

**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, 2012

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



CliftonLarsonAllen

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

For the Year Ended June 30, 2012

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

Southern Illinois University Board of Trustees and Officers of Administration Fiscal Year 2012

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Southern Illinois University
Annual Financial Report
Fiscal Year 2012

Table of Contents

| | |
|---|----|
| Treasurer's Letter | 1 |
| Financial Statement Report Summary | 2 |
| Independent Auditors' Report | 3 |
| Management's Discussion and Analysis | 5 |
| Basic Financial Statements | |
| Statement of Net Assets | 12 |
| Statement of Revenues, Expenses and Changes in Net Assets | 13 |
| Statement of Cash Flows | 14 |
| Notes to Financial Statements | 16 |



SOUTHERN ILLINOIS UNIVERSITY

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

September 28, 2012

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, 2012.

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

The financial statements of the University have been audited by CliftonLarsonAllen LLP for fiscal year 2012. 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 CliftonLarsonAllen LLP.

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

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 of the business-type activities 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, 2012, which collectively comprise the University’s basic financial statements as listed in the table of contents. 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 partial comparative information has been derived from the University’s June 30, 2011 financial statements. The financial statements of the University as of and for the year ended June 30, 2011 were audited by other auditors whose report dated April 2, 2012 expressed an unqualified opinion on these statements. We did not audit the financial statements of the University’s discretely presented component units (the “University Related Organizations”), as described in Note 1 of the financial statements as of and for the year ended June 30, 2012. Those statements were audited by other auditors whose reports thereon have been provided to us, and our opinion on the financial statements, insofar as it relates to the amounts included for the University Related Organizations, is based solely on the reports of the other auditors.

We conducted our 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. The financial statements of one University Related Organization, the Association of Alumni, Former Students and Friends of Southern Illinois University, Inc. (at Carbondale), were not audited in accordance with *Government Auditing Standards*. An audit 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 and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of Southern Illinois University as of June 30, 2012, and the respective changes in financial position and, where applicable, 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 under separate cover dated March 25, 2013 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

CliftonLarsonAllen LLP

Peoria, Illinois
March 25, 2013

**Southern Illinois University
Management's Discussion and Analysis
For the Year Ended June 30, 2012**

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, 2012. 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), a component unit of the State of Illinois which conducts instruction, research, public services and related activities principally at its campuses in Carbondale, which includes the School of Medicine in Springfield, and Edwardsville, which includes the School of Dental Medicine in Alton and the East St. Louis Center.

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 2012 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 are an integral part of the basic financial statements and provide additional details which should be included as part of any review or analysis. These financial statements are prepared in accordance with accounting principles generally accepted in the United States of America and provide information on the University as a whole.

FINANCIAL HIGHLIGHTS

Statement of Net Assets

The Statement of Net Assets includes all assets and liabilities, both current and noncurrent, using the accrual basis of accounting. The statement presents the financial position of the University at the end of the fiscal year. The difference between total assets and 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.

Net assets are divided into three major categories: Invested in Capital Assets, Net of Related Debt; Restricted Net Assets; and Unrestricted Net Assets. Invested in Capital Assets, net, consists of capital assets reduced by the outstanding balances of borrowings for construction and improvements of those assets. Restricted Net Assets have external constraints, including grants and contracts, self-insurance and capital projects. Unrestricted Net Assets are those that do not meet the definition of the first two categories.

**Southern Illinois University
Management's Discussion and Analysis
For the Year Ended June 30, 2012**

The University's assets, liabilities and net assets at June 30, 2012 and 2011 are summarized as follows:

| | <u>June 30, 2012</u> | <u>June 30, 2011</u> |
|---------------------------------|-------------------------|-------------------------|
| Assets: | | |
| Current assets | \$ 335,623,841 | \$ 289,668,133 |
| Capital assets, net | 789,422,415 | 716,438,214 |
| Other assets | 115,340,059 | 122,044,829 |
| Total Assets | <u>\$ 1,240,386,315</u> | <u>\$ 1,128,151,176</u> |
| Liabilities: | | |
| Current liabilities | 148,880,124 | 143,773,319 |
| Noncurrent liabilities | 366,900,301 | 355,984,432 |
| Total Liabilities | <u>\$ 515,780,425</u> | <u>\$ 499,757,751</u> |
| Net Assets: | | |
| Invested in capital assets, net | 495,051,877 | 410,754,130 |
| Restricted - nonexpendable | 2,662,160 | 2,976,342 |
| Restricted - expendable | 121,876,102 | 115,669,997 |
| Unrestricted | 105,015,751 | 98,992,956 |
| Total Net Assets | <u>\$ 724,605,890</u> | <u>\$ 628,393,425</u> |

The University's financial position remained strong at June 30, 2012, with assets of \$1,240,386,315 and liabilities of \$515,780,425. Net assets, the difference between total assets and total liabilities, increased \$96,212,465, or over 15%, 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.

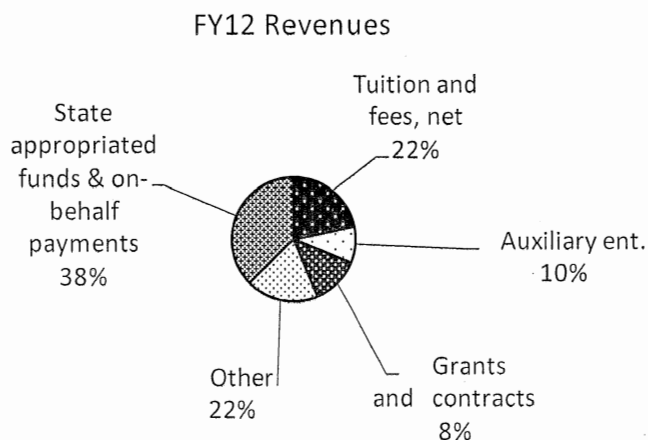
**Southern Illinois University
Management's Discussion and Analysis
For the Year Ended June 30, 2012**

The following summarizes the University's financial activity for fiscal years 2012 and 2011:

| | Year Ended June 30, 2012 | Year Ended June 30, 2011 |
|---|-----------------------------|-----------------------------|
| Operating revenues: | | |
| Tuition and fees, net | \$ 256,084,347 | \$ 242,813,334 |
| Auxiliary enterprises | 111,868,932 | 107,373,101 |
| Grants and contracts | 101,258,764 | 109,135,111 |
| Other | 135,534,392 | 133,445,510 |
| Operating expenses | <u>(1,069,993,849)</u> | <u>(1,003,604,416)</u> |
| Operating loss | <u>(465,247,414)</u> | <u>(410,837,360)</u> |
| State appropriations | 219,501,500 | 222,013,500 |
| On-behalf payments | 221,995,044 | 191,169,767 |
| Other nonoperating revenues & expenses, net | <u>52,156,315</u> | <u>49,928,314</u> |
| Income (loss) before other revenues | 28,405,445 | 52,274,221 |
| Other revenues | <u>67,807,020</u> | <u>30,267,882</u> |
| Increase in net assets | 96,212,465 | 82,542,103 |
| Net assets at beginning of year | <u>628,393,425</u> | <u>545,851,322</u> |
| Net assets at end of year | <u>\$ 724,605,890</u> | <u>\$ 628,393,425</u> |

The Statement of Revenues, Expenses and Changes in Net Assets reflects a positive year with an increase in net assets for the year of \$96.2 million. A significant portion of this increase was in the net investment in capital assets of the University, which increased over \$84.2 million. This was primarily due to several construction and renovation projects at both the Carbondale and Edwardsville campuses.

The following is a graphic illustration of revenues by source (operating, nonoperating, and other), which were used to fund the University's operating activities for the year ended June 30, 2012. The revenue from charges for tuition and fees is shown net of the scholarship allowance of \$38,196,952. 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, investment income, and income from the Physicians and Surgeons practice plan.



**Southern Illinois University
Management's Discussion and Analysis
For the Year Ended June 30, 2012**

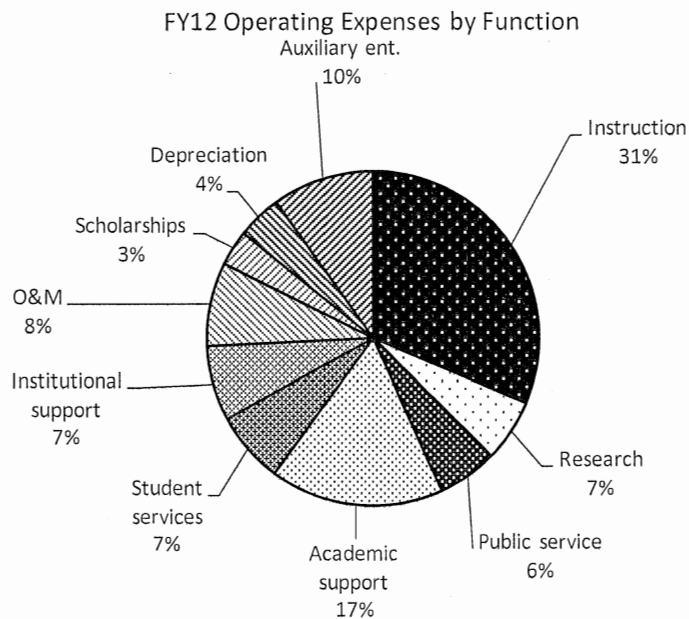
Operating Expenses

A summary of the University's operating expenses by functional classification for the years ended June 30, 2012 and 2011 is as follows:

| | <u>Year Ended June 30, 2012</u> | <u>Year Ended June 30, 2011</u> |
|------------------------------------|-------------------------------------|-------------------------------------|
| Instruction | \$ 335,294,851 | \$ 317,152,057 |
| Research | 64,680,837 | 63,660,347 |
| Public service | 62,712,130 | 62,657,302 |
| Academic support | 179,607,411 | 161,909,517 |
| Student services | 74,401,013 | 69,031,681 |
| Institutional support | 77,575,317 | 70,058,717 |
| Operation and maintenance of plant | 87,292,169 | 84,188,302 |
| Scholarships and fellowships | 36,837,164 | 31,645,865 |
| Depreciation | 46,321,372 | 44,134,264 |
| Auxiliary enterprises | 104,731,554 | 98,759,484 |
| Other expenditures | 540,031 | 406,880 |
| | <u>\$ 1,069,993,849</u> | <u>\$ 1,003,604,416</u> |

Operating expenses include \$221,995,044 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, 2012:



**Southern Illinois University
Management's Discussion and Analysis
For the Year Ended June 30, 2012**

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.

| | <u>Year Ended June 30, 2012</u> | <u>Year Ended June 30, 2011</u> |
|--|-------------------------------------|-------------------------------------|
| Cash provided by (used in): | | |
| Operating activities | \$ (154,603,317) | \$ (203,953,507) |
| Noncapital financing activities | 281,990,021 | 283,738,929 |
| Capital and related financing activities | (55,091,638) | (70,826,713) |
| Investing activities | <u>(9,997,363)</u> | <u>7,627,551</u> |
| Net increase (decrease) in cash | 62,297,703 | 16,586,260 |
| Cash and cash equivalents, beginning of year | <u>98,251,928</u> | <u>81,665,668</u> |
| Cash and cash equivalents, end of year | <u>\$ 160,549,631</u> | <u>\$ 98,251,928</u> |

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

The University's Capital Asset policy requires the capitalization of infrastructure at \$1,000,000, buildings and intangible assets at \$100,000, site or building improvements at \$25,000 and equipment at \$5,000. The University depreciates its capital assets on a straight-line basis, using estimated useful lives ranging from five to forty years. At the end of fiscal year 2012, the University had \$495,051,877 invested in capital assets, net of accumulated depreciation and related debt. Depreciation expense for the current year was \$46,321,372 with accumulated depreciation of \$808,013,183. In fiscal year 2012, the University experienced an increase in capital assets of \$72.9 million primarily attributable to multiple construction projects at both the Carbondale and Edwardsville campuses. At Carbondale, construction began on the new Student Services building and construction of the Transportation Education Center neared completion. At Edwardsville, construction and renovation projects continued on the Science building, Art and Design building, and the Lukas Annex.

The University has historically utilized revenue bonds to finance capital projects related to the Housing and Auxiliary Facilities System and the Medical Facilities System which have the ability to generate resources to service the debt. In fiscal year 2012, the University issued Housing and Auxiliary System Revenue Bonds of \$29.8 million to fund the cost of constructing the Student Services Building and to refund the outstanding balance of the 2001A Housing and Auxiliary Facilities System bond issuance. In November 2012, the University's Treasurer is expected to seek approval from the Board of Trustees to sell bonds of approximately \$27 million for additional construction projects, renovations, and partial refunding of the 2003A and 2004A issuances. The amount of outstanding bonds payable at June 30, 2012 was \$299,840,896.

The University issued certificates of participation (COPS) in 2002 and 2004 to fund multiple construction and renovation projects on the Carbondale, Edwardsville, and School of Medicine campuses. The balance

**Southern Illinois University
Management's Discussion and Analysis
For the Year Ended June 30, 2012**

Capital Asset and Debt Administration (continued)

of outstanding COPS at June 30, 2012 was \$17,885,949. The final principal and interest payment related to the 2002 issuance will be made in August, 2012 in the amount of \$505,890.

For additional information concerning the University's Capital Assets and Debt Administration, see Notes 6, 8, 9 and 10 in the Notes to Financial Statements.

Economic Outlook

The State of Illinois continues to have a sizable budget deficit which has resulted in mounting unpaid obligations, including extensive state appropriation payment delays to all Illinois Public Universities. As of August 31, 2012, the State of Illinois owed Southern Illinois University almost \$97 million in total appropriations down from \$114 million as of August 31, 2011. Similar to fiscal year 2011, the State has extended the state lapse period allowing the State to pay liabilities related to fiscal year 2012 until December 31, 2012. The University anticipates full payment of the fiscal year 2012 appropriations by the end of calendar year 2012. State appropriations represent 42% of total revenues and are the largest single source of revenue for the University. State operating appropriations for fiscal year 2012 were approved at \$219.5 million. The fiscal year 2013 operating appropriation has been approved at \$206.0 million, which represents a 6.2% decrease over the fiscal year 2012 appropriation level.

The State continues to appropriate on-behalf payments for University employees' benefits, but in fiscal year 2003 began requiring the University to supplement the funding. In fiscal year 2012, the State's portion of the on-behalf payments equaled \$222.0 million, a 16.1% increase over fiscal year 2011 funding, and the University contributed \$7 million. The University will contribute \$7 million toward employee health coverage in fiscal year 2013.

As of June 30, 2011, the State of Illinois had an unfunded pension liability of \$82.9 billion (43.4%). Pension reform legislation approved in 2010 is expected to diminish future pension liabilities related to newly hired employees. In addition the Governor has proposed legislation that includes a plan for school districts, community college districts, and state universities to assume responsibility for a higher share of pension costs to be phased in.

As funding from the State has been reduced, gaps in the operating budget have primarily been filled by increases in tuition and fees. Fiscal year 2013 tuition increased by 4.8% for first time students and student fees increased 3.5% for full-time students at the Carbondale campus and 3.0% for full-time students at the Edwardsville campus. 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.

Enrollment has remained relatively flat over the past four years but experienced a 3% decline in the Fall 2012. The Fall 2012 enrollment at the Edwardsville campus was 14,054, a decrease of 181 students. Total enrollment at the Carbondale campus was 18,847, down 970 students.

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. Furthermore, SIU implemented several cost saving measures in fiscal year 2011 that are continuing into

**Southern Illinois University
Management's Discussion and Analysis
For the Year Ended June 30, 2012**

Economic Outlook (continued)

fiscal year 2013 such as a hiring freeze on non-essential positions and cost restrictions on travel and purchases to help offset unanticipated budget shortfalls and to address cash flow issues created by state appropriation payment delays.

The University is not aware of any additional facts, decisions, 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, 2012 with Comparative Totals for 2011

| | UNIVERSITY | | UNIVERSITY RELATED ORGANIZATIONS | |
|--|-----------------------|-----------------------|-------------------------------------|-----------------------|
| | 2012 | 2011 | 2012 | 2011 |
| ASSETS | | | | |
| Current Assets: | | | | |
| Cash and cash equivalents | \$ 118,597,843 | \$ 68,346,834 | \$ 12,848,212 | \$ 5,438,365 |
| Cash and cash equivalents, restricted | 41,951,788 | 29,905,094 | 984,399 | 4,740,404 |
| Short-term investments | 11,361,995 | 7,972,989 | 11,990,612 | 10,031,129 |
| Short-term investments, restricted | 24,396,636 | 6,308,395 | 20,862,315 | 19,877,815 |
| Deposits with University | - | - | 12,809,198 | 11,502,129 |
| Appropriations receivable from State of Illinois | - | 38,961 | - | - |
| Reimbursement due from State Treasurer | 65,710,769 | 97,416,482 | - | - |
| Accounts receivable, net | 54,527,769 | 60,869,098 | 20,399,503 | 28,758,263 |
| Notes receivable, net | 3,122,252 | 3,257,745 | - | - |
| Accrued interest receivable | 85,789 | 68,008 | 208,867 | 185,072 |
| Due from related organizations | 5,448,985 | 5,244,633 | 75,720 | 34,855 |
| Inventories | 9,637,994 | 9,600,488 | - | - |
| Prepaid expenses and other assets | 782,021 | 639,406 | 10,487,355 | 2,813,809 |
| Total Current Assets | 335,623,841 | 289,668,133 | 90,666,181 | 83,381,841 |
| Noncurrent Assets: | | | | |
| Cash and cash equivalents | - | - | 465,114 | 540,109 |
| Long-term investments | 92,165,784 | 91,481,944 | 9,305,558 | 8,340,203 |
| Long-term investments, restricted | 2,521,762 | 9,696,558 | 123,791,106 | 129,422,750 |
| Notes receivable, net | 14,405,165 | 14,722,625 | 73,187 | 66,538 |
| Prepaid expenses and other assets | 6,247,348 | 6,143,702 | 7,576,888 | 16,410,309 |
| Capital assets, not depreciated | 176,983,458 | 87,909,529 | 412,172 | 315,672 |
| Capital assets, net of depreciation | 612,438,957 | 628,528,685 | 5,643,827 | 5,287,728 |
| Total Noncurrent Assets | 904,762,474 | 838,483,043 | 147,267,852 | 160,383,309 |
| TOTAL ASSETS | 1,240,386,315 | 1,128,151,176 | 237,934,033 | 243,765,150 |
| LIABILITIES | | | | |
| Current Liabilities: | | | | |
| Accounts payable | 40,154,772 | 34,515,211 | 1,437,076 | 1,213,285 |
| Accrued interest payable | 3,005,488 | 2,914,298 | - | - |
| Accrued payroll | 11,866,799 | 11,987,032 | 3,956,377 | 4,046,126 |
| Accrued compensated absences | 4,955,779 | 3,735,380 | - | - |
| Revenue bonds payable | 17,479,618 | 16,370,048 | - | - |
| Certificates of participation | 2,185,398 | 2,100,784 | - | - |
| Liabilities under capitalized leases | 292,827 | 122,595 | - | - |
| Annuities payable | - | - | 501,143 | 541,789 |
| Accrued liability for self-insurance | 14,433,109 | 12,846,252 | - | - |
| Deposits held for University related organizations | 12,809,198 | 11,502,129 | - | - |
| Deposits held in custody for others | 1,177,499 | 1,331,924 | 68,309 | 93,879 |
| Deferred revenue | 40,316,647 | 46,199,648 | 448,719 | 850,142 |
| Housing deposits | 133,110 | 140,670 | - | - |
| Due to related organizations | 69,880 | 7,348 | 5,454,825 | 5,272,140 |
| Total Current Liabilities | 148,880,124 | 143,773,319 | 11,866,449 | 12,017,361 |
| Noncurrent Liabilities: | | | | |
| Accrued compensated absences | 42,611,366 | 45,866,519 | - | - |
| Revenue bonds payable | 282,361,278 | 269,117,679 | - | - |
| Certificates of participation | 15,700,551 | 17,885,949 | - | - |
| Liabilities under capitalized leases | 963,724 | 87,030 | - | - |
| Annuities payable | - | - | 3,415,751 | 3,746,173 |
| Accrued liability for self-insurance | 7,827,497 | 5,583,732 | - | - |
| Federal loan program contributions refundable | 17,273,195 | 17,271,593 | - | - |
| Housing deposits | 162,690 | 171,930 | - | - |
| Other accrued liabilities | - | - | 2,476,895 | 2,447,443 |
| Deposits held in custody for others | - | - | 2,124,626 | 2,295,626 |
| Total Noncurrent Liabilities | 366,900,301 | 355,984,432 | 8,017,272 | 8,489,242 |
| TOTAL LIABILITIES | 515,780,425 | 499,757,751 | 19,883,721 | 20,506,603 |
| NET ASSETS | | | | |
| Invested in capital assets, net of related debt | 495,051,877 | 410,754,130 | 6,055,999 | 5,603,399 |
| Restricted for: | | | | |
| Nonexpendable | 2,662,160 | 2,976,342 | 94,288,238 | 94,347,079 |
| Expendable | 121,876,102 | 115,669,997 | 68,270,616 | 74,610,363 |
| Unrestricted | 105,015,751 | 98,992,956 | 49,435,459 | 48,697,706 |
| TOTAL NET ASSETS | \$ 724,605,890 | \$ 628,393,425 | \$ 218,050,312 | \$ 223,258,547 |

