State of Illinois
Illinois State University

Financial Audit
(In Accordance with the Single Audit Act
and Applicable Federal Regulations)
For the Years Ended June 30, 2016 and 2015
Performed as Special Assistant Auditors for
the Auditor General, State of Illinois

State of Illinois
Illinois State University
Financial Audit
For the Years Ended June 30, 2016 and 2015

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Other Reports Issued Under a Separate Cover

The Illinois State University's Compliance Examination (including the Single Audit) for the year ended June 30, 2016, which includes the reports of independent auditors, Schedule of Findings and Questioned Costs, and Supplementary Information for State Compliance Purposes, has been issued under a separate cover.

In accordance with *Government Auditing Standards*, we have also issued a report under a separate cover entitled Report Required Under *Government Auditing Standards* for the Year Ended June 30, 2016, on our consideration of the Illinois State University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of the audit.

State of Illinois
Illinois State University
Financial Audit
June 30, 2016

Agency Officials

President	Dr. Larry Dietz
Vice President for Finance and Planning	Mr. Greg Alt
Vice President for Academic Affairs and Provost	Dr. Janet Wessel Krejci
Vice President for Student Affairs (Interim) Vice President for Student Affairs	Dr. Brent Paterson (07/01/15 – 06/30/16) Dr. Levester Johnson (07/01/16 – current)
Vice President for University Advancement	Mr. Pat Vickerman
Comptroller	Mr. Greg Alt
Legal Counsel	Ms. Lisa Huson
Director - Internal Audit	Mr. Robert Blemler

Board of Trustees (as of June 30, 2016)

Chair	Mr. Rocky Donahue
Secretary	Ms. Anne Davis
Member	Mr. Jay D. Bergman
Member	Mr. Bob Churney
Member	Mr. Robert Dobski
Member	Ms. Betty Kinser
Member	Dr. Mary Ann Louderback
Student Member	Mr. Ryan Powers

Office Locations

Agency offices are located at:

Hovey Hall
Campus Box 1100
Normal, Illinois 61790-1100

State of Illinois
Illinois State University
Financial Statement Report Summary
June 30, 2016

Summary

The audit of the accompanying financial statements of the Illinois State University was performed by BKD, LLP.

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

Summary of Findings

The auditors identified one matter involving Illinois State University's internal control over financial reporting that they considered to be a significant deficiency. The significant deficiency is described in a report released under a separate cover entitled Report Required Under *Government Auditing Standards* for the Year Ended June 30, 2016, as Finding 2016-001, *Inadequate Controls Over Revenue Recognition*.

Number of	Current Report	Prior Report
Findings	1	0
Repeated findings	0	0
Prior recommendations implemented or not repeated	0	0

Exit Conference

This report was discussed with University personnel at an exit conference on November 29, 2016. Attending were:

Representing Illinois State University

Vice President for Finance and Planning	Mr. Greg Alt
Senior Associate Comptroller	Ms. JoEllen Bahnsen
Associate Comptroller	Mr. Doug Schnittker
Director - Internal Audit	Mr. Robert Blemler
Accounting Associate	Ms. Erika Jones
Information Security Officer	Mr. Kevin Crouse
Assistant Vice President for Administrative Technologies and CTO	Mr. Charles Edamala

State of Illinois
Illinois State University
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June 30, 2016

<u>Representing BKD, LLP</u>

Managing Director	Ms. Heather M. Powell, CPA

<u>Representing the Office of the Auditor General</u>

Audit Manager	Mr. Daniel J. Nugent, CPA

BKD LLP
CPAs & Advisors

225 N. Water Street, Suite 400 // Decatur, IL 62523-2326
217.429.2411 // fax 217.429.6109 // bkd.com

Independent Auditor's Report

The Honorable Frank J. Mautino
Auditor General
State of Illinois

and

Board of Trustees
Illinois State University

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 and the discretely presented component unit of the Illinois State University, a component unit of the State of Illinois, as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Illinois State University'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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the discretely presented component unit. Those statements were audited by another auditor whose report has been furnished to us, and our opinions, insofar as they relate to the amounts included for the discretely presented component unit, are based solely on the report of the other auditor. 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. The financial statements of the Illinois State University's discretely presented component unit of the University were not audited in accordance with *Government Auditing Standards.*

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 opinions.

Opinions

In our opinion, based on our audits and the reports of the other auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Illinois State University and its aggregate discretely presented component unit, as of June 30, 2016 and 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1 to the financial statements, the University changed its presentation of its balances and activity related to the Federal Perkins Loan Program in Fiscal Year 2016 to reflect the planned cessation of the program pursuant to the Federal Perkins Loan Program Extension Act of 2015 (Pub. L. No. 114-105). Our opinions are not modified with respect to this matter.

Additionally, as discussed in Note 23 to the financial statements, Public Act 099-0524 granted the University Fiscal Year 2017 appropriations, totaling $38,291,000, which the University has used to pay Fiscal Year 2016 costs as allowed for by Public Act 099-0524. Even though this law was enacted on June 30, 2016, the University did not recognize this nonoperating appropriations revenue from the State of Illinois at June 30, 2016, in accordance with generally accepted accounting principles. Our opinions are not modified with respect to this matter.

Finally, as discussed in Note 24 to the financial statements, the State of Illinois has not enacted an appropriations bill to fund the University's Fiscal Year 2017 operations. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 7-16 and pension information on pages 53 and 54 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2016, on our consideration of the Illinois State University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Illinois State University's internal control over financial reporting and compliance.

SIGNED ORIGINAL ON FILE

Decatur, Illinois
December 5, 2016

Introduction

The following discussion and analysis provides an overview of the financial position and activities of the Illinois State University (University) for the year ended June 30, 2016, with selective comparative information for the years ended June 30, 2015 and 2014. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

The University is governed by the Board of Trustees and is the first institution of higher learning in Illinois, being founded in 1857. The University is a residential university of approximately 21,000 students with six colleges and thirty-five academic departments that offer more than one hundred sixty programs of study. The Graduate School coordinates over forty master's programs, one specialist program, and ten doctoral degree programs.

As required by accounting principles generally accepted in the United States of America, these financial statements present the financial position and financial activities of the University (the primary government) and its component unit (the Illinois State University Foundation). The component unit discussed below is included in the University's financial reporting entity (the Entity) due to the significance of its financial relationship with the University and is in accordance with Governmental Accounting Standards Board (GASB) Statement No. 61.

The Illinois State University Foundation (Foundation) is a University Related Organization as defined under the University Guidelines adopted by the State of Illinois' Legislative Audit Commission in 1982, as amended. The Foundation is reported in a separate column to emphasize that it is an Illinois non-profit organization that is legally separate from the University. Complete financial statements for the Foundation may be obtained by writing the Illinois State University Foundation, Campus Box 8000, Normal, Illinois 61790-8000.

The Foundation was incorporated in May 1948 under the "General Not-for-Profit Corporation Act" for the purpose of providing fund raising and other assistance to the University in order to attract private gifts to support the University's instructional, research and public service activities. The Foundation is an organization as described in Section 501c(3) of the Internal Revenue Code and, is accordingly, exempt from federal income tax.

Overview of the Financial Statements and Financial Analysis

The University is a component unit of the State of Illinois for financial reporting purposes. The financial balances and activities included in these financial statements are also included in the State of Illinois' Comprehensive Annual Financial Report. The State of Illinois' Comprehensive Annual Financial Report may be obtained by writing to the State Comptroller's Office, Division of Financial Reporting, 325 West Adams Street, Springfield, Illinois, 62704-1871 or accessing its website at www.illinoiscomptroller.gov.

Financial Statements Presentation: The University's financial statements include the Statements of Net Position, the Statements of Revenues, Expenses and Changes in Net Position, and the Statements of Cash Flows. The financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles and presented on an entity-wide basis. Several ratios have been included in the financial analysis to help assess the University's financial health.

Statements of Net Position

The Statements of Net Position present the assets, liabilities and net position of the University as of the end of the fiscal years. The Statements of Net Position are point in time financial statements. The purpose of the Statements of Net Position is to present to the readers of the financial statements a fiscal snapshot of Illinois State University at June 30, 2016 and 2015. The Statements of Net Position present end-of-year data concerning assets (current and noncurrent), liabilities (current and noncurrent), and net position (assets plus deferred outflows of resources minus liabilities).

From the data presented, readers of the Statements of Net Position are able to determine the assets available to continue the operations of the institution. Readers should also be able to determine how much the institution owes vendors, investors and lending institutions. Finally, the Statements of Net Position provide a picture of the net position and their availability for expenditure by the institution.

Net position is divided into three major categories. The first category, net investment in capital assets, shows the institution's equity in the property, plant and equipment owned by the institution. The next net position category is restricted net position, which is divided into two categories, nonexpendable and expendable. The corpus of nonexpendable restricted resources is only available for investment purposes. Expendable restricted net position is available for expenditure by the institution but must be spent for purposes as determined by donors and/or external entities that have placed time and/or purpose restrictions on the use of the assets. The final category is unrestricted net position. Unrestricted net position is that net position available to the institution for any lawful purpose of the institution.

Following are condensed Statements of Net Position at June 30, 2016, 2015 and 2014:

	(Thousands of dollars)		
	2016	2015 (as restated)	2014 (as restated)
Assets:			
Current assets	$ 145,471	$ 134,656	$ 118,872
Noncurrent assets:			
Capital assets, net	438,748	442,209	443,207
Other noncurrent assets	154,814	178,555	175,161
Total assets	739,033	755,420	737,240
Deferred outflows	672	651	-
Total assets & deferred outflows	739,705	756,071	737,240
Liabilities:			
Current liabilities	43,819	49,476	50,467
Noncurrent liabilities	148,142	158,597	168,062
Total liabilities	191,961	208,073	218,529
Net Position:			
Net investment in capital assets	308,085	304,289	296,644
Restricted	710	701	695
Unrestricted	238,949	243,008	221,372
Total net position	$ 547,744	$ 547,998	$ 518,711

Current liabilities are obligations of the University coming due in less than one year. Current liabilities consist primarily of accounts payable and accrued liabilities, assets held in custody for others, unearned revenues and the current portion of long-term debt. The following ratio is intended to give an indication of the University's ability to meet its obligations the following year:

The Current Ratio (current assets/current liabilities) is:

(Thousands of dollars)

2016	2015	2014
145,471 / 43,819 = 3.32	134,656 / 49,476 = 2.72	118,872 / 50,467 = 2.36

Noncurrent assets are comprised primarily of net capital assets. Net capital assets decreased $3.4 million and $0.8 million from June 30, 2015 to 2016 and 2014 to 2015, respectively. The decrease in 2016 and 2015 is related to depreciation net of construction and major renovation of University buildings.

Noncurrent liabilities are comprised primarily of Bonds Payable, Certificates of Participation and Accrued Compensated Absences.

Statements of Revenues, Expenses and Changes in Net Position

Changes in total net position presented on the Statements of Net Position are based upon the activity presented in the Statements of Revenues, Expenses and Changes in Net Position. The purpose of the Statements of Revenues, Expenses and Changes in Net Position is to present the revenues received by the institution, both operating and non-operating, and the expenses paid by the institution, operating and non-operating, and any other revenues, expenses, gains and losses received or spent by the institution.

Operating revenues are received for providing goods and services to the various customers and constituencies of the institution. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the institution. Non-operating revenues are revenues received for which goods and services are not provided. These are called non-exchange transactions. For example, State appropriations are classified as non-operating because they are provided by the General Assembly to the institution without the General Assembly directly receiving commensurate goods and services for those revenues.

Student tuition and fees, grants and contracts, the Auxiliary facilities system, State appropriations and payments by the State of Illinois on behalf of the University are the primary sources of funding.

Following are condensed Statements of Revenues, Expenses and Changes in Net Position for the fiscal years ended June 30, 2016, 2015 and 2014:

	(Thousands of dollars)		
	2016	2015 (as restated)	2014 (as restated)
Operating revenues			
Student tuition and fees, net	$ 201,075	$ 191,621	$ 180,469
Grants and contracts	17,323	17,291	17,221
Auxiliary facilities, net	85,467	84,669	83,179
Other	29,050	25,906	25,613
Total operating revenues	332,915	319,487	306,482
Operating expenses	553,765	548,039	544,271
Operating loss	(220,850)	(228,552)	(237,789)
Non-operating revenues			
State appropriations	20,935	72,227	74,089
Payments on behalf of the University	153,593	137,554	128,690
Other, net	43,842	45,040	42,841
Net non-operating revenues	218,370	254,821	245,620
Capital appropriations	467	1,299	891
Capital gifts and grants	1,759	1,091	1,350
Increase/(Decrease) in net position	(254)	28,659	10,072
Net position - beginning of year	547,998	518,711	517,483
Change in accounting principle	-	628	-
Prior period adjustment – Federal loan program	-	-	(8,844)
Net position- beginning of year, as restated	547,998	519,339	508,639
Net position – end of year	$ 547,744	$ 547,998	$ 518,711

The return of net position ratio indicates whether the University is financially better off compared to the previous year by comparing the increase (decrease) in net position to beginning net position. The fluctuations in this ratio are primarily attributable to the decrease in State appropriations (Fiscal Year 2016) and capital project funding levels from both the State of Illinois, Capital Development Board and the Illinois State University Foundation.

