

**STATE OF ILLINOIS**

**SOUTHERN ILLINOIS UNIVERSITY  
FINANCIAL AUDITS FOR**

- **SOUTHERN ILLINOIS UNIVERSITY**
- **HOUSING AND AUXILIARY FACILITIES SYSTEM**
- **MEDICAL FACILITIES SYSTEM**

**FOR THE YEAR ENDED JUNE 30, 2005**

**PERFORMED AS SPECIAL ASSISTANT AUDITORS  
FOR THE AUDITOR GENERAL, STATE OF ILLINOIS**

STATE OF ILLINOIS  
SOUTHERN ILLINOIS UNIVERSITY  
FINANCIAL AUDIT

FOR THE YEAR ENDED JUNE 30, 2005

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

## CONTENTS

	Page
TREASURER'S LETTER	
UNIVERSITY OFFICIALS	
FINANCIAL STATEMENT REPORT	
SUMMARY	1
INDEPENDENT AUDITORS' REPORT	2-3
MANAGEMENT'S DISCUSSION AND ANALYSIS	4-8
BASIC FINANCIAL STATEMENTS	
STATEMENT OF NET ASSETS	10
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS	11
STATEMENT OF CASH FLOWS	12-13
NOTES TO FINANCIAL STATEMENTS	14-30

**NOTE:** State Compliance Audit Report for the year ended June 30, 2005, has been issued under a separate cover, which includes the Report on Compliance and Other Matters and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.

# Southern Illinois University – Board of Trustees

Board Treasurer  
1400 Douglas Drive  
Mailcode 6801  
Carbondale, IL 62901

Phone: 618-536-3475

FAX: 618-536-3404

September 30, 2005



## TO THE BOARD OF TRUSTEES OF SOUTHERN ILLINOIS UNIVERSITY

I am pleased to submit the annual financial report of Southern Illinois University for the year ended June 30, 2005.

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

The financial statements of the University have been audited by Kerber, Eck and Braeckel, LLP, Certified Public Accountants, for fiscal year 2005. As Special Assistant Auditors for the Auditor General, they have issued reports covering their audits of the compliance of the University with applicable state and federal laws and regulations and a report containing supplementary financial information and special data requested by the Auditor General. These reports are available at the Office of the Auditor General, State of Illinois.

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

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Duane Stucky". The signature is fluid and cursive, with a large initial "D" and "S".

Duane Stucky  
Board Treasurer

DS/lap

**Southern Illinois University**  
**Board of Trustees and**  
**Officers of Administration**  
**Fiscal Year 2005**

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Narbeth Emmanuel, Vice-Chancellor for Student Affairs  
Kenneth Neher, Vice-Chancellor for Administration

# FINANCIAL STATEMENT REPORT

## SUMMARY

The audit of the accompanying basic financial statements of Southern Illinois University was conducted by Kerber, Eck & Braeckel LLP.

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

Southern Illinois University  
**Annual Financial Report**  
Fiscal Year 2005

## Table of Contents

Treasurer's Letter	1
Independent Auditors' Report	2
Management's Discussion and Analysis	4
Basic Financial Statements	
Statement of Net Assets	10
Statement of Revenues, Expenses, and Changes in Net Assets	11
Statement of Cash Flows	12
Notes to Financial Statements	14



CPAs and  
Management Consultants

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## Independent Auditors' Report

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

As Special Assistant Auditors for the Auditor General, we have audited the accompanying basic financial statements, as listed in the table of contents, of Southern Illinois University and its aggregate discretely presented component units, collectively a component unit of the State of Illinois, as of and for the year ended June 30, 2005. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the University's 2004 financial statements and, in our report dated November 16, 2004, we expressed an unqualified opinion on those financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University and of its aggregate discretely presented component units as of June 30, 2005, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.



In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2005, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 4 through 8 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Kerley, Eck & Brackel LLP*

Springfield, Illinois  
November 1, 2005

# Southern Illinois University

## Management's Discussion and Analysis

### For the Year Ended June 30, 2005

#### Introduction

The following discussion and analysis of the financial statements of Southern Illinois University (the "University") provides an overview of the University's financial activities for the year ended June 30, 2005. This discussion has been prepared by management and should be read in conjunction with the financial statements and related footnotes.