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, 2012 with Comparative Totals for 2011

| | UNIVERSITY | | UNIVERSITY RELATED ORGANIZATIONS | |
|--|-----------------------|-----------------------|-------------------------------------|-----------------------|
| | 2012 | 2011 | 2012 | 2011 |
| | | | | |
| REVENUES | | | | |
| Operating Revenues: | | | | |
| Student tuition and fees (net of scholarship allowances of \$38,196,952 for 2012; \$41,849,276 for 2011) | \$ 256,084,347 | \$ 242,813,334 | \$ - | \$ - |
| Federal grants and contracts | 42,005,028 | 47,278,070 | - | - |
| State of Illinois grants and contracts | 30,693,731 | 34,150,739 | - | - |
| Other government grants and contracts | 6,386,232 | 7,680,891 | - | - |
| Private grants and contracts | 22,173,773 | 20,025,411 | - | - |
| Sales and services of educational departments | 81,012,744 | 78,558,753 | - | - |
| Physicians and Surgeons practice plan | 54,203,736 | 54,622,838 | - | - |
| Patient service revenue (net) | - | - | 92,750,929 | 103,376,149 |
| Auxiliary enterprises: | | | | |
| Funded debt enterprises (net of scholarship allowances of \$6,266,581 for 2012; \$7,029,568 for 2011) | 102,295,975 | 97,587,220 | - | - |
| Other auxiliary enterprises (net of scholarship allowances of \$915,569 for 2012; \$988,815 for 2011) | 9,572,957 | 9,785,881 | - | - |
| Loan interest income | 297,083 | 251,714 | - | - |
| Other operating revenues | 20,829 | 12,205 | 17,300,272 | 16,241,885 |
| Total Operating Revenues | 604,746,435 | 592,767,056 | 110,051,201 | 119,618,034 |
| EXPENSES | | | | |
| Operating Expenses: | | | | |
| Instruction | 335,294,851 | 317,152,057 | - | - |
| Research | 64,680,837 | 63,660,347 | - | - |
| Public service | 62,712,130 | 62,657,302 | - | - |
| Academic support | 179,607,411 | 161,909,517 | - | - |
| Student services | 74,401,013 | 69,031,681 | - | - |
| Institutional support | 77,575,317 | 70,058,717 | 122,988,725 | 112,021,067 |
| Operation and maintenance of plant | 87,292,169 | 84,188,302 | - | - |
| Scholarships and fellowships | 36,837,164 | 31,645,865 | - | - |
| Depreciation | 46,321,372 | 44,134,264 | 573,808 | 586,011 |
| Auxiliary enterprises: | | | | |
| Funded debt enterprises | 93,977,385 | 89,188,761 | - | - |
| Other auxiliary enterprises | 10,754,169 | 9,570,723 | - | - |
| Other operating expenses | 540,031 | 406,880 | - | - |
| Total Operating Expenses | 1,069,993,849 | 1,003,604,416 | 123,562,533 | 112,607,078 |
| Operating Income (Loss) | (465,247,414) | (410,837,360) | (13,511,332) | 7,010,956 |
| NONOPERATING REVENUES (EXPENSES) | | | | |
| State appropriations | 219,501,500 | 222,013,500 | - | - |
| Gifts and contributions | 13,746,003 | 9,748,643 | 6,548,287 | 9,107,293 |
| Investment income | 4,625,294 | 3,414,546 | 394,299 | 28,358,557 |
| Grants and contracts | 48,128,082 | 49,275,873 | - | 120,455 |
| Interest on capital asset-related debt | (11,265,152) | (11,030,411) | - | - |
| Accretion on bonds payable | (4,331,329) | (4,475,452) | - | - |
| University related organizations | (407,985) | (596,460) | - | - |
| Payments on behalf of the university | 221,995,044 | 191,169,767 | - | - |
| Other nonoperating revenues (expenses) | 1,661,402 | 3,591,575 | (980,643) | 1,468,246 |
| Net Nonoperating Revenues (Expenses) | 493,652,859 | 463,111,581 | 5,961,943 | 39,054,551 |
| Income (Loss) Before Other Revenues | 28,405,445 | 52,274,221 | (7,549,389) | 46,065,507 |
| Other Revenues: | | | | |
| Capital state appropriations | 59,779,396 | 26,153,991 | - | - |
| Additions to permanent endowments | - | - | 2,341,154 | 1,354,195 |
| Capital grants and gifts | 8,027,624 | 4,113,891 | - | - |
| Total Other Revenues | 67,807,020 | 30,267,882 | 2,341,154 | 1,354,195 |
| Increase (decrease) in Net Assets | 96,212,465 | 82,542,103 | (5,208,235) | 47,419,702 |
| NET ASSETS | | | | |
| Net assets at beginning of year | 628,393,425 | 545,851,322 | 223,258,547 | 175,838,845 |
| Net assets at end of year | \$ 724,605,890 | \$ 628,393,425 | \$ 218,050,312 | \$ 223,258,547 |

The accompanying notes are an integral part of this statement.

Southern Illinois University

Statement of Cash Flows

Year Ended June 30, 2012 with Comparative Totals for 2011

| | UNIVERSITY | | UNIVERSITY RELATED ORGANIZATIONS | |
|--|-----------------------|----------------------|-------------------------------------|----------------------|
| | 2012 | 2011 | 2012 | 2011 |
| Cash Flows from Operating Activities | | | | |
| Tuition and fees | \$ 258,656,869 | \$ 251,711,272 | \$ - | \$ - |
| Grants and contracts | 100,559,721 | 108,833,825 | - | - |
| Sales and services of educational activities | 78,789,760 | 78,977,454 | - | - |
| Physicians and Surgeons | 62,973,237 | 40,945,064 | - | - |
| Auxiliary enterprise revenues: | | | | |
| Funded debt | 104,783,027 | 101,740,709 | - | - |
| Other auxiliary | 10,787,433 | 10,742,235 | - | - |
| Payments for employee salaries and benefits | (543,469,543) | (527,059,232) | (32,393,581) | (31,530,120) |
| Payments to suppliers | (267,531,059) | (279,800,941) | (80,317,743) | (69,779,032) |
| Payments for scholarships and fellowships | (77,235,952) | (80,239,460) | - | - |
| Loans issued to students | (2,555,668) | (1,754,709) | - | - |
| Interest earned on loans to students | 273,733 | 229,012 | - | - |
| Collection of loans from students | 2,509,133 | 2,396,075 | - | - |
| Patient service revenue | - | - | 100,203,089 | 86,406,456 |
| Other operating receipts | 116,855,992 | 89,325,189 | 6,940,927 | 8,617,991 |
| Net cash used in operating activities | (154,603,317) | (203,953,507) | (5,567,308) | (6,284,705) |
| Cash Flows from Noncapital Financing Activities | | | | |
| State appropriations | 219,529,444 | 222,250,088 | - | - |
| Direct lending receipts | 226,632,961 | 231,339,629 | - | - |
| Direct lending payments | (227,071,156) | (231,377,621) | - | - |
| Grants and contracts | 48,710,181 | 49,275,873 | - | - |
| Government advances for federal loan funds | (218,129) | (109,186) | - | - |
| Payments to annuitants | - | - | (470,420) | (545,733) |
| Other | 815,384 | 602,885 | (991,113) | (1,261,983) |
| Gifts for other than capital purposes | 13,591,336 | 11,757,261 | 8,878,143 | 9,304,822 |
| Net cash provided by noncapital financing activities | 281,990,021 | 283,738,929 | 7,416,610 | 7,497,106 |
| Cash Flows from Capital and Related Financing Activities | | | | |
| Capital appropriations | 31,259,102 | 18,364,538 | - | - |
| Capital grants | - | - | - | 120,455 |
| Sale of capital assets | 146,768 | - | - | - |
| Purchases of capital assets | (84,542,133) | (60,508,046) | (284,313) | (226,329) |
| Proceeds from capital debt | 30,078,628 | - | - | - |
| Other | 1,335,434 | 1,992,479 | - | - |
| Principal paid on capital debt | (21,895,000) | (18,995,000) | - | - |
| Interest paid on capital debt | (11,474,437) | (11,680,684) | - | - |
| Net cash used in capital and related financing activities | (55,091,638) | (70,826,713) | (284,313) | (105,874) |
| Cash Flows from Investing Activities | | | | |
| Purchases of investments | (29,913,978) | (46,276,296) | (22,347,766) | (7,320,016) |
| Proceeds from sales of investments and maturities | 16,824,768 | 50,169,639 | 20,260,502 | 5,856,247 |
| Investment income | 3,091,847 | 3,734,208 | 4,101,122 | 4,399,365 |
| Net cash provided by (used in) investing activities | (9,997,363) | 7,627,551 | 2,013,858 | 2,935,596 |
| Net increase in cash | 62,297,703 | 16,586,260 | 3,578,847 | 4,042,123 |
| Cash and cash equivalents, beginning of the year | 98,251,928 | 81,665,668 | 10,718,878 | 6,676,755 |
| Cash and cash equivalents, end of the year | \$ 160,549,631 | \$ 98,251,928 | \$ 14,297,725 | \$ 10,718,878 |

Southern Illinois University
Statement of Cash Flows
Year Ended June 30, 2012 with Comparative Totals for 2011

| | UNIVERSITY | | UNIVERSITY RELATED ORGANIZATIONS | |
|--|-------------------------|-------------------------|-------------------------------------|-----------------------|
| | 2012 | 2011 | 2012 | 2011 |
| Reconciliation of Operating Loss to Net Cash Used in Operating Activities | | | | |
| Operating Income (Loss) | \$ (465,247,414) | \$ (410,837,360) | \$ (13,511,332) | \$ 7,010,956 |
| Adjustments to reconcile operating loss to net cash used in operating activities: | | | | |
| Depreciation expense | 46,321,372 | 44,134,264 | 573,808 | 586,011 |
| Amortization expense | - | - | 357,126 | 357,126 |
| Noncash grants to University | - | - | 1,832,857 | 539,777 |
| Noncash expenditures for the benefit of the University | - | - | 517,414 | 647,766 |
| Noncash contributions | - | - | (2,180,914) | (382,777) |
| Budget expended at University | (356,549) | (318,694) | - | - |
| Payments on behalf of the university | 221,995,044 | 191,169,767 | - | - |
| Change in assets and liabilities: | | | | |
| Accounts receivable (net) | 6,372,664 | (11,722,570) | 8,316,702 | (14,108,107) |
| Reimbursement due from State Treasurer | 31,705,713 | (13,146,146) | - | - |
| Inventories | (37,507) | (2,300,034) | - | - |
| Prepaid expenses | (159,659) | 77,425 | (4,097) | 107 |
| Other assets | 5,019,837 | 1,417,045 | 67,859 | (74,992) |
| Accounts payable | 8,824,506 | 1,022,355 | 204,972 | 1,983,230 |
| Accrued payroll | (120,234) | 2,669,405 | - | - |
| Deferred revenue | (3,206,861) | 572,824 | (346,157) | (2,461) |
| Compensated absences | (2,034,753) | (1,429,558) | - | - |
| Deposits held for others | (19,923) | (32,998) | (25,571) | 32,133 |
| Other liabilities | 3,813,821 | (374,356) | (33,514) | 22,199 |
| Due to/from related organizations | (7,473,374) | (4,854,876) | (1,336,461) | (2,895,673) |
| Net cash used in operating activities | \$ (154,603,317) | \$ (203,953,507) | \$ (5,567,308) | \$ (6,284,705) |
| Noncash investing, capital and financing activities: | | | | |
| Payments on behalf of the university for fringe benefits | \$ 221,995,044 | \$ 191,169,767 | \$ - | \$ - |
| Accretion on bonds payable | 4,331,329 | 4,475,452 | - | - |
| Gifts in kind | 5,358,096 | 1,532,837 | 810,000 | 1,187,543 |
| Capital assets in accounts payable | 9,342,691 | 5,009,156 | - | - |
| Capital asset acquisition by CDB | 59,548,781 | 26,153,991 | - | - |
| Loss on disposals of capital assets | 1,862,944 | 674,527 | - | - |
| Other capital asset adjustments | 127,059 | 1,359,811 | - | - |
| Net interest capitalized | 456,110 | 688,895 | - | - |

The accompanying notes are an integral part of this statement.

Southern Illinois University
Notes to Financial Statements
June 30, 2012 and June 30, 2011

NOTE 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

**Southern Illinois University
Notes to Financial Statements
June 30, 2012 and June 30, 2011**

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

Research Park may be obtained by writing: Southern Illinois Research Park, 150 East Pleasant Hill Road, Carbondale, IL 62901-6891.

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

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

NOTE 2 - Significant accounting policies

University basis of presentation

The financial statements of the University have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). 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 2011 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, 2011.

University Related Organizations basis of presentation

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

Southern Illinois University
Notes to Financial Statements
June 30, 2012 and June 30, 2011

NOTE 2 - Significant accounting policies (continued)

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

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 \$14,071,241 and \$3,070,691, respectively, at June 30, 2012, compared to allowances of \$14,122,939 and \$2,749,831, respectively, at June 30, 2011.

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; intangible assets \$100,000 or greater; site or building improvements \$25,000 or greater; and equipment and library books \$5,000 or greater. Renovations to buildings that significantly increase the value or extend the useful life of the asset are capitalized. Routine repairs and maintenance are charged to operating expense in the year incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 40 years for buildings, 20 years for infrastructure, 15 years for site or building improvements, and seven to 20 years for intangible assets. Vehicles and electronic data processing equipment are depreciated over five years. Other equipment and books are depreciated over seven years. Land, works of art, and historical treasures are 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 \$221,995,044 for fiscal year 2012 for health care and retirement costs, compared to \$191,169,767 for fiscal year 2011. 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.

Southern Illinois University
Notes to Financial Statements
June 30, 2012 and June 30, 2011

NOTE 2 - Significant accounting policies (continued)

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 \$122,701,805 for the year ended June 30, 2012, and \$112,954,554 for the year ended June 30, 2011. The employer contributions to these plans for employees paid from other University held funds are paid by the University. On behalf-payments of \$99,293,239 for the year ended June 30, 2012, were made for retirement costs, compared to \$78,215,213 for the year ended June 30, 2011.

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, 2012, the University estimates \$32,744,025 will be paid from state appropriated accounts funded by the State of Illinois and the Income Fund, and \$14,823,120 from local funds in subsequent years for a combined total of \$47,567,145. This compares to \$35,585,279 from state accounts and \$14,016,620 from local funds, totaling \$49,601,899, at June 30, 2011.

Southern Illinois University
Notes to Financial Statements
June 30, 2012 and June 30, 2011

NOTE 2 - Significant accounting policies (continued)

New Governmental Accounting Standards

The Governmental Accounting Standards Board (GASB) has issued the following statements which are effective for periods beginning July 1, 2011, or later which may impact the University:

Statement No. 57 – *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, amends Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, to permit an agent employer that has an individual-employer OPEB plan with fewer than 100 total plan members to use the alternative measurement method. The Statement also amends a Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, requirement that a defined benefit OPEB plan obtain an actuarial valuation. The statement is effective for periods beginning after June 15, 2011. It did not impact the University.

Statement No. 60 – *Accounting and Financial Reporting for Service Concession Arrangements*, applies to public-private partnerships in which the public institution retains specific control criteria. The standard generally applies to arrangements to provide services through the use of infrastructure or another public asset, such as a facility. The statement is effective for periods beginning after December 15, 2011. The impact on the University will be reviewed.

Statement No. 61 – *The Financial Reporting Entity: Omnibus*, which amends the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*. The primary significance to public Universities is that Statement 61 amends the criteria for blending, or reporting component units as if they were part of the primary governments. The statement is effective for periods beginning after June 15, 2012. It is not expected to impact the University.

Statement No. 62 – *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements*, incorporates guidance that previously could only be found in certain FASB and American Institute of Certified Public Accountants (AICPA) pronouncements. The standard supersedes GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. The statement is effective for periods beginning after December 15, 2011. The impact on the University will be reviewed.

Statement No. 63 – *Financial Reporting of Deferred Outflow of Resources, Deferred Inflows of Resources, and Net Position*, addresses how to report elements of financial statements that are deferrals. The statement clarifies that amounts that are required to be reported as deferred outflows or inflows of resources should be reported in a separate section in a statement of net assets. The statement is effective for periods beginning after December 15, 2011. The impact on the University will be reviewed.

Statement No. 64 – *Derivative Instruments: Application of Hedge Accounting Termination Provisions* provides guidance for circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The statement is effective for periods beginning after June 15, 2011. It did not impact the University.

Statement No. 65 – *Items Previously Reported as Assets and Liabilities*, establishes accounting and financial reporting standards that reclassify, as deferred outflows or deferred inflows of resources, certain items previously reported as assets and liabilities and recognizes, as outflows or inflows of resources, certain items that were previously reported as assets and liabilities. The statement is effective for periods beginning after December 15, 2012. The impact on the University will be reviewed.

Southern Illinois University
Notes to Financial Statements
June 30, 2012 and June 30, 2011

NOTE 2 - Significant accounting policies (continued)

Statement No. 66 – *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*, resolves conflicting guidance that resulted from the issuance of Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* as well as Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*. The statement is effective for periods beginning after December 15, 2012. The impact on the University will be reviewed.

Statement No. 67 – *Financial Reporting for Pension Plans*, amends Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, to revise existing guidance for financial reporting of pension plans of state and local governments. The statement is effective for fiscal years beginning after June 15, 2013. The impact on the University will be reviewed.

Statement No. 68 – *Accounting and Financial Reporting for Pensions*, amends Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, to revise and establish new financial reporting requirements for most governments that provide pension benefits. The statement is effective for fiscal years beginning after June 15, 2014. The impact on the University will be reviewed.

NOTE 3 - Cash, deposits and cash equivalents

At June 30, 2012, the actual bank balances related to the deposits of the University amounted to \$170,779,212; of this balance, \$128,373,301 was either covered by federal depository insurance or not required to be collateralized and \$42,405,911 was covered by collateral held by an agent in the University's name. The actual bank balances at June 30, 2011, were \$109,521,823.

Cash, deposits and cash equivalents at June 30, 2012 and 2011 are as follows:

| | <u>2012</u> | <u>2011</u> |
|--|-----------------------|----------------------|
| UNIVERSITY: | | |
| Cash and cash equivalents | \$ 30,051,858 | \$ 9,620,219 |
| The Illinois Funds | <u>130,497,773</u> | <u>88,631,709</u> |
| Total cash and cash equivalents | <u>\$ 160,549,631</u> | <u>\$ 98,251,928</u> |
| UNIVERSITY RELATED ORGANIZATIONS: | | |
| Total cash and cash equivalents | <u>\$ 14,297,725</u> | <u>\$ 10,718,878</u> |

NOTE 4 – Investments

University investment policy

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

Southern Illinois University
Notes to Financial Statements
June 30, 2012 and June 30, 2011

NOTE 4 – Investments (continued)

corporations rated in the highest three rating classification by at least two standard rating services provided such obligations do not mature in longer than 270 days from the time of purchase and the issuing entity has at least \$500 million in assets (limited to 33 percent of the portfolio); money market mutual funds provided they are comprised of only U.S. Treasuries, agencies and instrumentalities; Public Treasurer's Investment Pool-State Treasurer's Office; repurchase agreements of Government securities; and other specifically defined repurchase agreements.

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

University investments

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

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

Southern Illinois University
Notes to Financial Statements
June 30, 2012 and June 30, 2011

NOTE 4 – Investments (continued)

Investment income net of realized and unrealized gains and losses on investments for the years ended June 30, 2012 and 2011 are reflected below:

| | <u>2012</u> | <u>2011</u> |
|---|---------------------|----------------------|
| <u>UNIVERSITY:</u> | | |
| Interest earnings | \$ 2,081,046 | \$ 2,293,684 |
| Realized gain/(loss) on investments | 493,075 | 1,176,159 |
| Unrealized gain/(loss) on investments | <u>2,051,173</u> | <u>(55,297)</u> |
| Net investment income | <u>\$ 4,625,294</u> | <u>\$ 3,414,546</u> |
| <u>UNIVERSITY RELATED ORGANIZATIONS:</u> | | |
| Interest earnings | \$ 3,654,931 | \$ 4,786,377 |
| Realized gain/(loss) on investments | 737,763 | 9,144,629 |
| Unrealized gain/(loss) on investments | <u>(3,998,395)</u> | <u>14,427,551</u> |
| Net investment income | <u>\$ 394,299</u> | <u>\$ 28,358,557</u> |

University risk disclosures

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

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

Interest rate risk: Interest rate risk is the risk that the market value of portfolio securities will fall or rise due to changes in general interest rates. Interest rate risk is mitigated by maintaining significant balances in cash equivalent and other short maturity investments and by establishing an asset allocation policy that is consistent with the expected cash flows of the University. The internally managed portfolio is managed in accordance with covenants provided from the University's debt issuance activities. The externally managed portfolio is typically allocated with a minimum of \$40 million held in cash equivalents and \$65 to \$115 million held in the intermediate term portfolio. However, circumstances may occur that cause the allocations to temporarily fall outside the prescribed ranges.

**Southern Illinois University
Notes to Financial Statements
June 30, 2012 and June 30, 2011**

NOTE 4 – Investments (continued)

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

University Related Organizations investments

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

Southern Illinois University Foundation (at Carbondale)

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

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

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

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

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

Southern Illinois University
Notes to Financial Statements
June 30, 2012 and June 30, 2011

NOTE 4 – Investments (continued)

Custodial credit risk is the risk that, in the event of a bank failure, the Foundation's deposits may not be returned to the Foundation. The Foundation has a policy to require banks to collateralize balances over the FDIC insured amount. As of June 30, 2012, the entire bank balance of \$479,635 was either insured or collateralized by pledged bank assets in the Foundation's name. As of June 30, 2011, \$2,372,904 of the bank balance of \$2,777,153 was either insured or collateralized by pledged bank assets in the Foundation's name.

Southern Illinois University at Edwardsville Foundation

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

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

Credit risk: Credit risk is 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), Fitch Investors Service or Duff's & Phelps Credit Rating Co. Commercial paper, money markets, and banker's acceptances must be rated at least Prime-1 by Moody's or at least A1 by S&P. U.S. Treasuries are federal government securities that do not require the disclosure of credit risk. The U.S. agencies investments include the Federal Home Loan Mortgage Corporation and the Federal Home Loan Bank, all rated AAA 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.