The Return on Net Position Ratio (increase (decrease) in net position / beginning of year net position) is:

	(Thousands of dollars)	
2016	2015 (as restated)	2014 (as restated)
(254) / 547,998 = (.05%)	28,659 / 519,339 = 5.52%	10,072 / 508,639 = 1.98%

The net operating revenues ratio indicates whether the University is living within available resources. The ratio is computed by comparing operating income (loss) and net non-operating revenues to total operating revenues and total non-operating revenues. During Fiscal Year 2016 the University had a decrease of $51,291,800 in State appropriations. This had a negative impact of the Return on Net Position Ratio. In previous fiscal years, the positive ratios demonstrated that University expenditures did not exceed available revenues.

The Net Operating Revenues Ratio (operating income (loss) plus net non-operating revenues (expenses) / operating revenues plus non-operating revenues) is:

	(Thousands of dollars)	
2016	2015	2014
(2,480) / 557,997= (.44%)	26,269 / 579,924= 4.53%	7,831 / 557,992= 1.40%

State appropriations revenue decreased from approximately $72 million to $21 million in Fiscal Year 2016. The University enacted tuition and fee increases for fiscal years 2014, 2015 and 2016 to help offset the State appropriation funding trend. Payments on behalf of the University are comprised of payments by the State of Illinois for University employees to the State Universities Retirement System and to the State of Illinois, Department of Central Management Services and payments by the Illinois State University Foundation for salaries and benefits for some positions on campus.

Operating Expenses	(Thousands of dollars) 2016	2015	2014
Expenses by Function			
Instruction	$ 114,761	$ 117,812	$ 113,310
Research	16,877	15,699	14,767
Public service	12,469	12,991	14,210
Academic support	20,099	20,322	19,943
Student services	41,253	42,768	38,758
Institutional support	37,909	37,007	35,453
Operation and maintenance of plant	30,049	30,630	48,728
Depreciation	24,909	24,316	24,529
Staff benefits	1,312	2,738	1,756
Student aid	51,995	52,130	47,116
Payments on behalf of the University	152,072	136,085	127,237
Auxiliary facilities	49,947	53,973	56,645
Other	113	1,568	1,819
Total operating expenses	$ 553,765	$ 548,039	$ 544,271
Expenses by Natural Classification			
Compensation and benefits	$ 360,374	$ 351,741	$ 340,350
Supplies and services	125,986	129,755	141,278
Scholarships	42,496	42,227	38,114
Depreciation	24,909	24,316	24,529
Total operating expenses	$ 553,765	$ 548,039	$ 544,271

The primary reserve ratio compares unrestricted net position and certain expendable net position to total expenses. This ratio is an indicator of how long the University could function by using its reserves without relying on additional net position generated by operations. This ratio continues to remain strong over the last several years as the University has been successful in increasing net position while limiting growth in expenses.

The Primary Reserve Ratio (unrestricted and expendable net position / total expenses) is:

(Thousands of dollars)

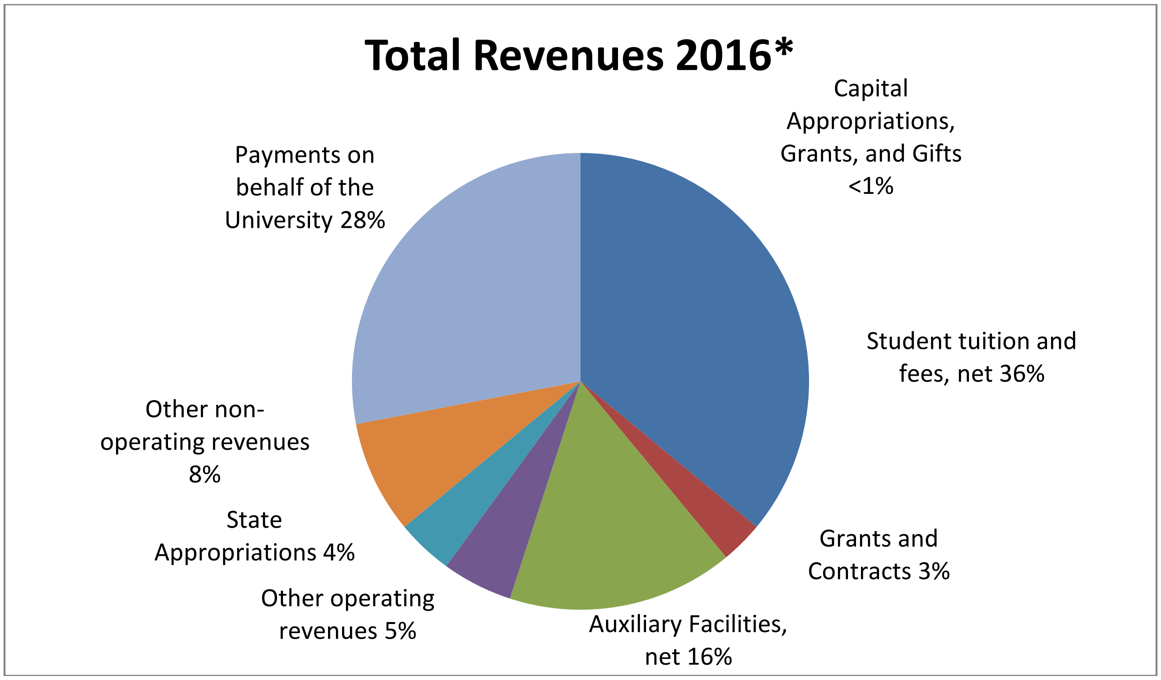
2016	2015 (as restated)	2014 (as restated)
239,660 / 560,476 = 42.76%	243,708 / 553,655 = 44.02%	222,067 / 550,161 = 40.36%

The following summarizes a comparative table of total revenues and total expenses by source/function and percentage:

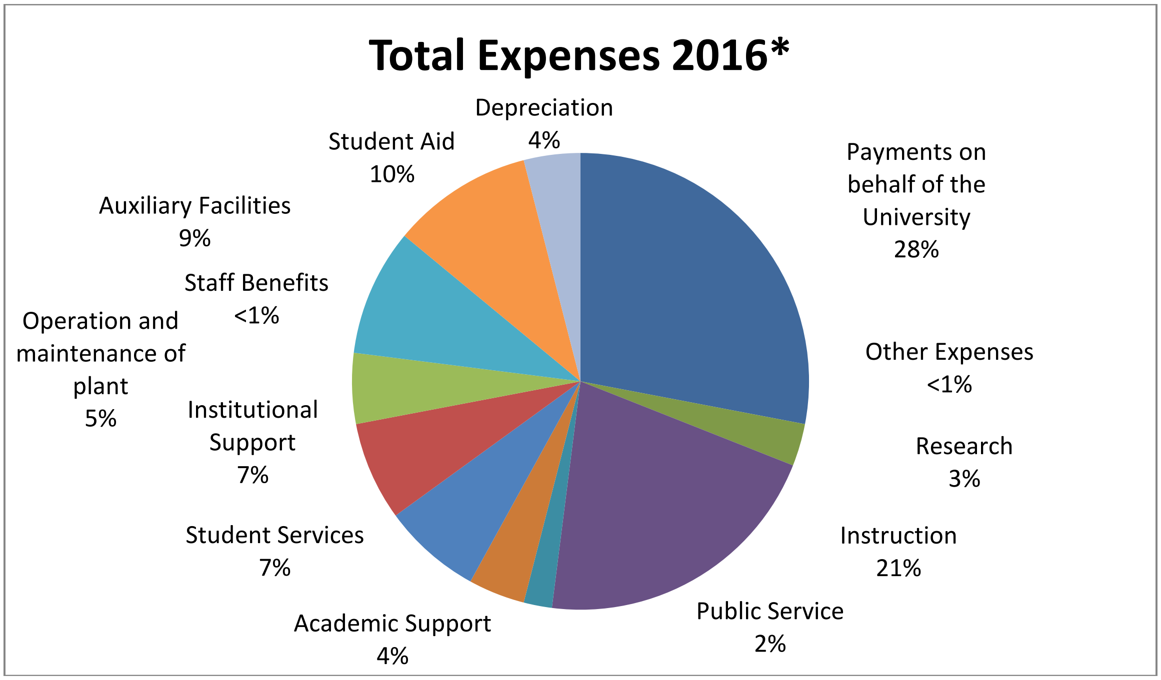
	Percentage*		
	2016	2015	2014
Revenues by Source			
Student tuition and fees, net	36%	33%	33%
Grants and contracts	3	3	3
Auxiliary facilities	16	15	15
Other operating revenues	5	4	5
State appropriations	4	13	13
Payments on behalf of the University	28	24	23
Other non-operating revenues	8	8	8
Capital appropriations, gifts, and grants	<1	<1	<1
Total revenues percentage	100%	100%	100%
Expenses by Function			
Instruction	21%	21%	21%
Research	3	3	3
Public service	2	2	3
Academic support	4	4	4
Student services	7	8	7
Institutional support	7	7	7
Operation and maintenance of plant	5	6	9
Depreciation	4	4	4
Staff Benefits	<1	<1	<1
Student Aid	10	10	9
Payments on behalf of the University	28	25	23
Auxiliary facilities	9	10	10
Other	<1	<1	<1
Total expenses percentage	100%	100%	100%
Expenses by Natural Classification			
Compensation and benefits	65%	64%	63%
Supplies and services	23	24	26
Scholarships	8	8	7
Depreciation	4	4	4
Total operating percentage	100%	100%	100%

* Due to rounding, the percentages may not add to 100%.

The following graph illustrates total revenues by source:



The following graph illustrates total expenditures by function:



* Due to rounding, the percentages may not add to 100%.

Statements of Cash Flows

The Statements of Cash Flows provide information about the University's cash receipts and cash payments. The statements are divided into five sections. The first section deals with operating cash flows and shows the net cash used for the operating activities of the institution. The second section reflects cash flows from noncapital financing activities. This section reflects the cash received and spent for non-operating, non-investing and noncapital financing purposes. The third section shows the cash flows from capital and related financing activities. This section shows the cash used for the acquisition and construction of capital and related items. The fourth section reflects the cash flows from investing activities and shows the purchases, proceeds and interest received from investing activities. The last section reconciles the operating loss shown on the Statements of Revenues, Expenses and Changes in Net Position to the cash used by operating activities on the Statements of Cash Flows.

Following are condensed Statements of Cash Flows for the Years ended June 30, 2016, 2015 and 2014:

	(Thousands of dollars)		
	2016	2015	2014
Net cash used in operating activities	$ (59,657)	$ (65,070)	$ (83,749)
Cash flows provided by noncapital financing activities	81,289	123,067	123,632
Cash flows provided by (used in) capital and related financing activities	(40,797)	(36,259)	5,092
Cash flows provided by (used in) investing activities	5,320	(13,528)	(59,253)
Net increase (decrease) in cash and cash equivalents	(13,845)	8,210	(14,278)
Cash – beginning of year	55,532	47,322	61,600
Cash – end of year	$ 41,687	$ 55,532	$ 47,322

The Statements of Cash Flows include cash transactions of internal service departments, gross receipts and disbursements of the agency custodial accounts, and direct lending receipts and disbursements that are not included in the Statements of Revenues, Expenses and Changes in Net Position.

Capital Asset and Debt Administration

The University's capital assets include land, land improvements, infrastructure, buildings, equipment, library books and construction in progress.

The following summarizes a table of capital assets, accumulated depreciation and depreciation expense for fiscal years ended June 30, 2016, 2015 and 2014.

	(Thousands of dollars) 2016	2015	2014
Capital Assets	$ 865,738	$ 848,056	$ 827,173
Accumulated Depreciation	426,990	405,847	383,966
Capital Assets, Net	$ 438,748	$ 442,209	$ 443,207
Depreciation Expense	$ 24,909	$ 24,316	$ 24,529

Capital asset funding includes revenue bonds, State capital appropriations, internal funds and certificates of participation. These funding sources are used for student housing buildings and classroom buildings.

The University primarily uses revenue bonds and certificates of participation to fund construction projects. The University also occasionally uses capital leases for certain equipment.

The following summarizes a table of long-term debt, including current principal, for fiscal years ended June 30, 2016, 2015 and 2014.

	(Thousands of dollars) 2016	2015	2014
Revenue Bonds	$ 82,196	$ 91,385	$ 97,985
Certificates of Participation	$ 50,884	53,518	56,076
Capital Leases	$ -	508	1,002

On June 30, 2016, Moody's Investors Service downgraded Illinois State University's rating of "A3 negative" on its Auxiliary Facilities System Revenue Bonds to "Baa1" and Certificates of Participation to "Baa2".

