington policy 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 100-year flood zone which there is then a limit of $50,000,000 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 policy 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. 8757191: furnishes the secondary layer of $400,000,000 excess of the Lexington's $100,000,000 layer.	$400,000,000 per occurrence
3.	Allianz Global, Policy No. CLP3009644; Lloyds of London, Policy No. DP654608; One Beacon, Policy No. YSP1340; and CNA, Policy No. RMP2010728503: furnishes the third layer of coverage, which is $500,000,000 excess of the secondary layer of $400,000,000.	$500,000,000 per occurrence
4.	Lloyds of London, Policy No. DP656908: furnishes earthquake coverage in excess of coverage included in the policies listed above, with limits of $50,000,000 that is shared with the University of Illinois and the University of Missouri.	$50,000,000 per occurrence

5. 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. Contingencies

From time to time, the University is a defendant in lawsuits which relate to the System. 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 System's financial position or its future operations.

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SUPPLEMENTARY INFORMATION

SOUTHERN ILLINOIS UNIVERSITY
HOUSING AND AUXILIARY FACILITIES SYSTEM
SCHEDULE OF BONDS PAYABLE OUTSTANDING
June 30, 2008

		REVENUE BONDS		
		SERIES 1993A		
	TOTAL	Principal Amount	Accreted Value at Maturity	Interest Rate
Interest Bearing Bonds:				
Serial Bonds maturing as follows:				
2009	8,755,000	-	-	-
2010	8,980,000	-	-	-
2011	6,325,000	-	-	-
2012	6,650,000	-	-	-
2013	6,435,000	-	-	-
2014	6,015,000	-	-	-
2015	6,370,000	-	-	-
2016	6,805,000	-	-	-
2017	6,360,000	-	-	-
2018	6,705,000	-	-	-
2019	7,080,000	-	-	-
2020	7,456,000	-	-	-
2021	7,320,000	-	-	-
2022	5,310,000	-	-	-
2023	4,265,000	-	-	-
2024	3,320,000	-	-	-
2025	3,485,000	-	-	-
2026	1,815,000	-	-	-
2027	1,890,000	-	-	-
2028	1,970,000	-	-	-
Term Bonds maturing as follows:				
2010	-	-	-	-
2011	-	-	-	-
2012	-	-	-	-
2013	-	-	-	-
2014	-	-	-	-
2015	-	-	-	-
2016	-	-	-	-
2017	-	-	-	-
2018	-	-	-	-
2019	-	-	-	-
2020	-	-	-	-
2021	-	-	-	-
2022	-	-	-	-
2023	1,315,000	-	-	-
2024	1,820,000	-	-	-
2025	1,910,000	-	-	-
2026	3,810,000	-	-	-
2027	3,990,000	-	-	-
2028	4,190,000	-	-	-
2029	4,395,000	-	-	-
2030	3,350,000	-	-	-
2031	3,520,000	-	-	-
2032	3,695,000	-	-	-
2033	3,880,000	-	-	-
2034	4,075,000	-	-	-
2035	4,275,000	-	-	-
2036	2,480,000	-	-	-
Total Interest Bearing Bonds	160,015,000	-		
Capital Appreciation Bonds maturing as follows:				
2009	3,217,463	-	-	-
2010	3,140,461	-	-	-
2011	5,949,195	2,916,020	3,435,000	6.050%
2012	5,600,533	2,743,218	3,430,000	6.050%
2013	5,811,387	3,044,709	4,050,000	6.100%
2014	5,672,903	2,867,084	4,050,000	6.100%
2015	5,224,801	2,691,120	4,050,000	6.150%
2016	4,815,152	2,532,902	4,050,000	6.150%
2017	4,525,688	2,373,908	4,050,000	6.200%
2018	4,673,036	2,233,372	4,050,000	6.200%
2019	3,163,463	-	-	-
2020	3,051,146	-	-	-
2021	2,971,168	-	-	-
2022	2,833,776	-	-	-
2023	2,679,576	-	-	-
2024	2,533,416	-	-	-
2025	2,398,560	-	-	-
2026	2,266,980	-	-	-
2027	2,181,933	-	-	-
2028	2,065,631	-	-	-
2029	1,955,526	-	-	-
Total Capital Appreciation Bonds	76,731,794	21,402,333		
Total	$ 236,746,794	$ 21,402,333		

