UNIVERSITY OF ILLINOIS

AUXILIARY FACILITIES SYSTEM

Annual Financial Report

June 30, 2018

(With Independent Auditors' Report Thereon)

UNIVERSITY OF ILLINOIS
AUXILIARY FACILITIES SYSTEM

Annual Financial Report

June 30, 2018

Table of Contents

UNIVERSITY OF ILLINOIS SYSTEM

Office of the Vice President, Chief Financial Officer and Comptroller
349 Henry Administration Building, 506 South Wright Street • Urbana, Illinois 61801

December 19, 2018

Holders of University of Illinois
Auxiliary Facilities System Revenue Bonds
and The Board of Trustees of the University of Illinois:

I am pleased to transmit the Annual Financial Report of the University of Illinois Auxiliary Facilities System for the fiscal year ended June 30, 2018. This report supplements the Annual Financial Report of the University of Illinois.

The University of Illinois Auxiliary Facilities System continues to have to a strong financial position thanks to stable and consistent revenues in combination with an efficient utilization of resources and prudent decision-making.

The 2018 financial statements and accompanying notes appearing on pages 5 through 29 have been audited by CliftonLarsonAllen LLP, Independent Certified Public Accountants, as special assistants to the Auditor General of the State of Illinois, whose report on the financial statements appears on pages 2 through 4.

CliftonLarsonAllen LLP will also prepare a report for the year ended June 30, 2018, containing special data requested by the Auditor General and another report covering their audit of the compliance of the University with applicable state and federal laws and regulations for the year ended June 30, 2018. These reports, which include some data related to the Auxiliary Facilities System, are not contained herein and are primarily for the use of the Auditor General and state and federal agencies.

Very truly yours,

SIGNED ORIGINAL ON FILE

Avijit Ghosh,
Vice President, Chief Financial Officer, and Comptroller

Urbana • (217) 333-1560 • Fax (217) 244-8108
Chicago • 1737 West Polk Street • Chicago, Illinois 60612 • (312) 996-8800

CliftonLarsonAllen LLP
CLAconnect.com

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the business-type activities of the University of Illinois Auxiliary Facilities System (the System), a segment of the University of Illinois, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities for the System as of June 30, 2018, and the changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1(a), 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 University of Illinois that is attributable to the transactions of the System. They do not purport to, and do not, present fairly the financial position of University of Illinois as of June 30, 2018, and its changes in financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Report on Summarized Comparative Information

We have previously audited the Systems' 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 30, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Schedule of University of Illinois Auxiliary Facilities System Proportionate Share of the Net Pension Liability on page 28 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America required 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.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report under separate cover dated December 19, 2018, 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 solely describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

SIGNED ORIGINAL ON FILE

CliftonLarsonAllen LLP

Peoria, Illinois
December 19, 2018

UNIVERSITY OF ILLINOIS
AUXILIARY FACILITIES SYSTEM

Statement of Net Position

June 30, 2018
(with summarized comparative information for June 30, 2017)

Assets and Deferred Outflow of Resources	2018	2017
Current assets:		
Claim on cash and on pooled investments	$ 194,243,727	$ 191,224,030
Claim on cash and on pooled investments, restricted	450,313	
Cash and cash equivalents		1,220,317
Cash and cash equivalents, restricted	8,778,638	7,369,118
Investments		4,988,610
Investments, restricted	4,967,600	
Accrued investment income	609,646	602,240
Accounts receivable, net of allowance for uncollectible	8,320,643	7,145,393
Inventories	6,559,099	7,580,715
Prepaid expenses	572,971	491,197
Total current assets	224,502,637	220,621,620
Noncurrent assets:		
Cash and cash equivalents, restricted	3,682,160	14,701,470
Investments, restricted	17,901,046	26,986,539
Capital assets, net of accumulated depreciation	1,120,802,995	1,135,777,797
Total noncurrent assets	1,142,386,201	1,177,465,806
Deferred outflow of resources	21,043,048	26,233,074
Total assets and deferred outflow of resources	$ 1,387,931,886	$ 1,424,320,500
Liabilities and Net Position		
Current liabilities:		
Accounts payable	$ 22,226,862	$ 22,792,311
Accrued liabilities	3,170,198	3,183,245
Accrued compensated absences	533,627	489,490
Accrued interest	10,734,737	11,015,090
Unearned revenues	7,766,882	7,187,682
Notes payable to the University	11,501,021	1,458,902
Bonds and leaseholds payable	45,931,755	44,669,998
Total current liabilities	101,865,082	90,796,718
Noncurrent liabilities:		
Accrued compensated absences	5,765,812	5,890,289
Notes payable to the University	6,295,325	7,810,603
Bonds and leaseholds payable	1,043,008,360	1,091,940,115
Total noncurrent liabilities	1,055,069,497	1,105,641,007
Total liabilities	1,156,934,579	1,196,437,725
Net investment in capital assets	60,179,763	49,292,692
Restricted - Expendable for debt service	27,460,845	26,826,687
Unrestricted	143,356,699	151,763,396
Total net position	230,997,307	227,882,775
Total liabilities and net position	$ 1,387,931,886	$ 1,424,320,500

See accompanying notes to financial statements.

UNIVERSITY OF ILLINOIS
AUXILIARY FACILITIES SYSTEM

Statement of Revenues, Expenses and Changes in Net Position

Year ended June 30, 2018
(with summarized comparative information for the year ended June 30, 2017)