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

Southern Illinois University
Notes to Financial Statements
June 30, 2012 and June 30, 2011

NOTE 4 – Investments (continued)

Foundation. The Foundation's investments are managed by two separate investment firms, each offering SIPC protection up to \$500,000.

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, 2012. 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.

Investment policies and relevant risk disclosures as described in GASB Statement No. 40 applicable to the other University Related Organizations can be obtained by contacting those entities listed in Note 1 on pages 16 and 17.

Investment maturities

Interest rate risk is disclosed below using the segmented time distribution method. As of June 30, 2012 and 2011, the University had the following investment balances:

UNIVERSITY:

| Investment Type: | AS OF JUNE 30, 2012 | | | | | |
|---|-----------------------|----------------------------------|---------------|---------------|-----------|-------------|
| | Fair Value | Investment Maturities (in Years) | | | | No Maturity |
| | | Less Than 1 | 1-5 | 6-10 | | |
| U.S. Treasuries | \$ 55,591,173 | \$ 13,861,776 | \$ 30,455,443 | \$ 11,273,954 | \$ - | |
| U.S. Agencies | 74,810,704 | 21,896,855 | 33,912,610 | 19,001,239 | - | |
| The Illinois Funds | 130,497,773 | 130,497,773 | - | - | - | |
| Common Stock | 44,300 | - | - | - | 44,300 | |
| Subtotal | 260,943,950 | \$ 166,256,404 | \$ 64,368,053 | \$ 30,275,193 | \$ 44,300 | |
| Less: Investment in The Illinois Funds reported as cash | (130,497,773) | | | | | |
| Total Investments | \$ 130,446,177 | | | | | |

UNIVERSITY:

| Investment Type: | AS OF JUNE 30, 2011 | | | | | |
|---|-----------------------|----------------------------------|---------------|---------------|-----------|-------------|
| | Fair Value | Investment Maturities (in Years) | | | | No Maturity |
| | | Less Than 1 | 1-5 | 6-10 | | |
| U.S. Treasuries | \$ 45,230,472 | \$ 5,834,621 | \$ 30,155,248 | \$ 9,240,603 | \$ - | |
| U.S. Agencies | 70,185,114 | 8,446,763 | 50,162,527 | 11,575,824 | - | |
| The Illinois Funds | 88,631,709 | 88,631,709 | - | - | - | |
| Common Stock | 44,300 | - | - | - | 44,300 | |
| Subtotal | 204,091,595 | \$ 102,913,093 | \$ 80,317,775 | \$ 20,816,427 | \$ 44,300 | |
| Less: Investment in The Illinois Funds reported as cash | (88,631,709) | | | | | |
| Total Investments | \$ 115,459,886 | | | | | |

Southern Illinois University
Notes to Financial Statements
June 30, 2012 and June 30, 2011

NOTE 4 – Investments (continued)

Investment maturities

Interest rate risk is disclosed below using the segmented time distribution method. As of June 30, 2012 and 2011, the University Related Organizations had the following investment balances:

UNIVERSITY RELATED ORGANIZATIONS:

| Investment Type: | AS OF JUNE 30, 2012 | | | | | |
|---------------------------------|-----------------------|----------------------------------|---------------------|-------------------|------------------|-------------------|
| | Fair Value | Investment Maturities (in Years) | | | | |
| | | Less Than 1 | 1-5 | 6-10 | Over 10 | No Maturity |
| Municipal Bonds | \$ 1,022,558 | \$ - | \$ 782,162 | \$ 240,396 | \$ - | \$ - |
| Government Bonds | 32,126 | - | - | - | 32,126 | - |
| Common Stock | 918,934 | - | - | - | - | 918,934 |
| Certificates of Deposit | 5,415,395 | 2,120,298 | 3,295,097 | - | - | - |
| Corporate Equity Securities | 500,490 | - | 500,490 | - | - | - |
| Hedge Funds | 3,446,567 | 3,446,567 | - | - | - | - |
| Private Equity | 6,925,517 | 5,061,810 | 1,863,707 | - | - | - |
| Money Market Funds with Brokers | 2,953,980 | 2,953,980 | - | - | - | - |
| Mutual Funds | 144,734,024 | 144,734,024 | - | - | - | - |
| Total Investments | \$ 165,949,591 | \$ 158,316,679 | \$ 6,441,456 | \$ 240,396 | \$ 32,126 | \$ 918,934 |

UNIVERSITY RELATED ORGANIZATIONS:

| Investment Type: | AS OF JUNE 30, 2011 | | | | | |
|---------------------------------|-----------------------|----------------------------------|---------------------|-------------------|-------------|-------------------|
| | Fair Value | Investment Maturities (in Years) | | | | |
| | | Less Than 1 | 1-5 | 6-10 | Over 10 | No Maturity |
| Municipal Bonds | \$ 288,911 | \$ - | \$ 206,575 | \$ 82,336 | \$ - | \$ - |
| Common Stock | 200,675 | - | - | - | - | 200,675 |
| Certificates of Deposit | 8,392,224 | 1,790,984 | 6,576,327 | 24,913 | - | - |
| Foreign Equity Securities | 20,758,113 | 20,758,113 | - | - | - | - |
| Corporate Equity Securities | 330,135 | - | 265,988 | 64,147 | - | - |
| Hedge Funds | 5,434,086 | 3,570,379 | 1,863,707 | - | - | - |
| Private Equity | 4,291,328 | 4,291,328 | - | - | - | - |
| Money Market Funds with Brokers | 2,754,297 | 2,754,297 | - | - | - | - |
| Mutual Funds | 125,222,128 | 125,222,128 | - | - | - | - |
| Total Investments | \$ 167,671,897 | \$ 158,387,229 | \$ 8,912,597 | \$ 171,396 | \$ - | \$ 200,675 |

Southern Illinois University
Notes to Financial Statements
June 30, 2012 and June 30, 2011

NOTE 5 - Accounts and notes receivable

Accounts and notes receivable consisted of the following at June 30, 2012 and 2011:

UNIVERSITY:

| | <u>2012</u> | | <u>2011</u> | |
|---------------------------------------|--------------------------------|-----------------------------|--------------------------------|-----------------------------|
| | <u>Accounts Receivable</u> | <u>Notes Receivable</u> | <u>Accounts Receivable</u> | <u>Notes Receivable</u> |
| Student tuition and fees | \$ 16,303,129 | \$ - | \$ 16,499,626 | \$ - |
| Auxiliary enterprises | 11,126,505 | - | 10,703,293 | - |
| Grants and contracts | 15,091,100 | - | 19,832,477 | - |
| General operating | 25,597,936 | - | 27,323,351 | - |
| Student loans | 127,913 | 20,598,107 | 94,699 | 20,576,969 |
| Plant funds | - | - | 190,178 | 153,232 |
| Other accounts receivable | 352,426 | - | 348,413 | - |
| | <u>68,599,009</u> | <u>20,598,107</u> | <u>74,992,037</u> | <u>20,730,201</u> |
| Less: Allowance for doubtful accounts | <u>(14,071,241)</u> | <u>(3,070,691)</u> | <u>(14,122,939)</u> | <u>(2,749,831)</u> |
| Net receivable | <u>\$ 54,527,769</u> | <u>\$ 17,527,417</u> | <u>\$ 60,869,098</u> | <u>\$ 17,980,370</u> |

UNIVERSITY RELATED ORGANIZATIONS:

| | <u>2012</u> | | <u>2011</u> | |
|---|--------------------------------|-----------------------------|--------------------------------|-----------------------------|
| | <u>Accounts Receivable</u> | <u>Notes Receivable</u> | <u>Accounts Receivable</u> | <u>Notes Receivable</u> |
| Accounts receivable | \$ 60,490,310 | \$ - | \$ 67,141,074 | \$ - |
| Student loans | - | 73,187 | - | 66,538 |
| | <u>60,490,310</u> | <u>73,187</u> | <u>67,141,074</u> | <u>66,538</u> |
| Less: Allowances for assignment losses & doubtful accounts | <u>(40,090,807)</u> | <u>-</u> | <u>(38,382,811)</u> | <u>-</u> |
| Net receivable | <u>\$ 20,399,503</u> | <u>\$ 73,187</u> | <u>\$ 28,758,263</u> | <u>\$ 66,538</u> |

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 was 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. The balance was paid in full on September 8, 2011.

Southern Illinois University
Notes to Financial Statements
June 30, 2012 and June 30, 2011

NOTE 6 - Capital assets

Capital asset activity for the University for the fiscal year ended June 30, 2012 was as follows:

UNIVERSITY:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Deletions</u> | <u>Transfers</u> | <u>Ending Balance</u> |
|---|------------------------------|----------------------|---------------------|------------------|---------------------------|
| Capital assets not being depreciated: | | | | | |
| Land | \$ 21,544,339 | \$ - | \$ 29,642 | \$ - | \$ 21,514,697 |
| Nondepreciable historical treasures and works of art | 10,842,890 | 637,669 | - | - | 11,480,559 |
| Construction in progress | 55,522,300 | 102,295,809 | 593,422 | (13,236,485) | 143,988,202 |
| Total capital assets not being depreciated | 87,909,529 | 102,933,478 | 623,064 | (13,236,485) | 176,983,458 |
| Capital assets being depreciated: | | | | | |
| Site improvements | 61,768,341 | 1,955,510 | 981,254 | 1,789,196 | 64,531,793 |
| Buildings | 995,725,288 | 2,050,892 | 7,223,583 | 8,256,724 | 998,809,321 |
| Equipment | 329,048,993 | 14,228,636 | 5,305,682 | 3,190,565 | 341,162,512 |
| Intangible assets | 7,340,787 | - | - | - | 7,340,787 |
| Infrastructure | 8,607,727 | - | - | - | 8,607,727 |
| Total capital assets being depreciated | 1,402,491,136 | 18,235,038 | 13,510,519 | 13,236,485 | 1,420,452,140 |
| Less accumulated depreciation for: | | | | | |
| Site improvements | 37,322,886 | 2,382,558 | 981,254 | - | 38,724,190 |
| Buildings | 450,727,737 | 26,305,218 | 6,434,418 | - | 470,598,537 |
| Equipment | 275,488,752 | 16,859,981 | 4,854,968 | - | 287,493,765 |
| Intangible assets | 1,815,349 | 773,615 | - | - | 2,588,964 |
| Infrastructure | 8,607,727 | - | - | - | 8,607,727 |
| Total accumulated depreciation | 773,962,451 | 46,321,372 | 12,270,640 | - | 808,013,183 |
| Total capital assets being depreciated, net | 628,528,685 | (28,086,334) | 1,239,879 | 13,236,485 | 612,438,957 |
| Capital assets, net | <u>\$ 716,438,214</u> | <u>\$ 74,847,144</u> | <u>\$ 1,862,943</u> | <u>\$ -</u> | <u>\$ 789,422,415</u> |

Southern Illinois University
Notes to Financial Statements
June 30, 2012 and June 30, 2011

NOTE 6 - Capital assets (continued)

Capital asset activity for the University for the fiscal year ended June 30, 2011 was as follows:

UNIVERSITY:

| | Beginning Balance | Additions | Deletions | Transfers | Ending Balance |
|---|----------------------|---------------|------------|--------------|-------------------|
| Capital assets not being depreciated: | | | | | |
| Land | \$ 21,544,339 | \$ - | \$ - | \$ - | \$ 21,544,339 |
| Nondepreciable historical treasures and works of art | 10,273,961 | 568,929 | - | - | 10,842,890 |
| Construction in progress | 87,679,757 | 53,636,719 | 105,093 | (85,689,083) | 55,522,300 |
| Total capital assets not being depreciated | 119,498,057 | 54,205,648 | 105,093 | (85,689,083) | 87,909,529 |
| Capital assets being depreciated: | | | | | |
| Site improvements | 59,671,889 | 631,558 | 1,074,348 | 2,539,242 | 61,768,341 |
| Buildings | 914,366,031 | 1,247,791 | 3,038,375 | 83,149,841 | 995,725,288 |
| Equipment | 320,320,107 | 16,100,597 | 7,371,711 | - | 329,048,993 |
| Intangible assets | 6,905,597 | 435,190 | - | - | 7,340,787 |
| Infrastructure | 8,607,727 | - | - | - | 8,607,727 |
| Total capital assets being depreciated | 1,309,871,351 | 18,415,136 | 11,484,434 | 85,689,083 | 1,402,491,136 |
| Less accumulated depreciation for: | | | | | |
| Site improvements | 36,197,349 | 2,199,885 | 1,074,348 | - | 37,322,886 |
| Buildings | 428,797,057 | 24,969,056 | 3,038,376 | - | 450,727,737 |
| Equipment | 266,106,569 | 16,133,683 | 6,751,500 | - | 275,488,752 |
| Intangible assets | 983,709 | 831,640 | - | - | 1,815,349 |
| Infrastructure | 8,607,727 | - | - | - | 8,607,727 |
| Total accumulated depreciation | 740,692,411 | 44,134,264 | 10,864,224 | - | 773,962,451 |
| Total capital assets being depreciated, net | 569,178,940 | (25,719,128) | 620,210 | 85,689,083 | 628,528,685 |
| Capital assets, net | \$ 688,676,997 | \$ 28,486,520 | \$ 725,303 | \$ - | \$ 716,438,214 |

Southern Illinois University
Notes to Financial Statements
June 30, 2012 and June 30, 2011

NOTE 6 - Capital assets (continued)

Capital asset activity for the University Related Organizations for the fiscal years ended June 30, 2012 and 2011 was as follows:

UNIVERSITY RELATED ORGANIZATIONS:

2012

| | Beginning Balance | Additions | Deletions | Transfers | Ending Balance |
|---|----------------------|------------|-----------|-----------|-------------------|
| Capital assets not being depreciated: | | | | | |
| Land | \$ 315,672 | \$ 96,500 | \$ - | \$ - | \$ 412,172 |
| Total capital assets not being depreciated | 315,672 | 96,500 | - | - | 412,172 |
| Capital assets being depreciated: | | | | | |
| Site improvements | 315,630 | - | - | - | 315,630 |
| Buildings | 4,271,676 | 810,000 | - | - | 5,081,676 |
| Equipment | 4,460,241 | 119,907 | 11,500 | - | 4,568,648 |
| Total capital assets being depreciated | 9,047,547 | 929,907 | 11,500 | - | 9,965,954 |
| Less accumulated depreciation for: | | | | | |
| Site improvements | 170,961 | 31,399 | - | - | 202,360 |
| Buildings | 915,606 | 135,895 | - | - | 1,051,501 |
| Equipment | 2,673,252 | 406,514 | 11,500 | - | 3,068,266 |
| Total accumulated depreciation | 3,759,819 | 573,808 | 11,500 | - | 4,322,127 |
| Total capital assets being depreciated, net | 5,287,728 | 356,099 | - | - | 5,643,827 |
| Capital assets, net | \$ 5,603,400 | \$ 452,599 | \$ - | \$ - | \$ 6,055,999 |

UNIVERSITY RELATED ORGANIZATIONS:

2011

| | Beginning Balance | Additions | Deletions | Transfers | Ending Balance |
|---|----------------------|--------------|-----------|-----------|-------------------|
| Capital assets not being depreciated: | | | | | |
| Land | \$ 315,672 | \$ - | \$ - | \$ - | \$ 315,672 |
| Total capital assets not being depreciated | 315,672 | - | - | - | 315,672 |
| Capital assets being depreciated: | | | | | |
| Site improvements | 315,630 | - | - | - | 315,630 |
| Buildings | 4,271,676 | - | - | - | 4,271,676 |
| Equipment | 4,171,511 | 291,288 | 2,558 | - | 4,460,241 |
| Total capital assets being depreciated | 8,758,817 | 291,288 | 2,558 | - | 9,047,547 |
| Less accumulated depreciation for: | | | | | |
| Site improvements | 139,559 | 31,402 | - | - | 170,961 |
| Buildings | 795,459 | 120,147 | - | - | 915,606 |
| Equipment | 2,241,348 | 434,462 | 2,558 | - | 2,673,252 |
| Total accumulated depreciation | 3,176,366 | 586,011 | 2,558 | - | 3,759,819 |
| Total capital assets being depreciated, net | 5,582,451 | (294,723) | - | - | 5,287,728 |
| Capital assets, net | \$ 5,898,123 | \$ (294,723) | \$ - | \$ - | \$ 5,603,400 |

Southern Illinois University
Notes to Financial Statements
June 30, 2012 and June 30, 2011

NOTE 7 – Changes in liabilities

Liability activity for the years ended June 30, 2012 and 2011 is as follows:

| | 2012 | | | | |
|--|------------------------------|----------------------|----------------------|---------------------------|----------------------------|
| UNIVERSITY: | Beginning Balance | Additions | Reductions | Ending Balance | Current Portion |
| Compensated absences | \$ 49,601,899 | \$ 5,014,443 | \$ 7,049,197 | \$ 47,567,145 | \$ 4,955,779 |
| Revenue bonds payable | 285,487,727 | 34,136,329 | 19,783,160 | 299,840,896 | 17,479,618 |
| Certificates of participation | 19,986,733 | - | 2,100,784 | 17,885,949 | 2,185,398 |
| Capitalized leases | 209,625 | 1,484,798 | 437,872 | 1,256,551 | 292,827 |
| Self insurance | 18,429,984 | 13,664,458 | 9,833,836 | 22,260,606 | 14,433,109 |
| Federal loan programs refundable | 17,271,593 | 1,602 | - | 17,273,195 | - |
| Due to related organizations | 7,348 | 62,532 | - | 69,880 | 69,880 |
| Housing deposits | 312,600 | 200,730 | 217,530 | 295,800 | 133,110 |
| Total long-term liabilities | <u>\$ 391,307,509</u> | <u>\$ 54,564,892</u> | <u>\$ 39,422,379</u> | <u>\$ 406,450,022</u> | <u>\$ 39,549,721</u> |
| | | | | | |
| UNIVERSITY RELATED ORGANIZATIONS: | Beginning Balance | Additions | Reductions | Ending Balance | Current Portion |
| Annuities payable | \$ 4,287,962 | \$ 79,858 | \$ 450,926 | \$ 3,916,894 | \$ 501,143 |
| Other accrued liabilities | 2,447,443 | 29,452 | - | 2,476,895 | - |
| Deposits held in custody for others | 2,389,505 | - | 196,570 | 2,192,935 | 68,309 |
| Total long-term liabilities | <u>\$ 9,124,910</u> | <u>\$ 109,310</u> | <u>\$ 647,496</u> | <u>\$ 8,586,724</u> | <u>\$ 569,452</u> |
| | | | | | |
| | 2011 | | | | |
| UNIVERSITY: | Beginning Balance | Additions | Reductions | Ending Balance | Current Portion |
| Compensated absences | \$ 51,031,457 | \$ 3,226,114 | \$ 4,655,672 | \$ 49,601,899 | \$ 3,735,380 |
| Revenue bonds payable | 297,273,024 | 4,475,452 | 16,260,749 | 285,487,727 | 16,370,048 |
| Certificates of participation | 22,857,825 | - | 2,871,092 | 19,986,733 | 2,100,784 |
| Capitalized leases | 233,722 | 226,761 | 250,858 | 209,625 | 122,595 |
| Self insurance | 18,829,390 | 11,347,694 | 11,747,100 | 18,429,984 | 12,846,252 |
| Federal loan programs refundable | 17,266,223 | 5,370 | - | 17,271,593 | - |
| Due to related organizations | 35,948 | - | 28,600 | 7,348 | 7,348 |
| Other accrued liabilities | 121,965 | - | 121,965 | - | - |
| Housing deposits | 287,550 | 284,623 | 259,573 | 312,600 | 140,670 |
| Total long-term liabilities | <u>\$ 407,937,104</u> | <u>\$ 19,566,014</u> | <u>\$ 36,195,609</u> | <u>\$ 391,307,509</u> | <u>\$ 35,323,077</u> |
| | | | | | |
| UNIVERSITY RELATED ORGANIZATIONS: | Beginning Balance | Additions | Reductions | Ending Balance | Current Portion |
| Annuities payable | 4,468,907 | 343,464 | 524,409 | 4,287,962 | 541,789 |
| Other accrued liabilities | 2,419,760 | 27,683 | - | 2,447,443 | - |
| Deposits held in custody for others | 1,973,377 | 499,521 | 83,393 | 2,389,505 | 93,879 |
| Total long-term liabilities | <u>\$ 8,862,044</u> | <u>\$ 870,668</u> | <u>\$ 607,802</u> | <u>\$ 9,124,910</u> | <u>\$ 635,668</u> |

Southern Illinois University
Notes to Financial Statements
June 30, 2012 and June 30, 2011

NOTE 8 - Revenue bonds payable

Revenue bonds payable activity for the years ended June 30, 2012 and 2011 is as follows:

| <u>UNIVERSITY:</u> | | <u>2012</u> | | | | |
|--------------------|--------------------|-----------------------|----------------------|------------------------------|-----------------------|----------------------|
| Series | Annual Maturity To | Beginning Balance | Accretion/ New Debt | Principal Paid/Debt Refunded | Ending Balance | Current Portion |
| 1993A | 2018 | \$ 22,158,410 | \$ 1,327,733 | \$ 3,430,000 | \$ 20,056,143 | \$ 4,050,000 |
| 1997A | 2018 | 17,333,393 | 947,419 | 3,105,000 | 15,175,812 | 3,135,000 |
| 1999A | 2029 | 36,816,975 | 2,056,177 | 395,000 | 38,478,152 | 450,000 |
| 2001A | 2017 | 4,735,000 | - | 4,735,000 | - | - |
| 2003A | 2029 | 6,975,000 | - | 265,000 | 6,710,000 | 275,000 |
| 2004A | 2035 | 35,985,000 | - | 950,000 | 35,035,000 | 980,000 |
| 2005 | 2026 | 17,300,000 | - | 885,000 | 16,415,000 | 945,000 |
| 2006A | 2036 | 60,015,000 | - | 2,995,000 | 57,020,000 | 3,140,000 |
| 2008A | 2028 | 28,245,000 | - | 975,000 | 27,270,000 | 1,040,000 |
| 2009A | 2030 | 51,715,000 | - | 2,055,000 | 49,660,000 | 2,090,000 |
| 2012A | 2030 | - | 29,805,000 | - | 29,805,000 | 1,515,000 |
| | | <u>\$ 281,278,778</u> | <u>\$ 34,136,329</u> | <u>\$ 19,790,000</u> | 295,625,107 | 17,620,000 |
| | | | | | | (321,499) |
| | | | | | 5,408,750 | 301,727 |
| | | | | | (1,192,961) | (120,610) |
| | | | | | <u>\$ 299,840,896</u> | <u>\$ 17,479,618</u> |

| <u>UNIVERSITY:</u> | | <u>2011</u> | | | | |
|--------------------|--------------------|-----------------------|---------------------|------------------------------|-----------------------|----------------------|
| Series | Annual Maturity To | Beginning Balance | Accretion/ New Debt | Principal Paid/Debt Refunded | Ending Balance | Current Portion |
| 1993A | 2018 | \$ 24,144,934 | \$ 1,448,476 | \$ 3,435,000 | \$ 22,158,410 | \$ 3,430,000 |
| 1997A | 2018 | 19,398,036 | 1,060,357 | 3,125,000 | 17,333,393 | 3,105,000 |
| 1999A | 2029 | 35,240,356 | 1,966,619 | 390,000 | 36,816,975 | 395,000 |
| 2001A | 2017 | 6,190,000 | - | 1,455,000 | 4,735,000 | 1,465,000 |
| 2003A | 2029 | 7,230,000 | - | 255,000 | 6,975,000 | 265,000 |
| 2004A | 2035 | 36,905,000 | - | 920,000 | 35,985,000 | 950,000 |
| 2005 | 2026 | 18,125,000 | - | 825,000 | 17,300,000 | 885,000 |
| 2006A | 2036 | 62,865,000 | - | 2,850,000 | 60,015,000 | 2,995,000 |
| 2008A | 2028 | 29,090,000 | - | 845,000 | 28,245,000 | 975,000 |
| 2009A | 2030 | 53,735,000 | - | 2,020,000 | 51,715,000 | 2,055,000 |
| | | <u>\$ 292,923,326</u> | <u>\$ 4,475,452</u> | <u>\$ 16,120,000</u> | 281,278,778 | 16,520,000 |
| | | | | | | (288,660) |
| | | | | | 5,569,400 | 314,520 |
| | | | | | (1,360,451) | (175,812) |
| | | | | | <u>\$ 285,487,727</u> | <u>\$ 16,370,048</u> |

Southern Illinois University
Notes to Financial Statements
June 30, 2012 and June 30, 2011

NOTE 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. Interest ranges from 6.05 to 6.20 percent, approximate yield to maturity. The University records the annual increase in the principal amount of these bonds as interest expense and accretion on bonds payable.