The debt burden ratio examines the dependence on borrowed funds as a source of financing and the cost of borrowing relative to overall expenses. It compares the level of current debt service with the University's total expenses.

The Debt Burden Ratio (debt service / total expenses) is:

(Thousands of dollars) 2016	2015	2014
16,144 / 539,204 = 2.99%	16,059 / 533,935 = 3.00%	9,995 / 524,534 = 1.91%

Economic Outlook

The Governor's Office of Management and Budget of the State of Illinois reported $8.071 billion of outstanding bills at the end of June 2016, an increase of $3.668 billion from the end June 2015. As the State has not acted on an appropriation bill to fund higher education, the University has developed a contingency plan to manage reductions of its Fiscal Year 2017 appropriations. On July 22, 2016, the University's Board of Trustees approved a Fiscal Year 2017 budget for operations consistent with Fiscal Year 2016, in an amount not to exceed $422,246,900. As of December 5, 2016, the University has only been appropriated $38,291,000 in appropriations for Fiscal Year 2017, which the University has used to pay Fiscal Year 2016 costs.

The University continues to monitor cash flow and make investment decisions accordingly. The University also experienced record freshman attendance this year as well as maintaining strong student retention.

The University is not aware of any additional facts, decisions, or conditions that might be expected to have a significant effect on the financial position or results of operations during this and future fiscal years.

ILLINOIS STATE UNIVERSITY
STATEMENTS OF NET POSITION
AS OF JUNE 30,

	2016		2015 as restated	
	University	**Foundation**	**University**	**Foundation**
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
Current Assets:				
Cash and cash equivalents	$ 39,270,330	$ 12,981,100	$ 48,550,158	$ 11,001,982
Restricted cash and cash equivalents	2,416,740	-	6,982,251	-
Investments	60,798,900	-	35,809,640	-
Investments Restricted	-	-	2,142,006	-
Accrued interest receivable	617,873	-	483,850	-
Accrued interest receivable restricted	-	-	2,684	-
Accounts receivable, net	28,181,250	27,248	12,783,798	356,120
Student loans receivable, net	7,960,047	-	8,064,663	-
Pledges receivable, net	-	3,616,022	-	995,446
Appropriations receivable from State	6,046	-	14,508,285	-
Inventories	3,239,042	-	2,695,897	-
Prepaid expenses, deposits and other	2,981,251	-	2,632,650	-
Total current assets	145,471,479	16,624,370	134,655,882	12,353,548
Noncurrent Assets:				
Restricted cash and cash equivalents	-	1,680,322	-	771,193
Investments	153,450,396	110,231,367	177,046,710	113,913,327
Investments Restricted	-	-	-	-
Student loans receivable, net	408,671	-	385,604	-
Pledges receivable, net	-	3,111,339	-	1,399,281
Debt issuance costs	654,719	-	521,827	-
Capital assets not depreciated	22,561,235	980,000	37,732,232	980,000
Capital assets, net of depreciation	416,186,998	6,954,303	404,477,280	7,234,869
Other noncurrent assets	300,000	4,093,030	600,000	4,264,569
Total noncurrent assets	593,562,019	127,050,361	620,763,653	128,563,239
Deferred outflow of resources	671,749	-	651,497	-
Total assets and deferred outflows of resources	739,705,247	143,674,731	756,071,032	140,916,787
LIABILITIES				
Current Liabilities:				
Accounts payable and accrued liabilities	16,682,639	3,152,947	18,862,473	757,812
Obligations under capital leases	-	-	507,804	-
Assets held in custody for others and deposits	8,291,942	-	7,127,226	-
Unearned revenue	9,641,964	-	11,356,040	-
Certificates of participation	2,698,545	-	2,633,545	-
Revenue bonds payable	4,396,789	-	6,941,053	-
Accrued compensated absences	2,107,022	-	2,048,201	-
Other	-	442,073	-	420,836
Total current liabilities	43,818,901	3,595,020	49,476,342	1,178,648
Noncurrent Liabilities:				
Assets held in custody for others and deposits	18,759	-	15,873	-
Certificates of participation	48,185,472	-	50,884,018	-
Revenue bonds payable	77,799,611	-	84,444,326	-
Accrued compensated absences	13,293,983	-	14,408,869	-
Obligations under capital leases	-	-	-	-
Federal loan program contributions refundable	8,844,326	-	8,844,326	-
Other	-	3,243,367	-	3,576,177
Total noncurrent liabilities	148,142,151	3,243,367	158,597,412	3,576,177
Total liabilities	191,961,052	6,838,387	208,073,754	4,754,825
NET POSITION				
Net investment in capital assets	308,084,556	4,569,760	304,288,821	4,497,939
Restricted:				
Nonexpendable	-	75,658,324	-	70,558,435
Expendable	710,168	47,918,461	700,983	52,111,758
Unrestricted	238,949,471	8,689,799	243,007,474	8,993,830
Total net position	$ 547,744,195	$ 136,836,344	$ 547,997,278	$ 136,161,962

The accompanying notes are an integral part of the financial statements.

ILLINOIS STATE UNIVERSITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30,

	2016		2015 as restated	
	University	**Foundation**	**University**	**Foundation**
OPERATING REVENUES				
Student tuition and fees, net	$ 201,074,476	$ -	$ 191,621,434	$ -
Federal grants and contracts	12,137,686	-	11,773,800	-
State and local grants and contracts	2,808,607	2,248,812	2,957,409	2,390,524
Nongovernmental grants and contracts	2,376,493	-	2,559,332	-
Sales and services of educational activities	2,686,102	-	2,868,737	-
Auxiliary enterprises:				
Auxiliary facilities	85,467,251	-	84,668,594	-
Other operating revenues	26,364,148	440,111	23,037,486	422,635
Total operating revenues	332,914,763	2,688,923	319,486,792	2,813,159
OPERATING EXPENSES				
Educational and General:				
Instruction	114,760,872	-	117,811,710	-
Research	16,876,976	-	15,699,061	-
Public service	12,468,905	-	12,990,705	-
Academic support	20,098,718	-	20,321,684	-
Student services	41,253,322	-	42,767,857	-
Institutional support	37,909,045	-	37,006,836	-
Operations	-	3,470,142	-	3,428,475
Operation and maintenance of plant	30,048,598	-	30,630,543	-
Depreciation	24,909,190	427,467	24,315,688	420,827
Staff benefits	1,312,034	-	2,738,511	-
Student aid	51,994,936	5,473,772	52,129,985	3,356,153
Payments on behalf of the University	152,071,777	-	136,085,524	-
Auxiliary facilities:				
Student housing, activity facilities, and parking	49,946,816	-	53,973,226	-
Other operating expenditures	113,438	287,904	1,567,580	307,197
Expenditures on behalf of the University and students	-	4,347,781	-	4,599,499
Total operating expenses	553,764,627	14,007,066	548,038,910	12,112,151
Operating loss	(220,849,864)	(11,318,143)	(228,552,118)	(9,298,992)
NON-OPERATING REVENUES (EXPENSES)				
State appropriations	20,934,900	-	72,226,700	-
Payments on behalf of the University - State	152,071,777	-	136,085,524	-
Payments on behalf of the University - Foundation	1,520,963	-	1,468,954	-
Laboratory Schools	8,856,709	-	8,479,585	-
Gifts and donations	274,133	13,799,053	557,001	8,536,856
Investment income (loss), net of investment expenses	4,702,230	(2,948,239)	3,043,908	3,157,189
Interest expense	(6,711,753)	(147,424)	(5,616,037)	(186,084)
Other nonoperating revenues	36,721,327	950,619	38,575,390	756,086
Other nonoperating expenses	-	(1,557,220)	-	(1,261,119)
Net non-operating revenues	218,370,286	10,096,789	254,821,025	11,002,928
Income(loss) before capital items	(2,479,578)	(1,221,354)	26,268,907	1,703,936
Capital appropriations	467,361	-	1,298,673	-
Capital grants and gifts	1,759,134	-	1,091,332	-
Additions to permanent endowments	-	1,895,736	-	1,790,415
Total capital items	2,226,495	1,895,736	2,390,005	1,790,415
Increase(decrease) in net position	(253,083)	674,382	28,658,912	3,494,351
NET POSITION				
Net position, beginning of year	547,997,278	136,161,962	527,554,537	132,667,611
Prior period adjustment - Federal loan program	-	-	(8,844,326)	-
Cumulative effect of changes in accounting principle	-	-	628,155	-
Net position, beginning of year, as restated	547,997,278	136,161,962	519,338,366	132,667,611
Net position, end of year	$ 547,744,195	$ 136,836,344	$ 547,997,278	$ 136,161,962

The accompanying notes are an integral part of the financial statements.

ILLINOIS STATE UNIVERSITY
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30,

	2016 University	2015 University
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 198,336,630	$ 197,747,561
Grants and contracts	18,044,359	19,645,378
Payments to suppliers	(124,074,311)	(127,239,848)
Payments to employees for salaries and benefits	(221,081,840)	(227,032,137)
Payments for scholarships and fellowships	(55,208,762)	(57,753,057)
Student loans issued	(2,094,636)	(1,619,059)
Collection of student loans	2,189,855	1,684,948
Auxiliary enterprise charges:		
Auxiliary Facilities	85,767,943	85,559,005
Sales and service of educational activities	2,686,102	2,868,737
Payments to internal service departments	(21,739,382)	(18,299,470)
Internal service departments receipts	21,739,382	18,299,470
Agency custodial receipts	133,203,975	126,138,075
Agency custodial disbursements	(142,974,106)	(126,490,079)
Other receipts	45,547,273	41,420,929
Net cash used in operating activities	(59,657,518)	(65,069,547)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	35,437,139	75,978,463
Gifts and grants for other than capital purposes	52	1,532
Student direct lending receipts	111,099,727	116,144,105
Student direct lending disbursements	(111,099,727)	(116,144,105)
Other receipts	36,721,328	38,575,391
Laboratory schools	9,130,515	8,511,751
Net cash provided by noncapital financing activities	81,289,034	123,067,137
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from issuance of capital debt:		
Capital long-term debt	36,363,564	-
Gifts and grants for capital purposes	230,290	157,598
Net purchases of capital assets	(21,620,827)	(20,358,217)
Principal paid on capital debt and leases	(49,972,804)	(10,224,561)
Interest paid on capital debt and leases	(5,797,083)	(5,834,199)
Net cash provided by (used in) capital financing activities	(40,796,860)	(36,259,379)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	42,641,000	36,953,000
Interest on investments	4,211,455	4,088,707
Purchase of investments	(41,532,450)	(54,569,292)
Net cash used in investing activities	5,320,005	(13,527,585)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(13,845,339)	8,210,626
Balance, beginning of year	55,532,409	47,321,783
Balance, end of year	$ 41,687,070	$ 55,532,409

The accompanying notes are an integral part of the financial statements.

ILLINOIS STATE UNIVERSITY
STATEMENTS OF CASH FLOWS - CONTINUED
YEARS ENDED JUNE 30,

	2016 University	2015 University
RECONCILIATION		
Operating loss	$ (220,849,864)	$ (228,552,118)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	24,909,190	24,315,688
Payments on behalf of the University	153,592,740	137,554,478
Donated equipment below capitalization threshold	274,081	555,469
Changes in assets and liabilities:		
Accounts receivables, net	(15,679,754)	1,365,514
Student loans receivable, net	81,550	165,667
Inventories	(543,145)	68,602
Other assets	(40,320)	240,513
Deferred outflow of resources	(20,252)	(23,342)
Accounts payable and accrued liabilities	220,799	(1,245,479)
Unearned revenue	(1,714,077)	1,116,252
Assets held in custody for others and deposits	1,167,601	(969,055)
Compensated absences	(1,056,067)	338,264
Net cash used in operating activities	$ (59,657,518)	$ (65,069,547)
SUPPLEMENTAL SCHEDULE OF NONCASH TRANSACTIONS		
Payments on behalf of the University	$ 153,592,740	$ 137,554,478
Donated capital assets	1,759,134	1,091,332
Capital appropriation acquisitions	467,361	1,298,673
Bond accretion	(449,419)	572,200
Donated equipment below capitalization threshold	274,081	196,353
Construction costs in accounts payable	901,103	3,222,476
Investment income unrealized loss and amortization	360,496	(1,050,084)
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET POSITION		
Cash and cash equivalents classified as current assets	$ 39,270,330	$ 48,550,158
Restricted cash and cash equivalents classified as current assets	2,416,740	6,982,251
	$ 41,687,070	$ 55,532,409

Note 1. Summary of Significant Accounting Policies

THE FINANCIAL REPORTING ENTITY AND COMPONENT UNIT DISCLOSURES

The Illinois State University, which is governed by the Board of Trustees, was founded in 1857 and is the oldest public institution of higher learning in Illinois. As required by accounting principles generally accepted in the United States of America, these financial statements present the financial position and financial activities of the University (the primary government) and its discretely presented component unit (the Illinois State University Foundation). The component unit discussed below is included in the University's financial reporting entity (the Entity) due to the significance of its financial relationship with the University and is in accordance with Governmental Accounting Standards Board (GASB) Statement No. 61.