	2018	2017
Operating revenues:		
Room and board, net	$ 148,324,521	$ 146,547,468
Merchandise and retail food sales	35,717,857	36,214,559
Student service fees	100,781,393	98,894,653
Public events and recreation fees	7,947,086	12,886,050
Parking income	27,425,057	27,016,345
Rental and lease income	30,266,166	27,759,460
Printing and vending income	3,847,359	3,346,532
Other operating revenue	9,630,192	9,895,689
Total operating revenues	363,939,631	362,560,756
Operating expenses:		
Salaries and wages	92,282,514	92,819,482
Merchandise and food for resale	33,405,488	34,490,462
Repair and maintenance	7,854,723	8,544,682
Professional and other contractual services	45,563,674	46,895,798
Utilities	35,043,578	32,543,120
Supplies	12,949,178	13,515,855
Noncapitalized renovations and equipment	21,518,812	24,971,936
Administrative services	16,625,219	16,455,574
Other operating expense	5,596,388	5,620,582
Depreciation	43,128,096	38,806,067
On-behalf for fringe benefits	67,138,574	65,885,906
Total operating expenses	381,106,244	380,549,464
Operating loss	(17,166,613)	(17,988,708)
Nonoperating revenues (expenses):		
On-behalf for fringe benefits	67,138,574	65,885,906
Investment income, net of related expenses	2,472,427	3,830,221
Interest on capital asset-related debt	(50,198,491)	(46,511,935)
Loss on disposal of capital assets	(4,151)	(97,350)
Other nonoperating revenues (expenses), net	872,786	(6,368)
Net nonoperating revenues	20,281,145	23,100,474
Increase in net position	3,114,532	5,111,766
Net position, beginning of year	227,882,775	222,771,009
Net position, end of year	$ 230,997,307	$ 227,882,775

See accompanying notes to financial statements.

UNIVERSITY OF ILLINOIS
AUXILIARY FACILITIES SYSTEM

Statement of Cash Flows

Year ended June 30, 2018
(with summarized comparative information for the year ended June 30, 2017)

	2018	2017
Cash flows from operating activities:		
Room and board	$ 148,267,582	$ 146,988,201
Merchandise and retail food sales	35,626,343	36,254,732
Student service fees	100,480,397	98,964,830
Public events and recreation fees	7,922,349	12,894,397
Parking income	27,416,647	27,004,303
Rental and lease income	30,192,559	27,785,871
Printing and vending income	3,841,541	3,347,648
Other sources	9,596,163	9,910,993
Payments to employees and for benefits	(92,375,901)	(92,356,999)
Payments to suppliers	(177,524,406)	(184,086,781)
Net cash provided by operating activities	93,443,274	86,707,195
Cash flows from noncapital financing activities:		
Other receipts, net	872,786	
Net cash provided by noncapital financing activities	872,786	-
Cash flows from capital and related financing activities:		
Purchase of capital assets	(27,828,063)	(37,848,117)
Principal paid on bonds and capital leases	(49,045,741)	(48,473,351)
Proceeds from notes payable to the University	10,352,342	462,988
Repayment of notes payable to the University	(1,825,501)	(1,580,980)
Interest paid on bonds and notes payable	(44,900,718)	(45,637,130)
Net cash used in capital and related financing activities	(113,247,681)	(133,076,590)
Cash flows from investing activities:		
Interest on investments	3,038,322	2,677,585
Pooled cash allocated (to) from University related to unrealized (losses) gains	(536,832)	987,529
Proceeds from sales and maturities of investments	38,005,384	93,818,700
Purchase of investments	(28,935,350)	(56,416,098)
Net cash provided by investing activities	11,571,524	41,067,716
Net decrease in cash and cash equivalents	(7,360,097)	(5,301,679)
Cash and cash equivalents, beginning of year	214,514,935	219,816,614
Cash and cash equivalents, end of year	$ 207,154,838	$ 214,514,935

(Continued)

UNIVERSITY OF ILLINOIS
AUXILIARY FACILITIES SYSTEM

Statement of Cash Flows

Year ended June 30, 2018
(with summarized comparative information for the year ended June 30, 2017)

		2018		2017
Reconciliation of operating loss income to net cash provided by operating activities:				
Operating loss	$	(17,166,613)	$	(17,988,708)
Adjustments to reconcile operating loss income to net cash provided by operating activities:				
Depreciation		43,128,096		38,806,067
On-behalf for fringe benefits		67,138,574		65,885,906
Changes in assets and liabilities:				
Accounts receivable (net)		(1,175,250)		734,619
Inventories		1,021,616		400,943
Prepaid expenses		(81,774)		20,565
Accounts payable		92,812		(1,470,279)
Accrued liabilities		(93,387)		462,481
Unearned revenues		579,200		(144,399)
Net cash provided by operating activities	$	93,443,274	$	86,707,195
Noncash investing, capital and financing activities:				
On-behalf for fringe benefits	$	67,138,574	$	65,885,906
Change in fair value of investments		(36,469)		164,163
Decrease of capital assets obligations in accounts payable		(658,261)		(4,838,187)
Capital appreciation on bonds payable		5,363,120		6,234,167
Net interest capitalized		987,643		6,342,938
Loss on disposal of capital assets	$	(4,151)	$	(97,350)

See accompanying notes to financial statements.

(1) Organization and Summary of Significant Accounting Policies

Organizational Background and Basis of Presentation

The University of Illinois (University) Auxiliary Facilities System (System) was created in June 1978 pursuant to the University of Illinois Revenue Bond Financing Act for Auxiliary Facilities, 110 ILCS 405/1, which authorized the University's Board of Trustees (Board) to combine and consolidate facilities into a single system. 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 financial statements of the System are prepared in accordance with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The System is not a separate legal entity and has not presented management's discussion and analysis.

System financial activity mainly comprises housing, parking and student activities, which span across the three campuses of the University. The operating revenues of the System largely consist of student service fees, various user fees, room and board charges, sales from merchandise/vending and rental of certain facilities. Facilities primarily consist of buildings and other structures that have been constructed or remodeled with funding provided from issuance of related revenue bonds. System facilities include Memorial Stadium, the State Farm Center, student unions, housing residence halls, parking and other structures.

Certain System revenues are derived from the rental of Memorial Stadium and the State Farm Center, directly from the University's Division of Intercollegiate Athletics, and are reflected as rental income within the System's financial statements. Such rental payments are determined based on the amount of debt service requirements and/or certain operation and maintenance considerations that apply to the facilities. Ticket revenues received by the University for events occurring at these facilities are not included within the System's reporting structure, in accordance with the related bond indentures. Housing revenues consist of charges for room, board and meal plans. Student activities buildings consist of student unions, recreation and athletic facilities and student service buildings that generate lease and rental income, student fees and various other types of revenue. Operating expenses of the System include all necessary current maintenance charges, expenses of reasonable upkeep and repairs, allocations of a share of certain charges for insurance and other expenses incidental to the operations of all of the various activities and facilities of the System in accordance with the bond indentures.