**Approximate yield to maturity.

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

REVENUE BONDS SERIES 1997A			REVENUE BONDS SERIES 1999A			REVENUE BONDS SERIES 2000A	
Principal Amount	Accreted Value at Maturity	Interest Rate	Principal Amount	Accreted Value at Maturity	Interest Rate	Principal Amount	Interest Rate
605,000	—	5.000%	—	—	—	295,000	5.500%
—	—	—	—	—	—	310,000	5.500%
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605,000			—			605,000	
2,860,831	2,975,000	5.300%	356,632	370,000	4.950% **	—	—
2,801,497	3,075,000	5.400%	338,964	370,000	5.050% **	—	—
2,694,244	3,125,000	5.470%	338,931	390,000	5.150% **	—	—
2,531,705	3,105,000	5.520%	325,610	395,000	5.200% **	—	—
2,415,147	3,135,000	5.570%	351,531	450,000	5.250% **	—	—
2,432,337	3,345,000	5.620%	373,482	505,000	5.300% **	—	—
2,179,968	3,175,000	5.650%	353,713	505,000	5.330% **	—	—
1,921,471	2,970,000	5.700%	360,779	545,000	5.380% **	—	—
1,642,385	2,690,000	5.720%	509,395	815,000	5.430% **	—	—
1,649,392	2,690,000	5.740%	890,272	1,510,000	5.480% **	—	—
—	—	—	3,163,463	5,670,000	5.490% **	—	—
—	—	—	3,051,146	5,780,000	5.500% **	—	—
—	—	—	2,971,168	5,950,000	5.510% **	—	—
—	—	—	2,833,776	6,000,000	5.520% **	—	—
—	—	—	2,679,576	6,000,000	5.530% **	—	—
—	—	—	2,533,416	6,000,000	5.540% **	—	—
—	—	—	2,398,560	6,000,000	5.540% **	—	—
—	—	—	2,266,980	6,000,000	5.550% **	—	—
—	—	—	2,181,933	6,100,000	5.550% **	—	—
—	—	—	2,065,631	6,100,000	5.550% **	—	—
—	—	—	1,955,526	6,100,000	5.550% **	—	—
23,028,977			32,300,484			—	
$ 23,633,977			$ 32,300,484			$ 605,000	

SOUTHERN ILLINOIS UNIVERSITY
HOUSING AND AUXILIARY FACILITIES SYSTEM
SCHEDULE OF BONDS PAYABLE OUTSTANDING
June 30, 2008

	REVENUE BONDS SERIES 2001A		REVENUE BONDS SERIES 2003A		REVENUE BONDS SERIES 2004A	
	Principal Amount	Interest Rate	Principal Amount	Interest Rate	Principal Amount	Interest Rate
Interest Bearing Bonds:						
Serial Bonds maturing as follows:						
2009	1,945,000	5.000%	2,715,000	3.000%	870,000	3.000%
2010	1,390,000	5.000%	3,445,000	3.250%	895,000	3.000%
2011	1,455,000	5.000%	255,000	3.500%	920,000	3.000%
2012	1,465,000	5.250%	265,000	3.700%	950,000	3.500%
2013	1,000,000	5.250%	275,000	3.850%	980,000	4.000%
2014	1,050,000	5.250%	285,000	4.000%	1,020,000	5.000%
2015	-	-	295,000	4.100%	1,075,000	5.000%
2016	-	-	310,000	4.200%	1,130,000	5.000%
2017	1,220,000	5.000%	320,000	4.250%	1,180,000	5.000%
2018	-	-	335,000	4.350%	1,240,000	5.000%
2019	-	-	350,000	4.450%	1,305,000	4.000%
2020	-	-	365,000	4.500%	1,355,000	4.125%
2021	-	-	385,000	4.600%	1,415,000	5.000%
2022	-	-	400,000	4.700%	1,480,000	5.000%
2023	-	-	420,000	4.750%	1,560,000	5.000%
2024	-	-	-	-	1,630,000	5.000%
2025	-	-	-	-	1,715,000	5.000%
2026	-	-	-	-	-	-
2027	-	-	-	-	-	-
2028	-	-	-	-	-	-
Term Bonds maturing as follows:						
2010	-	-	-	-	-	-
2011	-	-	-	-	-	-
2012	-	-	-	-	-	-
2013	-	-	-	-	-	-
2014	-	-	-	-	-	-
2015	-	-	-	-	-	-
2016	-	-	-	-	-	-
2017	-	-	-	-	-	-
2018	-	-	-	-	-	-
2019	-	-	-	-	-	-
2020	-	-	-	-	-	-
2021	-	-	-	-	-	-
2022	-	-	-	-	-	-
2023	-	-	-	-	-	-
2024	-	-	440,000	4.800%	-	-
2025	-	-	460,000	4.800%	-	-
2026	-	-	480,000	4.800%	1,805,000	4.800%
2027	-	-	505,000	4.850%	1,885,000	4.800%
2028	-	-	530,000	4.850%	1,980,000	4.800%
2029	-	-	555,000	4.850%	2,075,000	5.000%
2030	-	-	-	-	1,500,000	5.000%
2031	-	-	-	-	1,575,000	5.000%
2032	-	-	-	-	1,655,000	5.000%
2033	-	-	-	-	1,735,000	5.000%
2034	-	-	-	-	1,825,000	5.000%
2035	-	-	-	-	1,915,000	5.000%
2036	-	-	-	-	-	-
Total Interest Bearing Bonds	9,525,000		13,390,000		38,670,000	
Capital Appreciation Bonds maturing as follows:						
2009	-	-	-	-	-	-
2010	-	-	-	-	-	-
2011	-	-	-	-	-	-
2012	-	-	-	-	-	-
2013	-	-	-	-	-	-
2014	-	-	-	-	-	-
2015	-	-	-	-	-	-
2016	-	-	-	-	-	-
2017	-	-	-	-	-	-
2018	-	-	-	-	-	-
2019	-	-	-	-	-	-
2020	-	-	-	-	-	-
2021	-	-	-	-	-	-
2022	-	-	-	-	-	-
2023	-	-	-	-	-	-
2024	-	-	-	-	-	-
2025	-	-	-	-	-	-
2026	-	-	-	-	-	-
2027	-	-	-	-	-	-
2028	-	-	-	-	-	-
2029	-	-	-	-	-	-
Total Capital Appreciation Bonds	-		-		-	
Total	$ 9,525,000		$ 13,390,000		$ 38,670,000	