The Illinois State University Foundation (Foundation) is a University Related Organization as defined under the University Guidelines adopted by the State of Illinois' Legislative Audit Commission in 1982. The Foundation is reported in a separate column to emphasize that it is an Illinois non-profit organization that is legally separate from the University. Complete financial statements for the Foundation may be obtained by writing the Illinois State University Foundation, Campus Box 8000, Normal, Illinois 61790-8000.

The Foundation was incorporated in May 1948 under the "General Not-for-Profit Corporation Act" for the purpose of providing fund raising and other assistance to the University in order to attract private gifts to support the University's instructional, research, and public service activities. The Foundation is an organization as described in Section 501(c)(3) of the Internal Revenue Code and, accordingly, exempt from federal income tax. *See Note 13, Transactions with Related Organizations*.

The Foundation has formed two limited liability companies (LLCs) to carry out the Foundation's mission to assist the University. The Foundation is a sole member of each of these LLCs. The governing board for each LLC, known as "Launching Futures, LLC" and "Launching Futures II, LLC", consists of the executive officers of the Foundation. This LLC activity is included as part of the Foundation's financial statements.

The University is a component unit of the State of Illinois for financial reporting purposes. The University is a component unit of the State of Illinois because the Governor appoints a majority of the Board of Trustees, the State is able to impose its will on the University, and the potential exists for the University to provide the State specific financial benefits or impose specific financial burdens on the State. The financial balances and activities included in these financial statements are also included in the State of Illinois' Comprehensive Annual Financial Report. The State of Illinois' Comprehensive Annual Financial Report may be obtained by writing to the State Comptroller's Office, Division of Financial Reporting, 325 West Adams Street, Springfield, Illinois, 62704-1871 or assessing its website at www.illinoiscomptroller.gov.

Financial Statements Presentation: The University's financial statements include the Statements of Net Position, the Statements of Revenues, Expenses and Changes in Net Position and the Statements of Cash Flows. The financial statements are prepared in accordance with GASB principles and presented on an entity-wide basis. The University implemented GASB Statement No. 72, *Fair Value Measurement and Application,* and GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments,* during this fiscal year.

Effective for the periods beginning after June 15, 2014, GASB Statement No. 68 required the University to recognize as deferred outflows the pension contributions made after the measurement date and expensed during the current reporting period. The University is also required to restate beginning net position for deferred outflows made subsequent to the measurement date but before the start of the current fiscal year. The deferred outflow of resources is comprised of pension contributions made during Fiscal Year 2014. Beginning of year net position is being restated as it is not practical to restate Fiscal Year 2014 balances.

Effective September 30, 2015, the federal government discontinued the Perkins Loan Program. The program is currently extended through September 30, 2017, pursuant to the Federal Perkins Loan Program Extension Act of 2015 (Pub. L. No. 114-105). When the program ceases, the University will end its participation in the program. In anticipation of this, a prior period adjustment is being made to record the liability for the total Federal Capital Contribution (FCC) owed to the Department of Education (DOE). The FCC is a total of all contributions received from DOE since inception of program.

	2015
Net position, beginning of year, as originally reported	$527,554,537
Effect of prior period adjustment – Federal loan program	(8,844,326)
Effect of change in accounting principle	628,155
Net position, beginning of year as restated	$519,338,366

Basis of Accounting: For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities, as defined by GASB Statement No. 35. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services. Accordingly, the University's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenue is recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

The Foundation follows the standards for financial statement presentation promulgated by the Financial Accounting Standards Board (FASB). Consequently, reclassifications have been made to convert their financial statements to the GASB format for inclusion in the Foundation column of the financial statements and disclosures.

Cash and Cash Equivalents: In accordance with GASB Statement No. 9, cash equivalents are defined as short-term, highly liquid investments that are both:

a. Readily convertible to known amounts of cash.
b. So near their maturity that they present insignificant risk of changes in value because of changes in interest rates.

Generally, only investments with original maturities of three months or less meet this definition.

Restricted Cash and Cash Equivalents: Included in restricted cash and cash equivalents is the unspent proceeds from revenue bonds and certificates of participation.

Investments: The University accounts for its investments at fair value as determined by quoted market prices in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the Statements of Revenues, Expenses and Changes in Net Position.

Accounts Receivable: Accounts receivable consist of tuition and fee charges to students and auxiliary facilities service provided to students, faculty and staff. Accounts receivable also include amounts due from the Federal government, State and local governments or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

Loans to Students: The University makes loans to students under various Federal and other loan programs. Such loans receivable are recorded net of estimated uncollectible amounts.

Inventories: Inventories are carried at the lower of cost or market on either the first-in, first-out; weighted average; or average cost methods.

Capital Assets: Capital assets are recorded at cost at the date of acquisition, or acquisition value at the date of donation in the case of gifts. Livestock for educational purposes is recorded at estimated fair value. For equipment, the University's capitalization policy includes all items with a unit cost of $5,000 or more and an estimated useful life of greater than two years. Software and other intangibles with a purchase price greater than $100,000 are capitalized. Renovations to buildings, infrastructure and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. The University reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 40 years for buildings, 40 years for infrastructure and land improvements, 10 years for library books, 5 years for software and 3 to 7 years for equipment.

Unearned Revenue: Unearned revenue includes amounts received for tuition and fees, advance ticket sales and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Unearned revenue also includes amounts received from grant and contract sponsors that have not yet been earned.

Compensated Absences: Accrued compensated absences includes each employee's earned but unused vacation and sick leave days, including the University's share of Social Security and Medicare taxes, valued at the current rate of pay at the fiscal year end. The State Finance Act (30 ILCS 105/14a) provides that employees eligible to participate in the State Universities Retirement System are eligible for compensation at time of resignation, retirement, death or other termination of University employment for one-half (1/2) of the unused sick leave earned between January 1, 1984 and December 31, 1997. Any sick leave days that were earned before or after this period of time are not compensable. The liability is recorded at year-end as current and long-term liabilities (*see Note 9*) in the Statements of Net Position. The expense is recorded in the Statements of Revenues, Expenses and Changes in Net Position as a component of operating expenses.

Premiums and Discounts: Premiums and discounts for bonds and certificates of participation are reported within bonds payable and leaseholds payable, respectively, and are amortized over the life of the debt issue using the straight-line method.

Employment Contracts for Certain Academic Personnel: Employment contracts for certain academic personnel provide for twelve monthly salary payments, although the contracted services are rendered during a nine-month period. The liability for those employees who have completed their contracted services, but have not yet received final payment, was $5,429,609 and $5,324,288 at June 30, 2016 and 2015, respectively, and is recorded in the accompanying financial statements.

On-Behalf Payments for Fringe Benefits: In accordance with GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, the University had three sources of financial assistance provided by other entities on behalf of the University during the year ended June 30, 2016. The support provided by these entities on-behalf of the University is reflected as nonoperating revenues and operating expenses within the University's financial statements.

First, the University reported on-behalf payments for its proportional share of the State's pension expense relative to the State Universities Retirement System (SURS) for University employees, totaling $84,206,777. Second, substantially all employees participate in group health insurance and postemployment benefit plans provided by the State and administered by the State's Department of Central Management Services (CMS). CMS prepared an estimation of the total employer contributions allocable to the University's employees, totaling $70,943,000, during the year ended June 30, 2016. The University paid $3,078,000 and the State contributed, on-behalf of the University, $67,865,000 to meet this obligation. Finally, the Foundation made payments on-behalf of the University for salaries and benefits, totaling $1,520,963.

Pensions: For purpose 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 of Illinois (SURS) and additions to/deductions from SURS' plan net position has been determined on the same basis as they are reported by 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 of Illinois 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 of 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 of Illinois is considered a non-employer contributing entity. Participating employers are considered employer contributing entities.

Net Position: The University's net position is classified as follows:

Net investment in capital assets: This represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets.

Restricted net position - nonexpendable: Nonexpendable restricted net position consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

Restricted net position - expendable: Restricted expendable net position include resources in which the University is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

Unrestricted net position: Unrestricted net position represent resources derived from student tuition and fees, State appropriations, and sales and services of educational departments and auxiliary facilities. These resources are not subject to externally imposed stipulations but may be designated for specific purposes by action of management or the Board of Trustees.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the University's policy is to first apply the expense towards restricted resources, and then towards unrestricted resources.

Taxes: Certain activities of the University are subject to State sales tax and some activities may be subject to taxation as unrelated business income under the Internal Revenue Code.

Classification of Revenue: The University has classified its revenue as either operating or non-operating revenue according to the following criteria:

***Operating revenue*:** Operating revenue includes activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary facilities, net of scholarship discounts and allowances, (3) most Federal, State and local grants and contracts except for certain student financial aid classified as non-operating revenues and (4) interest on institutional student loans.

Non-operating revenue: Non-operating revenue includes activities that have the characteristics of non-exchange transactions, such as gifts and contributions. Other significant revenues that are expected to be recurring, including Pell grants, Federal Supplemental Educational Opportunity grants, State Monetary Award Program grants and State appropriations, are considered non-operating revenues under GASB Statement No. 34.

Classification of Expenses: The majority of the University's expenses are exchange transactions, which GASB defines as operating expenses for financial statement preparation. Nonoperating expenses include interest expense at the University and expenditures for University Capital Projects at the Foundation.

Scholarship Discounts and Allowances: Student tuition and fee revenue, and certain other revenue from students, are reported net of scholarship discounts and allowances in the Statements of Revenues, Expenses and Changes in Net Position using the National Association of College and University Business Officers' Advisory Report 2000-05's alternate method calculations. Stipends and other payments made directly to students are reported as scholarship and fellowship expense. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants and other Federal, State or nongovernmental programs, are recorded as either operating or non-operating revenue in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance. The portion of tuition and fees from summer classes applicable to the subsequent fiscal year are recorded as unearned revenue during the current fiscal year and are recognized as revenue during the next fiscal year.

	2016	2015
Student tuition and fees	$ 261,513,908	$ 256,562,889
Less scholarship discounts and allowances	(59,384,983)	(63,771,238)
Less discounts for employee waivers	(1,054,449)	(1,170,217)
Net student tuition and fees	$ 201,074,476	$ 191,621,434
Auxiliary facilities	$ 97,008,419	$ 97,315,559
Less scholarship discounts and allowances	(11,541,168)	(12,646,965)
Net auxiliary facilities	$ 85,467,251	$ 84,668,594

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

Reclassifications: Certain prior year amounts have been reclassified to conform to current year presentations.

Note 2. Deposits

At June 30, 2016 and 2015, the University's bank balances were $32,752,063 and $32,107,491, respectively, and were covered by the Federal Deposit Insurance Corporation or pledged collateral held by the pledging financial instruction in the University's name. The University has no exposure to foreign currency risk.

Foundation Custodial Credit Risk – Deposits: Custodial credit risk is the risk that in the event of a bank failure, deposits may not be returned. The Federal Deposit Insurance Corporation or the Security Investor Protection Corporation insured account had a balance of $2,782,866 and $791,149 at June 30, 2016 and 2015, respectively. Bank balances of $12,000,000 at June 30, 2016, and $11,158,897 at June 30, 2015, were invested in investment sweep funds secured by U.S. government obligations.

DEPOSITS:	2016		2015	
University	Bank Balance	Carrying Amount	Bank Balance	Carrying Amount
Bank Checking Funds	$ 32,752,063	$ 27,352,940	$ 32,107,491	$ 29,909,739
Foundation				
Cash in bank	$ 14,782,866	$ 14,661,422	$ 11,930,090	$ 11,773,175

Reconciliation of cash and cash equivalents to deposits:

	2016	
	University	Foundation
Cash and cash equivalents		
Current	$ 41,687,070	$ 12,981,100
Noncurrent	-	1,680,322
Total cash and cash equivalents	$ 41,687,070	$ 14,661,422
Less: Vault cash and change funds	(159,960)	-
Less: Money market mutual funds classified as investments for purposes of categorization	(14,174,170)	-
Carrying amount of deposits	$ 27,352,940	$ 14,661,422

	2015	
	University	Foundation
Cash and cash equivalents		
Current	$ 55,532,409	$ 11,001,982
Noncurrent	-	771,193
Total cash and cash equivalents	$ 55,532,409	$ 11,773,175
Less: Vault cash and change funds	(192,504)	-
Less: Money market mutual funds classified as investments for purposes of categorization	(25,430,166)	-
Carrying amount of deposits	$ 29,909,739	$ 11,773,175

Note 3. Investments

Investments are recorded at fair market value, as determined by quoted market prices.