The financial statements include certain prior year comparative information, which has been derived from the System's 2017 financial statements. Such information does not include all of the information required to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the System's financial statements for the year ended June 30, 2017.

Certain items in the June 30, 2017 comparative information have been reclassified to correspond to the June 30, 2018 financial statement presentation.

Significant Accounting Policies

(a) Financial Statement Presentation and Basis of Accounting

The System prepared its financial statements as a Business Type Activity, as defined by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, using the economic resources measurement focus and the accrual basis of accounting. Business Type Activities are those financed in whole or in part by fees charged to external parties for goods and services.

Under the accrual basis, revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Advances are classified as unearned revenue.

(b) Cash and Cash Equivalents

The Statement of Cash Flows details the change in the cash and cash equivalents balance for the fiscal year. Cash and all liquid investments with original maturities of 90 days or less are defined as cash and cash equivalents.

(c) Investments

Investments are reported at fair value in accordance with guidelines defined by GASB Statement No. 72. Fair value is determined for the System's investments based upon a framework described in Note 2(f). Bank deposits and money market funds are recorded at cost.

Changes in fair value during the reporting period are reported as a net increase (decrease) in the fair value of investments. Net investment income includes interest, dividends, and realized gains and losses.

(d) Accounts Receivable

Accounts receivable are reported net of allowance for uncollectible. This allowance was $4,773,454 at June 30, 2018.

(e) Inventories

Inventories are stated at the lower of cost or market with cost determined as follows:

- Books and other merchandise for resale – principally the retail inventory method
- Food – average cost method
- Other inventories – principally the first-in, first-out method

(f) Capital Assets

Capital assets are recorded at cost or, if donated, at acquisition value at the date of a gift. Depreciation of the capital assets is calculated on a straight-line basis over the estimated useful lives (see below) of the respective assets. The System's policy requires the capitalization of land and collection purchases regardless of cost, equipment over $5,000, software, easements, buildings and improvements over $100,000 and infrastructure over $1,000,000. The System does not capitalize collections, such as works of art or historical treasures, which are held for public exhibition, education or research in furtherance of public service rather than capital gain, unless they were previously capitalized as of June 30, 1999. Proceeds from the sale, exchange, or other disposal of any item belonging to a collection must be applied to the acquisition of additional items for the same collection.

Estimated useful lives for capital assets are as follows:

	Useful life (in years)		Useful life (in years)
Buildings:		Improvements other than buildings:	
Shell	50	Site improvements	20
Service systems	25	Infrastructure	25
Fixed equipment	15	Moveable equipment:	
Remodeling	25	Equipment	3 – 20

(g) Deferred Outflow of Resources

Losses on refundings for the System's bonds are reported as deferred outflow of resources on the accompanying Statement of Net Position. The losses on refundings are amortized over the life of the debt using the straight-line method.

Deferred Outflow of Resources

	Beginning balance	Additions	Deductions	Ending balance
Unamortized deferred loss on refunding	$ 26,233,074		(5,190,026)	$ 21,043,048

(h) Compensated Absences

Accrued compensated absences for System personnel are charged to operations using the vested method based on earned but unused vacation and sick leave days including the System's share of Social Security and Medicare taxes.

Changes in Compensated Absences Balance

Balance, beginning of year	$ 6,379,779
Additions	433,659
Deductions	(513,999)
Balance, end of year	6,299,439
Less current portion	533,627
Balance, end of year – noncurrent portion	$ 5,765,812

(i) Premiums

Premiums for the System's bonds are reported within bonds and leaseholds payable and amortized over the life of the debt issue using the straight-line method.

(j) Net Position

The System's resources are classified into net position categories and reported in the Statement of Net Position. These categories are defined as (a) Net investment in capital assets – capital assets net of accumulated depreciation and related outstanding debt balances attributable to the acquisition, construction, or improvement of those assets, (b) Restricted – net position subject to externally imposed restrictions that can be fulfilled by actions of the System pursuant to those stipulations or that expire by the passage of time, and (c) Unrestricted – net position not subject to externally imposed stipulations but may be designated for specific purposes by action of management or the Board. The System first applies resources included in restricted net position when an expense or outlay is incurred for purposes for which resources in both restricted and unrestricted net positions are available.

(k) Classification of Revenues

The Statement of Revenues, Expenses and Changes in Net Position classifies the System's fiscal year activity as operating and nonoperating. Operating revenues generally result from exchange transactions such as payments received for providing goods and services.

Certain revenue sources that the System relies on for operations, including on-behalf for fringe benefits and investment income, are defined by GASB Statement No. 35 as nonoperating. In addition, certain transactions related to capital and financing activities are components of net nonoperating revenue.

Housing charges billed or received in advance are unearned and recognized as revenue during the period of occupancy. Student service fees for the summer academic term are unearned and recognized as revenue over the summer semester.

(l) Classification of Expenses

The majority of the System's expenses are exchange transactions which GASB defines as operating expenses for financial statement presentation. Nonoperating expenses include capital financing costs.

(m) On-Behalf for Fringe Benefits

In accordance with GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, the System reported expenses incurred made by the State of Illinois (State) on behalf of the System related to State group insurance and retirement programs, including postemployment benefits, for System employees and its retirees of $67,138,574 for the year ended June 30, 2018.

On-behalf for fringe benefits are classified as nonoperating revenues and the corresponding expenses are reported as operating expenses.

(n) Pensions

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

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

(o) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

(p) New Accounting Pronouncements

The System adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* which was effective for periods beginning after June 15, 2017. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit other post-employment benefits (OPEB), this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

Implementation of this pronouncement required a change to the System's financial statements and impacted on-behalf for fringe benefits (note 7).

The System adopted the provisions of GASB Statement No. 81, *Irrevocable Split-Interest Agreements,* which was effective for periods beginning after December 15, 2016. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Implementation of this pronouncement did not impact the System's financial statements.

The System adopted the provisions of GASB Statement No. 85, *Omnibus 2017,* which was effective for periods beginning after June 15, 2017. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and OPEB). Implementation of this pronouncement did not impact the System's financial statements.