REVENUE BONDS SERIES 2006A		REVENUE BONDS SERIES 2008A	
Principal Amount	Interest Rate	Principal Amount	Interest Rate
1,820,000	4.000%	505,000	3.000%
2,430,000	4.000%	510,000	3.000%
2,850,000	5.000%	845,000	3.000%
2,995,000	5.000%	975,000	3.250%
3,140,000	5.000%	1,040,000	5.000%
2,550,000	5.000%	1,110,000	5.000%
3,780,000	5.000%	1,220,000	5.000%
3,975,000	5.000%	1,390,000	5.000%
2,100,000	5.250%	1,540,000	5.000%
3,495,000	5.250%	1,635,000	5.000%
3,640,000	5.250%	1,765,000	5.250%
3,835,000	5.250%	1,900,000	5.250%
3,465,000	5.250%	2,065,000	4.000%
1,255,000	5.000%	2,175,000	5.500%
-	-	2,285,000	5.500%
-	-	1,690,000	4.250%
-	-	1,770,000	4.500%
-	-	1,815,000	4.500%
-	-	1,890,000	4.500%
-	-	1,970,000	4.500%
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
1,315,000	5.000%	-	-
1,380,000	5.000%	-	-
1,450,000	5.000%	-	-
1,525,000	5.000%	-	-
1,600,000	5.000%	-	-
1,680,000	5.000%	-	-
1,765,000	5.000%	-	-
1,850,000	5.000%	-	-
1,945,000	5.000%	-	-
2,040,000	5.000%	-	-
2,145,000	5.000%	-	-
2,250,000	5.000%	-	-
2,360,000	5.000%	-	-
2,480,000	5.000%	-	-
67,115,000		30,105,000	
-	-	-	-
-	-	-	-
-	-	-	-
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-	-	-	-
-		-	
$ 67,115,000		$ 30,105,000	

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Honorable William G. Holland
Auditor General, State of Illinois
and Board of Trustees
Southern Illinois University

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of Southern Illinois University Housing and Auxiliary Facilities System (the "System") as of and for the year ended June 30, 2008, and have issued our report thereon dated February 5, 2009. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the System's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the Board of Trustees, the System management, and bondholders and is not intended to be and should not be used by anyone other than these specified parties.

Crowe Horwath LLP

Crowe Horwath LLP

Oak Brook, Illinois
February 5, 2009

Crowe Horwath LLP
Member Horwath International

STATE OF ILLINOIS

SOUTHERN ILLINOIS UNIVERSITY

MEDICAL FACILITIES SYSTEM

Treasurer's Report to the Bondholders
For the Year Ended June 30, 2008

Board of Trustees and Officers of Administration

TABLE OF CONTENTS

The University also issues an Annual Financial Report.

