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SOUTHERN ILLINOIS UNIVERSITY

SENIOR VICE PRESIDENT FOR FINANCIAL & ADMINISTRATIVE AFFAIRS AND BOARD TREASURER
STONE CENTER - MAIL CODE 6801 / 1,400 DOUGLAS DRIVE / CARBONDALE, ILLINOIS 62901

September 30, 2011

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, 2011.

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,

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, 2011, the School of Medicine Medical Facilities System owned or occupied eighteen 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, the Auburn Clinic, Auburn, Illinois, 401 N. Walnut, and the Simmons Cancer Institute. The Auburn Clinic was sold contract for deed in December, 2002 and is not occupied by the School of Medicine. The fourteen remaining locations are leased by the University using revenues generated by the clinical practice of medicine. Nine of the leased facilities are in Springfield, Illinois and the remaining five are located elsewhere in Illinois.

ADVANCED REFUNDING

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

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

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 2010), interest earned on investments of \$9,149 in 2011 (and interest of \$13,187 in 2010) and other nonoperating revenue of \$4,883 (\$17,294 in 2010).

Expenditures charged to the reserve amounted to \$6,463 (\$22,607 in 2010). The restricted net assets of Renewals and Replacements consisted of the following:

	June 30	
	2011	2010
Cash	\$ 924,216	\$



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, 2011. 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 comparative information has been derived from the System's June 30, 2010 financial statements and, in a report dated February 25, 2011 we expressed an unqualified opinion on the respective financial statements of the business-type activities.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in note 1A, the financial statements of the System are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the activities of Southern Illinois University that is attributable to the transactions of the System. They do not purport to, and do not, present fairly the financial position of Southern Illinois University as of June 30, 2011, and the changes in financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all ma

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 has been subjected to the auditing procedures applied in the audit of the financial statements, and in our opinion, based on our audit, are fairly stated in all material respects in relation to the financial statements taken as a whole.

In connection with our audit, nothing came to our attention that caused us to believe that the System was not in compliance with any of the fund accounting covenants of the Resolutions of the Board of Trustees

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ASSETS
CURRENT ASSETS:

2011

2010

SOUTHERN ILLINOIS UNIVERSITY
 MEDICAL FACILITIES SYSTEM
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 For the Year Ended June 30, 2011
 (with comparative totals for 2010)

	2011	2010
REVENUES		
OPERATING REVENUES		
Medical Facilities System	\$ 39,196,236	\$ 32,567,431
(558,441)		
r	21,599,584	22,158,025
NET ASSETS AT END OF YEAR	\$ 24,943,397	\$ 21,599,584

The accompanying notes are an integral part of this statement.

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Medical Facilities System	\$ 37,049,646	\$ 33,665,012
Payments to employees	(21,825,722)	(21,346,267)
Payments for utilities	(425,457)	(290,994)
Payments to suppliers	(12,215,600)	(10,147,932)
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,582,867	1,879,819
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		

**SOUTHERN ILLINOIS UNIVERSITY
MEDICAL FACILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

1. Significant Accounting Policies

(A) Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB), including Statement No. 35, *Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities*. Additionally, the System has adopted GASB Statement No. 37, *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. The System now follows the business-type activity reporting requirements of GASB Statement Nos. 35, 37 and 38 that provide a comprehensive, entity-wide perspective of the System’s financial activities and replaces the fund group presentations previously required.

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 u19(s)-5(,)-21 accrtes astay4]TJ 0.335 Tw

**SOUTHERN ILLINOIS UNIVERSITY
 MEDICAL FACILITIES SYSTEM
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2011**

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, 2011, 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	\$ 284,665	\$ 284,665	\$ -	\$ -	\$ -
Total Investments	<u>284,665</u>	<u>\$ 284,665</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Cash and Equivalents					
The Illinois Funds	<u>3,540,411</u>				
Total Cash & Equivalents	<u>3,540,411</u>				
Total Cash & Investments	<u>\$ 3,825,076</u>				

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

**SOUTHERN ILLINOIS UNIVERSITY
MEDICAL FACILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

4. Notes Receivable

The notes receivable represent the sale of the Auburn Clinic contract for deed in December 2002. The balance remaining is payable with interest at the rate of 4% per annum to be amortized over a term of ten years and paid in eighteen consecutive semiannual installments of \$9,000 each, plus a final installment of \$124,790 plus a 428(e r)-51(a)

**SOUTHERN ILLINOIS UNIVERSITY
MEDICAL FACILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 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 \$1

**SOUTHERN ILLINOIS UNIVERSITY
MEDICAL FACILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

10. Insurance

The University has established a Self Insurance Program (the "Program") to cover its general liability, its 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 coverage with commercial carriers to cap the risk of loss retained by the Program. The System's buildings, contents and boilers are all insured through self insurance and 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 Compact (MHEC) program, provides all risk

SOUTHERN ILLINOIS UNIVERSITY
MEDICAL FACILITIES SYSTEM
SCHEDULE OF BONDS PAYABLE OUTSTANDING
June 30, 2011

	<u>Principal Amount</u>	<u>Interest Rate</u>
Interest Bearing Bonds		
Serial Bonds Maturing as follows:		
2012	885,000	4.00%
2013	945,000	5.00%
2014	1,015,000	4.25%
2015	1,085,000	4.25%
2016	1,155,000	5.00%
2017	1,240,000	5.00%
2018	1,330,000	5.00%
2019	1,425,000	5.00%
2020	1,525,000	5.00%
2021	1,630,000	5.00%
2022	1,740,000	5.00%
2023	1,825,000	5.00%
Term Bonds maturing as follows:		
2024	480,000	4.500%
2025	500,000	4.500%
2026	<u>520,000 *</u>	4.500%
Total Interest Bearing Bonds	<u>\$ 17,300,000</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.



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

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

thereon dated April 2, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and

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