The System adopted the provisions of GASB Statement No. 86, *Certain Debt Extinguishment Issues,* which was effective for periods beginning after June 15, 2017. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. Implementation of this pronouncement did not impact the System's financial Statements.

(2) Cash, Cash Equivalents and Investments

The System has cash and certain investments that are pooled with other University funds for the purpose of securing a greater return on investment and providing an equitable distribution of investment return. Income is distributed based upon average quarterly balances invested in the investment pool.

Nearly all of the University's investments are managed by external professional investment managers, who have full discretion to manage their portfolios subject to investment policy and manager guidelines established by the University, and in the case of mutual funds and other commingled vehicles, in accordance with the applicable prospectus or limited partnership agreement.

The Board follows the State of Illinois Uniform Prudent Management of Institutional Funds Act, 760 ILCS 51/1-11, when managing the University's investments. The Board fulfills its fiduciary responsibility for the management of investments, including endowment farm real estate, by adopting policies to maximize investment return with a prudent level of risk.

The following details the carrying value of the System's cash, cash equivalents and investments as of June 30, 2018:

U.S. government treasuries	$	18,157,462
U.S. government securities		971,053
Money market funds		12,460,798
Commercial paper		3,740,131
Subtotal		35,329,444
Claim on cash and on pooled investments		194,694,040
Total cash, cash equivalents and investments	$	230,023,484

(a) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, the University employs multiple investment managers, of which each has specific maturity assignments related to the operating funds. The funds are structured with different layers of liquidity. Funds expected to be used within one year are invested using the Barclay's Capital 90-Day and Bank of America Merrill Lynch 12-month Treasury Bill Index as performance benchmarks. Core operating funds are invested in longer maturity investments. Core operating funds investment managers' performance benchmarks are the Barclays Capital one-year to three-year Government Bond Index, the Barclays Capital one-year-to-three-year Government Credit Bond Index, Barclays Capital Intermediate Government Credit Bond Index and the Barclays Capital Intermediate Aggregate Bond Index.

The System's nonpooled investments and maturities of June 30, 2018 are illustrated as follows:

	Maturities (in years)		
	Total	**Less than 1**	**1 - 5**
U.S. government treasuries	$ 18,157,462	$ 11,262,112	$ 6,895,350
U.S. government securities	971,053		971,053
Money market funds	12,460,798	12,460,798	
Commercial paper	3,740,131	3,740,131	
Total cash equivalents and investments	$ 35,329,444	$ 27,463,041	$ 7,866,403

Claim on cash and on pooled investments represents the System's share of participation in the University's operating internal investment pool. At June 30, 2018, the University's operating funds internal investment portfolio had an effective duration for its interest bearing securities of 1.5 years.

(b) Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The University's investment policy requires that the University's short-term operating funds be invested in fixed income securities and other short-term fixed income instruments (e.g. money markets). Fixed income securities shall be rated investment grade or better by one or more nationally recognized statistical rating organizations. Securities not covered by the investment grade standard are allowed if, in the manager's judgment, those instruments are of comparable credit quality. Securities that fall below the stated minimum credit requirements subsequent to initial purchase may be held at the manager's discretion.

The University reports the credit ratings of fixed income securities and short term instruments using Standard and Poor's and Moody's ratings. Securities with split ratings or with a different rating assignment are disclosed using the rating indicative of the greatest degree of risk. At June 30, 2018, the University's operating internal investment pool and non-pooled investments primarily consisted of securities with quality ratings of A or better.

(c) Custodial Credit Risk

Custodial credit risk is the risk that in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Exposure to custodial credit risk relates to investment securities that are held by someone other than the University and are not registered in the University's name. The University's investment policy does not limit the value of investments that may be held by an outside party. At June 30, 2018, the System's investments and deposits had no custodial credit risk exposure.

(d) Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the University's investment in a single issuer. The University's investment policy provides that the total operating funds portfolio will be broadly diversified across securities in a manner that is consistent with fiduciary standards of diversification. Issuer concentrations are limited to 5% per issuer of the total market value of the portfolio at the time of purchase, or in the case of securitized securities, an individual issuance trust. These concentration limits do not apply to investments in money market funds, tri-party repurchase agreements or obligations of, or issues guaranteed by, the U.S. Treasury, U.S. agencies or U.S. government sponsored enterprises.

As of June 30, 2018, not more than 5% of the University's total investments were invested in securities of any one issuer, excluding money market funds, tri-party repurchase agreements or obligations of, or issues guaranteed by, the U.S. Treasury, U.S. agencies or U.S. government sponsored enterprises.

(e) Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The University does not have an overarching policy related to foreign currency risk; however, under each investment manager's respective fund agreement, the portfolio's foreign currency exposure may be unhedged or hedged back into U.S. dollars. The University's operating fund investments generally are not exposed to foreign currency risk.

The University invests in non-U.S. developed and emerging markets through commingled funds invested in non-U.S. equities, private equity and absolute return strategies. As these funds are reported in U.S. dollars, both price changes of the underlying securities in local markets and changes to the value of local currencies relative to the U.S. dollar are embedded in investment returns.

(f) Investments and Fair Value Measurements

Accounting guidance for fair value establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The fair value hierarchy is as follows:

Level 1 - Quoted prices (unadjusted) for identical assets or liabilities in active markets that the University has the ability to access as of the measurement date. Level 1 inputs would also include investments valued at prices in active markets that the University has access to where transactions occur with sufficient frequency and volume to provide reliable pricing information.

Level 2 - Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 - Significant unobservable inputs that reflect a reporting entity's own assumptions about what market participants would use in pricing an asset or liability.

A description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

Investments may be classified as Level 1 when the values are based upon unadjusted quoted prices in active markets for identical assets and generally include active listed equities. Publicly-traded investments that have no or insignificant restrictions are classified in Level 1 of the fair value hierarchy. Level 1 securities would include exchange traded equities.