Southern Illinois University – Board of Trustees

Board Treasurer
1400 Douglas Drive
Mailcode 6801
Carbondale, IL 62901

Phone: 618-536-3475

FAX: 618-536-3404

September 30, 2008

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, 2008.

A calculation of debt service coverage is included. The system exceeds the coverage required by the bond resolution.

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

Respectfully submitted,

Duane Stucky
Board Treasurer

DS/lap

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 departments of Internal Medicine and Surgery. In addition, the building houses offices and outpatient clinics for the Memory and Aging Center, Dermatology, 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. Additional recent improvements include renovations to the lower level for Fertility and In Vitro Fertilization Clinics.

The second phase expanded the System to include the construction and equipping of a 60,000 square foot multi-story building that will include 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.

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.

On June 30, 2008, the School of Medicine Medical Facilities System owned or occupied sixteen 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 purchased with the Series 1997 Bonds as well as the Auburn Clinic in Auburn, Illinois. The Auburn Clinic was sold contract for deed in December, 2002 and is not occupied by the School of Medicine. In June 2006, the building and land at 401 N. Walnut in Springfield was purchased. This facility is used for administrative office space. Twelve of the remaining locations are leased by the University and the Cancer Institute is currently under construction.

Eleven of the facilities are in the city limits of Springfield and five are located elsewhere in Illinois. The lease costs for these clinical facilities are supported by revenues generated by the clinical practice of medicine.

II. ENROLLMENTS AT SOUTHERN ILLINOIS UNIVERSITY

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

	Head Count
Fall semester 2008	292
Fall semester 2007	291

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.

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	
	2008	2007
Receipts:		
Revenue Account:		
Operations	$ 35,773,444	$ 36,768,213
Investment Income	53,826	30,242
Accrued and Capitalized Interest	-	160,963
Retirement of Indebtedness – Investment Income	23,391	15,282
	35,850,661	36,974,700
Disbursements:		
Operation & Maintenance Account	34,064,388	31,619,727
Net Revenues	1,786,273	5,354,973
Plus: Pledged Tuition	124,686,327	67,226,903
Total Available for Debt Service	$126,472,600	$ 72,581,876
Annual Debt Service	$ 1,618,213	$ 1,598,363
Maximum Annual Debt Service	$ 1,985,750	$ 1,985,750
Coverage Ratio Based on Net Revenues	1.10	3.35
Coverage Ratio Based on Annual Debt Service	78.16	45.41
Coverage Ratio Based on Maximum Annual Debt Service	63.69	36.55

IV. RETIREMENT OF INDEBTEDNESS

The net assets are restricted for the following purposes:

	June 30	
	2008	2007
Bond and Interest Sinking Fund Account	$ 467,362	$ 471,745

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 (deductions) during the year included transfers from unrestricted net assets of $198,575 ($198,575 in 2007), gains earned on investments of $44,696 in 2008 (and gains of $42,609 in 2007) and other nonoperating revenue of $18,000 ($18,000 in 2007).

Expenditures charged to the reserve amounted to $556,961 ($11,732 in 2007). The restricted net assets of Renewals and Replacements consisted of the following:

	June 30	
	2008	2007
Cash	$ 918,668	$ 1,177,384
Accounts Receivable	2,887	3,076
Accrued Interest Receivable	3,486	3,721
Notes Receivable	164,755	175,831
Accounts Payable	(48,515)	(11,731)
Deferred Revenue	(158,701)	(170,012)
	$ 882,580	$ 1,178,269

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, 2008.

VII. RESTRICTED NET ASSETS - EXPENDABLE

Restricted net assets as of June 30, 2008 and 2007 are comprised of the following:

	June 30	
	2008	2007
Retirement of indebtedness	$ 467,362	$ 471,745
Renewals and replacements	882,580	1,178,269
Unexpended	546,019	300,817
	$ 1,895,961	$ 1,950,831

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

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INDEPENDENT AUDITORS' REPORT

Honorable William G. Holland
Auditor General, State of Illinois
and Board of Trustees
Southern Illinois University

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements, as listed in the table of contents, of Southern Illinois University Medical Facilities System ("the System") as of and for the year ended June 30, 2008. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the System's 2007 financial statements and, in a report dated February 28, 2008 we expressed an unqualified opinion on those financial statements.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in note 1A, the financial statements of the System are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the 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, 2008, and the changes 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the System as of June 30, 2008, and the changes 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 5, 2009 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the System. The accompanying Schedule of Bonds Payable Outstanding is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements, and in our opinion, is stated fairly, in all material respects, in relation to the financial statements taken as a whole.