UNIVERSITY INVESTMENTS

As of June 30, 2016, the University had the following investments:

	Fair Market Value	Less Than 1 Year	1 to 5 Years	6 to 10 Years	S&P/Moody's Rating
U.S. Treasuries	$ 66,670,000	$ 10,060,950	$ 46,609,050	$ 10,000,000	AAA
Federal Farm Credit Bank	25,352,500	10,154,100	15,198,400	-	AA+/AAA
Federal Home Loan Bank	122,226,796	40,583,850	81,642,946	-	AA+/AAA
Illinois Funds Investment Pool	9,788,888	9,788,888	-	-	AAAm
Bank Money Market Funds	4,385,282	4,385,282	-	-	AAAm/Aaa
Total University	$ 228,423,466	$ 74,973,070	$ 143,450,396	$ 10,000,000	

	Fair Market Value	Level 1	Level 2	Level 3
U.S. Treasuries	$ 66,670,000	$ 66,670,000	$ -	$ -
Bank Money Market Funds	4,385,282	4,385,282	-	-
Federal Farm Credit Bank	25,352,500	-	25,352,500	-
Federal Home Loan Bank	122,226,796	-	122,226,796	-
Total University	$ 218,634,578	$ 71,055,282	$ 147,579,296	$ -

GASB 72 Leveling: Level 1 inputs are quoted prices from active markets for identical assets that can be accessed at a measurement date. Level 2 inputs are derived from observable market data, either directly or indirectly that are other than Level 1.

Interest Rate Risk: The University does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Concentration of Credit Risk: The University places no limit on the amount that may be invested in any one issuer. More than 5% of the University investments are in Federal Farm Credit Bank (11.1%) and Federal Home Loan Bank (53.5%).

Credit Risk: State law authorizes investments of U.S. Government Securities (Treasuries and Agencies), commercial paper (not more than 33% of total cash and investments), money market mutual funds and repurchase agreements. The University's investments are rated by the Moody's Investors Service and the Standard and Poor's Corporation.

The Illinois Funds is an external investment pool administered by the State Treasurer. The fair value of the University's investment fund is the same as the value of pool shares and the investments are reported by the State Treasurer at amortized cost. Although not subject to direct regulatory oversight, the fund is administered in accordance with the provisions of the Public Funds Investment Act (30 ILCS 235), the State Treasurer Act (15 ILCS 505/17) and the Deposit of State Moneys Act (15 ILCS 520/22.5). The University has adopted a formal written investment and cash management policy.

As of June 30, 2015, the University had the following investments:

	Fair Market Value	Less Than 1 Year	1 to 5 Years	6 to 10 Years	S&P/Moody's Rating
U.S. Treasuries	$ 72,571,356	$ 27,367,856	$ 40,203,500	$ 5,000,000	AAA
Federal Farm Credit Bank	32,657,540	7,001,890	25,655,650	-	AA+/AAA
Federal Home Loan Bank	109,769,460	3,581,900	106,187,560	-	AA+/AAA
Illinois Funds Investment Pool	18,447,915	18,447,915	-	-	AAAm
Bank Money Market Funds	6,982,251	6,982,251	-	-	AAAm/Aaa
Total University	$ 240,428,522	$ 63,381,812	$ 172,046,710	$ 5,000,000	

	Fair Market Value	Level 1	Level 2	Level 3
U.S. Treasuries	$ 72,571,356	$ 72,571,356	$ -	$ -
Bank Money Market Funds	6,982,251	6,982,251	-	-
Federal Farm Credit Bank	32,657,540	-	32,657,540	-
Federal Home Loan Bank	109,769,460	-	109,769,460	-
Total University	$ 221,980,607	$ 79,553,607	$ 142,427,000	$ -

Concentration of Credit Risk: The University places no limit on the amount that may be invested in any one issuer. More than 5% of the University investments are in Federal Farm Credit Bank (13.6%) and Federal Home Loan Bank (45.7%).

FOUNDATION INVESTMENTS

The carrying value of the investment portfolio of the Foundation at June 30, 2016, is as follows:

	Fair Market Value	Level 1	Level 2	Level 3
U.S. Treasury Notes	$ 26,173	$ -	$ 26,173	$ -
Common Stock	455,720	455,720	-	-
Mutual Funds-investing in:				
Stocks	54,692,970	-	54,692,970	-
Bonds	7,364,132	-	7,364,132	-
Commodities	395,796	-	395,796	-
International	96,066	-	96,066	-
Real Assets Marketable Funds	12,604,633	-	4,593,607	8,011,026
Hedged and Alternative Funds	33,995,246	-	21,620,585	12,374,661
Real Estate Investment	600,631	-	-	600,631
Total Foundation	$ 110,231,367	$ 455,720	$ 88,789,329	$ 20,986,318

The carrying value of the investment portfolio of the Foundation at June 30, 2015, is as follows:

	Fair Market Value	Level 1	Level 2	Level 3
U.S. Treasury Notes	$ 37,368	$ -	$ 37,368	$ -
Common Stock	450,888	450,888	-	-
Mutual Funds-investing in:				
Stocks	58,469,567	-	58,469,567	-
Bonds	7,102,549	-	7,102,549	-
Commodities	1,202,126	-	1,202,126	-
International	1,854,417	-	1,854,417	-
Real Assets Marketable Funds	11,335,322	-	5,080,927	6,254,395
Hedged and Alternative Funds	32,860,459	-	21,380,924	11,479,535
Real Estate Investment	600,631	-	-	-
Total Foundation	$ 113,913,327	$ 450,888	$ 95,127,878	$ 17,733,930

Interest Rate Risk: The Foundation's investment policy requires the average duration of the fixed income portfolio to be within 20% of the duration of the index to which the portfolio is benchmarked.

Foreign Currency Risk. Foreign currency risk exists when there is a possibility that changes in exchange rates could adversely affect investments denominated in foreign currencies. The Foundation does not have a formal policy that addresses foreign currency risk.

As of June 30, 2016, the Foundation had $8,586,824 in U.S. dollar balances of international mutual fund investments exposed to foreign currency risk. Listed below are the U.S dollar balances of the Foundation's international mutual fund investments exposed to foreign currency risk as of June 30, 2016:

	Global Equity
British Pound	$ 1,867,998
Euro	1,641,730
Japanese Yen	1,431,564
Swiss Franc	718,676
South Korean Won	530,269
Other (individually below 5% of total)	2,396,587
Total	$ 8,586,824

Credit Risk: Credit risk exists when there is a possibility that the issuer or other counterparty to an investment may be unable to fulfill its obligations. The Foundation's investment policy states that no more than 25% of the fixed income portfolio may be rated below investment grade.

As of June 30, 2016, the Foundation had the following investments exposed to interest rate risk and credit risk:

	Fair Market Value	Weighted Average Life	S&P Rating
U.S. Treasury Notes	$ 26,173	1.63 years	AAA
Bond Mutual Funds	7,364,132	6.24 years	A+
Commodities Mutual Funds	395,796	0.3 year	AA-

As of June 30, 2015, the Foundation had the following investments exposed to interest rate risk and credit risk:

	Fair Market Value	Weighted Average Life	S&P Rating
U.S. Treasury Notes	$ 37,368	1.9 years	AAA
Bond Mutual Funds	7,102,549	6.46 years	A+
Commodities Mutual Funds	1,202,126	0.57 year	AA-

INVESTMENTS CONSIST OF THE FOLLOWING:

	2016		2015	
	University	Foundation	University	Foundation
Current:				
Investments	$ 60,798,900	$ -	$ 37,951,646	$ -
Noncurrent:				
Investments	153,450,396	110,231,367	177,046,710	113,913,327
	214,249,296	110,231,367	214,998,356	113,913,327
Money market mutual funds classified as cash and cash equivalents	14,174,170	-	25,430,166	-
Total	$ 228,423,466	$ 110,231,367	$ 240,428,522	$ 113,913,327

Bond resolutions restrict investments in the Auxiliary Debt Retirement account to U.S. Government securities. All other auxiliary facilities money may be invested in any instrument permitted by the laws of the State of Illinois for the investment of public funds.

Foundation policy states that assets are to be invested in a diversified portfolio of equity, fixed income and alternative strategies. No investment is to be made that will cause the total investment in equities or fixed income securities issued or guaranteed by any one person, firm, or corporation to exceed five percent of the then fair market value of the Foundation; provided, this restriction is not to apply to either well diversified mutual funds, pooled funds, unit trust, or the like, or direct obligations of the U.S. Government and its fully guaranteed agencies. Equity investments have an asset allocation range from 47% to 67% of the portfolio with a target weight of 57%; fixed income investments have an asset allocation range from 3% to 15% with a target weight of 5%; marketable alternative investments have an asset allocation range from 10% to 30% with a target weight of 20%; and real assets have an asset allocation range from 5% to 28% with a target weight of 18%.

Note 4. Accounts Receivable

Accounts receivable consist of the following at June 30, 2016 and 2015:

	2016	2015
Student tuition and fees	$ 11,828,409	$ 6,141,885
Auxiliary facilities and other operating activities	3,412,534	3,732,580
Other	11,801,282	709,337
Federal, state, and private grants and contracts	3,548,219	4,578,008
Sub-total	30,590,444	15,161,810
Less allowance for uncollectible accounts	(2,409,194)	(2,378,012)
Net Accounts Receivable	$ 28,181,250	$ 12,783,798

Note 5. Student Loans Receivable

Student loans receivable at June 30, 2016 and 2015 are summarized as follows:

	2016	2015
Perkins student loan fund	$ 8,902,077	$ 9,010,679
Nursing loan fund	473,559	447,434
University loan fund	29,229	38,261
Sub-total	9,404,865	9,496,374
Less allowance for uncollectible accounts	(1,036,147)	(1,046,107)
Net Student Loans Receivable	$ 8,368,718	$ 8,450,267
Estimated current portion	$ 7,960,047	$ 8,064,663
Estimated noncurrent portion	408,671	385,604
Total	$ 8,368,718	$ 8,450,267

Effective September 30, 2015, the Federal Government discontinued the Perkins Loan Program. As a result, the University reclassified all receivables in the Perkins student loan fund to current.

Note 6. Foundation Pledges Receivable

Foundation pledges receivable at June 30, 2016 and 2015 are summarized as follows:

	2016	2015
Pledges to be collected	$ 6,970,826	$ 2,638,241
Less discount for the time value of money	(67,456)	(45,646)
Less allowance for uncollectible accounts	(176,009)	(197,868)
Net Foundation Pledges Receivable	$ 6,727,361	$ 2,394,727
Estimated current portion	$ 3,616,022	$ 995,446
Estimated noncurrent portion	3,111,339	1,399,281
Total	$ 6,727,361	$ 2,394,727

Note 7. Unearned Revenue

Unearned revenue consists of the following at June 30, 2016 and 2015:

	2016	2015
Prepaid tuition and fees	$ 6,290,375	$ 6,333,838
Auxiliary facilities	750,522	745,822
Grants and contracts	2,497,182	4,179,082
Other	103,885	97,298
Unearned Revenue	$ 9,641,964	$ 11,356,040

Note 8. Capital Assets

Capital assets activity for the year ended June 30, 2016 is summarized as follows:

University

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Capital assets not being depreciated					
Land	$ 15,905,796	$ -	$ -	$ 217,099	$ 16,122,895
Construction in progress	21,826,436	10,818,601	-	(26,206,697)	6,438,340
Total capital assets not being depreciated	$ 37,732,232	$ 10,818,601	$ -	$ (25,989,598)	$ 22,561,235
Capital assets being depreciated					
Site Improvements	$ 35,013,200	$ -	$ (721,075)	$ -	$ 34,292,125
Infrastructure	13,146,983	-	-	-	13,146,983
Buildings	570,379,685	1,399,773	-	6,321,371	578,100,829
Equipment	97,117,676	4,720,870	(3,156,010)	(10,112,489)	88,570,047
Internally Generated Software	-	911,562	-	29,780,716	30,692,278
Library Materials	94,666,343	3,708,703	-	-	98,375,046
Total capital assets being depreciated	$ 810,323,887	$ 10,740,908	$ (3,877,085)	$ 25,989,598	$ 843,177,308
Less Accumulated Depreciation for					
Site Improvements	$ 14,447,795	$ 997,016	$ (679,013)	$ -	$ 14,765,798
Infrastructure	7,599,460	302,343	-	-	7,901,803
Buildings	230,222,929	13,090,727	-	-	243,313,656
Equipment	78,580,884	4,833,600	(3,086,474)	(4,122,004)	76,206,006
Internally Generated Software	-	1,954,489	-	4,122,004	6,076,493
Library Materials	74,995,539	3,731,015	-	-	78,726,554
Total Accumulated Depreciation	$ 405,846,607	$ 24,909,190	$ (3,765,487)	$ -	$ 426,990,310
Total capital assets being depreciated, net	$ 404,477,280	$ (14,168,282)	$ (111,598)	$ 25,989,598	$ 416,186,998
Capital assets, net	$ 442,209,512	$ (3,349,681)	$ (111,598)	$ -	$ 438,748,233

Foundation

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Capital assets not being depreciated	$ 980,000	$ -	$ -	$ -	$ 980,000
Capital assets being depreciated	10,872,013	146,901	-	-	11,018,914
Less accumulated depreciation	3,637,144	427,467	-	-	4,064,611
Total capital assets being depreciated	$ 7,234,869	$ (280,566)	$ -	$ -	$ 6,954,303
Capital assets, net	$ 8,214,869	$ (280,566)	$ -	$ -	$ 7,934,303