Investments may be classified as Level 2 when the values include inputs that are directly observable for an asset (including quoted prices for similar assets), as well as inputs that are not directly observable for the asset. These inputs are derived principally from or corroborated by observable market data through correlation or by other means (market corroborated inputs). The concept of market-corroborated inputs is intended to incorporate observable market data (such as interest rates and yield curves that are observable at commonly quoted intervals) based upon an assessment of factors relevant to the asset or liability. Level 2 securities include US Treasury bonds and bills, US government agencies, international government bonds and agencies, nongovernment mortgage-backed securities, asset backed securities, corporate bonds, commercial paper, and municipal bonds.

Investments may be classified as Level 3 when the values include inputs that are unobservable and Level 1 and Level 2 inputs are not available. The values are based upon the best information available under the circumstances and may include management's own data. Level 3 securities include certain types of inactively traded corporate bonds and equities.

The following table summarizes assets measured at fair value as of June 30, 2018, based on the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

Fair Value Measurements as of June 30, 2018

Investments in which fair value was measured based on significant other observable inputs (Level 2):		
U.S. government treasuries	$	18,157,462
U.S. government securities		971,053
Commercial paper		3,740,131
Total subject to fair value hierarchy	$	22,868,646
Investments measured at cost:		
Money market funds		12,460,798
Total cash equivalents and investments	$	35,329,444

(3) Capital Assets

Net interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Net interest of $987,643 was capitalized during the year ended June 30, 2018. The capital assets of the System are not pledged to secure outstanding indebtedness of the Board.

Capital asset activity for the year ended June 30, 2018 is summarized as follows:

Capital assets	Beginning balance	Additions	Retirements	Transfers	Ending balance
Nondepreciable capital assets:					
Land	$ 19,238,069	$	$	$	$ 19,238,069
Construction in progress	19,017,591	26,557,585		(20,574,983)	25,000,193
Total nondepreciable capital assets	38,255,660	26,557,585	—	(20,574,983)	44,238,262
Depreciable capital assets:					
Buildings	1,550,520,200			20,574,983	1,571,095,183
Improvements	58,882,797				58,882,797
Equipment	19,648,651	1,599,860	579,082		20,669,429
Total depreciable capital assets	1,629,051,648	1,599,860	579,082	20,574,983	1,650,647,409
Less accumulated depreciation:					
Buildings	478,364,008	39,927,769			518,291,777
Improvements	39,661,840	1,622,415			41,284,255
Equipment	13,503,663	1,577,912	574,931		14,506,644
Total accumulated depreciation	531,529,511	43,128,096	574,931	—	574,082,676
Total net depreciable capital assets	1,097,522,137	(41,528,236)	4,151	20,574,983	1,076,564,733
Total	$ 1,135,777,797	$ (14,970,651)	$ 4,151	$ —	$ 1,120,802,995

(4) Bonds Payable

Bonds payable activity for the year ended June 30, 2018 was as follows:

Bonds payable							
Series	Rate on June 30 outstanding debt	Fiscal year maturity dates	Beginning balance	Additions	Deductions	Ending balance	Current portion
1991	7.35%	2019 – 2021	$ 65,080,000	$	$ 16,270,000	$ 48,810,000	$ 16,270,000
1999A	6.22% to 6.33%	2019 – 2030	35,190,000		1,705,000	33,485,000	1,785,000
2001A	5.50%	2019 – 2024	32,510,000		2,000,000	30,510,000	5,845,000
2001B	5.50%	2019	4,360,000		2,015,000	2,345,000	2,345,000
2003A	5.25% to 5.50%	2019 – 2034	38,285,000		1,850,000	36,435,000	1,945,000
2005A	5.50%	2019 – 2023	42,405,000			42,405,000	6,420,000
2008	variable	2019 – 2038	17,085,000		515,000	16,570,000	540,000
2009A	4.00%	2019	1,730,000		850,000	880,000	880,000
2010A	4.00% to 5.25%	2019 – 2030	50,845,000		1,295,000	49,550,000	1,345,000
2011A	5.00% to 5.50%	2019 – 2041	76,065,000		1,400,000	74,665,000	1,470,000
2011B	4.117% to 4.517%	2019 – 2021	4,365,000		1,210,000	3,155,000	1,035,000
2011C	2.25% to 5.00%	2019 – 2032	64,665,000		75,000	64,590,000	75,000
2013A	3.25% to 5.00%	2019 – 2032	208,940,000		6,165,000	202,775,000	3,060,000
2014A	5.00%	2024 – 2044	159,985,000			159,985,000	
2014B	2.366% to 3.926%	2019 – 2023	12,580,000		2,365,000	10,215,000	1,840,000
2014C	variable	2038 – 2044	37,000,000		3,000,000	34,000,000	
2015A	3.00% to 5.00%	2019 – 2038	96,555,000		7,335,000	89,220,000	510,000
2016A	4.00% to 5.00%	2019 – 2036	125,350,000		570,000	124,780,000	560,000
2016B	3.00% to 5.00%	2019 – 2046	20,630,000		380,000	20,250,000	400,000
			1,093,625,000	—	49,000,000	1,044,625,000	46,325,000
Unaccreted appreciation			(20,714,217)	5,363,120		(15,351,097)	(4,421,944)
			1,072,910,783	5,363,120	49,000,000	1,029,273,903	41,903,056
Unamortized debt premium			63,511,607		3,987,377	59,524,230	3,981,290
Total bonds payable			$ 1,136,422,390	$ 5,363,120	$ 52,987,377	$ 1,088,798,133	$ 45,884,346

Capital appreciation bonds (Series 1991 and 1999A) of $82,295,000 outstanding at June 30, 2018 do not require current interest payments and have a net unappreciated value of $66,943,903. The University records the annual increase in the principal amount of these bonds as interest expense and accretion on bonds payable.

Certain bonds of the System (Series 1991) have debt service reserve requirements. The Maximum Annual Net Debt Service for those bonds, as defined, is $14,926,605.

None of the System’s bonds constitute obligations of the State of Illinois, but are payable solely by the Board from net revenues of the System, student tuition and fees and debt service funds.