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

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

The Housing and Auxiliary Facilities System Bonds, Series 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 with interest ranging from 4.00 to 5.50 percent. Interest payments are due semi-annually. The final payment on the 2001A Series Bonds was made on April 1, 2012.

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 with interest ranging from 1.15 to 4.85 percent. 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 with interest ranging from 3.00 to 5.00 percent. Interest payments are due semi-annually.

The Medical Facilities System Bonds, Series 2005 were authorized by the University's Board on October 13, 2005. The bonds mature at varying amounts from 2006 to 2026 with interest ranging from 3.25 to 5.00 percent. 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 with interest ranging from 4.00 to 5.25 percent. Interest payments are due semi-annually.

Southern Illinois University
Notes to Financial Statements
June 30, 2012 and June 30, 2011

NOTE 8 - Revenue bonds payable (continued)

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

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

| Year | Treasury | | | | |
|---------|---------------|---------------|-----------------|---------------|--|
| Ending | Principal | Interest | Rebate | Total | |
| 2013 | \$ 2,090,000 | \$ 2,708,925 | \$ (948,124) | \$ 3,850,801 | |
| 2014 | 2,135,000 | 2,641,000 | (924,350) | 3,851,650 | |
| 2015 | 2,185,000 | 2,563,606 | (897,262) | 3,851,344 | |
| 2016 | 2,245,000 | 2,473,475 | (865,716) | 3,852,759 | |
| 2017 | 2,310,000 | 2,371,327 | (829,965) | 3,851,362 | |
| 2018-22 | 12,750,000 | 10,023,265 | (3,508,143) | 19,265,122 | |
| 2023-27 | 15,255,000 | 6,174,998 | (2,161,249) | 19,268,749 | |
| 2028-30 | 10,690,000 | 1,342,920 | (470,022) | 11,562,898 | |
| Total | \$ 49,660,000 | \$ 30,299,516 | \$ (10,604,831) | \$ 69,354,685 | |

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

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 \$430,761,471 with annual requirements ranging from \$2,604,000 to \$26,671,069. For the current year, principal and interest paid was \$28,608,233, and the total revenues pledged were \$59,500,547. In the prior year, principal and interest paid was \$25,090,869, and the total revenues pledged were \$58,000,566. For fiscal year 2012, the total revenue pledged represents 100 percent of the net revenues of the System and 16 percent of net tuition revenue received, compared to 100 percent of the net revenues and 16 percent of net tuition revenue received during fiscal year 2011. Although net tuition is pledged it is not expected to be needed to meet debt service requirements.

Southern Illinois University
Notes to Financial Statements
June 30, 2012 and June 30, 2011

NOTE 8 - Revenue bonds payable (continued)

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, 2012, the maximum annual debt requirement was \$26,671,069, and the coverage was 223 percent. For the year ended June 30, 2011, the maximum annual debt requirement was \$25,267,244, and the coverage was 230 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 \$24,417,813 at June 30, 2012, and \$20,770,921 at June 30, 2011.

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, 2012, there were no outstanding balances of refunded bonds. As of June 30, 2011, \$7,850,000 of the bonds refunded in 2006 was outstanding and the market value of the related escrow fund was \$7,905,680.

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 \$22,222,162 with annual requirements ranging from \$543,400 to \$1,985,750. For the current year, principal and interest paid was \$1,717,900, and the total revenues pledged were \$146,269,449. In the prior year, principal and interest paid was \$1,690,238, and the total revenues pledged were \$138,480,771. For fiscal year 2012, the total revenue pledged represents 100 percent of the net revenues of the System and 84 percent of net tuition revenue received, compared to 100 percent of the net revenues and 84 percent of net tuition revenue received during fiscal year 2011. 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, 2012, the maximum annual debt service was \$1,985,750, and the coverage was 7,366 percent. For the year ended June 30, 2011, the maximum annual debt requirement was \$1,985,750, and the coverage was 6,974 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 \$1,279,196 at June 30, 2012, and \$932,711 at June 30, 2011.

Southern Illinois University
Notes to Financial Statements
June 30, 2012 and June 30, 2011

NOTE 8 - Revenue bonds payable (continued)

As of June 30, 2012, future debt service requirements for all bonds outstanding are:

| <u>UNIVERSITY:</u> | <u>June 30, 2012</u> | | <u>Total</u> |
|--|-----------------------|-----------------------|-----------------------|
| | <u>Principal</u> | <u>Interest</u> | |
| 2013 | \$ 17,620,000 | \$ 10,793,569 | \$ 28,413,569 |
| 2014 | 17,580,000 | 10,374,156 | 27,954,156 |
| 2015 | 18,460,000 | 9,945,624 | 28,405,624 |
| 2016 | 18,905,000 | 9,449,936 | 28,354,936 |
| 2017 | 18,075,000 | 8,906,869 | 26,981,869 |
| 2018-22 | 92,245,000 | 36,351,644 | 128,596,644 |
| 2023-27 | 83,695,000 | 22,115,350 | 105,810,350 |
| 2028-32 | 52,960,000 | 9,057,735 | 62,017,735 |
| 2033-37 | 14,710,000 | 1,738,750 | 16,448,750 |
| Total payments | 334,250,000 | <u>\$ 118,733,633</u> | <u>\$ 452,983,633</u> |
| Unaccreted appreciation | (38,624,893) | | |
| Subtotal | 295,625,107 | | |
| Unamortized premiums on bonds | 5,408,750 | | |
| Unamortized deferred loss on refunding | (1,192,961) | | |
| Total bonds payable | <u>\$ 299,840,896</u> | | |

As of June 30, 2011, future debt service requirements for all bonds outstanding were:

| <u>UNIVERSITY:</u> | <u>June 30, 2011</u> | | <u>Total</u> |
|--|-----------------------|-----------------------|-----------------------|
| | <u>Principal</u> | <u>Interest</u> | |
| 2012 | \$ 16,520,000 | \$ 10,301,144 | \$ 26,821,144 |
| 2013 | 17,105,000 | 9,904,744 | 27,009,744 |
| 2014 | 17,065,000 | 9,478,281 | 26,543,281 |
| 2015 | 17,370,000 | 9,057,224 | 26,427,224 |
| 2016 | 17,770,000 | 8,605,136 | 26,375,136 |
| 2017-21 | 87,610,000 | 35,288,040 | 122,898,040 |
| 2022-26 | 76,805,000 | 21,825,766 | 98,630,766 |
| 2027-31 | 55,585,000 | 9,884,495 | 65,469,495 |
| 2032-36 | 18,405,000 | 2,659,000 | 21,064,000 |
| Total payments | 324,235,000 | <u>\$ 117,003,830</u> | <u>\$ 441,238,830</u> |
| Unaccreted appreciation | (42,956,222) | | |
| Subtotal | 281,278,778 | | |
| Unamortized premiums on bonds | 5,569,400 | | |
| Unamortized deferred loss on refunding | (1,360,451) | | |
| Total bonds payable | <u>\$ 285,487,727</u> | | |

Southern Illinois University
Notes to Financial Statements
June 30, 2012 and June 30, 2011

NOTE 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:

| <u>UNIVERSITY:</u> | <u>June 30, 2012</u> |
|---|----------------------|
| <u>Year Ending</u> | |
| 2013 | \$ 323,194 |
| 2014 | 233,106 |
| 2015 | 198,617 |
| 2016 | 198,617 |
| 2017 | 198,617 |
| 2018 | <u>198,617</u> |
| Total minimum lease payments | 1,350,768 |
| Less amount representing interest | <u>(94,217)</u> |
| Present value of net minimum lease payments | <u>\$ 1,256,551</u> |
| | |
| <u>Year Ending</u> | <u>June 30, 2011</u> |
| 2012 | 129,853 |
| 2013 | <u>90,088</u> |
| Total minimum lease payments | 219,941 |
| Less amount representing interest | <u>(10,316)</u> |
| Present value of net minimum lease payments | <u>\$ 209,625</u> |

Assets held under capital lease are:

| <u>UNIVERSITY:</u> | <u>June 30, 2012</u> | <u>June 30, 2011</u> |
|-------------------------------|----------------------|----------------------|
| Equipment | \$ 1,753,090 | \$ 387,019 |
| Less accumulated depreciation | <u>(308,960)</u> | <u>(79,964)</u> |
| Total net assets | <u>\$ 1,444,130</u> | <u>\$ 307,055</u> |

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 \$16,129,823 in 2012 and \$15,936,493 in 2011.

NOTE 10 - Certificates of participation payable

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 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

Southern Illinois University
Notes to Financial Statements
June 30, 2012 and June 30, 2011

NOTE 10 - Certificates of participation payable (continued)

2024. As of June 30, 2012 and 2011, these certificates were outstanding in the amount of \$17,390,900 and \$19,016,248, respectively.

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, 2012 and 2011, these certificates were outstanding in the amount of \$495,049 and \$970,485, respectively.

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

| UNIVERSITY: | | | |
|---|--------------------------------------|-----------------|---------------|
| June 30, 2012 | | | |
| | Certificates of Participation | | |
| | Principal | Interest | Total |
| 2013 | \$ 2,190,000 | \$ 812,540 | \$ 3,002,540 |
| 2014 | 1,760,000 | 733,850 | 2,493,850 |
| 2015 | 1,195,000 | 661,250 | 1,856,250 |
| 2016 | 1,070,000 | 610,463 | 1,680,463 |
| 2017 | 1,125,000 | 563,650 | 1,688,650 |
| 2018-22 | 6,410,000 | 2,000,000 | 8,410,000 |
| 2023-24 | 4,190,000 | 345,500 | 4,535,500 |
| Total payments | 17,940,000 | \$ 5,727,253 | \$ 23,667,253 |
| Unamortized premiums (discounts) on COPS | (54,051) | | |
| Total payable | \$ 17,885,949 | | |
| | | | |
| | Principal | Interest | Total |
| June 30, 2011 | | | |
| 2012 | \$ 2,105,000 | \$ 898,843 | \$ 3,003,843 |
| 2013 | 2,190,000 | 812,540 | 3,002,540 |
| 2014 | 1,760,000 | 733,850 | 2,493,850 |
| 2015 | 1,195,000 | 661,250 | 1,856,250 |
| 2016 | 1,070,000 | 610,463 | 1,680,463 |
| 2017-21 | 6,135,000 | 2,284,150 | 8,419,150 |
| 2022-24 | 5,590,000 | 625,000 | 6,215,000 |
| Total payments | 20,045,000 | \$ 6,626,096 | \$ 26,671,096 |
| Unamortized premiums (discounts) on COPS | (58,267) | | |
| Total payable | \$ 19,986,733 | | |

Southern Illinois University
Notes to Financial Statements
June 30, 2012 and June 30, 2011

NOTE 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 actuarial analysis for 2012 included a 2.3% discount rate for self-insurance liabilities.

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.

As of June 30, 2012 and 2011, the accrual for self-insurance was \$21,198,482 and \$16,981,334, respectively, for the general and professional liability fund and \$1,062,124 and \$1,448,650, respectively, for the Student Medical Insurance Plan, for a total accrued liability for self-insurance of \$22,260,606 and \$18,429,984. 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, 2012, and June 30, 2011, are reflected below:

| | <u>June 30, 2012</u> | | |
|---------------------------------------|----------------------|---------------------------------|---------------------|
| | <u>Total</u> | <u>General and Professional</u> | <u>Student Plan</u> |
| Accrued liability, June 30, 2011 | \$ 18,429,984 | \$ 16,981,334 | \$ 1,448,650 |
| Current year claims and other changes | 13,664,458 | 7,242,661 | 6,421,797 |
| Payment of Claims | (9,833,836) | (3,025,513) | (6,808,323) |
| Accrued liability, June 30, 2012 | <u>\$ 22,260,606</u> | <u>\$ 21,198,482</u> | <u>\$ 1,062,124</u> |

| | <u>June 30, 2011</u> | | |
|---------------------------------------|----------------------|---------------------------------|---------------------|
| | <u>Total</u> | <u>General and Professional</u> | <u>Student Plan</u> |
| Accrued liability, June 30, 2010 | \$ 18,829,390 | \$ 17,500,528 | \$ 1,328,862 |
| Current year claims and other changes | 11,347,694 | 3,166,866 | 8,180,828 |
| Payment of Claims | (11,747,100) | (3,686,060) | (8,061,040) |
| Accrued liability, June 30, 2011 | <u>\$ 18,429,984</u> | <u>\$ 16,981,334</u> | <u>\$ 1,448,650</u> |

Southern Illinois University
Notes to Financial Statements
June 30, 2012 and June 30, 2011

NOTE 12 - Net Assets

Net asset balances by major categories at June 30, 2012 and 2011:

| <u>UNIVERSITY:</u> | <u>June 30, 2012</u> | <u>June 30, 2011</u> |
|---|-----------------------|-----------------------|
| Invested in capital assets, net of related debt | \$ 495,051,877 | \$ 410,754,130 |
| Restricted for: | | |
| Nonexpendable | 2,662,160 | 2,976,342 |
| Expendable | | |
| Quasi-endowment | 228,634 | 243,320 |
| Scholarships, research, instruction and other | 11,043,436 | 13,104,549 |
| Loans | 5,164,326 | 5,060,503 |
| Self insurance | 9,066,898 | 8,138,679 |
| Capital projects | 77,818,081 | 69,276,593 |
| Debt service | 18,554,727 | 19,846,353 |
| Unrestricted | 105,015,751 | 98,992,956 |
| Total | <u>\$ 724,605,890</u> | <u>\$ 628,393,425</u> |
| <u>UNIVERSITY RELATED ORGANIZATIONS:</u> | | |
| Invested in capital assets, net of related debt | \$ 6,055,999 | \$ 5,603,399 |
| Restricted for: | | |
| Nonexpendable | 94,288,238 | 94,347,079 |
| Expendable | | |
| Scholarships, research, instruction and other | 58,445,237 | 62,795,595 |
| Loans | 2,455,203 | 554,931 |
| Capital projects | 7,370,176 | 11,259,837 |
| Unrestricted | 49,435,459 | 48,697,706 |
| Total | <u>\$ 218,050,312</u> | <u>\$ 223,258,547</u> |

NOTE 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 2012, realized losses on investments totaled \$34,191 and unrealized losses on investments totaled \$89,352, resulting in a balance of \$1,926,718 held by the Foundation at June 30, 2012. During fiscal year 2011, realized gains on investments were \$106,244 and unrealized gains on investments were \$216,491, resulting in a balance of \$2,050,261 at June 30, 2011. The Foundation distributes earnings to the University on a quarterly basis. Payments during fiscal years 2012 and 2011 totaled \$74,287 and \$74,947, respectively.

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

Southern Illinois University
Notes to Financial Statements
June 30, 2012 and June 30, 2011

NOTE 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 for fiscal year 2013 is 34.51% 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, 2012, 2011, and 2010 were \$102,861,965, \$81,241,705, and \$74,103,976, respectively, equal to the required contributions for the year. The fiscal year 2012 contribution consisted of \$99,293,239 from State appropriations and \$3,568,726 from other current funds, and the fiscal year 2011 contribution consisted of \$78,215,213 from State appropriations and \$3,026,492 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.

NOTE 15 - Post-employment benefits

In addition to providing the above pension benefits, the State provides health, dental, vision, and life insurance benefits for retirees and their dependents in a program administered by the Department of Healthcare and Family Services along with the Department of Central Management Services. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State sponsored plans. Health, dental, and vision benefits include basic benefits for annuitants and dependents under the State's self-insurance plan and insurance contracts currently in force. Annuitants may be required to contribute towards health, dental, and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants who retired prior to January 1, 1998, and who are vested in the State Universities Retirement System do not contribute towards health, dental, and vision benefits. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced five percent for each year of credited service with the State allowing those annuitants with twenty or more years of credited service to not have to contribute towards health, dental, and vision benefits. Annuitants also receive life insurance coverage equal to the annual salary of the last day of employment until age 60, at which time the benefit becomes \$5,000.

Southern Illinois University
Notes to Financial Statements
June 30, 2012 and June 30, 2011

NOTE 15 - Post-employment benefits (continued)

The State pays the University's portion of employer costs for the benefits provided. The total costs of the State's portion of health, dental, vision, and life insurance benefits of all members, including post-employment health, dental, vision, and life insurance benefits, is recognized as an expenditure by the State in the Illinois Comprehensive Annual Financial Report. The State finances the costs on a pay-as-you-go basis. The total costs incurred for health, dental, vision, and life insurance benefits are not separated by department or component unit for annuitants and their dependents nor active employees and their dependents.

A summary of post-employment benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the financial statements of the Department of Healthcare and Family Services. A copy of the financial statements of the Department of Healthcare and Family Services may be obtained by writing to the Department of Healthcare and Family Services, 201 South Grand Ave., Springfield, Illinois, 62763-3838.

NOTE 16 - University Related Organizations - transactions with related parties

The University has entered into master contracts with the University Related Organizations which specify the relationship between the University and its related organizations in accordance with the Legislative Audit Commission's University Guidelines of 1982 as amended in 1997. Significant transactions for the University during fiscal years 2012 and 2011 included the receipt of \$42,183,041 and \$38,300,063, respectively, from SIU Physicians & Surgeons, Inc. (SIU P&S) for services provided by the University. Also, SIU P&S contributions to the University for Academic Development for the School of Medicine during fiscal years 2012 and 2011 totaled \$8,872,118 and \$8,010,670, respectively.

Additional information concerning transactions with related parties may be obtained by contacting the entities listed in Note 1 on pages 16 and 17.

NOTE 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 and the administration of student financial aid. The costs, both direct and indirect, charged to these grants and contracts are subject to audit and disallowance by the granting agency. During fiscal year 2011, the U.S. Department of Education performed a program review at SIUE that will likely result in the return of Title IV funds by the University. The University recognized a \$1,476,000 liability in 2012; there exists an additional contingent liability of \$800,000. The University administration believes that any other disallowances or adjustment resulting from this review and any other reviews would not have a material effect on the University's financial position.

Legal action

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

**Southern Illinois University
Notes to Financial Statements
June 30, 2012 and June 30, 2011**

NOTE 17 - Commitments and contingencies (continued)

Forward contract

The University has forward fixed-price purchase contracts with MidAmerican Energy Company for the procurement of electricity that is used in the normal course of operations. The University does not employ futures contracts or other derivative products. At June 30, 2012 and 2011, the University's annual commitment related to this contract is approximately \$11,500,000.

Construction projects

The University has active construction projects as of June 30, 2012. These projects include the Student Services Building, Transportation Education Center, and Morris Library renovations at the Carbondale campus as well as the Science Building renovation at the Edwardsville campus. A total of \$143,988,202 has been spent on these projects through June 30, 2012. The University has \$76,160,767 committed to the completion of these projects.

NOTE 18 - Subsequent event

On November 8, 2012, the Board of Trustees of Southern Illinois University authorized the issuance of the Housing and Auxiliary Facilities System Revenue Bonds, Series 2012B in an amount not exceeding \$55,000,000 for the purpose of the demolition of the Carbondale Triads housing complex as well as updating the heating, ventilation, and air conditioning (HVAC) system at the Carbondale Student Recreation Center and refunding portions of the 2003A and 2004A bond issuances. On December 19, 2012, Southern Illinois University issued Housing and Auxiliary Facilities System Revenue Bonds, Series 2012B with a par value of \$44,700,000.