Capital assets activity for the year ended June 30, 2015 is summarized as follows:

University

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Capital assets not being depreciated					
Land	$ 15,263,775	$ 642,021	$ -	$ -	$ 15,905,796
Construction in progress	11,830,675	13,222,119	-	(3,226,358)	21,826,436
Total capital assets not being depreciated	$ 27,094,450	$ 13,864,140	$ -	$ (3,226,358)	$ 37,732,232
Capital assets being depreciated					
Land Improvements	$ 35,013,200	$ -	$ -	$ -	$ 35,013,200
Infrastructure	13,146,983	-	-	-	13,146,983
Buildings	566,184,287	969,040	-	3,226,358	570,379,685
Equipment	95,235,693	4,367,671	(2,485,688)	-	97,117,676
Library Materials	90,498,843	4,167,500	-	-	94,666,343
Total capital assets being depreciated	$ 800,079,006	$ 9,504,211	$ (2,485,688)	$ 3,226,358	$ 810,323,887
Less Accumulated Depreciation for					
Land Improvements	$ 13,444,289	$ 1,003,506	$ -	$ -	$ 14,447,795
Infrastructure	7,296,909	302,551	-	-	7,599,460
Buildings	217,189,653	13,033,276	-	-	230,222,929
Equipment	74,694,116	6,322,299	(2,435,531)	-	78,580,884
Library Materials	71,341,483	3,654,056	-	-	74,995,539
Total Accumulated Depreciation	$ 383,966,450	$ 24,315,688	$ (2,435,531)	$ -	$ 405,846,607
Total capital assets being depreciated, net	$ 416,112,556	$ (14,811,477)	$ (50,157)	$ 3,226,358	$ 404,477,280
Capital assets, net	$ 443,207,006	$ (947,337)	$ (50,157)	$ -	$ 442,209,512

Foundation

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Capital assets not being depreciated	$ 980,000	$ -	$ -	$ -	$ 980,000
Capital assets being depreciated	10,742,698	147,496	(18,181)	-	10,872,013
Less accumulated depreciation	3,234,498	420,827	(18,181)	-	3,637,144
Total capital assets being depreciated	$ 7,508,200	$ (273,331)	$ -	$ -	$ 7,234,869
Capital assets, net	$ 8,488,200	$ (273,331)	$ -	$ -	$ 8,214,869

Capitalized Interest: During fiscal year ended 2016 and 2015, the University capitalized $348,502 and $891,903, net of interest expense realized in the amount $6,711,753 and $5,616,037 for construction projects, respectively.

Note 9. Long-term Liabilities

UNIVERSITY LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2016, was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Total				
Accrued compensated absences	$ 16,457,070	$ 908,113	$ (1,964,178)	$ 15,401,005
Certificates of participation	53,517,563	-	(2,633,546)	50,884,017
Revenue bonds payable	91,385,379	37,124,575	(46,313,554)	82,196,400
Total	$ 161,360,012	$ 38,032,688	$ (50,911,278)	$ 148,481,422
Current portion				
Accrued compensated absences	$ 2,048,201			$ 2,107,022
Certificates of participation	2,633,545			2,698,545
Revenue bonds payable, net	6,941,053			4,396,789
Total current portion	$ 11,622,799			$ 9,202,356
Noncurrent portion				
Accrued compensated absences	$ 14,408,869			$ 13,293,983
Certificates of participation	50,884,018			48,185,472
Revenue bonds payable, net	84,444,326			77,799,611
Total noncurrent portion	$ 149,737,213			$ 139,279,066

Long-term liability activity for the year ended June 30, 2015, was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Total				
Accrued compensated absences	$ 16,118,806	$ 2,030,034	$ (1,691,770)	$ 16,457,070
Certificates of participation	56,076,108	-	(2,558,545)	53,517,563
Revenue bonds payable	97,984,633	550,336	(7,149,590)	91,385,379
Total	$ 170,179,547	$ 2,580,370	$ (11,399,905)	$ 161,360,012
Current portion				
Accrued compensated absences	$ 2,022,159			$ 2,048,201
Certificates of participation	2,558,545			2,633,545
Revenue bonds payable, net	6,908,055			6,941,053
Total current portion	$ 11,488,759			$ 11,622,799
Noncurrent portion				
Accrued compensated absences	$ 14,096,647			$ 14,408,869
Certificates of participation	53,517,563			50,884,018
Revenue bonds payable, net	91,076,578			84,444,326
Total noncurrent portion	$ 158,690,788			$ 149,737,213

Revenue bonds payable at June 30, 2016 and 2015 consists of the following:

	2016	2015
Revenue Bonds, Series 1996:		
Capital Appreciation Bonds	$ -	$ 5,466,463
Revenue Bonds, Series 2006:		
New Project Bonds	-	39,022,209
Revenue Bonds, Series 2008:		
New Project Bonds	25,165,000	26,150,000
Revenue Bonds, Series 2012:		
New Project Bonds	18,230,000	18,696,707
New Project Bonds, Taxable	1,550,000	2,050,000
Revenue Bonds, Series 2016:		
Refunding Bonds	33,320,000	-
Total Revenue Bonds payable	$ 78,265,000	$ 91,385,379

Maturities and interest requirements on revenue bonds payable at June 30, 2016, are as follows:

Year Ending June 30	Principal	Interest	Total
2017	$ 4,095,000	$ 3,403,945	$ 7,498,945
2018	4,185,000	3,298,631	7,483,631
2019	4,335,000	3,144,441	7,479,441
2020	4,520,000	2,956,391	7,476,391
2021	4,730,000	2,753,166	7,483,166
Sub-total	21,865,000	15,556,574	37,421,574
2022-2026	27,115,000	10,269,829	37,384,829
2027-2031	23,560,000	4,021,495	27,581,495
2032-2033	5,725,000	375,050	6,100,050
Sub-total	78,265,000	$ 30,222,948	$ 108,487,948
Additions (Deductions):			
Unaccreted Appreciation	-		
Unamortized Discounts	-		
Unamortized Premiums	3,931,400		
Total	$ 82,196,400		

The Series 1996, 2006, 2008, 2012 and 2016 bonds are secured by a pledge of the net revenue of auxiliary facilities, as well as the pledged portion of the tuition, health service and athletic and service fees charged to students. None of these revenue bonds constitute obligations of the State.

On December 10, 1996, $18,101,018 in Revenue Bonds, Series 1996 were issued. The Series 1996 Bonds consisted of $13,760,000 in Current Interest Bonds and $4,341,018 in Capital Appreciation Bonds. The Current Interest Bonds matured on April 1, 2013. The Capital Appreciation Bonds have a principal at maturity of $12,755,000 and an original issue discount of $8,413,982. The original issue discount is being accreted to interest expense over the term of the bonds. The Capital Appreciation Bonds yield 5.80% to 5.90% interest and mature annually commencing April 1, 2014, through April 1, 2016.

On March 21, 2006, $45,595,000 in Revenue Bonds, Series 2006 were issued. The Series 2006 Bonds consisted of $39,625,000 of New Project Bonds and $5,970,000 in Current Refunding Bonds. The New Project Bonds mature beginning April 1, 2017, and continuing through April 1, 2031. These New Project Bonds bear interest from 3.90% to 4.40%. Interest is payable on April 1 and October 1 of each year, commencing October 1, 2006. The Current Refunding Bonds matured on April 1, 2013.

On March 1, 2008, $30,635,000 in Revenue Bonds, Series 2008 were issued. The New Project Bonds mature beginning April 1, 2011, and continuing through April 1, 2033. These New Project Bonds bear interest from 2.70% to 5.00%. Interest is payable on April 1 and October 1 of each year, commencing October 1, 2008.

On May 16, 2012, $21,280,000 in Revenue Bonds, Series 2012 were issued. The Series 2012 Bonds consisted of $18,230,000 of Series 2012A Bonds and $3,050,000 Series 2012B (taxable) Bonds. The Series 2012A Bonds mature beginning April 1, 2018, and continuing through April 1, 2032. The Series 2012A Bonds bear interest from 3.00% to 4.00%. Interest is payable on April 1 and October 1 of each year, commencing on October 1, 2012. The Series 2012B Bonds mature beginning April 1, 2014, and continuing through April 1, 2018. The Series 2012B Bonds bear interest from 1.30% to 2.40%. Interest is payable on April 1 and October 1 of each year, commencing on October 1, 2012.

On March 31, 2016, $33,320,000 in Revenue Bonds, Series 2016 were issued. Proceeds of the bonds were used to refund the outstanding principal of the Series 2006 Revenue Bonds. The refunding resulted in a net decrease in the debt service payment of $7,095,252 and an estimated savings of $3,604,868 in present value. The Series 2016 Bonds mature beginning April 1, 2017, and continuing through April 1, 2029. These Refunding Bonds bear interest from 2.00% to 5.00%. Interest is payable on April 1 and October 1 of each year, commencing October 1, 2016.

As a requirement of issuing revenue bonds the University is subject to certain covenants. The University monitors its compliance with these covenants and is not aware of violations of these covenants.

PLEDGED REVENUES & SERVICE REQUIREMENTS

The University has pledged fees relating to tuition, health services, athletics, health insurance, student activities and all other fees (excluding laboratory and library fees) collected from students, to repay the principal and interest of revenue bonds. A total of $108,487,948 of future revenues is pledged through 2033. Debt service to pledged revenues for the current year is 5.457%.

CERTIFICATES OF PARTICIPATION PAYABLE

On June 4, 2008, $22,230,000 in Certificates of Participation were issued. The Series 2008 Certificates of Participation mature beginning April 1, 2010, continuing through April 1, 2028. These Certificates of Participation bear interest from 3.00% to 4.50%. Interest is payable on April 1 and October 1 of each year, commencing October 1, 2008.

On May 17, 2011, $15,000,000 in Certificates of Participation were issued. The Series 2011 Certificates of Participation mature beginning April 1, 2012, continuing through April 1, 2032. These Certificates of Participation bear interest from 4.00% to 5.375%. Interest is payable on April 1 and October 1 of each year, commencing October 1, 2011.

On May 14, 2014, $25,000,000 in Certificates of Participation were issued. The Series 2014 Certificates of Participation consisted of $9,200,000 of Series 2014A-1 Certificates of Participation and $15,800,000 Series 2014A-2 Certificates of Participation. The Series 2014A-1 Certificates of Participation mature beginning April 1, 2015, and continuing through April 1, 2023. The Series 2014A-1 Certificates of Participation bear interest at 2.29%. Interest is payable on April 1 and October 1 of each year, commencing on October 1, 2014. The Series 2014A-2 Certificates of Participation mature beginning April 1, 2024, and continuing through April 1, 2034. The Series 2014A-2 Certificates of Participation bear interest from 3.625% to 4.125%. Interest is payable on April 1 and October 1 of each year, commencing on October 1, 2014.

Maturities and interest requirements on certificates of participation at June 30, 2016, are as follows:

Year Ending June 30	Principal	Interest	Total
2017	$ 2,710,000	$ 2,050,242	$ 4,760,242
2018	2,795,000	1,958,600	4,753,600
2019	2,885,000	1,863,729	4,748,729
2020	2,985,000	1,765,600	4,750,600
2021	3,100,000	1,661,876	4,761,876
Sub-total	14,475,000	9,300,047	23,775,047
2022-2026	17,515,000	6,432,446	23,947,446
2027-2031	13,300,000	2,809,844	16,109,844
2032-2034	5,775,000	462,356	6,237,356
Sub-total	51,065,000	$ 19,004,693	$ 70,069,693
Additions (Deductions):			
Unamortized Discounts	(227,293)		
Unamortized Premiums	46,310		
Total	$ 50,884,017		

ACCRUED COMPENSATED ABSENCES

Compensated absences consist of accrued vacation and sick leave. The total for accrued vacation and sick leave for the University is shown below:

	Vacation	Sick	Total
2016	$ 12,041,446	$ 3,359,559	$ 15,401,005
2015	$ 12,448,507	$ 4,008,563	$ 16,457,070

FOUNDATION LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2016, was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Total				
Beneficiary payments	$ 280,083	$ 81,031	$ (40,216)	$ 320,898
Deferred rent	900,000	-	(300,000)	600,000
Contract-for-deed payable	2,816,930	-	(52,388)	2,764,542
Total	$ 3,997,013	$ 81,031	$ (392,604)	$ 3,685,440
Current portion				
Beneficiary payments	$ 31,300			$ 40,200
Deferred rent	300,000			300,000
Contract-for-deed payable	89,536			101,873
Total current portion	$ 420,836			$ 442,073
Noncurrent portion				
Beneficiary payments	$ 248,783			$ 280,698
Deferred rent	600,000			300,000
Contract-for-deed payable	2,727,394			2,662,669
Total noncurrent portion	$ 3,576,177			$ 3,243,367

Long-term liability activity for the year ended June 30, 2015, was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Total				
Beneficiary payments	$ 249,972	$ 56,250	$ (26,139)	$ 280,083
Deferred rent	1,200,000	-	(300,000)	900,000
Contract-for-deed payable	2,900,845	-	(83,915)	2,816,930
Total	$ 4,350,817	$ 56,250	$ (410,054)	$ 3,997,013
Current portion				
Beneficiary payments	$ 25,300			$ 31,300
Deferred rent	300,000			300,000
Contract-for-deed payable	83,916			89,536
Total current portion	$ 409,216			$ 420,836
Noncurrent portion				
Beneficiary payments	$ 224,672			$ 248,783
Deferred rent	900,000			600,000
Contract-for-deed payable	2,816,929			2,727,394
Total noncurrent portion	$ 3,941,601			$ 3,576,177

FOUNDATION CONTRACT-FOR-DEED PAYABLE

A contract at June 30, 2016, consisted of a $3,300,000 installment contract-for-deed secured by the Alumni Center building. The contract requires 119 monthly payments of $16,160 at 3.34% interest with a final payment of the remaining outstanding balance.