The resolutions authorizing the University of Illinois Auxiliary Facilities System Revenue Bonds provide for the establishment of separate funds as follows: Current Unrestricted Fund, Unexpended Fund, Repair and Replacement Reserve, Equipment Reserve, Bond and Interest Sinking Fund, Debt Service Reserve and Development Reserve. All System revenues, including student tuition and fees as provided for by the Bond Resolutions are to be deposited in the Current Unrestricted Fund and used to pay necessary operation and maintenance expenses of the System. The Bond Resolutions also require transfers to funds as follows:

Unexpended Fund – amounts, as determined by the Board, not needed to complete construction and renovation projects specified in the Bond Resolutions are required to be transferred from the Unexpended Fund to the Bond and Interest Sinking Fund.

Repair and Replacement Reserve – an amount calculated as specified in the Bond Resolutions to provide for the cost of maintenance and repairs.

Equipment Reserve – an amount approved by the Board for the acquisition of movable equipment to be installed in the facilities constituting the System. The reserve may not exceed 20% of the book value of the movable equipment of the System. Additions of $520,124 were made to the Equipment Reserve and expenses of $139,139 were incurred to replace movable equipment during the year ended June 30, 2018. The fund balance of the Equipment Reserve was $7,636,483 at June 30, 2018.

Bond and Interest Sinking Fund and Debt Service Reserve – amounts are transferred into the Bond and Interest Sinking Fund sufficient to pay principal and interest as it becomes due on the outstanding bonds and amounts fund a Debt Service Reserve at least equal to the Maximum Annual Net Debt Service, as defined. At June 30, 2018, the Debt Service Reserve was funded in excess of the Maximum Annual Net Debt Service. If at any time the Debt Service Reserve is less than the Maximum Annual Net Debt Service, the System is required to restore the Debt Service Reserve to the Maximum Annual Net Debt Service by the end of the next fiscal year.

Development Reserve – an amount approved by the Board for System development. No transfers were authorized by the Board during the year ended June 30, 2018, and there was no balance in the reserve at June 30, 2018.

The System made all required transfers for the year ended June 30, 2018.

The table below shows the amount of revenues pledged for future principal and interest payments on the bonds:

Pledged revenues

Bond issue(s)	**Purpose**	**Source of revenue pledged**	**Future revenues pledged[1]**	**Term of commitment**	**Debt service to pledged revenues (current year)**
System	Refundings, various improvements and additions to the System	Net System revenue, student tuition and fees	$ 1,563,368,953	2046	7.78%

[1] Total future principal and interest payments

After fulfillment of the provisions described above, the surplus, if any, remaining in the Current Unrestricted Fund may be used (a) to redeem bonds of the System which are subject to early redemption, (b) to purchase any outstanding bonds for cancellation, or (c) to advance refund any bonds outstanding.

(a) Debt Service Requirements

Future debt service requirements for all bonds outstanding at June 30, 2018 are as follows:

Debt service requirements		Principal		Interest
Years:				
2019	$	46,325,000	$	43,589,458
2020		48,130,000		42,208,529
2021		55,060,000		40,880,460
2022		57,425,000		39,211,304
2023		48,665,000		36,491,992
2024 – 2028		241,560,000		148,968,783
2029 – 2033		244,200,000		94,052,393
2034 – 2038		149,625,000		48,755,684
2039 – 2043		122,455,000		23,187,206
2044 – 2046		31,180,000		1,398,144
Total debt service		1,044,625,000	$	518,743,953
Unaccreted appreciation		(15,351,097)		
Unamortized debt premium		59,524,230		
Total bonds payable	$	1,088,798,133		

(b) Auxiliary Facilities System Variable-Rate Debt

The System's variable-rate bonds mature serially through April 2044 and have variable interest rates that are adjusted periodically (i.e., daily, weekly, or monthly), generally with interest paid at the beginning of each month. The bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest on seven days' notice and delivery to the System's remarketing agents. The System pays the remarketing agent fees on the outstanding bond balance. If the remarketing agent is unable to resell any bonds that are "put" to the agent, the System has a standby bond purchase agreement with a liquidity facility entity.

The System, in the event a liquidity facility is utilized, has a reimbursement agreement with different financial entities. Generally, the payback period, in which the initial payment is due 366 days after the agreement takes effect, is five to seven years, at an interest rate initially set at slightly above prime or the federal funds rate. The required future interest payments for these variable-rate bonds have been calculated using the current interest rate, based upon short-term rates, or the synthetic fixed rate, as illustrated in the table below:

Variable-rate bonds at June 30, 2018

				Liquidity facility			
Bond issue	Interest rate at June 30, 2018	Remarketing agent	Remarketing fee	Bank	Expiration	Insured by	Fee
AFS, Series 2008	1.59%	Loop Capital	0.075%	JPMorgan Chase	5/19/2021	None	0.600%
AFS, Series 2014C	1.95%	Wells Fargo	0.080%	Northern Trust	2/19/2019	Letter of Credit	0.350%

(c) Advanced Refunded Bonds Payable

The System defeased bonds through advance refunding in prior years, and accordingly, they are not reflected in the accompanying financial statements. The amount of bonds that have been advance refunded as of June 30, 2018 is as follows:

Advanced Refunded Bonds		
Series		**Outstanding at June 30, 2018**
2009A	$	76,305,000

(5) Leaseholds Payable

Leaseholds payable activity for the year ended June 30, 2018 consisted of the following:

		Leaseholds payable					
		Beginning balance	**Additions**	**Deductions**	**Ending balance**		**Current portion**
Capital lease obligations	$	187,723		45,741	141,982	$	47,409

The capital lease obligations have maturity dates from 2019 through 2022 and have interest rates ranging from 3.29% to 4.1%. As of June 30, 2018, future minimum lease payments are as follows:

		Principal		**Interest**
Years:				
2019	$	47,409	$	4,271
2020		32,649		2,662
2021		30,453		1,583
2022		31,471		565
Total minimum payments	$	141,982	$	9,081

(6) Related-Party Transactions

The University charged the System administrative service charges totaling $16,625,219 in 2018, based upon the gross expenditures and debt service transfers of various operations of the System. These charges represent a portion of estimated administrative and other service costs incurred by the University in support of the System and are reported as administrative services expense in the accompanying financial statements.