NOTE 19 - Segment information

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

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

Condensed financial statements for the University's two segments for fiscal year 2012, with comparative information for fiscal year 2011, are presented on the following pages.

**Southern Illinois University
Notes to Financial Statements
June 30, 2012 and June 30, 2011**

NOTE 19 - Segment information (continued)

| | <u>Housing and Auxiliary Facilities System</u> | |
|---|--|-------------------------------------|
| CONDENSED STATEMENTS OF NET ASSETS | June 30, 2012 | June 30, 2011 |
| Assets: | | |
| Current assets | \$ 90,239,625 | \$ 62,356,861 |
| Capital assets, net | 265,059,345 | 263,682,720 |
| Other assets | 6,334,154 | 12,741,551 |
| Total Assets | <u>361,633,124</u> | <u>338,781,132</u> |
| Liabilities: | | |
| Current liabilities | 26,781,999 | 28,080,023 |
| Noncurrent liabilities | 269,504,099 | 255,519,773 |
| Total Liabilities | <u>296,286,098</u> | <u>283,599,796</u> |
| Net Assets (Deficit) | | |
| Invested in capital assets, net of related debt | 5,866,275 | (4,889,449) |
| Restricted - expendable | 42,015,146 | 42,326,550 |
| Unrestricted | 17,465,605 | 17,744,235 |
| Total Net Assets | <u>\$ 65,347,026</u> | <u>\$ 55,181,336</u> |
| | | |
| CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS | Year ended June 30, 2012 | Year ended June 30, 2011 |
| Operating revenues | \$ 108,218,954 | \$ 104,553,077 |
| Operating expenses | (100,246,328) | (94,690,883) |
| Depreciation expense | (14,236,559) | (13,049,509) |
| Operating loss | <u>(6,263,933)</u> | <u>(3,187,315)</u> |
| Nonoperating revenues and expenses - net | 16,257,499 | 9,022,819 |
| Income before other revenues, expenses, gains or losses | 9,993,566 | 5,835,504 |
| Other revenues, expenses, gains or losses - net | <u>172,124</u> | <u>362,273</u> |
| Increase in net assets | 10,165,690 | 6,197,777 |
| Net assets at beginning of year | 55,181,336 | 48,983,559 |
| Net assets at end of year | <u>\$ 65,347,026</u> | <u>\$ 55,181,336</u> |
| | | |
| CONDENSED STATEMENTS OF CASH FLOWS | Year ended June 30, 2012 | Year ended June 30, 2011 |
| Cash provided by (used in): | | |
| Operating activities | \$ 23,280,428 | \$ 23,990,228 |
| Noncapital financing activities | 10,703,344 | 11,892,620 |
| Capital financing activities | (13,808,191) | (54,664,606) |
| Investing activities | (10,630,195) | 6,865,024 |
| Net increase (decrease) in cash | 9,545,386 | (11,916,734) |
| Cash, beginning of year | 50,527,511 | 62,444,245 |
| Cash, end of year | <u>\$ 60,072,897</u> | <u>\$ 50,527,511</u> |

Southern Illinois University
Notes to Financial Statements
June 30, 2012 and June 30, 2011

NOTE 19 - Segment information (continued)

| | <u>Medical Facilities System</u> | |
|---|-------------------------------------|-------------------------------------|
| | June 30, 2012 | June 30, 2011 |
| CONDENSED STATEMENTS OF NET ASSETS | | |
| Assets: | | |
| Current assets | \$ 9,323,658 | \$ 8,900,240 |
| Capital assets, net | 34,803,524 | 35,886,654 |
| Other assets | 206,713 | 222,926 |
| Total Assets | <u>44,333,895</u> | <u>45,009,820</u> |
| Liabilities: | | |
| Current liabilities | 2,882,214 | 2,171,340 |
| Noncurrent liabilities | 17,021,344 | 17,895,083 |
| Total Liabilities | <u>19,903,558</u> | <u>20,066,423</u> |
| Net Assets | | |
| Invested in capital assets, net of related debt | 18,768,556 | 18,971,097 |
| Restricted - expendable | 1,738,370 | 1,393,159 |
| Unrestricted | 3,923,411 | 4,579,141 |
| Total Net Assets | <u>\$ 24,430,337</u> | <u>\$ 24,943,397</u> |
| CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS | | |
| | Year ended June 30, 2012 | Year ended June 30, 2011 |
| Operating revenues | \$ 41,226,508 | \$ 39,196,236 |
| Operating expenses | (56,312,481) | (48,686,453) |
| Depreciation expense | (1,276,765) | (1,238,713) |
| Operating loss | <u>(16,362,738)</u> | <u>(10,728,930)</u> |
| Nonoperating revenues and expenses - net | 15,875,213 | 13,595,822 |
| Income (Loss) before other revenues, expenses, gains or losses | (487,525) | 2,866,892 |
| Other revenues, expenses, gains or losses - net | <u>(25,535)</u> | <u>476,921</u> |
| Increase (decrease) in net assets | (513,060) | 3,343,813 |
| Net assets at beginning of year | 24,943,397 | 21,599,584 |
| Net assets at end of year | <u>\$ 24,430,337</u> | <u>\$ 24,943,397</u> |
| CONDENSED STATEMENTS OF CASH FLOWS | | |
| | Year ended June 30, 2012 | Year ended June 30, 2011 |
| Cash provided by (used in): | | |
| Operating activities | \$ 2,080,320 | \$ 2,582,867 |
| Noncapital financing activities | 115,842 | 115,842 |
| Capital financing activities | (1,790,302) | (3,534,413) |
| Investing activities | (134,331) | 156,137 |
| Net increase (decrease) in cash | 271,529 | (679,567) |
| Cash, beginning of year | 3,540,411 | 4,219,978 |
| Cash, end of year | <u>\$ 3,811,940</u> | <u>\$ 3,540,411</u> |

Southern Illinois University
Notes to Financial Statements
June 30, 2012 and June 30, 2011

20. University Related Organizations

Condensed financial statements for the component units of the University as of June 30, 2012 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, 2012 | | | | | | | | |
| Assets: | | | | | | | | |
| Current assets | \$ 40,900,791 | \$ 3,619,429 | \$ 43,966,568 | \$ 438,694 | \$ 64,008 | \$ 232,810 | \$ 1,443,881 | \$ 90,666,181 |
| Other non-current assets | 105,892,106 | 26,545,317 | 2,054,635 | 6,598,595 | 121,200 | - | - | 141,211,853 |
| Capital assets | 560,036 | 2,103,193 | 828,150 | 221,519 | - | 219,508 | 2,123,593 | 6,055,999 |
| Total Assets | 147,352,933 | 32,267,939 | 46,849,353 | 7,258,808 | 185,208 | 452,318 | 3,567,474 | 237,934,033 |
| Liabilities: | | | | | | | | |
| Current liabilities | 715,472 | 386,560 | 10,000,125 | 366,854 | 275,422 | 58,810 | 63,206 | 11,866,449 |
| Noncurrent liabilities | 4,977,702 | 562,675 | - | 1,681,551 | - | - | 795,344 | 8,017,272 |
| Total Liabilities | 5,693,174 | 949,235 | 10,000,125 | 2,048,405 | 275,422 | 58,810 | 858,550 | 19,883,721 |
| Net Assets: | | | | | | | | |
| Invested in capital assets, net of related debt | 560,036 | 2,103,193 | 828,150 | 221,519 | - | 219,508 | 2,123,593 | 6,055,999 |
| Restricted - nonexpendable | 77,364,138 | 16,924,100 | - | - | - | - | - | 94,288,238 |
| Restricted - expendable | 56,884,684 | 11,385,932 | - | - | - | - | - | 68,270,616 |
| Unrestricted | 6,850,901 | 905,479 | 36,021,078 | 4,988,884 | (90,214) | 174,000 | 585,331 | 49,435,459 |
| Total Net Assets | \$ 141,659,759 | \$ 31,318,704 | \$ 36,849,228 | \$ 5,210,403 | \$ (90,214) | \$ 393,508 | \$ 2,708,924 | \$ 218,050,312 |

**CONDENSED STATEMENTS OF REVENUES,
EXPENSES AND CHANGES IN NET ASSETS**
Year ended June 30, 2012

| | | | | | | | | |
|--|----------------|---------------|---------------|--------------|-------------|------------|--------------|----------------|
| Operating revenues | \$ 5,421,265 | \$ 5,282,055 | \$ 96,132,182 | \$ 1,929,381 | \$ 399,495 | \$ 360,098 | \$ 526,725 | \$ 110,051,201 |
| Operating expenses | 14,892,482 | 9,998,839 | 95,348,080 | 1,996,990 | 421,908 | 389,458 | 514,776 | 123,562,533 |
| Operating income (loss) | (9,471,217) | (4,716,784) | 784,102 | (67,609) | (22,413) | (29,360) | 11,949 | (13,511,332) |
| Nonoperating revenues and expenses - net | 4,969,285 | (129,041) | 229,740 | 74,860 | (4,667) | 931 | 820,835 | 5,961,943 |
| Income (Loss) before other revenues | (4,501,932) | (4,845,825) | 1,013,842 | 7,251 | (27,080) | (28,429) | 832,784 | (7,549,389) |
| Other revenues | 1,589,976 | 751,178 | - | - | - | - | - | 2,341,154 |
| Increase (decrease) in net assets | (2,911,956) | (4,094,647) | 1,013,842 | 7,251 | (27,080) | (28,429) | 832,784 | (5,208,235) |
| Net assets at beginning of year | 144,571,715 | 35,413,351 | 35,835,386 | 5,203,152 | (63,134) | 421,937 | 1,876,140 | 223,258,547 |
| Net assets at end of year | \$ 141,659,759 | \$ 31,318,704 | \$ 36,849,228 | \$ 5,210,403 | \$ (90,214) | \$ 393,508 | \$ 2,708,924 | \$ 218,050,312 |

CONDENSED STATEMENTS OF CASH FLOWS
Year ended June 30, 2012

| | | | | | | | | |
|---------------------------------|----------------|----------------|---------------|--------------|-----------|-----------|--------------|----------------|
| Cash provided by (used in): | | | | | | | | |
| Operating activities | \$ (8,553,785) | \$ (4,862,010) | \$ 8,426,488 | \$ (401,305) | \$ 19,668 | \$ 19,777 | \$ (216,141) | \$ (5,567,308) |
| Noncapital financing activities | 6,440,919 | 751,178 | 47,167 | 15,876 | 476 | - | 160,994 | 7,416,610 |
| Capital financing activities | (103,342) | (5,671) | (106,794) | - | - | (67,906) | (600) | (284,313) |
| Investing activities | 1,451,673 | 925,153 | (724,292) | 337,176 | 15,025 | 931 | 8,192 | 2,013,858 |
| Net increase (decrease) in cash | (764,535) | (3,191,350) | 7,642,569 | (48,253) | 35,169 | (47,198) | (47,555) | 3,578,847 |
| Cash, beginning of year | 1,061,472 | 3,935,705 | 4,107,515 | 61,411 | 9,393 | 114,345 | 1,429,037 | 10,718,878 |
| Cash, end of year | \$ 296,937 | \$ 744,355 | \$ 11,750,084 | \$ 13,158 | \$ 44,562 | \$ 67,147 | \$ 1,381,482 | \$ 14,297,725 |

Southern Illinois University
Notes to Financial Statements
June 30, 2012 and June 30, 2011

20. University Related Organizations

Condensed financial statements for the component units of the University as of June 30, 2011 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, 2011 | | | | | | | | |
| Assets: | | | | | | | | |
| Current assets | \$ 31,445,742 | \$ 6,502,882 | \$ 43,339,889 | \$ 372,799 | \$ 22,426 | \$ 239,847 | \$ 1,458,256 | \$ 83,381,841 |
| Other non-current assets | 118,824,247 | 27,581,495 | 1,228,541 | 7,003,998 | 141,628 | - | - | 154,779,909 |
| Capital assets | 438,806 | 2,238,859 | 1,027,790 | 252,547 | - | 262,630 | 1,382,768 | 5,603,400 |
| Total Assets | 150,708,795 | 36,323,236 | 45,596,220 | 7,629,344 | 164,054 | 502,477 | 2,841,024 | 243,765,150 |
| Liabilities: | | | | | | | | |
| Current liabilities | 653,568 | 351,598 | 9,760,834 | 783,353 | 227,188 | 80,540 | 160,280 | 12,017,361 |
| Noncurrent liabilities | 5,483,512 | 558,287 | - | 1,642,839 | - | - | 804,604 | 8,489,242 |
| Total Liabilities | 6,137,080 | 909,885 | 9,760,834 | 2,426,192 | 227,188 | 80,540 | 964,884 | 20,506,603 |
| Net Assets: | | | | | | | | |
| Invested in capital assets, net of related debt | 438,806 | 2,238,858 | 1,027,790 | 252,547 | - | 262,630 | 1,382,768 | 5,603,399 |
| Restricted - nonexpendable | 78,080,232 | 16,266,847 | - | - | - | - | - | 94,347,079 |
| Restricted - expendable | 58,425,476 | 16,184,887 | - | - | - | - | - | 74,610,363 |
| Unrestricted | 7,627,201 | 722,759 | 34,807,596 | 4,950,605 | (63,134) | 159,307 | 493,372 | 48,697,706 |
| Total Net Assets | \$144,571,715 | \$35,413,351 | \$ 35,835,386 | \$5,203,152 | \$ (63,134) | \$ 421,937 | \$1,876,140 | \$223,258,547 |

**CONDENSED STATEMENTS OF REVENUES,
EXPENSES AND CHANGES IN NET ASSETS**
Year ended June 30, 2011

| | | | | | | | | |
|--|---------------|--------------|---------------|-------------|-------------|------------|-------------|---------------|
| Operating revenues | \$ 5,473,484 | \$ 4,861,126 | \$105,989,374 | \$2,077,218 | \$ 390,064 | \$ 337,396 | \$ 489,372 | \$119,618,034 |
| Operating expenses | 15,091,400 | 4,277,959 | 89,841,164 | 2,010,122 | 488,766 | 365,145 | 532,522 | 112,607,078 |
| Operating income (loss) | (9,617,916) | 583,167 | 16,148,210 | 67,096 | (98,702) | (27,749) | (43,150) | 7,010,956 |
| Nonoperating revenues and expenses - net | 34,421,123 | 3,251,817 | 148,121 | 1,058,215 | 39,193 | 121,506 | 14,576 | 39,054,551 |
| Income (Loss) before other revenues | 24,803,207 | 3,834,984 | 16,296,331 | 1,125,311 | (59,509) | 93,757 | (28,574) | 46,065,507 |
| Other revenues | 1,071,836 | 282,359 | - | - | - | - | - | 1,354,195 |
| Increase (decrease) in net assets | 25,875,043 | 4,117,343 | 16,296,331 | 1,125,311 | (59,509) | 93,757 | (28,574) | 47,419,702 |
| Net assets at beginning of year | 118,696,672 | 31,296,008 | 19,539,055 | 4,077,841 | (3,625) | 328,180 | 1,904,714 | 175,838,845 |
| Net assets at end of year | \$144,571,715 | \$35,413,351 | \$ 35,835,386 | \$5,203,152 | \$ (63,134) | \$ 421,937 | \$1,876,140 | \$223,258,547 |

CONDENSED STATEMENTS OF CASH FLOWS
Year ended June 30, 2011

| | | | | | | | | |
|---------------------------------|----------------|--------------|--------------|-----------|-------------|-------------|--------------|----------------|
| Cash provided by (used in): | | | | | | | | |
| Operating activities | \$ (8,830,583) | \$ 997,479 | \$ 1,709,503 | \$ 71,756 | \$ (95,056) | \$ (15,363) | \$ (122,441) | \$ (6,284,705) |
| Noncapital financing activities | 7,176,041 | 281,827 | (106,715) | 9,041 | 66 | - | 136,846 | 7,497,106 |
| Capital financing activities | (4,498) | (68,647) | (97,688) | - | - | 64,959 | - | (105,874) |
| Investing activities | 2,481,708 | 1,203,192 | (318,845) | (496,842) | 51,954 | 1,051 | 13,378 | 2,935,596 |
| Net increase (decrease) in cash | 822,668 | 2,413,851 | 1,186,255 | (416,045) | (43,036) | 50,647 | 27,783 | 4,042,123 |
| Cash, beginning of year | 238,804 | 1,521,854 | 2,921,260 | 477,456 | 52,429 | 63,698 | 1,401,254 | 6,676,755 |
| Cash, end of year | \$ 1,061,472 | \$ 3,935,705 | \$ 4,107,515 | \$ 61,411 | \$ 9,393 | \$ 114,345 | \$1,429,037 | \$ 10,718,878 |

State of Illinois

Southern Illinois University

Housing and Auxiliary Facilities System

Report of the Treasurer

For the Year Ended

June 30, 2012

**Southern Illinois University
Board of Trustees and
Officers of Administration
Fiscal Year 2012**

BOARD OF TRUSTEES OF SOUTHERN ILLINOIS UNIVERSITY

| | |
|--------------------------|------------------|
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| Ed Hightower, Vice Chair | Edwardsville |
| Mark Hinrichs, Secretary | Fairview Heights |
| Jesse Cler | Carbondale |
| Jeff Harrison | Edwardsville |
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Glenn Poshard, President
Jeffrey McLellan, General Counsel
Paul Sarvela, Vice President, Academic Affairs
Duane Stucky, Senior Vice President, Financial and Administrative Affairs, and Board Treasurer
Misty Whittington, Executive Secretary of the Board

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John A. Koropchak, Vice Chancellor for Research and Graduate Dean

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Narbeth Emmanuel, Vice Chancellor for Student Affairs
Patrick Hundley, Vice Chancellor for University Relations
Kenneth Neher, Vice Chancellor for Administration

Table of Contents

| | Page |
|---|-------|
| Treasurer's: | |
| Letter of Transmittal | 1 |
| Comments | 2-4 |
| Independent Auditors' Report | 6-7 |
| Basic Financial Statements | |
| Statement of Net Assets | 8 |
| Statement of Revenues, Expenses and Changes in Net Assets | 9 |
| Statement of Cash Flows | 10 |
| Notes to Financial Statements | 11-18 |
| Supplementary Information: | |
| Schedule of Bonds Payable Outstanding | 20-23 |

The University also issues an Annual Financial Report.



SOUTHERN ILLINOIS UNIVERSITY

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

September 28, 2012

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, 2012.

The Series 2012A bonds were issued in January 2012 in the amount of \$29,805,000. These bonds were sold to finance the construction of the new Student Services Building on the Carbondale campus and to finance the redemption of the Series 2001A bonds due April 1, 2013, April 1, 2014, and April 1, 2017. The Series 2012A Bonds incorporate the Student Services Building as a new unit within the revenue bond system.

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

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

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

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

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

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

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

The eighth phase expanded the System to include Wall and Grand Apartments on the Carbondale campus. The residence hall consists of approximately 169,000 gross square feet and is designed to provide apartment-style living quarters for 400 on-campus students. This phase also includes the installation of automatic sprinkler systems in Schneider Hall, Mae Smith Hall and Neely Hall on the Carbondale campus as well as modification of the HVAC systems and humidity controls in Prairie Hall, Bluff Hall and Woodland Hall on the Edwardsville campus. The funds for construction and improvements were provided through the issuance of bonds totaling \$40,390,000.

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

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

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

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

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

TREASURER'S COMMENTS – Continued

II. ENROLLMENTS AT SOUTHERN ILLINOIS UNIVERSITY

The University reports the following enrollments, by campus:

| | <u>Head Count*</u> | <u>Full-Time Equivalency**</u> |
|--------------------------------------|--------------------|------------------------------------|
| Carbondale Campus (semester basis) | | |
| Fall semester 2011 | 19,817 | 16,522 |
| Fall semester 2010 | 20,037 | 16,682 |
| Edwardsville Campus (semester basis) | | |
| Fall semester 2011 | 14,235 | 12,072 |
| Fall semester 2010 | 14,133 | 12,003 |

*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 which are based on the length of the housing contract, 12 months and 10 months, respectively.

| | <u>Range of Occupancy Charges for 2012</u> | <u>Occupancy Rates</u> | | | | |
|--------------------------------|--|------------------------|-------------|-------------|-------------|-------------|
| | | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> |
| Southern Hills Apartments (C) | | | | | | |
| 128 Apartments | \$5,988 - \$6,900 | 77.4% | 87.4% | 79.8% | 80.9% | 81.2% |
| Evergreen Terrace (C)* | | | | | | |
| 302 Apartments | \$7,056 - \$7,608 | 89.0% | 89.3% | 86.6% | -- -- | -- -- |
| Thompson Point (C) | | | | | | |
| 1,187 Persons | \$8,234 - \$11,810 | 94.2% | 90.4% | 94.1% | 93.9% | 95.5% |
| Towers (C) | | | | | | |
| 2,140 Persons | \$7,958 - \$11,374 | 93.1% | 92.1% | 93.1% | 92.6% | 91.5% |
| Triads (C) | | | | | | |
| 945 Persons | \$7,586 - \$10,786 | 24.7% | 25.9% | 34.2% | 34.6% | 36.8% |
| Greek Row (C)** | | -- -- | -- -- | -- -- | 54.1% | 66.2% |
| University Hall (C) | | | | | | |
| 359 Persons | \$7,958 - \$11,374 | 86.1% | 80.4% | 84.9% | 83.6% | 89.7% |
| Wall & Grand (C)*** | | | | | | |
| 396 Persons (Bldg I, II & III) | \$5,738 - \$6,964 | 95.0% | 89.6% | 95.2% | 94.2% | 78.9% |
| Cougar Village (E) | | | | | | |
| 496 Apartments | \$3,890 - \$12,600 | 95.7% | 95.3% | 95.5% | 93.9% | 92.7% |
| Woodland Hall (E) | | | | | | |
| 257 Rooms | \$8,020 - \$14,240 | 98.6% | 97.8% | 91.7% | 96.2% | 86.9% |
| Prairie Hall (E) | | | | | | |
| 260 Rooms | \$8,020 - \$14,240 | 98.6% | 98.2% | 95.5% | 95.6% | 90.6% |
| Bluff Hall (E) | | | | | | |
| 260 Rooms | \$8,020 - \$14,240 | 98.6% | 98.3% | 94.1% | 96.5% | 89.3% |
| Evergreen Hall (E)**** | | | | | | |
| 131 Apartments | \$5,440 - \$10,170 | 97.7% | 97.8% | 97.5% | 97.7% | 97.4% |

(C) Carbondale Campus, (E) Edwardsville Campus

*Evergreen Terrace became part of the System in July 2010.