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 2005, adopted October 13, 2005 insofar as they related to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the Board of Trustees, System management, and the bondholders and is not intended to be and should not be used by anyone other than these specified parties.

Crowe Horwath LLP

Crowe Horwath LLP

Oak Brook, Illinois
February 5, 2009

SOUTHERN ILLINOIS UNIVERSITY

MEDICAL FACILITIES SYSTEM
STATEMENT OF NET ASSETS
June 30, 2008
(with comparative totals for 2007)

	2008	2007
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents (Note 2)	$ 7,188,524	$ 11,939,621
Short term investments (Note 2)	406,872	403,115
Accounts receivable	3,294,394	2,274,713
Accrued interest receivable	8,132	7,739
Notes receivable (Note 4)	17,459	16,781
Inventories	- ---- ---	12,820
Prepaid expenses and other assets	16,213	16,213
TOTAL CURRENT ASSETS	10,931,594	14,671,002
NONCURRENT ASSETS:		
Notes receivable (Note 4)	147,296	159,050
Prepaid expenses and other assets	271,565	287,778
Capital assets, net: (Note 5)		
Land	2,594,757	2,594,757
Buildings	12,501,138	12,324,547
Equipment	620,898	596,936
Construction in progress	19,466,775	8,126,727
TOTAL NONCURRENT ASSETS	35,602,429	24,089,795
TOTAL ASSETS	46,534,023	38,760,797
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	2,662,723	206,337
Accrued interest payable	232,128	239,553
Accrued payroll	225,860	193,213
Accrued compensated absences (Note 6)	196,231	175,958
Deferred revenue (Note 6)	11,405	10,962
Liabilities under capital leases (Note 6)	20,385	30,240
Revenue bonds payable (Notes 6 and 7)	724,291	675,343
TOTAL CURRENT LIABILITIES	4,073,023	1,531,606
NONCURRENT LIABILITIES:		
Accrued compensated absences (Note 6)	2,063,455	2,069,839
Deferred revenue (Note 6)	147,296	159,050
Liabilities under capital leases (Note 6)	8,705	29,090
Revenue bonds payable (Notes 6 and 7)	18,509,245	19,233,536
TOTAL NONCURRENT LIABILITIES	20,728,701	21,491,515
TOTAL LIABILITIES	24,801,724	23,023,121
NET ASSETS		
Invested in capital assets, net of related debt	16,264,389	10,732,211
Restricted for:		
Expendable		
Capital projects and debt service	1,895,961	1,950,831
Unrestricted	3,571,949	3,054,634
TOTAL NET ASSETS	$ 21,732,299	$ 15,737,676

The accompanying notes are an integral part of this statement.

SOUTHERN ILLINOIS UNIVERSITY
MEDICAL FACILITIES SYSTEM
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2008
(with comparative totals for 2007)

	2008	2007
REVENUES		
OPERATING REVENUES		
Medical Facilities System	$ 36,796,147	$ 34,012,671
TOTAL OPERATING REVENUES	36,796,147	34,012,671
EXPENSES		
OPERATING EXPENSES		
Salaries and wages	30,336,984	28,287,959
Contractual services	11,428,664	9,203,223
Other	2,894,956	2,370,417
Depreciation (Note 5)	645,007	596,976
TOTAL OPERATING EXPENSES	45,305,611	40,458,575
OPERATING LOSS	(8,509,464)	(6,445,904)
NONOPERATING REVENUES (EXPENSES)		
Investment income (Note 3)	369,912	485,148
Interest on capital asset-related debt	(951,657)	(971,757)
Payments on behalf of the system (Notes 1I and 9)	9,196,482	8,091,311
Other nonoperating revenue	18,000	18,000
NET NONOPERATING REVENUES	8,632,737	7,622,702
INCOME (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES	123,273	1,176,798
OTHER REVENUES, EXPENSES, GAINS OR LOSSES		
Capital assets retired (Note 5)	(34,966)	(14,731)
Additions to plant facilities from other sources (Note 8)	5,906,316	7,950,552
TOTAL OTHER REVENUES, EXPENSES, GAINS OR LOSSES	5,871,350	7,935,821
INCREASE (DECREASE) IN NET ASSETS	5,994,623	9,112,619
NET ASSETS		
Net assets at beginning of year	15,737,676	6,625,057
NET ASSETS AT END OF YEAR	$ 21,732,299	$ 15,737,676

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, 2008
(with comparative totals for 2007)