The System includes certain athletic facilities and office space utilized by the Division of Intercollegiate Athletics. Student fees provide the primary funding for the operation of these athletic facilities and office space. The Division of Intercollegiate Athletics transferred funds to the System of $16,219,125 in 2018 to fund the operations not covered by student fees. This transfer has been reported as rental and lease income in the accompanying financial statements.

At June 30, 2018, the System had borrowings of $17,796,346 under multiple internal financing notes with the University for the construction of System facilities. The notes have repayment terms and interest rates ranging from 1.0% to 3.0%.

Notes payable to the University

	Maturity date	Beginning balance	New debt	Principal paid/debt refunded	Ending balance	Current portion
Payable to the University	2019 – 2024	$ 9,269,505	10,352,342	1,825,501	17,796,346	11,501,021

Future debt service requirements for the outstanding notes payable as of June 30, 2018 are as follows:

Notes payable to the University
Debt service requirements

	Principal	Interest
Years:		
2019	$ 11,501,021	$ 291,786
2020	1,547,721	188,860
2021	1,594,153	142,428
2022	1,641,977	94,604
2023	1,361,024	45,344
2024	150,450	4,513
Total	$ 17,796,346	$ 767,535

(7) Retirement and Postemployment Benefits

(a) Retirement Benefits

General Information about the Pension Plan

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

Benefits Provided: A traditional benefit plan was established in 1941. Public Act 90-0448 enacted effective January 1, 1998, established an alternative defined benefit program known as the portable benefit package. The traditional and portable plan Tier 1 refers to members that began participation prior to January 1, 2011. Public Act 96-0889 revised the traditional and portable benefit plans for members who begin participation on or after January 1, 2011, and who do not have eligible Illinois reciprocal system services. The revised plan is referred to as Tier 2. New employees are allowed 6 months after their date of hire to make an irrevocable election. A summary of the benefit provisions as of June 30, 2017 can be found in the SURS' comprehensive annual financial report (CAFR) Notes to the Financial Statements.

Eligible employees must participate upon initial employment. Employees are ineligible to participate if (a) employed after having attained age 68; (b) employed less than 50% of full time; or (c) employed less than full time and attending classes with an employer. Of those University employees ineligible to participate, the majority are students at the University.

Contributions: The State is primarily responsible for funding the SURS on behalf of the individual employers at an actuarially determined amount. Public Act 88-0593 provides a Statutory Funding Plan consisting of two parts: (i) a ramp-up period from 1996 to 2010 and (ii) a period of contributions equal to a level percentage of the payroll of active members of the System to reach 90% of the total Actuarial Accrued Liability by the end of Fiscal Year 2045. Employer contributions from "trust, federal, and other funds" are provided under Section 15-155(b) of the Illinois Pension Code and require employers to pay contributions which are sufficient to cover the accruing normal costs on behalf of applicable employees. The employer normal cost for fiscal year 2017 and 2018 respectively, was 12.53% and 12.46% of employee payroll. The normal cost is equal to the value of current year's pension benefit and does not include any allocation for past unfunded liability or interest on the unfunded liability. Plan members are required to contribute 8.0% of their annual covered salary. The contribution requirements of plan members and employers are established and may be amended by the Illinois General Assembly.

Participating employers make contributions toward separately financed specific liabilities under Section 15-139.5(e) of the Illinois Pension Code (relating to contributions payable due to the employment of "affected annuitants" or specific return to work annuitants) and Section 15-155(g) (relating to contributions payable due to earning increases exceeding 6% during the final rate of earnings period).

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

Net Pension Liability: The net pension liability was measured as of June 30, 2017. At June 30, 2017, the SURS reported a net pension liability of $25,481,105,995.

Employer Proportionate Share of Net Pension Liability: The amount of the proportionate share of the net pension liability to be recognized for the System is $0. The proportionate share of the State's net pension liability associated with the System is $439,226,001. This amount should not be recognized in the financial statement. The net pension liability and total pension liability as of June 30, 2017 was determined based on the June 30, 2016 actuarial valuation rolled forward. The basis of allocation used in the proportionate share of net pension liability is the actual reported pensionable earnings made to the SURS during fiscal year 2017

Pension Expense: At June 30, 2017, the SURS reported a collective net pension expense of $2,412,918,129.

Employer Proportionate Share of Pension Expense: The employer proportionate share of collective pension expense should be recognized similarly to on-behalf payments as both revenue and matching expenditure in the financial statements. The basis of allocation used in the proportionate share of collective pension expense is the actual reported pensionable contributions made to the SURS during fiscal year 2017. As a result, the University recognized on-behalf revenue and pension expense of $1,040,720,544 for fiscal year ended June 30, 2018, of which $41,592,262 was related to the System.

(Continued)

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: Deferred outflows of resources are the consumption of net position by the SURS that is applicable to future reporting periods.

SURS Collective Deferred Outflows and Deferred Inflows of Resources by Sources

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 139,193,227	$ 1,170,771
Changes in assumption	205,004,315	259,657,577
Net difference between projected and actual earnings on pension plan investments	94,620,827	
Total	$ 438,818,369	$ 260,828,348

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

Year Ending June 30		Net Deferred Outflows of Resources
2018	$	55,589,850
2019		187,874,276
2020		90,475,551
2021		(155,949,656)
2022		
Thereafter		
Total	$	177,990,021

Assumptions and Other Inputs

Actuarial assumptions: The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period June 30, 2010 – 2014. The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Salary increases	3.75 to 15.00 percent, including inflation
Investment rate of return	7.25 percent beginning with the actuarial valuation as of June 30, 2014

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return were adopted by the plan's trustees after considering input from the plan's investment consultant(s) and actuary(s).