Maturities and Interest Requirements on the contract payable at June 30, 2016, are as follows:

Year Ending June 30	Principal	Interest	Total
2017	$ 101,873	$ 92,052	$ 193,925
2018	105,377	88,548	193,925
2019	109,001	84,924	193,925
2020	112,528	81,397	193,925
2021	116,621	77,304	193,925
Sub-total	545,400	424,225	969,625
2022-2026	2,219,142	296,459	2,515,601
Total	$ 2,764,542	$ 720,684	$ 3,485,226

Note 10. Leases

CAPITALIZED LEASES

Certain leases in which the Board of Trustees, the governing board of the University, is the lessee are considered to be equivalent to installment purchases for accounting presentation. The assets recorded under these leases have been capitalized at the present value of future lease payments, measured at lease inception date as required by GASB Statement No. 62. Assets under capital lease at June 30, 2016 and 2015, totaled $0 and $821,668, respectively, net of accumulated depreciation of $0 and $1,206,636, respectively.

On March 30, 2011, the University entered into a capital lease agreement in an amount not to exceed $2,410,000 with Banc of America Public CapitalCorp to finance equipment and IT costs for the Mennonite Lab Building.

The final payment for the Mennonite Capital Lease was remitted March, 30, 2016; this is no longer considered a capital lease.

OPERATING LEASES

The University has entered into agreements to lease recreational space and office space that the University is treating as operating leases. Rent expense for the years ended June 30, 2016 and 2015 was $1,450,613 and $1,990,442, respectively. The leases expire between June 2016 and September 2020. Following is a schedule of future minimum lease payments.

Year Ending June 30	Building
2017	$ 1,522,560
2018	1,423,100
2019	1,102,256
2020	627,608
Total	$ 4,675,524

In 1990, the Foundation established a Chicago office to provide the University with direct access to Chicago area alumni, corporations and Foundation networks. Lease payments for the Chicago office were $81,340 in 2016 and $44,071 in 2015. The original lease expired in December 2014 and was renewed for an additional five years with the first five months of rent abated per the renewal agreement. Following is a schedule of future minimum lease payments.

Year Ending June 30	Building
2017	$ 85,021
2018	89,581
2019	91,838
2020	46,295
Total	$ 312,735

The University leases twelve vehicles for the Athletic Department employees at a cost of $43,500 in Fiscal Years 2016 and 2015. The Foundation makes the payments on these leased vehicles. All twelve vehicle leases expire during Fiscal Year 2017. Following is a schedule of future minimum lease payments.

Year Ending June 30	Vehicles
2017	36,250
Total	$ 36,250

Note 11. Defined Benefit Pension Plan

General Information about the Pension Plan

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

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 other eligible Illinois reciprocal system services. The revised plan is referred to as Tier 2. New employees are allowed six months after their date of hire to make an irrevocable election. A summary of the benefit provisions as of June 30, 2015 can be found in SURS' Comprehensive Annual Financial Report's Notes to the Financial Statements.

Contributions: The State of Illinois is primarily responsible for funding the System 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 2015 and 2016, respectively, was 11.71% and 12.69% of employee payroll. The normal cost is equal to the value of current year's pension benefit and does not include any allocation for the past unfunded liability or interest on the unfunded liability. Plan members are required to contribute 8.0% (up to 9.5% for police officers) 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: At June 30, 2015, SURS reported a net pension liability (NPL) of $21,790,983,139. The net pension liability was measured as of June 30, 2014.

University's Proportionate Share of Net Pension Liability: The amount of the proportionate share of the net pension liability to be recognized for the University is $0. The proportionate share of the State's net pension liability associated with the University is $1,002,937,669 or 4.2218%. This amount is not recognized in the University's financial statements. The net pension liability and the total pension liability as of June, 30, 2015, was determined based on the June 30, 2014, actuarial valuation rolled forward. The basis of allocation used in the proportionate share of net pension liability is the actual reported pensionable contributions made to SURS during Fiscal Year 2015.

Pension Expense: At June 30, 2015, the State reported a collective net pension expense of $1,994,587,170.

University's Proportionate Share of Pension Expense: The University's proportionate share of collective pension expense is 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 SURS during Fiscal Year 2015. As a result, the University recognized on-behalf revenue and pension expense of $84,206,777 for the year ended June 30, 2016.

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

State's Collective Deferred Outflows and Deferred Inflows of Resources by Sources

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$27,312,043	$0
Changes in assumption	609,393,909	0
Net difference between projected and actual earnings on pension plan investments	593,840,642	953,329,464
Total	$1,230,546,594	$953,329,464

State's Collective Deferred Outflows and Deferred Inflows of Resources by Year to be Recognized in Future Pension Expenses

Year Ending June 30		Net Deferred Outflows of Resources
2016	$	154,951,326
2017		118,957,720
2018		(145,152,075)
2019		148,460,159
2020		-
Thereafter		-
Total	$	277,217,130

University's Deferral of Fiscal Year 2016 Pension Expense: The University paid $671,749 in federal, trust or grant contributions for the year ended June 30, 2016. These contributions were made subsequent to the pension liability measurement date of June 30, 2015, and are recognized as Deferred Outflows of Resources as of June 30, 2016.

Assumptions and Other Inputs

Actuarial assumptions: The actuarial assumptions used in the June 30, 2015, 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, 2015, 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 12.00 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 RP2000 Combined Mortality Table, projected with Scale AA to 2017, sex-distinct, with rates multiplied by 0.80 for males and 0.85 for females.

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). For each major asset class that is included in the pension plan's target asset allocation as of June 30, 2014, these best estimates are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	23%	5.77%
Private Equity	6%	9.23%
Non-U.S. Equity	19%	6.69%
Global Equity	8%	6.51%
Fixed Income	19%	1.12%
Treasury-Inflation Protected Securities	4%	1.22%
Emerging Market Debt	3%	4.61%
Real Estate REITS	4%	5.85%
Direct Real Estate	6%	4.37%
Commodities	2%	4.06%
Hedged Strategies	5%	3.99%
Opportunity Fund	1%	6.80%
Total	100%	5.02%
Inflation		3.00%
Expected Arithmetic Return		8.02%

Discount Rate: A single discount rate of 7.120% 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 7.250% and a municipal bond rate of 3.80% (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 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 2072. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2072, and the municipal bond rate was applied to all benefit payments after that date.

Sensitivity of the State's 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 State's net pension liability, calculated using a single discount rate of 7.12%, as well as what the plan's net pension liability would be if it were calculated using a single discount rate that is one percentage-point lower or one percentage-point higher:

1% Decrease 6.12%	Current Single Discount Rate Assumption 7.12%	1% Increase 8.12%
$28,929,333,917	$23,756,361,087	$19,470,982,362

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.

Note 12. Post-employment Benefits

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

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

A summary of post-employment benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the financial statements of the State of Illinois, Department of Central Management Services. A copy of these financial statements may be obtained by writing to the State of Illinois, Department of Central Management Services, Stratton Office Building, 401 South Spring Street, Springfield, Illinois 62706.

Note 13. Transactions with Related Organizations

The Foundation is a related organization formed to support in various ways the University's instructional, research and public service missions. The University and the Foundation entered into a three year Support Agreement effective July 1, 2012, whereby the University agrees to provide to the Foundation fair and reasonable compensation in exchange for development and fundraising services up to a maximum value. The maximum value in subsequent years was adjusted by a factor equal to average salary increases. The agreement expired on June 30, 2016, and was renewed for one additional year term. The maximum values under the agreements were $2,518,000 and $2,444,940 for the years ended June 30, 2016 and 2015, respectively. In additional consideration for these services, the University provided office space, clerical, accounting and computer support estimated to be $2,248,812 and $2,390,524 during Fiscal Years 2016 and 2015, respectively.

In June 2007, Launching Futures II, LLC invested in real estate for $600,631 for use by the University as a remote parking lot. Concurrently, Launching Futures II, LLC signed a lease agreement with the University for the real estate providing for annual payments of $49,992 from the University to Launching Futures II, LLC. The lease had a five year term that the University renewed for an additional five years during May 2013. $24,996 was paid during Fiscal Year 2017 before cancelling the lease mid-year. No future lease payments will be received from the University.

In Fiscal Year 2009, Launching Futures, LLC acquired real estate for approximately $6.3 million that was being leased by the University from an outside party. Once the sales contract was signed, the University continued to lease the property from the seller until the initial closing. The acquired real estate serves as the University’s Alumni Center. To assist with construction improvement costs, the University made a $3 million prepaid rent payment in July 2008. Launching Futures, LLC leases the property to the University at $19,167 per month. Also, the University and Foundation are amortizing the $3 million prepaid rent over a ten-year period at $300,000 per year.

Note 14. Student Health Insurance

The University contracts with Aetna Student Health (ASH) formerly known as The Chickering Group, an Aetna Company of Burlington, Massachusetts for administration of the Aetna Student Health Insurance Plan to provide insurance benefits to students of the University. Students enrolled in nine or more semester hours of credit pay a premium for this coverage. As part of the contractual agreement between the University and ASH, the University has a premium stabilization reserve (PSR) which is used to minimize future plan year increases in the premium based on unexpectedly high claims utilization. As each Plan Year is finalized, costs are debited (gains are credited) to an account funded by the University each year (15% of expected premium at the initial deposit, but adjusted to 15% of actual premium upon reconciliation). The reserve for 2014-2015 of $1,074,008 became available upon final calculation in June 2016. The entire reserve of $1,074,008 plus experience surplus of $1,510,771 was remitted to the University in July 2016. Potential future refunds are still at risk for unexpected claims losses, they are not recorded as assets. Assuming medical trend, no plan design changes, and no change in enrollment, the University estimates $1,250,000 to be needed to fund Fiscal Year 2018.

Note 15. Student Financial Assistance

The University participates in the U.S. Department of Education's Direct Student Loan Program. The University awarded $111,099,727 and $116,144,105 in Direct Student Loans for the years ended June 30, 2016 and 2015, respectively. The University classified this loan program as noncash federal awards, and it is disclosed in the footnotes to the University's Schedule of Expenditures of Federal Awards in the University's Compliance Examination report. Accordingly, no revenue or expenses are included in the financial statements of the University.

Note 16. Risk-Management

The University has various loss related exposures. These exposures include torts, theft, damages and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The University purchases commercial insurance policies for these loss exposures. During the years ended June 30, 2016 and 2015, there were no significant reductions in coverage. In addition, the University expanded their insurance policy to include in-depth fine arts coverage, cyber security/liability insurance, additional professional liability insurance and non-owned aircraft coverage.

As a public university in the State of Illinois, the University enjoys certain statutory protections through the Court of Claims Act (705 ILCS 505) and the State Employee Indemnification Act (5 ILCS 350). In addition, the University purchases liability insurance that covers related claims subject to a $350,000 self-insured retention. The educator's legal liability policy has aggregate and occurrence limits of $5,000,000. The general liability insurance policy has a per occurrence limit of $10,650,000 and an aggregate of $19,650,000.

To augment existing State and commercial coverage, and to assist in addressing potential risks and liabilities incurred through its operations, the University is self-funded. In accordance with the requirement of GASB Statement No. 10, a liability for claims is reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated. At June 30, 2016 and 2015 the liability was $0. There were no settlements which exceeded insurance coverage for the last three years.