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Medical Facilities System	$ 35,773,444	$ 36,768,213
Payments to employees	(21,094,399)	(19,885,294)
Payments for utilities	(804,043)	(280,457)
Payments to suppliers	(12,843,650)	(11,454,839)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,031,352	5,147,623
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Proceeds from sale of capital assets	18,000	18,000
Purchases of capital assets	(4,550,918)	(1,539,798)
Principal paid on capital debt	(660,000)	(620,000)
Interest paid on capital debt	(958,213)	(978,363)
NET CASH PROVIDED (USED) BY CAPITAL FINANCING ACTIVITIES	(6,151,131)	(3,120,161)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	1,533,088	8,510,457
Investment income	374,534	585,453
Purchase of investments	(1,538,940)	(1,795,417)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	368,682	7,300,493
NET INCREASE (DECREASE) IN CASH	(4,751,097)	9,327,955
CASH AND CASH EQUIVALENTS - BEGINNING OF THE YEAR	11,939,621	2,611,666
CASH AND CASH EQUIVALENTS - END OF THE YEAR	$ 7,188,524	$ 11,939,621
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating loss	$ (8,509,464)	$ (6,445,904)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Depreciation expense	645,007	596,976
Payments on behalf of the system	9,196,482	8,091,311
Changes in assets and liabilities:		
Receivables, net	(1,022,836)	2,755,578
Inventories	12,820	290
Accounts payable	662,806	(164,169)
Accrued payroll	32,648	160,186
Accrued compensated absences	13,889	153,355
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 1,031,352	$ 5,147,623
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
On behalf payments for fringe benefits	9,196,482	8,091,311
Gifts in kind	-	11,480
Capital asset acquisitions from other sources	5,906,316	7,939,072
Loss on disposal of capital assets	34,966	14,731

The accompanying notes are an integral part of this statement.

SOUTHERN ILLINOIS UNIVERSITY
MEDICAL FACILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

1. Significant Accounting Policies

(A) Basis of Presentation

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 now follows the business-type activity reporting requirements of GASB Statement Nos. 35, 37 and 38 that provide a comprehensive, entity-wide perspective of the System's financial activities and replaces the fund group presentations previously required. Effective July 1, 2004, the System adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. The objective of this statement is to update the custodial credit risk disclosure requirements and to establish more comprehensive disclosure requirements addressing the common risks of deposits and investments.

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 public colleges and universities. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation to pay has been incurred. 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 7 to the financial statements.

These financial statements have been prepared to satisfy the requirements of the System's 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 and therefore has not presented management's discussion and analysis. The financial statements include prior year comparative information, which has been derived from the System's 2007 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, 2007.

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.

The System has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The System has elected to not apply FASB pronouncements issued after the applicable date.

(B) Inventories

Inventories include various clinical supplies, which are stated at lower of cost (determined by specific identification) or market.

(C) Buildings, Improvements and Equipment

Buildings, improvements and equipment are recorded at cost less accumulated depreciation. The System's policy is to capitalize all equipment items with an acquisition cost of $5,000 or more.

(D) Revenues and Expenses

The System has classified its revenues and expenses as either operating or nonoperating. Operating revenues and expenses include characteristics of exchange transactions, such as sales and services. Nonoperating revenues and expenses include 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 assets when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

(E) **Cash and Cash Equivalents**

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

(F) **Investments**

Investments are stated at market. 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 receivables amount represents actual collections as of June 30 that have not yet been transferred from the Physicians & Surgeons URO 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, 2008, amounted to $9,196,482.

(J) **Classification of Net Assets**

Net assets represent the difference between System assets and liabilities and are divided into three major categories. The first category, invested in capital assets, net of related debt, represents the System's equity in property, plant and equipment. The next asset category is restricted net assets. Expendable restricted net assets are 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 assets, which represent 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**

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 consist principally of government securities and 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, 2008, 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. Credit risk is mitigated by limiting investments to those specified in the *Illinois Public Funds Investment Act*; 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.

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.

Interest Rate Risk: Interest rate risk is the risk that the fair value of portfolio securities will fall or rise due to changes in general interest rates. Interest rate risk is mitigated by maintaining significant balances in cash equivalent and other short maturity investments and by establishing an asset allocation policy that is consistent with the expected cash flows of the University. The internally managed portfolio is managed in accordance with covenants provided from the University's debt issuance activities. The externally managed portfolio is typically allocated with 20 to 35 percent of assets held in cash equivalents; 10 to 40 percent of assets held in the short-term portfolio; and 35 to 60 percent of assets held in the intermediate-term portfolio.