**Individual leases were discontinued July 2010 due to lack of demand. Certain properties are still leased to national organizations of fraternities and sororities for housing (one building) and to the University for administrative and student service purposes (seven buildings).

***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, | |
|--|----------------------|----------------------|
| | 2012 | 2011 |
| Receipts: | | |
| Revenue Account: | | |
| Operating Receipts | \$ 109,920,549 | \$ 107,001,548 |
| Revenue Bond Fees | 1,825,646 | 1,916,577 |
| Retirement of Indebtedness – Investment Income | 102,559 | 122,156 |
| Total Receipts | 111,848,754 | 109,040,281 |
| Disbursements: | | |
| Operation and Maintenance Account | 79,019,276 | 76,306,959 |
| Net Revenues | 32,829,478 | 32,733,322 |
| Plus: Pledged Retained Tuition | 26,671,069 | 25,267,244 |
| Total Available for Debt Service | <u>\$ 59,500,547</u> | <u>\$ 58,000,566</u> |
| Maximum Annual Debt Service | <u>\$ 26,671,069</u> | <u>\$ 25,267,244</u> |
| Coverage Ratio Based on Net Revenues | 123% | 130% |
| Coverage Ratio as Defined in the Bond Resolution | 223% | 230% |

V. RETIREMENT OF INDEBTEDNESS

The net assets are restricted for the following purposes:

| | June 30, | |
|--|----------------------|----------------------|
| | 2012 | 2011 |
| Bond and Interest Sinking Fund Account | \$ 9,318,315 | \$ 9,303,188 |
| Debt Service Reserve Account | 8,250,001 | 9,066,125 |
| | <u>\$ 17,568,316</u> | <u>\$ 18,369,313</u> |

VI. RENEWALS AND REPLACEMENTS

The bond resolution requires the Treasurer to transfer annually to Renewals and Replacements from the funds remaining in unrestricted net 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 \$11,819,687 (\$9,855,182 in 2011) and investment income of \$183,282 in 2012 and \$219,924 in 2011. Expenditures charged to the reserve amounted to \$8,356,077 in 2012 and \$7,901,774 in 2011. The net assets of Renewals and Replacements consisted of the following:

| | June 30, | |
|-----------------------------|----------------------|----------------------|
| | 2012 | 2011 |
| Pooled Cash and Investments | \$ 25,902,146 | \$ 23,072,916 |
| Accrued Interest Receivable | 16,313 | 16,044 |
| Accounts Payable | (1,500,646) | (2,318,039) |
| | <u>\$ 24,417,813</u> | <u>\$ 20,770,921</u> |

VII. SCHEDULE OF BONDS PAYABLE OUTSTANDING

A Schedule of Bonds Payable Outstanding is shown as supplementary information and lists the amount of Housing and Auxiliary Facilities System Revenue Project and Refunding Bonds and Revenue Bonds Series 2012A, 2009A, 2008A, 2006A, 2004A, 2003A, 1999A, 1997A and 1993A issued and outstanding as of June 30, 2012.

VIII. RESTRICTED NET ASSETS – EXPENDABLE

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

| | 2012 | 2011 |
|----------------------------|----------------------|----------------------|
| Retirement of indebtedness | \$ 17,568,316 | \$ 18,369,313 |
| Renewals and replacements | 24,417,813 | 20,770,921 |
| Unexpended | 29,017 | 3,186,316 |
| | <u>\$ 42,015,146</u> | <u>\$ 42,326,550</u> |

FINANCIAL STATEMENTS



CliftonLarsonAllen

CliftonLarsonAllen LLP
cliftonlarsonallen.com

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 of the business-type activities of the Southern Illinois University Housing and Auxiliary Facilities System ("the System") as of and for the year ended June 30, 2012. 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 partial comparative information has been derived from the System's June 30, 2011 financial statements. The financial statements of the System as of and for the year ended June 30, 2011 were audited by other auditors whose report dated April 2, 2012 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.

As discussed in note 1A, the financial statements of the System are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the business-type activities of Southern Illinois University that is attributable to the transactions of the System. They do not purport to, and do not, present fairly the financial position of Southern Illinois University as of June 30, 2012, and its 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, 2012, and the respective 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 under separate cover dated March 25, 2013 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.

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

Our audit was conducted for the purpose of forming an opinion on the financial statements of the System taken as a whole. 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The Schedule of Bonds Payable Outstanding has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Bonds Payable Outstanding is fairly stated in all material respects in relation to the financial statements as a whole.

Our audit was conducted for the purpose of forming an opinion on the accompanying financial statements as a whole. The Treasurer's Comments on pages 2-4 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

In connection with our 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 2012A, Revenue Bonds Series 2009A, Revenue Bonds Series 2008A, Revenue Bonds Series 2006A, Revenue Bonds Series 2004A, Revenue Bonds Series 2003A, Revenue Bonds Series 1999A, Revenue Bonds Series 1997A, and Revenue Bonds Series 1993A adopted December 8, 2011, April 2, 2009, April 10, 2008, March 9, 2006, October 14, 2004, December 12, 2002, May 13, 1999, July 10, 1997, and May 13, 1993, respectively, insofar as they related to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

CliftonLarsonAllen LLP

Peoria, Illinois
March 25, 2013

SOUTHERN ILLINOIS UNIVERSITY
HOUSING AND AUXILIARY FACILITIES SYSTEM
STATEMENT OF NET ASSETS
June 30, 2012
(with comparative totals for 2011)

| | 2012 | 2011 |
|---|----------------------|----------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 19,400,124 | \$ 21,691,420 |
| Cash and cash equivalents, restricted | 40,672,773 | 28,836,091 |
| Short term investments, restricted | 23,468,786 | 5,549,956 |
| Accounts receivable, net | 5,062,434 | 4,536,833 |
| Accrued interest receivable | 106,687 | 70,436 |
| Merchandise for resale | 1,217,081 | 1,395,992 |
| Prepaid expenses and other assets | 311,740 | 276,133 |
| TOTAL CURRENT ASSETS | 90,239,625 | 62,356,861 |
| NONCURRENT ASSETS: | | |
| Long term investments, restricted | 2,521,762 | 9,202,316 |
| Prepaid expenses and other assets | 3,812,392 | 3,539,235 |
| Capital assets, net: | | |
| Land | 605,395 | 605,395 |
| Buildings | 237,478,119 | 244,936,651 |
| Improvements | 5,615,518 | 4,910,581 |
| Equipment | 8,686,764 | 10,299,611 |
| Construction in progress | 12,673,549 | 2,930,482 |
| TOTAL NONCURRENT ASSETS | 271,393,499 | 276,424,271 |
| TOTAL ASSETS | 361,633,124 | 338,781,132 |
| LIABILITIES | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | 3,086,977 | 5,238,352 |
| Accrued interest payable | 2,499,017 | 2,367,061 |
| Accrued payroll | 700,469 | 846,724 |
| Accrued compensated absences | 214,718 | 173,993 |
| Housing deposits | 133,110 | 140,670 |
| Deferred revenue | 3,604,875 | 3,823,764 |
| Revenue bonds payable | 16,542,833 | 15,489,459 |
| TOTAL CURRENT LIABILITIES | 26,781,999 | 28,080,023 |
| NONCURRENT LIABILITIES: | | |
| Accrued compensated absences | 2,078,314 | 2,265,132 |
| Housing deposits | 162,690 | 171,930 |
| Revenue bonds payable | 267,263,095 | 253,082,711 |
| TOTAL NONCURRENT LIABILITIES | 269,504,099 | 255,519,773 |
| TOTAL LIABILITIES | 296,286,098 | 283,599,796 |
| NET ASSETS (DEFICIT) | | |
| Invested in capital assets, net of related debt | 5,866,275 | (4,889,449) |
| Restricted for: | | |
| Expendable | | |
| Capital projects and debt service | 42,015,146 | 42,326,550 |
| Unrestricted | 17,465,605 | 17,744,235 |
| TOTAL NET ASSETS | \$ 65,347,026 | \$ 55,181,336 |

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, 2012
(with comparative totals for 2011)

| | 2012 | 2011 |
|--|----------------------|----------------------|
| REVENUES | | |
| OPERATING REVENUES: | | |
| Residence halls and apartments | \$ 58,400,515 | \$ 56,218,052 |
| University student centers | | |
| Sales and services | 15,692,120 | 15,075,224 |
| Student fees | 8,604,475 | 8,594,940 |
| Student recreation and fitness centers | | |
| Sales and services | 1,283,219 | 1,281,945 |
| Student fees | 6,473,713 | 6,454,149 |
| Child care center | 942,023 | 901,298 |
| Student health center | 9,314,390 | 9,592,852 |
| Student services building | 1,195,391 | - ---- |
| Traffic and parking | 2,752,766 | 2,681,734 |
| Student success center | 1,734,696 | 1,836,306 |
| Revenue bond fees | 1,825,646 | 1,916,577 |
| | 108,218,954 | 104,553,077 |
| EXPENSES | | |
| OPERATING EXPENSES: | | |
| Salaries and wages | 49,238,970 | 46,621,284 |
| Merchandise for resale | 10,868,876 | 9,876,746 |
| Utilities | 9,281,052 | 9,507,301 |
| Maintenance and repairs | 13,655,066 | 12,190,747 |
| Administrative | 10,756,928 | 10,638,856 |
| Other | 6,445,436 | 5,855,949 |
| Depreciation | 14,236,559 | 13,049,509 |
| | 114,482,887 | 107,740,392 |
| | (6,263,933) | (3,187,315) |
| NONOPERATING REVENUES (EXPENSES) | | |
| Investment income | 644,331 | 726,718 |
| Gifts and contributions | 1,003,094 | 1,003,644 |
| Payments on-behalf of the system | 16,222,341 | 14,371,521 |
| Interest on capital asset-related debt | (9,485,763) | (9,123,370) |
| Accretion on bonds payable | (4,331,329) | (4,475,452) |
| Other nonoperating revenue | 12,204,825 | 6,519,758 |
| | 16,257,499 | 9,022,819 |
| | 9,993,566 | 5,835,504 |
| OTHER REVENUES, EXPENSES, GAINS OR LOSSES | | |
| Capital assets retired | (174,242) | (116,240) |
| Capital grants and gifts | 2,648 | - ---- |
| Additions to plant facilities from other sources | 343,718 | 478,513 |
| | 172,124 | 362,273 |
| | 10,165,690 | 6,197,777 |
| NET ASSETS | | |
| Net assets at beginning of year | 55,181,336 | 48,983,559 |
| | \$ 65,347,026 | \$ 55,181,336 |

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, 2012
(with comparative totals for 2011)

| | 2012 | 2011 |
|--|----------------------|----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Residence halls and apartments | \$ 54,707,829 | \$ 53,198,499 |
| University student centers | | |
| Sales and services | 15,997,360 | 15,921,345 |
| Student fees | 8,541,278 | 8,533,986 |
| Student recreation and fitness centers | | |
| Sales and services | 1,268,686 | 1,274,818 |
| Student fees | 6,420,513 | 6,400,573 |
| Child care center | 949,141 | 900,113 |
| Student health center | 9,209,250 | 9,411,781 |
| Student services building | 1,323,667 | - |
| Traffic and parking | 2,718,176 | 2,669,089 |
| Student success center | 1,718,245 | 1,856,829 |
| Revenue bond fees | 1,825,646 | 1,916,577 |
| Payments to employees | (31,082,022) | (29,613,608) |
| Payments for utilities | (9,575,112) | (9,277,309) |
| Payments to suppliers | (40,742,229) | (39,202,465) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 23,280,428 | 23,990,228 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| Gifts for other than capital purposes | 3,117 | 3,619 |
| Other nonoperating revenue | 10,700,227 | 11,889,001 |
| NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES | 10,703,344 | 11,892,620 |
| CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES | | |
| Purchases of capital assets | (16,751,689) | (31,717,662) |
| Principal paid on capital debt | (18,905,000) | (15,295,000) |
| Interest paid on capital debt | (10,361,717) | (9,795,869) |
| Retained bond proceeds | 30,078,628 | - |
| Other | 2,131,587 | 2,143,925 |
| NET CASH USED IN CAPITAL FINANCING ACTIVITIES | (13,808,191) | (54,664,606) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from sales and maturities of investments | 16,968,487 | 40,363,402 |
| Investment income | 678,891 | 682,438 |
| Purchase of investments | (28,277,573) | (34,180,816) |
| NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES | (10,630,195) | 6,865,024 |
| NET INCREASE (DECREASE) IN CASH | 9,545,386 | (11,916,734) |
| CASH AND CASH EQUIVALENTS - BEGINNING OF THE YEAR | 50,527,511 | 62,444,245 |
| CASH AND CASH EQUIVALENTS - END OF THE YEAR | \$ 60,072,897 | \$ 50,527,511 |
| RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES | | |
| Operating loss | \$ (6,263,933) | \$ (3,187,315) |
| Adjustments to reconcile operating loss to net cash provided by operating activities: | | |
| Depreciation expense | 14,236,559 | 13,049,509 |
| Payments on-behalf of the system | 16,222,341 | 14,371,521 |
| Change in assets and liabilities: | | |
| Receivables, net | (152,824) | (453,489) |
| Merchandise for resale | 178,911 | (86,824) |
| Prepaid expenses and other assets | (28,164) | (1,185) |
| Accounts payable | (384,425) | (195,118) |
| Accrued payroll | (146,255) | 343,378 |
| Accrued compensated absences | (146,093) | 49,962 |
| Housing deposits | (16,800) | 25,050 |
| Deferred revenue | (218,889) | 74,739 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | \$ 23,280,428 | \$ 23,990,228 |
| NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES | | |
| Payments on-behalf of the system | \$ 16,222,341 | \$ 14,371,521 |
| Capital assets in accounts payable | 701,449 | 2,361,887 |
| Accretion on bonds payable | 4,331,329 | 4,475,452 |
| Net interest capitalized | 456,110 | 688,895 |
| Other capital asset adjustments | 47,199 | 346,165 |
| Loss on disposal of capital assets | 140,030 | 116,240 |

The accompanying notes are an integral part of this statement.

SOUTHERN ILLINOIS UNIVERSITY
HOUSING AND AUXILIARY FACILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

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 Carbondale child care center, the Carbondale student health center, the Carbondale student information system, the Carbondale softball field, the Carbondale football stadium, the Carbondale SIU Arena, the Carbondale Student Services Building, Edwardsville traffic and parking and the Edwardsville student success center into one operation. The Revenue Project Bonds of 2012A, 2009A, 2008A, 2006A, 2004A, 2003A, 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, 2012. The individual facilities included in the System are as follows:

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

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. The financial statements include prior year comparative information, which has been derived from the System's 2011 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, 2011.

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.

**SOUTHERN ILLINOIS UNIVERSITY
HOUSING AND AUXILIARY FACILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

(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 capitalization policy for capital assets is as follows: buildings with an acquisition cost of \$100,000 or greater, site or building improvements of \$25,000 or greater, and equipment items \$5,000 or greater.

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

(D) 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 reported at fair value. The investments, which consist of U.S. Treasury notes 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 \$5,296,374 at June 30, 2012.

(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 \$24,736 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, 2012 amounted to \$16,096,935 for group insurance, retirement and post-employment benefits, and \$125,406 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

**SOUTHERN ILLINOIS UNIVERSITY
HOUSING AND AUXILIARY FACILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

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. The System first applies restricted net assets when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

(L) 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.

2. Pooled Cash and Investments

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

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

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, 2012 due to the pooling of the University's cash and investments.

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

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

Interest rate risk: Interest rate risk is the risk that the market value of portfolio securities will fall or rise due to changes in general interest rates. Interest rate risk is mitigated by maintaining significant balances in cash equivalent and other short maturity investments and by establishing an asset allocation policy that is consistent with the expected cash flows of the University. The internally managed portfolio is managed in accordance with covenants provided from the University's debt issuance activities. The externally managed portfolio is typically allocated with a minimum of \$40 million held in cash equivalents and \$65 to \$115 million held in the intermediate-term portfolio. However, circumstances may occur that cause the allocations to temporarily fall outside the prescribed ranges.

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

**SOUTHERN ILLINOIS UNIVERSITY
HOUSING AND AUXILIARY FACILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

Interest rate risk is disclosed below using the segmented time distribution method. As of June 30, 2012, the System had the following cash and investment balances:

| Investment Type | Fair Value | Investment Maturities (in Years) | | | |
|-------------------------------------|----------------------|----------------------------------|---------------------|-------------|--------------|
| | | Less than 1 | 1-5 | 6-10 | More than 10 |
| U.S. Treasuries | \$ 15,952,908 | \$ 13,431,146 | \$ 2,521,762 | \$ - | \$ - |
| U.S. Agencies | 10,037,640 | 10,037,640 | - | - | - |
| Total Investments | 25,990,548 | \$ 23,468,786 | \$ 2,521,762 | \$ - | \$ - |
| Cash and Equivalents | | | | | |
| The Illinois Funds | 29,958,631 | | | | |
| Cash and Equivalents | 30,114,266 | | | | |
| Total Cash & Equivalents | 60,072,897 | | | | |
| Total Cash & Investments | \$ 86,063,445 | | | | |

3. Investments and Investment Income

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

The calculation of realized gains is independent of the calculation of the net increase in the fair value of investments. Realized gains and losses 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, 2012, is reflected below.

| | |
|--------------------------------|-------------------|
| Interest earnings | \$ 674,789 |
| Realized gain on investments | 4,415 |
| Unrealized loss on investments | (34,873) |
| | <u>\$ 644,331</u> |

4. Capital Assets

Capital asset activity for the year ended June 30, 2012 was as follows:

| | Beginning Balance | Additions | Deletions | Transfers | Ending Balance |
|---|-------------------|--------------|------------|-------------|----------------|
| Capital assets not being depreciated: | | | | | |
| Land | \$ 605,395 | \$ - | \$ - | \$ - | \$ 605,395 |
| Construction in progress | 2,930,482 | 14,950,005 | - | (5,206,938) | 12,673,549 |
| Total capital assets not being depreciated | 3,535,877 | 14,950,005 | - | (5,206,938) | 13,278,944 |
| Capital assets being depreciated: | | | | | |
| Buildings | 403,671,034 | 313,094 | 5,747,277 | 3,982,708 | 402,219,559 |
| Improvements | 11,007,895 | 184,090 | - | 1,076,592 | 12,268,577 |
| Equipment | 16,810,022 | 325,430 | 310,446 | 197,089 | 17,022,095 |
| Total capital assets being depreciated | 431,488,951 | 822,614 | 6,057,723 | 5,256,389 | 431,510,231 |
| Less accumulated depreciation for: | | | | | |
| Buildings | 158,734,383 | 11,754,334 | 5,747,277 | - | 164,741,440 |
| Improvements | 6,097,314 | 555,745 | - | - | 6,653,059 |
| Equipment | 6,510,411 | 1,926,481 | 151,012 | 49,451 | 8,335,331 |
| Total accumulated depreciation | 171,342,108 | 14,236,560 | 5,898,289 | 49,451 | 179,729,830 |
| Total capital assets being depreciated, net | 260,146,843 | (13,413,946) | 159,434 | 5,206,938 | 251,780,401 |
| Capital assets, net | \$ 263,682,720 | \$ 1,536,059 | \$ 159,434 | \$ - | \$ 265,059,345 |

**SOUTHERN ILLINOIS UNIVERSITY
HOUSING AND AUXILIARY FACILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

5. Noncurrent Liabilities

Noncurrent liability activity for the year ended June 30, 2012 was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Current Portion |
|-------------------------------------|-----------------------|----------------------|----------------------|-----------------------|----------------------|
| Revenue bonds payable | \$ 268,572,170 | \$ 34,136,329 | \$ 18,902,571 | \$ 283,805,928 | \$ 16,542,833 |
| Compensated absences | 2,439,125 | 4,400 | 150,493 | 2,293,032 | 214,718 |
| Housing deposits | 312,600 | 200,730 | 217,530 | 295,800 | 133,110 |
| Total noncurrent liabilities | \$ 271,323,895 | \$ 34,341,459 | \$ 19,270,594 | \$ 286,394,760 | \$ 16,890,661 |

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

6. Revenue Bonds Payable

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

(A) Series 2012A Bonds

These bonds were authorized by the Board under the Fourteenth Supplemental Bond Resolution dated December 8, 2011 and were issued as current interest bonds in the original amount of \$29,805,000. The bonds were sold on January 11, 2012 at a premium of \$273,628 with interest rates ranging from 2.05 to 4.38 percent. Proceeds will be used for the construction and equipping of a Student Services Building on the Carbondale Campus and refund a portion of the Series 2001A current interest bonds. Debt service reserve funds of \$1,592,622 were released and used to pay a portion of Series 2001A debt service. The current refunding, which was undertaken by the Board to effect a cost savings, resulted in a net decrease in debt service payments of \$1,939,053 of which \$1,592,622 represents application of the debt service reserve released funds. The financing resulted in an economic gain of \$233,957 and an accounting loss of \$9,103. As of June 30, 2012, these bonds were outstanding in the amount of \$30,063,896.