Note 17. Net Position

UNIVERSITY NET POSITION

University restricted net position is comprised of the following at June 30, 2016 and 2015:

	2016	2015
Expendable Student Loans	$ 710,168	$ 700,983

The University's Board of Trustees designated unrestricted net position is comprised of the following at June 30, 2016 and 2015:

	2016	2015
Capital asset renewal and replacement for the internal service departments	$ 261,612	$ 260,138
Self-Insurance	1,118,491	1,118,491
Total	$ 1,380,103	$ 1,378,629

FOUNDATION NET POSITION

The Foundation's restricted net position is comprised of the following at June 30, 2016 and 2015:

	2016	2015
Nonexpendable:		
Scholarship and fellowship	$ 47,222,785	$ 45,402,064
College and academic department support	17,999,890	14,690,025
Faculty and staff compensation	5,318,795	5,270,325
Other	5,116,854	5,196,021
Total nonexpendable	$ 75,658,324	$ 70,558,435
Expendable:		
Scholarship and fellowship	$ 26,881,207	$ 31,959,580
Instructional and departmental uses	12,979,327	12,972,519
University capital projects	2,557,203	2,650,667
Other restricted expendable	5,500,724	4,528,992
Total expendable	$ 47,918,461	$ 52,111,758

Note 18. Foundation Donor Restricted Endowments

The Foundation follows the State's Uniform Prudent Management of Institutional Funds Act (UPMIFA). UPMIFA eliminated the historic dollar value rule with respect to endowment fund spending. UPMIFA also updated the prudence standards for the management and investment of charitable funds. In accordance with UPMIFA, the Foundation Board considers the factors in Sections 3(e)(1) and 4(a) of the UPMIFA in determining the investment, management and disbursement of endowment funds.

UPMIFA permits the Foundation to authorize expenditures from available endowment funds' earnings and/or principal, unless the fund's donor has specified otherwise. In concert with UPMIFA standards, the Foundation Investment Committee has adopted a "weighted average" endowment spending distribution formula based on the sum of the following two components:

1. The prior year's spending distribution, plus 4.5% of the value of new gifts; the sum of which is adjusted by the most recently calculated annual Higher Education Price Index, then weighted at 70%.

2. The year-end market value times 4.5% then weighted at 30%.

A fundraising fee of 1.4% in Fiscal Year 2016 and 1.3% in Fiscal Year 2015, of the year-end market value, is assessed from each endowed fund's annual distribution (as calculated above) to help support Foundation's fundraising and general operations.

On July 1, 2016 and 2015, a total of $3,766,134 and $3,705,872, respectively, was distributed to endowed funds' expendable balances and fundraising fees totaling $1,408,026 and $1,245,261, respectively were distributed to the Foundation budget.

Note 19. Commitments

The University has entered into contracts for significant repairs and replacement of University capital assets. Total estimated costs under these contracts are $5,287,350; approximately $3,987,440 (75.4%) of the work has been completed as of June 30, 2016. The University is obligated to pay the remainder of the costs under the contracts as the work is completed.

The University has secured natural gas and electricity at a fixed price for Fiscal Years 2017, 2018 and 2019 by executing forward fixed price purchase contracts with IMGA and MidAmerican Energy. As of June 30, 2016, the University's commitment to these contracts is approximately $7,220,386 for natural gas and $18,352,388 for electricity. These are considered normal purchase contracts.

The University's Board of Trustees approved a land swap with the Town of Normal on July 24, 2015. The Normal City Council approved the agreement on August 3, 2015. According to the terms of the agreement, the town will obtain University-owned property on Main Street and the University will receive three town-owned properties: 604 N. Adelaide Street; a 33-space parking lot on the south side of Beaufort and School streets; and a parcel on Sudduth Road. In addition, the town will contract to purchase a 12-room apartment building at 404 W. Locust St. and transfer the property to the University after the closing which is scheduled for the summer of 2017. The University will contribute $150,000 toward the purchase.

The Foundation has invested in various limited partnerships. According to the terms of the investment agreements, the Foundation has committed to invest $47,896,457 and $37,896,457 as of June 30, 2016 and 2015, respectively. As of June 30, 2016 and 2015, the Foundation had invested $23,099,985 and $21,141,221, respectively and has future investment commitments of $24,796,472 and $16,755,236, respectively.

Note 20. Contingencies

The University is, from time to time, subject to various claims, legal actions and inquiries related to compliance with environmental and other governmental laws and regulations. Although it is difficult to quantify the potential impact of these claims, management believes that the ultimate cost of these matters will not adversely affect the University's future financial condition or results of operations.

Accordingly, management does not believe that a reserve of the future effect, if any, of these matters on the financial condition or results of operations of the University is necessary at June 30, 2016, as it is not possible to determine with any degree of probability the level of future expenditures for these matters.

Note 21. Crosswalk of Natural Classification with Functional Classifications

Natural Classification for the Year Ended June 30, 2016

University	Compensation and Benefits	Supplies and Services	Scholarships	Depreciation	Total
Instruction	$ 98,786,603	$ 15,974,269	$ -	$ -	$ 114,760,872
Research	11,124,863	5,752,113	-	-	16,876,976
Public Service	4,768,555	7,700,350	-	-	12,468,905
Academic Support	17,409,750	2,688,968	-	-	20,098,718
Student Services	19,978,706	21,274,616	-	-	41,253,322
Institutional Support	21,619,693	16,289,352	-	-	37,909,045
Operation of Plant	9,377,016	20,671,582	-	-	30,048,598
Depreciation	-	-	-	24,909,190	24,909,190
Staff Benefits	1,273,442	-	38,592	-	1,312,034
Student Aid	-	9,537,896	42,457,040	-	51,994,936
Payments on Behalf	152,071,777	-	-	-	152,071,777
Auxiliary Facilities	23,924,596	26,022,220	-	-	49,946,816
Other	38,448	74,990	-	-	113,438
Total University	$ 360,373,449	$ 125,986,356	$ 42,495,632	$ 24,909,190	$ 553,764,627

Natural Classification for the Year Ended June 30, 2015

University	Compensation and Benefits	Supplies and Services	Scholarships	Depreciation	Total
Instruction	$ 100,709,191	$ 17,102,519	$ -	$ -	$ 117,811,710
Research	11,132,328	4,566,733	-	-	15,699,061
Public Service	5,384,917	7,605,788	-	-	12,990,705
Academic Support	17,349,185	2,972,499	-	-	20,321,684
Student Services	20,402,253	22,365,604	-	-	42,767,857
Institutional Support	21,899,607	15,107,229	-	-	37,006,836
Operation of Plant	9,809,917	20,820,626	-	-	30,630,543
Depreciation	-	-	-	24,315,688	24,315,688
Staff Benefits	2,679,808	-	58,703	-	2,738,511
Student Aid	-	9,961,508	42,168,477	-	52,129,985
Payments on Behalf	136,085,524	-	-	-	136,085,524
Auxiliary Facilities	24,758,002	29,215,224	-	-	53,973,226
Other	1,530,558	37,022	-	-	1,567,580
Total University	$ 351,741,290	$ 129,754,752	$ 42,227,180	$ 24,315,688	$ 548,038,910

Note 22. Additional Auxiliary Facilities System Disclosure Information

The University operates auxiliary facilities that include student housing, student activities and parking.

Following are condensed financial statements for the Auxiliary Facilities System:

Condensed Statements of Net Position at June 30	2016	2015
Assets:		
Current assets	$ 67,782,190	$ 40,399,528
Noncurrent assets:		
Capital assets, net	207,375,821	209,060,400
Other noncurrent assets	80,131,229	91,422,437
Total assets	355,289,240	340,882,365
Liabilities:		
Current liabilities	9,122,134	13,212,401
Noncurrent liabilities	78,985,775	85,747,052
Total liabilities	88,107,909	98,959,453
Net position:		
Invested in capital assets, net of related debt	125,192,603	117,675,021
Unrestricted	141,988,728	124,247,891
Total net position	$ 267,181,331	$ 241,922,912

Condensed Statements of Revenues, Expenses and Changes in Net Position for the year ended at June 30	2016	2015
Operating revenues	$ 85,467,251	$ 84,668,594
Depreciation expense	(7,939,607)	(8,117,831)
Other operating expenses	(49,946,814)	(53,973,227)
Operating income	27,580,830	22,577,536
Non-operating revenues	2,577,082	1,780,733
Non-operating expenses	(4,899,493)	(4,257,606)
Increase in net position	25,258,419	20,100,663
Net position - beginning of year	241,922,912	221,822,249
Net position - end of year	$ 267,181,331	$ 241,922,912

Condensed Statements of Cash Flows for the year ended June 30	2016	2015
Net cash flows provided by operating activities	$ 35,784,647	$ 30,821,436
Net cash flows provided by non-capital financing activities	276,199	330,762
Net cash flows used in capital and related financing activities	(21,477,145)	(12,362,200)
Net cash flows provided by (used in) investing activities	(12,131,723)	(20,608,317)
Net increase in cash and cash equivalents	2,451,978	(1,818,319)
Cash and cash equivalents, beginning of year	1,352,089	3,170,408
Cash and cash equivalents, end of year	$ 3,804,067	$ 1,352,089

Following is additional disclosure information relating to University Auxiliary Facilities revenue bonds. *See Note 9*

RESERVES FOR REPAIR AND REPLACEMENT AND DEVELOPMENT

The bond indentures require a deposit be made in the Repair and Replacement Reserve Account. The sum of the deposit shall be greater than 10% of the Maximum Debt Service and shall not exceed the sum of 5% of the replacement cost of the auxiliary facilities' structures plus 20% of the replacement cost of their equipment plus 10% of either the historical cost of the parking lots or 100% of the estimated cost of resurfacing any existing auxiliary facilities' parking lot.

	2016	2015
	Repair and Replacement Reserve	Repair and Replacement Reserve
Maximum Allowable Deposits at June 30	$ 40,969,022	$ 39,149,988
Assets Reserved	9,597,529	12,751,436

Note 23. Budget Impasse

Article 74 of Public Act 99-0524, enacted June 30, 2016, authorized the University to pay Fiscal Year 2016 costs using the University's Fiscal Year 2017 appropriations for operational expenditures, totaling $38,291,000. The University has submitted vouchers to the State Comptroller for Fiscal Year 2016 operating costs in July 2016. This appropriation, however, will be recognized as revenue in Fiscal Year 2017 because the period to which the appropriation applied had not begun as of June 30, 2016, as noted in GASB Statement, No. 33, Paragraph 74. As of December 5, 2016, the State Comptroller had disbursed $31,858,855 of this appropriation to the University.

Note 24. Subsequent Events

As of June 30, 2016, the University had three collective-bargaining agreement covering various union-represented employees which was expired.

The Governor's Office of Management and Budget of the State of Illinois reported $8.071 billion of outstanding bills at the end of June 2016, an increase of $3.668 billion from the end June 2015. As the State has not acted on an appropriation bill to fund higher education, the University has developed a contingency plan to manage reductions of its Fiscal Year 2017 appropriations. On July 22, 2016, the University's Board of Trustees approved a Fiscal Year 2017 budget for operations consistent with Fiscal Year 2016, in an amount not to exceed $422,246,900.

The bonded debt will still be due even if appropriations are not received. The University continues to monitor cash flow and make investment decisions accordingly. The University also experienced record freshman attendance this year as well as maintaining strong student retention. On June 30, 2016, Moody's Investors Service downgraded Illinois State University's rating of "A3 negative" on its Auxiliary Facilities System Revenue Bonds to "Baa1" and Certificates of Participation to "Baa2".

The University is not aware of any additional facts, decisions or conditions that might be expected to have a significant effect on the financial position or results of operations during this and future fiscal years.

Schedule of the University's Proportionate Share of the Net Pension Liability	FY 2015	FY 2014
University's Proportion Percentage of the Collective Net Pension Liability		
(a) University's Proportion Percentage of the Collective Net Pension Liability	0%	0%
(b) Proportion Amount of the Collective Net Pension Liability	$ -	$ -
(c) Portion of Nonemployer Contributing Entities' Total Proportion of Collective Net Pension Liability associated with Employer	1,002,937,669	921,721,819
Total (b) + (c)	$ 1,002,937,669	$ 921,721,819
Employer DB Covered Payroll	$ 217,281,751	$ 223,816,042
Propertion of Collective Net Pension Liability associated with Employer as a percentage of DB covered payroll	461.58%	411.82%
SURS Plan Net Position as a Percentage of Total Pension Liability	42.37%	44.39%

SCHEDULE OF CONTRIBUTIONS	**FY 2016**	**FY 2015**	**FY 2014**
Federal, Trust, Grant and Other contribution	$ 671,749	$ 651,497	$ 626,245
Contribution in relation to required contribution	671,749	651,497	626,245
Contribution deficiency (excess)	$ -	$ -	$ -
Employer Covered payroll	$ 6,488,881	$ 6,956,613	$ 6,981,488
Contribution as a percentage of covered payroll	10.35%	9.37%	8.97%

Notes to the Required Supplementary Information

This schedule is presented to illustrate the requirements of GASB 68 to show information for 10 years. However, until a full 10-year trend is compiled, the University will present only available information measured in accordance with the requirements of GASB 68.

Changes of benefit terms: There were no benefit changes recognized in the Total Pension Liability as of June 30, 2016.

Changes of assumptions: In accordance with the *Illinois Compiled Statutes*, an actuarial review is to be performed at least once every five 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, 2015, was performed in February 2016, resulting in the adoption of new assumptions as of June 30, 2016.

- 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 increase. 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.