Interest rate risk is disclosed below using the segmented time distribution method. As of June 30, 2008, 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	$ 406,872	$ 406,872	$ ----	$ ----	$ ----
Total Investments	406,872	$ 406,872	$ ----	$ ----	$ ----
Cash and Equivalents					
The Illinois Funds	7,188,524				
Total Cash & Equivalents	7,188,524				
Total Cash & Investments	$ 7,595,396				

This disclosure provides time horizons of investment maturities. It is not a classification of investments as current or noncurrent as presented in the Statement of Net Assets.

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 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 fair prices. The investment with the Public Treasurer's Investment Pool (The Illinois Funds) is at fair value, which is the same value as the pool shares. State statutes require the Illinois Funds to comply with the *Illinois Public Funds Investment Act* (30 ILCS 235). Also, certain money fair 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 fair rates, are carried at amortized cost. The statement has been applied to investments and income for fiscal year 2008.

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, 2008 is comprised of the following:

Interest Income	$ 370,013
Decrease in Fair Value	(101)
Net Investment Income	$ 369,912

4. Notes Receivable

The notes receivable represent the sale of the Auburn Clinic contract for deed in December 2002. The balance remaining is payable with interest at the rate of 4% per annum to be amortized over a term of ten years and paid in eighteen consecutive semi annual installments of $9,000 each, plus a final installment of $124,790 on December 19, 2011.

Current	$ 17,459
Long-Term	147,296
Total	$ 164,755

5. Capital Assets

Capital asset activity for the year ended June 30, 2008 was as follows:

	Beginning Balance	Additions	Reductions	Transfers	Ending Balance
Land	$ 2,594,757	$ -------	$ -------	$ -------	$ 2,594,757
Buildings	16,230,052	-------	-------	603,721	16,833,773
Equipment	4,513,186	276,805	199,713	-------	4,590,278
Construction in progress	8,126,727	11,943,769	-------	(603,721)	19,466,775
Total cost of Capital assets	$ 31,464,722	$ 12,220,574	$ 199,713	$ -------	$ 43,485,583

Less accumulated depreciation for:

	Beginning Balance	Additions	Reductions	Transfers	Ending Balance
Building	$ 3,905,505	$ 427,130	$ -------	$ -------	$ 4,332,635
Equipment	3,916,250	217,877	164,747	-------	3,969,380
Total accumulated Depreciation	$ 7,821,755	$ 645,007	$ 164,747	$ -------	$ 8,302,015
Capital assets -- net	$ 23,642,967				$ 35,183,568

The construction in progress addition amount relates to the construction of the Cancer Institute, a 60,000 square foot multi-story building that will include space for clinical care and cancer treatment, patient supportive care, education and support services, research, program outreach and coordination.

The following estimated useful lives are used to compute depreciation:

Buildings	40 years
Equipment	5-7 years

6. Changes in Liabilities

Noncurrent liability activity for the year ended June 30, 2008 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Revenue bonds payable	$ 19,908,879	$ -------	$ 675,343	$ 19,233,536	$ 724,291
Compensated absences	2,245,797	183,304	169,415	2,259,686	196,231
Deferred revenue	170,012	-------	11,311	158,701	11,405
Capitalized leases	59,330	-------	30,240	29,090	20,385
Total	$ 22,384,018	$ 183,304	$ 886,309	$ 21,681,013	$ 952,312

Amounts shown as ending balance include both current and long-term portions. The deferred revenue is a result of the sale of the Auburn Clinic contract for deed in December 2002.

The University leases certain items of equipment that are classified as capital leases and payable over a period of years. Minimum lease payments under the capital lease together with the present value of the net minimum lease payments are:

Year Ending 2009	$ 21,072
Year Ending 2010	8,780
Total minimum lease payments	29,852
Less amount representing interest	762
Present value of net minimum lease payments	$ 29,090

7. **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 3.50% 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
2009	$ 715,000	$ 928,513
2010	765,000	903,488
2011	825,000	865,237
2012	885,000	832,900
2013	945,000	797,500
2014-2018	5,825,000	3,262,862
2019-2023	8,145,000	1,610,000
2024-2026	1,500,000	136,800
Total Payments	19,605,000	$ 9,337,300
Unamortized debt premium	590,419	
Unamortized deferred amount on refunding	(961,883)	
Total Bonds Payable	$ 19,233,536	

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 $28,942,300 with annual requirements ranging from $543,400 to $1,985,750. For the current year, principal and interest paid was $1,618,212, and the total revenues pledged were $126,472,600. Total revenue pledged represents 100 percent of the net revenues of the System and 86 percent of net tuition revenue. 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.