(B) Series 2009A Bonds

These bonds were authorized by the Board under the Thirteenth Supplemental Bond Resolution dated April 2, 2009 and were issued as taxable Build America Bonds in the original amount of \$53,735,000. The bonds were issued as current interest bonds on May 15, 2009 at a premium of \$226,028 with interest rates ranging from 2.50 to 6.20 percent. Proceeds will be used for the construction and equipping of a new football stadium on the Carbondale campus, including the relocation of certain tennis courts and playing fields from the project site and the renovation and equipping of the SIU Arena and the construction of a new addition thereto on the Carbondale Campus. As of June 30, 2012, these bonds were outstanding in the amount of \$49,852,352.

(C) Series 2008A Bonds

These bonds were authorized by the Board under the Twelfth Supplemental Bond Resolution dated April 10, 2008 and were issued as current interest bonds in the original amount of \$30,105,000. The bonds were sold on May 8, 2008 at a premium of \$1,359,732 with interest rates ranging from 3.00 to 5.50 percent and were issued to finance the construction and equipping of a Student Success Center on the Edwardsville campus; the construction and equipping of an expansion to the Student Fitness Center on the Edwardsville campus; and the installation of sprinklers and other safety/security enhancements to housing on the Carbondale campus. As of June 30, 2012, these bonds were outstanding in the amount of \$28,346,291.

(D) Series 2006A Bonds

These bonds were authorized by the Board under the Eleventh Supplemental Bond Resolution dated March 9, 2006, as amended and restated on May 2, 2006 and November 9, 2006, and were issued as current interest bonds in the original amount of \$69,715,000. The bonds were sold on May 24, 2006 at a premium of \$3,155,475 with interest rates ranging from 4.00 to 5.25 percent. The bonds were issued for the purpose of refunding a portion of the Series 1997A, 2000A and 2001A current interest bonds; financing the construction of a student residence hall with an adjoining parking lot for the Edwardsville campus; construction of an additional 350 space parking lot for the Edwardsville campus; funding various safety/security enhancements and other replacements to, and renovations of, the facilities of the System on the Carbondale campus; and purchasing and implementing a student information system for the Carbondale campus. As of June 30, 2012, these bonds were outstanding in the amount of \$59,046,702.

SOUTHERN ILLINOIS UNIVERSITY
HOUSING AND AUXILIARY FACILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

(E) 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, with interest rates ranging from 3.00 to 5.00 percent. 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, 2012, these bonds were outstanding in the amount of \$36,046,321.

(F) 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, with interest rates ranging from 1.15 to 4.85 percent. 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, 2012, these bonds were outstanding in the amount of \$6,710,000.

(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 with interest rates ranging from 4.10 to 5.55 percent. The capital appreciation bonds are non-interest bearing and will accrete the interest factor as additional bonds payable over the term of the bonds. These bonds were issued to finance the construction of a residence hall and renovations of the University Center food service facilities. All projects financed by the Series 1999A bonds are associated with the Edwardsville campus. As of June 30, 2012, after accreting the capital appreciation, these bonds were outstanding in the amount of \$38,508,412.

(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 with interest rates ranging from 4.20 to 5.50 percent. The capital appreciation bonds are non-interest bearing and will accrete the interest factor as additional bonds payable over the term of the bonds. These bonds were issued to finance the construction of 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, 2012, after accreting the capital appreciation, the remaining bonds were outstanding in the amount of \$15,175,811.

(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 with interest rates ranging from 6.05 to 6.20 percent. The capital appreciation bonds are non-interest bearing and will accrete the interest factor as additional bonds payable over the term of the bonds. These bonds were issued to finance the 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, 2012, after accreting the capital appreciation, the remaining capital appreciation bonds were outstanding in the amount of \$20,056,143.

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 \$430,761,471 with annual requirements ranging from \$2,604,000 to \$26,671,069. For the current year, principal and interest paid was \$28,608,233, and the total revenues pledged were \$59,500,547. Total revenue pledged represents 100 percent of the net revenues of the System and 16 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, 2012, the maximum annual debt service was \$26,671,069 and the coverage was 223 percent. The bond resolution also

**SOUTHERN ILLINOIS UNIVERSITY
HOUSING AND AUXILIARY FACILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

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 \$24,417,813 at June 30, 2012.

Revenue bond debt service requirements to maturity are as follows:

| Year Ending June 30, | Principal | Interest | Total |
|--|-----------------------|-----------------------|-----------------------|
| 2013 | 16,675,000 | 9,996,069 | 26,671,069 |
| 2014 | 16,565,000 | 9,623,906 | 26,188,906 |
| 2015 | 17,375,000 | 9,238,512 | 26,613,512 |
| 2016 | 17,750,000 | 8,788,936 | 26,538,936 |
| 2017 | 16,835,000 | 8,303,619 | 25,138,619 |
| 2018 – 2022 | 84,595,000 | 34,359,144 | 118,954,144 |
| 2023 – 2027 | 80,370,000 | 21,819,800 | 102,189,800 |
| 2028 – 2032 | 52,960,000 | 9,057,735 | 62,017,735 |
| 2033 – 2036 | 14,710,000 | 1,738,750 | 16,448,750 |
| Total Payments | <u>\$ 317,835,000</u> | <u>\$ 112,926,471</u> | <u>\$ 430,761,471</u> |
| Less Unaccreted Appreciation | <u>(38,624,893)</u> | | |
| Total Payable | 279,210,107 | | |
| Unamortized debt premium | 5,087,749 | | |
| Unamortized deferred loss on refunding | <u>(491,928)</u> | | |
| Total Bonds Payable | <u>\$ 283,805,928</u> | | |

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, seven 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 (\$246,425 in 2012) 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 2012 include \$343,718 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 34.51% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the Illinois General Assembly. The employer contributions of SURS for the University for the years ended June 30, 2012, 2011 and 2010 were \$102,861,965, \$81,241,705 and \$74,103,976, 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, dental and vision 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.

**SOUTHERN ILLINOIS UNIVERSITY
HOUSING AND AUXILIARY FACILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

Currently, the State does not segregate payments made to annuitants from those made to current employees for health, dental, vision and life insurance benefits. The cost of health, dental, vision 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, 2013:

| | Approximate Amount |
|---|---------------------------------|
| 1. Lexington Insurance Company, Policy No. 66095349: Policy providing \$100,000,000 all risk coverage on scheduled buildings and other property totaling \$3,038,286,476 with a \$500,000 per occurrence deductible. The University has established a self insurance reserve in amounts to cover the portion of estimated liability between \$25,000 and the \$500,000 per occurrence deductible. There is a shared captive retention layer of \$1,000,000 per occurrence and \$7,651,499 aggregate through the Midwestern Higher Education Compact (MHEC). | \$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 flood hazard area 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. 66095363: furnishes the secondary layer of \$400,000,000 excess of the Lexington's \$100,000,000 layer. | \$400,000,000 per occurrence |
| 3. Swiss Re, Policy No. 31-3-75048; One Beacon, Policy No. YSP5323; Hudson Specialty, Policy No. HCS100134; RSUI Indemnity, Policy No. NHD377676; Liberty Mutual Fire, Policy No. MQ2-L9L-438236-012; Maiden Specialty, Policy No. S1LPY218001S; Starr Specialty Lines, Policy Nos. 44732524-00, SLSTPTY10544712 and T0234451200376; and Arch Specialty, Policy No. PRP0050774-00: furnishes the third layer of coverage, which is \$500,000,000 excess of the \$500,000,000. | \$500,000,000 per occurrence |
| 4. Endurance American Specialty, Policy No. CPN10003691500; RSUI Indemnity, Policy No. NHD377617; and Aspen Specialty, Policy No. PXA8FG912: furnishes earthquake coverage in excess of coverage included in Lexington Policy No. 66095349 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. In the opinion of the University's legal counsel and its administrative officers, any ultimate liability which could result from such litigation would not have a material effect on the System's financial position.

11. Subsequent Event

On November 8, 2012, the Board of Trustees of Southern Illinois University authorized the issuance of the Housing and Auxiliary Facilities System Revenue Bonds, Series 2012B in an amount not exceeding \$55,000,000 for the purpose of the demolition of the Carbondale Triads housing complex as well as updating the heating, ventilation, and air conditioning (HVAC) system at the Carbondale Student Recreation Center and refunding portions of the 2003A and 2004A bond issuances. On December 19, 2012, Southern Illinois University issued Housing and Auxiliary Facilities System Revenue Bonds, Series 2012B with a par value of \$44,700,000.

SUPPLEMENTARY INFORMATION

SOUTHERN ILLINOIS UNIVERSITY
HOUSING AND AUXILIARY FACILITIES SYSTEM
SCHEDULE OF BONDS PAYABLE OUTSTANDING
June 30, 2012

| | TOTAL | REVENUE BONDS | | |
|---|-----------------------|----------------------|----------------------------|---------------|
| | | Principal Amount | Accreted Value at Maturity | Interest Rate |
| Interest Bearing Bonds: | | | | |
| Serial Bonds maturing as follows: | | | | |
| 2013 | 9,040,000 | - | - | - |
| 2014 | 8,665,000 | - | - | - |
| 2015 | 9,645,000 | - | - | - |
| 2016 | 10,185,000 | - | - | - |
| 2017 | 9,280,000 | - | - | - |
| 2018 | 10,295,000 | - | - | - |
| 2019 | 10,770,000 | - | - | - |
| 2020 | 11,260,000 | - | - | - |
| 2021 | 11,250,000 | - | - | - |
| 2022 | 9,370,000 | - | - | - |
| 2023 | 8,470,000 | - | - | - |
| 2024 | 7,675,000 | - | - | - |
| 2025 | 8,005,000 | - | - | - |
| 2026 | 3,345,000 | - | - | - |
| 2027 | 1,890,000 | - | - | - |
| 2028 | 1,970,000 | - | - | - |
| 2029 | 1,715,000 | - | - | - |
| 2030 | 1,785,000 | - | - | - |
| 2031 | 1,860,000 | - | - | - |
| 2032 | 1,940,000 | - | - | - |
| | | | | |
| Term Bonds maturing as follows: | | | | |
| 2013 | - | - | - | - |
| 2014 | - | - | - | - |
| 2015 | - | - | - | - |
| 2016 | - | - | - | - |
| 2017 | - | - | - | - |
| 2018 | - | - | - | - |
| 2019 | - | - | - | - |
| 2020 | - | - | - | - |
| 2021 | - | - | - | - |
| 2022 | - | - | - | - |
| 2023 | 1,315,000 | - | - | - |
| 2024 | 1,820,000 | - | - | - |
| 2025 | 1,910,000 | - | - | - |
| 2026 | 6,975,000 | - | - | - |
| 2027 | 8,865,000 | - | - | - |
| 2028 | 9,265,000 | - | - | - |
| 2029 | 7,955,000 | - | - | - |
| 2030 | 7,055,000 | - | - | - |
| 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 | 205,500,000 | | | |
| | | | | |
| Capital Appreciation Bonds | | | | |
| maturing as follows: | | | | |
| 2013 | 7,313,501 | 3,871,954 | 4,050,000 | 6.100% |
| 2014 | 7,142,825 | 3,646,069 | 4,050,000 | 6.100% |
| 2015 | 6,589,977 | 3,428,933 | 4,050,000 | 6.150% |
| 2016 | 6,079,597 | 3,227,340 | 4,050,000 | 6.150% |
| 2017 | 5,720,132 | 3,030,631 | 4,050,000 | 6.200% |
| 2018 | 5,900,018 | 2,851,216 | 4,050,000 | 6.200% |
| 2019 | 3,930,739 | - | - | - |
| 2020 | 3,792,570 | - | - | - |
| 2021 | 3,694,534 | - | - | - |
| 2022 | 3,524,940 | - | - | - |
| 2023 | 3,334,404 | - | - | - |
| 2024 | 3,153,660 | - | - | - |
| 2025 | 2,985,768 | - | - | - |
| 2026 | 2,823,036 | - | - | - |
| 2027 | 2,717,074 | - | - | - |
| 2028 | 2,572,224 | - | - | - |
| 2029 | 2,435,108 | - | - | - |
| Total Capital Appreciation Bonds | 73,710,107 | 20,056,143 | | |
| Total | \$ 279,210,107 | \$ 20,056,143 | | |

**Approximate yield to maturity.

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

SOUTHERN ILLINOIS UNIVERSITY
HOUSING AND AUXILIARY FACILITIES SYSTEM
SCHEDULE OF BONDS PAYABLE OUTSTANDING
June 30, 2012

| | REVENUE BONDS SERIES 2004A | | REVENUE BONDS SERIES 2006A | |
|---|-------------------------------|------------------|-------------------------------|------------------|
| | Principal Amount | Interest Rate | Principal Amount | Interest Rate |
| Interest Bearing Bonds: | | | | |
| Serial Bonds maturing as follows: | | | | |
| 2013 | 980,000 | 4.000% | 3,140,000 | 5.000% |
| 2014 | 1,020,000 | 5.000% | 2,550,000 | 5.000% |
| 2015 | 1,075,000 | 5.000% | 3,780,000 | 5.000% |
| 2016 | 1,130,000 | 5.000% | 3,975,000 | 5.000% |
| 2017 | 1,180,000 | 5.000% | 2,100,000 | 5.250% |
| 2018 | 1,240,000 | 5.000% | 3,495,000 | 5.250% |
| 2019 | 1,305,000 | 4.000% | 3,640,000 | 5.250% |
| 2020 | 1,355,000 | 4.125% | 3,835,000 | 5.250% |
| 2021 | 1,415,000 | 5.000% | 3,465,000 | 5.250% |
| 2022 | 1,480,000 | 5.000% | 1,255,000 | 5.000% |
| 2023 | 1,560,000 | 5.000% | - | - |
| 2024 | 1,630,000 | 5.000% | - | - |
| 2025 | 1,715,000 | 5.000% | - | - |
| 2026 | - | - | - | - |
| 2027 | - | - | - | - |
| 2028 | - | - | - | - |
| 2029 | - | - | - | - |
| 2030 | - | - | - | - |
| 2031 | - | - | - | - |
| 2032 | - | - | - | - |
| Term Bonds maturing as follows: | | | | |
| 2013 | - | - | - | - |
| 2014 | - | - | - | - |
| 2015 | - | - | - | - |
| 2016 | - | - | - | - |
| 2017 | - | - | - | - |
| 2018 | - | - | - | - |
| 2019 | - | - | - | - |
| 2020 | - | - | - | - |
| 2021 | - | - | - | - |
| 2022 | - | - | - | - |
| 2023 | - | - | 1,315,000 | 5.000% |
| 2024 | - | - | 1,380,000 | 5.000% |
| 2025 | - | - | 1,450,000 | 5.000% |
| 2026 | 1,805,000 | 4.800% | 1,525,000 | 5.000% |
| 2027 | 1,885,000 | 4.800% | 1,600,000 | 5.000% |
| 2028 | 1,980,000 | 4.800% | 1,680,000 | 5.000% |
| 2029 | 2,075,000 | 5.000% | 1,765,000 | 5.000% |
| 2030 | 1,500,000 | 5.000% | 1,850,000 | 5.000% |
| 2031 | 1,575,000 | 5.000% | 1,945,000 | 5.000% |
| 2032 | 1,655,000 | 5.000% | 2,040,000 | 5.000% |
| 2033 | 1,735,000 | 5.000% | 2,145,000 | 5.000% |
| 2034 | 1,825,000 | 5.000% | 2,250,000 | 5.000% |
| 2035 | 1,915,000 | 5.000% | 2,360,000 | 5.000% |
| 2036 | - | - | 2,480,000 | 5.000% |
| Total Interest Bearing Bonds | 35,035,000 | | 57,020,000 | |
| Capital Appreciation Bonds maturing as follows: | | | | |
| 2013 | - | - | - | - |
| 2014 | - | - | - | - |
| 2015 | - | - | - | - |
| 2016 | - | - | - | - |
| 2017 | - | - | - | - |
| 2018 | - | - | - | - |
| 2019 | - | - | - | - |
| 2020 | - | - | - | - |
| 2021 | - | - | - | - |
| 2022 | - | - | - | - |
| 2023 | - | - | - | - |
| 2024 | - | - | - | - |
| 2025 | - | - | - | - |
| 2026 | - | - | - | - |
| 2027 | - | - | - | - |
| 2028 | - | - | - | - |
| 2029 | - | - | - | - |
| Total Capital Appreciation Bonds | - | | - | |
| Total | \$ 35,035,000 | | \$ 57,020,000 | |

State of Illinois
Southern Illinois University
Medical Facilities System

Report of the Treasurer
For the Year Ended
June 30, 2012

Board of Trustees and Officers of Administration

BOARD OF TRUSTEES OF SOUTHERN ILLINOIS UNIVERSITY

John Simmons, Chair
Ed Hightower, Vice Chair
Mark Hinrichs, Secretary
Jesse Cler
Jeff Harrison
Roger Herrin
Dan Lowery
Donna Manering
Marquita Wiley

Alton
Edwardsville
Fairview Heights
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Edwardsville
Harrisburg
Golconda
Makanda
Belleville

OFFICERS OF SOUTHERN ILLINOIS UNIVERSITY

Glenn Poshard, President
Misty Whittington, Executive Secretary of the Board
Jeffrey McLellan, General Counsel
Paul Sarvela, Vice-President, Academic Affairs
Duane Stucky, Senior Vice-President, Financial and Administrative Affairs and Board Treasurer

OFFICERS OF ADMINISTRATION, SOUTHERN ILLINOIS UNIVERSITY CARBONDALE

Rita Cheng, Chancellor
J. Kevin Dorsey, Dean and Provost, School of Medicine
Pamela Speer, Associate Provost for Finance and Administration, School of Medicine
Connie Hess, Assistant Provost, Financial Affairs, School of Medicine

TABLE OF CONTENTS

| | <u>Page</u> |
|--|-------------|
| Treasurer's: | |
| Letter of Transmittal | 1 |
| Comments | 2-4 |
| Independent Auditors' Report | 6-7 |
| Basic Financial Statements: | |
| Statement of Net Assets | 9 |
| Statement of Revenues, Expenses and Changes in Net Assets | 10 |
| Statement of Cash Flows | 11 |
| Notes to Financial Statements | 12-18 |
| Supplementary Information: | |
| Schedule of Bonds Payable Outstanding | 21 |

The University also issues an Annual Financial Report



SOUTHERN ILLINOIS UNIVERSITY

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

September 28, 2012

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, 2012.

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

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

On June 30, 2012, the School of Medicine Medical Facilities System owned or occupied seventeen locations where clinics and/or clinical faculty and/or clinical administration were housed. Owned by the University are the Richard H. Moy, M.D. Building, 401 N. Walnut, and the Simmons Cancer Institute. The fourteen remaining locations are leased by the University using revenues generated by the clinical practice of medicine. Ten of the leased facilities are in Springfield, Illinois and the remaining four are located elsewhere in Illinois.

ADVANCED REFUNDING

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

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

TREASURER'S COMMENTS – Continued

II. ENROLLMENTS AT SOUTHERN ILLINOIS UNIVERSITY

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

| | <u>Head Count</u> |
|--------------------|-------------------|
| Fall semester 2012 | 298 |
| Fall semester 2011 | 298 |

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:

| | <u>Year Ended June 30</u> | |
|---|---------------------------|----------------------|
| | <u>2012</u> | <u>2011</u> |
| Receipts: | | |
| Revenue Account: | | |
| Operations | \$ 41,150,978 | \$ 37,049,646 |
| Investment Income | 6,512 | 9,475 |
| Retirement of Indebtedness – Investment Income | 198 | 1,903 |
| | <u>41,157,688</u> | <u>37,061,024</u> |
| Disbursements: | | |
| Operation & Maintenance Account | <u>39,070,659</u> | <u>34,452,996</u> |
| Net Revenues | 2,087,029 | 2,608,028 |
| Plus: Pledged Tuition | 144,182,420 | 135,872,743 |
| Total Available for Debt Service | <u>\$146,269,449</u> | <u>\$138,480,771</u> |
| Annual Debt Service | <u>\$ 1,717,900</u> | <u>\$ 1,690,238</u> |
| Maximum Annual Debt Service | <u>\$ 1,985,750</u> | <u>\$ 1,985,750</u> |
| Coverage Ratio Based on Net Revenues | 1.21 | 1.54 |
| Coverage Ratio Based on Annual Debt Service | 85.14 | 81.93 |
| Coverage Ratio Based on Maximum Annual Debt Service | 73.66 | 69.74 |

IV. RETIREMENT OF INDEBTEDNESS

The net assets are restricted for the following purposes:

| | <u>June 30</u> | |
|--|----------------|-------------|
| | <u>2012</u> | <u>2011</u> |
| Bond and Interest Sinking Fund Account | \$459,174 | \$ 460,448 |

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

TREASURER'S COMMENTS – Continued

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 2011), interest earned on investments of \$8,938 in 2012 (and interest of \$9,149 in 2011) and other nonoperating revenue of \$138,972 (\$4,883 in 2011).

There were no expenditures charged to the reserve (\$6,463 in 2011). The restricted net assets of Renewals and Replacements consisted of the following:

| | June 30 | |
|-----------------------------|---------------------|-------------------|
| | 2012 | 2011 |
| Cash | \$ 1,278,381 | \$ 924,216 |
| Accounts Receivable | 815 | 699 |
| Accrued Interest Receivable | - | 14,259 |
| Notes Receivable | - | 146,768 |
| Deferred Revenue | - | (153,231) |
| | <u>\$ 1,279,196</u> | <u>\$ 932,711</u> |

VI. SCHEDULE OF BONDS PAYABLE OUTSTANDING

A Schedule of Bonds Payable Outstanding is shown as supplementary information and lists the amount of Medical Facilities System Revenue Bonds, Series 2005 issued and outstanding as of June 30, 2012.