(Continued)

For each major asset class that is included in the pension plan's target asset allocation as of June 30, 2017, these best estimates are summarized in the following table:

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return
U.S. Equity	23%	6.08%
Private Equity	6%	8.73%
Non-U.S. Equity	19%	7.34%
Global Equity	8%	6.85%
Fixed Income	19%	1.38%
Treasury-Inflation Protected Securities	4%	1.17%
Emerging Market Debt	3%	4.14%
Real Estate REITS	4%	5.75%
Direct Real Estate	6%	4.62%
Commodities	2%	4.23%
Hedged Strategies	5%	3.95%
Opportunity Fund	1%	6.71%
Total	100%	5.20%
Inflation		2.75%
Expected Arithmetic Return		**7.95%**

Discount Rate: A single discount rate of 7.09% was used to measure the total pension liability. This single discount rate was based on an expected rate of return on pension plan investments of 7.25% and a municipal bond rate of 3.56% (based on the weekly rate closest to but not later than the measurement date of the 20-Year Bond Buyer Index as published by the Federal Reserve). The projection of cash flows used to determine this single discount rate were the amounts of contributions attributable to current plan members and assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the statutory contribution rates under the SURS' funding policy. Based on these assumptions, the pension plan's fiduciary net position and future contributions were sufficient to finance the benefit payments through the year 2073. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2073, and the municipal bond rate was applied to all benefit payments after that date.

Sensitivity of the SURS' Net Pension Liability to Changes in the Discount Rate: Regarding the sensitivity of the net pension liability to changes in the single discount rate, the following presents the plan's net pension liability, calculated using a single discount rate of 7.09%, as well as what the plan's net pension liability would be if it were calculated using a single discount rate that is 1-percentage-point lower or 1-percentage-point higher:

1% Decrease 6.09%	Current Single Discount Rate Assumption 7.09%	1% Increase 8.09%
$30,885,146,279	$25,481,105,995	$20,997,457,586

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

(b) Postemployment Benefits

Plan description: The State Employees Group Insurance Act of 1971 (“Act”), as amended, authorizes the Illinois State Employees Group Insurance Program (“SEGIP”) to provide health, dental, vision, and life insurance benefits for certain retirees and their dependents. Substantially all of the University’s full-time employees are members of SEGIP. Members receiving monthly benefits from the General Assembly Retirement System (“GARS”), Judges Retirement System (“JRS”), State Employees’ Retirement System of Illinois (“SERS”), Teachers’ Retirement System (“TRS”), and State Universities Retirement System of Illinois (“SURS”) are eligible for these other post-employment benefits (“OPEB”). The eligibility provisions for the SURS were defined within Note 7(a). The University’s employees can only be eligible members of the SURS.

The Department of Central Management Services administers these benefits for annuitants with the assistance of the public retirement systems sponsored by the State (GARS, JRS, SERS, TRS and SURS). The State recognizes SEGIP OPEB benefits as a single-employer defined benefit plan. The plan does not issue a stand-alone financial report.

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

Funding policy and annual other postemployment benefit cost: OPEB offered through SEGIP are financed through a combination of retiree premiums, State contributions and Federal government subsidies from the Medicare Part D program. Contributions are deposited in the Health Insurance Reserve Fund, which covers both active State employees and retirement members. Annuitants may be required to contribute towards health and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants who retired prior to January 1, 1998, and who are vested in the State Employee’s Retirement System do not contribute toward health and vision benefits. For annuitants who retired on or after January 1, 1998, the annuitant’s contribution amount is reduced five percent for each year of credited service with the State allowing those annuitants with twenty or more years of credited service to not have to contribute towards health and vision benefits. All annuitants are required to pay for dental benefits regardless of retirement date. The Director of Central Management Services shall, on an annual basis, determine the amount the State shall contribute toward the basic program of group health benefits. State contributions are made primarily from the General Revenue Fund on a pay-as-you-go basis. No assets are accumulated or dedicated to funding the retiree health insurance benefit and a separate trust has not been established for the funding of OPEB.

For fiscal year 2018, the annual cost of the basic program of group health, dental, and vision benefits before the State’s contribution was $10,926.24 ($6,145.92 if Medicare eligible) if the annuitant chose benefits provided by a health maintenance organization and $14,939.04 ($5,165.04 if Medicare eligible) if the annuitant chose other benefits. The State is not required to fund the plan other than the pay-as-you-go amount necessary to provide the current benefits to retirees.

(8) Commitments

At June 30, 2018, the System had commitments on various construction projects and contracts for repairs and renovation of auxiliary facilities of $113,379,452.

(9) Subsequent Event

On October 17, 2018, the University issued Auxiliary Facilities System Revenue Bonds, Series 2018A and Series 2018B, in the amount of $142,110,000 and $20,030,000, respectively. The proceeds from the Series 2018A and the Series 2018B Bonds will be used, together with other lawfully available moneys, to (i) refund certain outstanding obligations of the System, (ii) finance the construction of a football performance center and a soccer and track complex, the renovation and addition of a residence hall dining facility and the reorientation and replacement of certain track and field facilities on the University's campus in Urbana and (iii) pay costs of issuing the Series 2018 Bonds.

UNIVERSITY OF ILLINOIS
AUXILIARY FACILITIES SYSTEM

Required Supplementary Information
Year Ended June 30, 2018

Schedule of University of Illinois Auxiliary Facilities System Proportionate Share of the Net Pension Liability	Fiscal Year 2017	Fiscal Year 2016	Fiscal Year 2015	Fiscal Year 2014
(a) Proportion Percentage of the Collective Net Pension Liability	0%	0%	0%	0%
(b) Proportion Amount of the Collective Net Pension Liability	$0	$0	$0	$0
(c) Portion of Nonemployer Contributing Entities' Total Proportion of Collective Net Pension Liability associated with Employer	$439,226,001	$454,842,862	$405,968,461	$376,037,733
Total (b) + (c)	$439,226,001	$454,842,862	$405,968,461	$376,037,733
Employer defined benefit covered payroll	$61,699,212	$60,763,503	$61,425,191	$60,842,520
Proportion of Collective Net Pension Liability associated with Employer as a percentage of defined benefit covered payroll	711.88%	748.55%	660.92%	618.05%
SURS Plan Net Position as a Percentage of Total Pension Liability	42.04%	39.57%	42.37%	44.39%

* GASB Statement #82 amended GASB Statements #67 & #68 to require the presentation of covered payroll, defined as payroll on which contributions to a pension plan are based, and ratios that use that measure. For the SURS plans, the covered payroll are those employees within the defined benefit plan.

(Continued)

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

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

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

- Salary increases. Change assumption to service-based rates, ranging from 3.75 percent to 15.00 percent based on years of service, with underlying wage inflation of 3.75 percent.

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

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

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

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

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

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