8. Related Party Transactions

Expenditures capitalized in 2008 include $5,906,316 paid for by other University funds. The expenditures were for the purchase of equipment to be utilized in the various Medical Facilities System facilities and for construction costs for the Cancer Institute.

9. Retirement and Post-Employment Benefits

Substantially all employees of the System participate in the State Universities Retirement System of Illinois (SURS), a cost-sharing multiple employer defined benefit pension plan with 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 issued 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 is 12.88% 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 contribution to SURS for the University for the years ended June 30, 2008, 2007 and 2006 were $36,446,327, $27,308,064, and $19,113,578, respectively, equal to the required contributions for the year.

In addition to providing pension benefits, the State provides certain health, dental and life insurance benefits to annuitants who are former State employees. This includes annuitants of the System. Substantially all State employees, including the System's employees, may become eligible for post-employment benefits if they eventually become annuitants. Health and dental benefits include basic benefits for annuitants under the State's self insurance plan and insurance contracts currently in force. Life insurance benefits for annuitants under age 60 are equal to their annual salary at the time of retirement; for annuitants age 60 or older, life insurance benefits are limited to five thousand dollars per annuitant.

Currently, the State does not segregate payments made to annuitants from those made to current employees for health, dental and life insurance benefits. The cost of health, dental and life insurance benefits is recognized by the State on a pay-as-you-go basis. These costs are funded by the State except for certain non-appropriated funds funded by the University.

10. 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 all 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 facilities) through June 30, 2009:

		Approximate Amount
1.	Lexington Insurance Co. Policy No. 8757177. Primary policy providing $100,000,000 all risk coverage on scheduled buildings and other property totaling $2,539,864,249. Academic and bonded buildings generally have a per occurrence deductible of $250,000. There is a $500,000 per occurrence deductible for many of the non-bonded academic buildings. The University has established a self-insurance reserve in amounts to cover the portion of estimated liability between $25,000 and the per occurrence deductibles noted above. Coverage is first layer of a structured program providing coverage up to $1,000,000,000 per occurrence.	$100,000,000 per occurrence
1a.	Boiler & Machinery coverage included in the Lexington policy listed above carries the same deductibles as noted above.	$100,000,000 per occurrence
1b.	Flood coverage included in the Lexington policy 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 100-year flood zone which there is then a limit of $50,000,000 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 policy 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. 8757191: furnishes the secondary layer of $400,000,000 excess of the Lexington's $100,000,000 layer.	$400,000,000 per occurrence
3.	Allianz Global, Policy No. CLP3009644; Lloyds of London, Policy No. DP654608; One Beacon, Policy No. YSP1340; and CNA, Policy No. RMP2010728503: furnishes the third layer of coverage, which is $500,000,000 excess of the secondary layer of $400,000,000.	$500,000,000 per occurrence
4.	Lloyds of London, Policy No. DP656908: furnishes earthquake coverage in excess of coverage included in the policies listed above, with limits of $50,000,000 that is shared with the University of Illinois and the University of Missouri.	$50,000,000 per occurrence
5.	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 also has purchased excess liability insurance policies to cover certain of its general liability exposures not elsewhere covered.	

11. Contingencies

From time to time, the University is a defendant in lawsuits which relate to the System. 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 System's financial position or its future operations.

SUPPLEMENTARY INFORMATION

SOUTHERN ILLINOIS UNIVERSITY
MEDICAL FACILITIES SYSTEM
SCHEDULE OF BONDS PAYABLE OUTSTANDING
June 30, 2008

		Principal Amount	Interest Rate
Interest Bearing Bonds			
Serial Bonds Maturing as follows:			
2009	$	715,000	3.50%
2010		765,000	5.00%
2011		265,000	3.75%
2011		560,000	4.00%
2012		885,000	4.00%
2013		945,000	5.00%
2014		1,015,000	4.25%
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	$	19,605,000	

* 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.

Crowe Horwath LLP
Member Horwath International

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable William G. Holland
Auditor General, State of Illinois
and Board of Trustees
Southern Illinois University

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of Southern Illinois University Medical Facilities System (the "System") as of and for the year ended June 30, 2008, and have issued our report thereon dated February 5, 2009. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the System's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the Board of Trustees, System management, and bondholders and is not intended to be and should not be used by anyone other than these specified parties.

Crowe Horwath LLP

Crowe Horwath LLP

Oak Brook, Illinois
February 5, 2009