VII. RESTRICTED NET ASSETS - EXPENDABLE

Restricted net assets as of June 30, 2012 and 2011 are comprised of the following:

| | June 30 | |
|----------------------------|---------------------|---------------------|
| | 2012 | 2011 |
| Retirement of indebtedness | \$ 459,174 | \$ 460,448 |
| Renewals and replacements | 1,279,196 | 932,711 |
| Unexpended | - | - |
| | <u>\$ 1,738,370</u> | <u>\$ 1,393,159</u> |

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

FINANCIAL STATEMENTS

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 of the business-type activities of the Southern Illinois University Medical Facilities System ("the System") as of and for the year ended June 30, 2012. 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 partial comparative information has been derived from the System's June 30, 2011 financial statements. The financial statements of the System as of and for the year ended June 30, 2011 were audited by other auditors whose report dated April 2, 2012 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.

As discussed in note 1A, the financial statements of the System are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the business-type activities of Southern Illinois University that is attributable to the transactions of the System. They do not purport to, and do not, present fairly the financial position of Southern Illinois University as of June 30, 2012, and its 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 Southern Illinois University Medical Facilities System as of June 30, 2012, and the respective 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 under separate cover dated March 25, 2013 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.

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

Our audit was conducted for the purpose of forming an opinion on the financial statements of the System taken as a whole. 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The Schedule of Bonds Payable Outstanding has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Bonds Payable Outstanding is fairly stated in all material respects in relation to the financial statements as a whole.

Our audit was conducted for the purpose of forming an opinion on the accompanying financial statements as a whole. The Treasurer's Comments on pages 2-4 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

In connection with our 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.

CliftonLarsonAllen LLP

Peoria, Illinois
March 25, 2013

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SOUTHERN ILLINOIS UNIVERSITY
MEDICAL FACILITIES SYSTEM
STATEMENT OF NET ASSETS
June 30, 2012
(with comparative totals for 2011)

| | 2012 | 2011 |
|---|----------------------|----------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents (Note 2) | \$ 2,533,315 | \$ 2,472,032 |
| Cash and cash equivalents, restricted (Note 2) | 1,278,625 | 1,068,379 |
| Short term investments, restricted (Note 2) | 433,608 | 284,665 |
| Accounts receivable | 4,972,643 | 4,897,218 |
| Accrued interest receivable | 1,771 | 14,965 |
| Notes receivable, net (Note 4) | - | 146,768 |
| Prepaid expenses and other assets | 103,696 | 16,213 |
| TOTAL CURRENT ASSETS | 9,323,658 | 8,900,240 |
| NONCURRENT ASSETS: | | |
| Prepaid expenses and other assets | 206,713 | 222,926 |
| Capital assets not being depreciated: (Note 5) | | |
| Land | 2,565,115 | 2,594,757 |
| Construction in progress | 1,809,548 | 1,764,672 |
| Total capital assets not being depreciated | 4,374,663 | 4,359,429 |
| Capital assets being depreciated, net: (Note 5) | | |
| Equipment | 4,214,179 | 4,147,537 |
| Buildings | 36,369,587 | 36,920,021 |
| Less accumulated depreciation | (10,154,905) | (9,540,333) |
| Total capital assets being depreciated, net | 30,428,861 | 31,527,225 |
| TOTAL NONCURRENT ASSETS | 35,010,237 | 36,109,580 |
| TOTAL ASSETS | 44,333,895 | 45,009,820 |
| LIABILITIES | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | 948,987 | 425,207 |
| Accrued interest payable | 199,375 | 208,225 |
| Accrued payroll | 554,360 | 344,556 |
| Accrued compensated absences (Note 6) | 242,707 | 159,532 |
| Deferred revenue (Note 6) | - | 153,231 |
| Revenue bonds payable (Notes 6 and 7) | 936,785 | 880,589 |
| TOTAL CURRENT LIABILITIES | 2,882,214 | 2,171,340 |
| NONCURRENT LIABILITIES: | | |
| Accrued compensated absences (Note 6) | 1,923,161 | 1,860,115 |
| Revenue bonds payable (Notes 6 and 7) | 15,098,183 | 16,034,968 |
| TOTAL NONCURRENT LIABILITIES | 17,021,344 | 17,895,083 |
| TOTAL LIABILITIES | 19,903,558 | 20,066,423 |
| NET ASSETS | | |
| Invested in capital assets, net of related debt | 18,768,556 | 18,971,097 |
| Restricted for: | | |
| Expendable | | |
| Capital projects and debt service | 1,738,370 | 1,393,159 |
| Unrestricted | 3,923,411 | 4,579,141 |
| TOTAL NET ASSETS | \$ 24,430,337 | \$ 24,943,397 |

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, 2012
(with comparative totals for 2011)

| | 2012 | 2011 |
|---|---------------|---------------|
| REVENUES | | |
| OPERATING REVENUES | | |
| Medical Facilities System | \$ 41,226,508 | \$ 39,196,236 |
| TOTAL OPERATING REVENUES | 41,226,508 | 39,196,236 |
| EXPENSES | | |
| OPERATING EXPENSES | | |
| Salaries and wages | 40,068,563 | 35,894,581 |
| Contractual services | 13,605,858 | 10,468,338 |
| Other | 2,638,060 | 2,323,534 |
| Depreciation (Note 5) | 1,276,765 | 1,238,713 |
| TOTAL OPERATING EXPENSES | 57,589,246 | 49,925,166 |
| OPERATING LOSS | (16,362,738) | (10,728,930) |
| NONOPERATING REVENUES (EXPENSES) | | |
| Investment income (Note 3) | 15,573 | 18,853 |
| Gifts and contributions | 115,842 | 115,842 |
| Interest on capital asset-related debt | (844,674) | (875,736) |
| Payments on behalf of the system (Notes 11 and 9) | 16,449,500 | 14,331,980 |
| Other nonoperating revenue | 138,972 | 4,883 |
| NET NONOPERATING REVENUES | 15,875,213 | 13,595,822 |
| INCOME (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES | (487,525) | 2,866,892 |
| OTHER REVENUES, EXPENSES, GAINS OR LOSSES | | |
| Capital assets retired (Note 5) | (362,115) | (2,619) |
| Additions to plant facilities from other sources (Note 8) | 336,580 | 479,540 |
| TOTAL OTHER REVENUES, EXPENSES, GAINS OR LOSSES | (25,535) | 476,921 |
| INCREASE (DECREASE) IN NET ASSETS | (513,060) | 3,343,813 |
| NET ASSETS | | |
| Net assets at beginning of year | 24,943,397 | 21,599,584 |
| NET ASSETS AT END OF YEAR | \$ 24,430,337 | \$ 24,943,397 |

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, 2012 (with comparative totals for 2011)

| | 2012 | 2011 |
|--|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Medical Facilities System | \$ 41,150,978 | \$ 37,049,646 |
| Payments to employees | (23,265,811) | (21,825,722) |
| Payments for utilities | (411,578) | (425,457) |
| Payments to suppliers | (15,393,269) | (12,215,600) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 2,080,320 | 2,582,867 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| Contributions for other than capital purposes | 115,842 | 115,842 |
| NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES | 115,842 | 115,842 |
| CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES | | |
| Proceeds from sale of capital assets | 146,768 | - |
| Purchases of capital assets | (219,170) | (1,844,175) |
| Principal paid on capital debt | (885,000) | (825,000) |
| Interest paid on capital debt | (832,900) | (865,238) |
| NET CASH USED BY CAPITAL FINANCING ACTIVITIES | (1,790,302) | (3,534,413) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from sales and maturities of investments | 871,187 | 1,672,206 |
| Investment income | 15,531 | 20,383 |
| Purchase of investments | (1,021,049) | (1,536,452) |
| NET CASH PROVIDED BY (USED BY) INVESTING ACTIVITIES | (134,331) | 156,137 |
| NET INCREASE/(DECREASE) IN CASH | 271,529 | (679,567) |
| CASH AND CASH EQUIVALENTS - BEGINNING OF THE YEAR | 3,540,411 | 4,219,978 |
| CASH AND CASH EQUIVALENTS - END OF THE YEAR | \$ 3,811,940 | \$ 3,540,411 |
| RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES: | | |
| Operating loss | \$ (16,362,738) | \$ (10,728,930) |
| Adjustments to reconcile operating loss to net cash provided by operating activities | | |
| Depreciation expense | 1,276,765 | 1,238,713 |
| Payments on behalf of the system | 16,449,500 | 14,331,980 |
| Changes in assets and liabilities: | | |
| Receivables, net | (75,529) | (2,140,126) |
| Prepaid expense | (87,483) | - |
| Accounts payable | 523,780 | 143,486 |
| Accrued payroll | 209,804 | 52,806 |
| Accrued compensated absences | 146,221 | (315,062) |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | \$ 2,080,320 | \$ 2,582,867 |
| NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES | | |
| On behalf payments for fringe benefits | \$ 16,449,500 | \$ 14,331,980 |
| Capital asset acquisitions from other sources | 336,580 | 479,540 |
| Loss on disposal of capital assets | 362,115 | 2,619 |

The accompanying notes are an integral part of this statement.

**SOUTHERN ILLINOIS UNIVERSITY
MEDICAL FACILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

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 Southern Illinois University Medical Facilities System (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.

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.

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. The financial statements include prior year comparative information, which has been derived from the System's 2011 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, 2011.

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 not to apply FASB pronouncements issued after the applicable date.

(B) Compensated Absences

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

(C) Buildings, Improvements and Equipment

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

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

(D) Revenues and Expenses

The System has classified its revenues and expenses as either operating or nonoperating. Operating revenues and expenses include 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*

**SOUTHERN ILLINOIS UNIVERSITY
MEDICAL FACILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

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

(G) Allowance for Uncollectibles

The System does not report an allowance for uncollectibles. As the accounts receivable amount represents actual collections as of June 30 that have not yet been transferred from the SIU HealthCare 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, 2012, amounted to \$16,449,500.

(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

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

The three basic objectives of the University's Investment policy are safety of invested funds; maintenance of sufficient liquidity to meet cash flow needs; and attainment of the maximum investment returns possible consistent with the first two objectives. The University insures the safety of its invested funds by limiting credit and

**SOUTHERN ILLINOIS UNIVERSITY
MEDICAL FACILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

interest rate risks. The University's portfolio is structured to ensure that cash is available to meet anticipated demands. Additionally, since all possible cash demands cannot be anticipated, the portfolio consists largely of securities with active secondary or resale markets. The investment returns on the University's portfolio is a priority after the safety and liquidity objectives have been met. Investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed.

The University has pooled certain cash and investments for the purpose of securing a greater return on investment and providing a more equitable distribution of investment return. Pooled investments 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, 2012, 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.

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 equivalents and other short maturity investments and by establishing an asset allocation policy that is consistent with the expected cash flows of the University. The internally managed portfolio is managed in accordance with covenants provided from the University's debt issuance activities. The externally managed portfolio is typically allocated with a minimum of \$40 million held in cash equivalents and \$65 to \$105 million held in the intermediate-term portfolio. However, circumstances may occur that cause the allocations to temporarily fall outside the prescribed ranges.

Interest rate risk is disclosed below using the segmented time distribution method. As of June 30, 2012, the System had the following cash and investment balances:

| Investment Type | Fair Value | Investment Maturities (in Years) | | | |
|-------------------------------------|---------------------|----------------------------------|------|------|--------------|
| | | Less Than 1 | 1-5 | 6-10 | More than 10 |
| U.S. Treasuries | \$ 433,608 | \$ 433,608 | \$ - | \$ - | \$ - |
| Total Investments | 433,608 | \$ 433,608 | \$ - | \$ - | \$ - |
| Cash and Equivalents | | | | | |
| The Illinois Funds | 3,811,940 | | | | |
| Total Cash & Equivalents | 3,811,940 | | | | |
| Total Cash & Investments | \$ 4,245,548 | | | | |

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 (market) value and that unrealized gains and losses be recorded in income. The fair value is determined to be the amount at which financial instruments could be exchanged in a current transaction between willing parties. The investment with the Public Treasurer's Investment Pool (The Illinois Funds) is at fair value, which is the same value as the pool shares. State statutes require the Illinois Funds to comply with the *Illinois Public Funds Investment Act* (30 ILCS 235). Also, certain money market investments, having a remaining maturity of one year or less at the time of

**SOUTHERN ILLINOIS UNIVERSITY
MEDICAL FACILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

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 year 2012.

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, 2012 is comprised of the following:

| | |
|-------------------------------|------------------|
| Interest Income | \$ 15,651 |
| Increase in Fair Market Value | <u>(78)</u> |
| Net Investment Income | <u>\$ 15,573</u> |

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

4. Notes Receivable

The notes receivable at June 30, 2011 represented the negotiated amount for settlement of the contract for deed established in December 2002 for the sale of the Auburn Clinic. The amount was collected in September 2011.

5. Capital Assets

| | Beginning <u>Balance</u> | Additions | Reductions | Ending <u>Balance</u> |
|--|-----------------------------|---------------------|-------------------|--------------------------|
| Capital assets not being depreciated | | | | |
| Land | \$ 2,594,757 | \$ - | \$ 29,642 | \$ 2,565,115 |
| Construction in progress | <u>1,764,672</u> | <u>44,876</u> | <u>-</u> | <u>1,809,548</u> |
| Total capital assets not being depreciated | <u>4,359,429</u> | <u>44,876</u> | <u>29,642</u> | <u>4,374,663</u> |
| Capital assets being depreciated | | | | |
| Equipment | 4,147,537 | 510,874 | 444,232 | 4,214,179 |
| Buildings | <u>36,920,021</u> | <u>-</u> | <u>550,434</u> | <u>36,369,587</u> |
| Total capital assets being depreciated | <u>41,067,558</u> | <u>510,874</u> | <u>994,666</u> | <u>40,583,766</u> |
| Total capital assets | <u>45,426,987</u> | <u>555,750</u> | <u>1,024,308</u> | <u>44,958,429</u> |
| Accumulated depreciation | | | | |
| Equipment | 2,865,387 | 337,783 | 385,829 | 2,817,341 |
| Building | <u>6,674,946</u> | <u>938,982</u> | <u>276,364</u> | <u>7,337,564</u> |
| Total accumulated depreciation | <u>9,540,333</u> | <u>\$ 1,276,765</u> | <u>\$ 662,193</u> | <u>10,154,905</u> |
| Capital assets - net | <u>\$ 35,886,654</u> | | | <u>\$ 34,803,524</u> |

Construction in progress represents the first phase in a three year implementation of a new practice management system. It is anticipated that the new system will be on line during fiscal year ended June 30, 2013 and have an estimated total cost of \$5 million, \$2 million of which is expected to be capitalized.

6. Changes in Liabilities

Liability activity for the year ended June 30, 2012 was as follows:

| | Beginning <u>Balance</u> | Additions | Reductions | Ending <u>Balance</u> | Current <u>Portion</u> |
|-----------------------|-----------------------------|-------------------|---------------------|--------------------------|---------------------------|
| Revenue bonds payable | \$ 16,915,557 | \$ - | \$ 880,589 | \$ 16,034,968 | \$ 936,785 |
| Compensated absences | 2,019,647 | 376,884 | 230,663 | 2,165,868 | 242,707 |
| Deferred revenue | <u>153,231</u> | <u>-</u> | <u>153,231</u> | <u>-</u> | <u>-</u> |
| Total | <u>\$ 19,088,435</u> | <u>\$ 376,884</u> | <u>\$ 1,264,483</u> | <u>\$ 18,200,836</u> | <u>\$ 1,179,492</u> |

**SOUTHERN ILLINOIS UNIVERSITY
MEDICAL FACILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

Amounts shown as ending balance include both current and long-term portions. The deferred revenue was a result of the sale of the Auburn Clinic contract for deed in December 2002. Final payment was made in September 2011.

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 4.25% to 5.00% payable semi-annually and principal installments ranging from \$480,000 to \$1,825,000 are payable annually April 1 through the year 2026.

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

| <u>Year Ending June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--|----------------------|---------------------|---------------------|
| 2013 | \$ 945,000 | \$ 797,500 | \$ 1,742,500 |
| 2014 | 1,015,000 | 750,250 | 1,765,250 |
| 2015 | 1,085,000 | 707,112 | 1,792,112 |
| 2016 | 1,155,000 | 661,000 | 1,816,000 |
| 2017 | 1,240,000 | 603,250 | 1,843,250 |
| 2018-2022 | 7,650,000 | 1,992,500 | 9,642,500 |
| 2023-2026 | 3,325,000 | 295,550 | 3,620,550 |
| Total Payments | <u>\$ 16,415,000</u> | <u>\$ 5,807,162</u> | <u>\$22,222,162</u> |
| Unamortized debt premium | 321,001 | | |
| Unamortized deferred amount on refunding | <u>(701,033)</u> | | |
| Total Bonds Payable | <u>\$ 16,034,968</u> | | |

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 \$22,222,162 with annual requirements ranging from \$543,400 to \$1,985,750. For the current year, principal and interest paid was \$1,717,900, and the total revenues pledged were \$146,269,449. Total revenue pledged represents 100 percent of the net revenues of the System and 84.4 percent of net tuition revenue received in fiscal year 2012. Although net tuition is pledged it is not expected to be needed to meet debt service requirements.

**SOUTHERN ILLINOIS UNIVERSITY
MEDICAL FACILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

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 2012 include \$336,580 paid for by other University funds. The expenditures were for the purchase of equipment to be utilized in the various Medical Facilities System facilities. In addition, \$115,842 was received from other University funds and used for payment of debt.

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 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 determinate rate. The current rate for fiscal year 2013 is 34.51% 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, 2012, 2011, and 2010 were \$102,861,965, \$81,241,705, and \$74,103,976, respectively, equal to the required contributions for the year. The fiscal year 2012 contribution consisted of \$99,293,239 from State appropriations and \$3,568,726 from other current funds, and the fiscal year 2011 contribution consisted of \$78,215,213 from State appropriations and \$3,026,492 from other current funds.

In addition to providing pension benefits, the State provides health, dental, vision, and life insurance benefits for retirees and their dependents in a program administered by the Department of Healthcare and Family Services along with the Department of Central Management Services. This includes annuitants of the System. Substantially all State employees, including the System's employees, become eligible for post-employment benefits if they eventually become annuitants. Health, dental, and vision benefits include basic benefits for annuitants and dependents under the State's self-insurance plan and insurance contracts currently in force. Annuitants may be required to contribute towards health, dental, and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants who retired prior to January 1, 1998, and who are vested in the State Universities Retirement System do not contribute towards health, dental, and vision benefits. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced five percent for each year of credited service with the State allowing those annuitants with twenty or more years of credited service to not have to contribute towards health, dental, and vision benefits. Annuitants also receive life insurance coverage equal to the annual salary of the last day of employment until age 60, at which time the benefit becomes \$5,000.

The State pays the System's portion of employer costs for the benefits provided. The total costs of the State's portion of health, dental, vision, and life insurance benefits of all members, including post-employment health, dental, vision, and life insurance benefits, is recognized as an expenditure by the State in the Illinois Comprehensive Annual Financial Report. The State finances the costs on a pay-as-you-go basis. The total costs incurred for health, dental, vision, and life insurance benefits are not separated by department or component unit for annuitants and their dependents nor active employees and their dependents.

A summary of post-employment benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the financial statements of the Department of Healthcare and Family Services. A copy of the financial statements of the Department of Healthcare and Family Services may be obtained by writing to the Department of Healthcare and Family Services, 201 South Grand Ave., Springfield, Illinois, 62763-3838.

**SOUTHERN ILLINOIS UNIVERSITY
MEDICAL FACILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

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 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, 2013:

| | Approximate Amount |
|---|------------------------------------|
| 1. Lexington Insurance Company, Policy No. 66095349: Policy providing \$100,000,000 all risk coverage on scheduled buildings and other property totaling \$3,038,286,476 with a \$500,000 per occurrence deductible. The University has established a self insurance reserve in amounts to cover the portion of estimated liability between \$25,000 and the \$500,000 per occurrence deductible. There is a shared captive retention layer of \$1,000,000 per occurrence and \$7,651,499 aggregate through the Midwestern Higher Education Compact (MHEC). | \$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 flood hazard area 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. 66095363: furnishes the secondary layer of \$400,000,000 excess of the Lexington's \$100,000,000 layer. | \$400,000,000 per occurrence |
| 3. Swiss Re, Policy No. 31-3-75048; One Beacon, Policy No. YSP5323; Hudson Specialty, Policy No. HCS100134; RSUI Indemnity, Policy No. NHD377676; Liberty Mutual Fire, Policy No. MQ2-L9L-438236-012; Maiden Specialty, Policy No. S1LPY218001S; Starr Specialty Lines, Policy Nos. 44732524-00, SLSTPTY10544712 and T0234451200376; and Arch Specialty, Policy No. PRP0050774-00: furnishes the third layer of coverage, which is \$500,000,000 excess of the \$500,000,000. | \$500,000,000 per occurrence |
| 4. Endurance American Specialty, Policy No. CPN10003691500; RSUI Indemnity, Policy No. NHD377617; and Aspen Specialty, Policy No. PXA8FG912: furnishes earthquake coverage in excess of coverage included in Lexington Policy No. 66095349 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. | |

SUPPLEMENTARY INFORMATION

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SOUTHERN ILLINOIS UNIVERSITY
MEDICAL FACILITIES SYSTEM
SCHEDULE OF BONDS PAYABLE OUTSTANDING
June 30, 2012

| | <u>Principal Amount</u> | <u>Interest Rate</u> |
|--------------------------------------|-----------------------------|--------------------------|
| Interest Bearing Bonds | | |
| Serial Bonds Maturing as follows: | | |
| 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 | <u>520,000 *</u> | 4.500% |
| | | |
| Total Interest Bearing Bonds | <u>\$ 16,415,000</u> | |

* 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.