This discussion focuses on the financial activities of the University (the primary unit). The seven component units of the University consist of the following entities: the Southern Illinois University Foundation at Carbondale; the Southern Illinois University at Edwardsville Foundation; the Association of Alumni, Former Students and Friends of Southern Illinois University, Inc.; the Alumni Association of Southern Illinois University at Edwardsville; University Park at Edwardsville; Southern Illinois Research Park, Inc. at Carbondale; and SIU Physicians and Surgeons, Inc. Complete financial statements for the component units may be obtained from each entity, and addresses are provided in Note 1 in the Notes to Financial Statements.

#### Using the financial statements

The University's 2005 financial report includes three basic financial statements: the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; and the Statement of Cash Flows. The notes to the basic financial statements include additional details and should be included as part of any review or analysis. These financial statements are prepared in accordance with accounting principles generally accepted in the United States of America and provide information on the University as a whole.

## FINANCIAL HIGHLIGHTS

### Statement of Net Assets

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

The following summarizes the University's assets, liabilities and net assets at June 30, 2005 and 2004:

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
<b>Assets:</b>		
Current assets	\$ 187,364,419	\$ 139,303,534
Capital assets, net	472,049,234	449,902,411
Other assets	104,350,050	123,334,770
<b>Total Assets</b>	<u>\$ 763,763,703</u>	<u>\$ 712,540,715</u>
<b>Liabilities:</b>		
Current liabilities	112,504,488	107,730,830
Noncurrent liabilities	283,516,910	249,379,323
<b>Total Liabilities</b>	<u>\$ 396,021,398</u>	<u>\$ 357,110,153</u>
<b>Net Assets:</b>		
Invested in capital assets, net	297,905,669	303,479,541
Restricted - nonexpendable	3,936,928	3,780,020
Restricted - expendable	47,313,120	36,956,308
Unrestricted	18,586,588	11,214,693
<b>Total Net Assets</b>	<u>\$ 367,742,305</u>	<u>\$ 355,430,562</u>

The University's financial position remained strong at June 30, 2005, with assets of \$763,763,703 and liabilities of \$396,021,398. Net assets, the difference between total assets and total liabilities, increased \$12,311,743, or 3.4%, over the previous year.

The increase in capital assets during fiscal year 2005 is the result of several projects, including the renovation of Altgeld Hall at the Carbondale campus, the consolidated laboratory at the School of Medicine in Springfield, and an upgrade to the HVAC system in Prairie Hall and Bluff Hall, both at Edwardsville.

**Statement of Revenues, Expenses and Changes in Net Assets**

The Statement of Revenues, Expenses and Changes in Net Assets presents the results of the University's revenue and expense activity categorized as operating or nonoperating. All of the current year's revenues and expenses are recognized when earned or incurred, regardless of when cash is received or paid.

Operating revenues and expenses involve exchange transactions. In general, operating revenues include student tuition and fees which are net of scholarship allowances, most grants and contracts, auxiliary enterprises, and sales and services of educational departments. Operating expenses are those expenses incurred to carry out the mission of the University, and include educational and general program expenses, as well as auxiliary enterprises and depreciation.

Nonoperating revenues and expenses involve non-exchange transactions and include state appropriations, investment income, payments on-behalf of the University, and gifts. State appropriations are mandated as nonoperating because they are provided by the legislature to the University without the legislature directly receiving commensurate goods and services for those revenues. Therefore, an operating loss will always result.

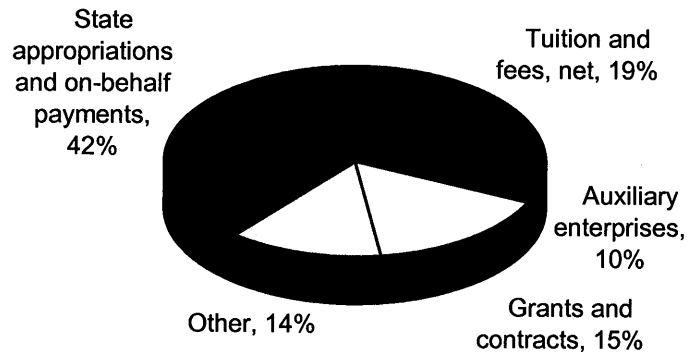
The following summarizes the University's financial activity for fiscal years 2005 and 2004:

	<b><u>Year Ended June 30, 2005</u></b>	<b><u>Year Ended June 30, 2004</u></b>
<b>Operating revenues:</b>		
Tuition and fees, net	\$ 144,102,417	\$ 128,651,935
Auxiliary enterprises	74,706,877	70,679,014
Grants and contracts	90,701,261	88,010,306
Other	83,666,499	73,375,210
Operating expenses	<u>(736,614,837)</u>	<u>(843,989,618)</u>
<b>Operating loss</b>	<b>(343,437,783)</b>	<b>(483,273,153)</b>
Nonoperating revenues and expenses - net	<u>346,709,100</u>	<u>471,700,795</u>
Income (loss) before other revenues	3,271,317	(11,572,358)
Other revenues	<u>9,040,426</u>	<u>20,719,758</u>
<b>Increase in net assets</b>	<b>12,311,743</b>	<b>9,147,400</b>
<b>Net assets at beginning of year</b>	<u>355,430,562</u>	<u>346,283,162</u>
<b>Net assets at end of year</b>	<b><u>\$ 367,742,305</u></b>	<b><u>\$ 355,430,562</u></b>

The Statement of Revenues, Expenses and Changes in Net Assets reflects a positive year with an increase in net assets for the year. The operating expenses for the year ended June 30, 2004, include an additional on-behalf allocation to the State Universities Retirement System in the amount of \$141,111,746 to be used for unfunded liabilities of the pension plan. This amount is offset by the same amount in nonoperating revenues.

The following is a graphic illustration of revenues by source (both operating and nonoperating), which were used to fund the University's operating activities for the year ended June 30, 2005. The revenue from charges for tuition and fees is shown net of the scholarship allowance of \$21,479,891. Other revenues consist primarily of income from sales and services of educational activities that include conferences and seminars, and investment income.

### REVENUES BY SOURCE



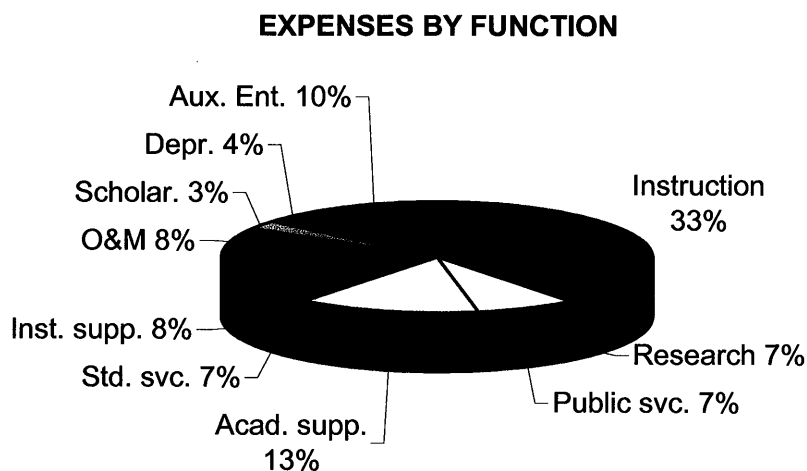
### Operating Expenses

A summary of the University's operating expenses by functional classification for the years ended June 30, 2005 and 2004, is as follows:

	<b>Year Ended June 30, 2005</b>	<b>Year Ended June 30, 2004</b>
Instruction	\$ 242,327,412	\$ 225,548,481
Research	48,383,431	48,493,944
Public service	55,440,574	52,498,428
Academic support	98,746,353	92,270,967
Student services	52,675,779	47,787,416
Institutional support	56,640,579	58,298,105
Operation and maintenance of plant	60,947,591	59,610,827
Scholarships and fellowships	19,019,815	18,501,136
Depreciation	31,842,676	29,140,624
Auxiliary enterprises	70,180,400	70,637,616
Other expenditures	410,227	141,202,074
	<b>\$ 736,614,837</b>	<b>\$ 843,989,618</b>

The decrease in expenditures for the year ended June 30, 2005, is primarily due to the additional on-behalf State Universities Retirement System allocation for the unfunded pension liability in the amount of \$141,111,746 that is included in "other expenditures" in the prior year. No similar payment occurred during fiscal year 2005.

The following is a graphic illustration of operating expenses by function for the year ended June 30, 2005.



### Statement of Cash Flows

The Statement of Cash Flows provides additional information about the University's sources and uses of cash during the fiscal year. This statement helps users assess the University's ability to generate net cash flows, its ability to meet obligations as they come due, and its need for external financing.

	<u>Year Ended June 30, 2005</u>	<u>Year Ended June 30, 2004</u>
Cash provided by (used in):		
Operating activities	\$ (216,911,390)	\$ (211,439,696)
Noncapital financing activities	251,328,742	247,422,001
Capital and related financing activities	(16,303,380)	(10,395,452)
Investing activities	<u>5,551,150</u>	<u>(33,333,026)</u>
Net increase (decrease) in cash	23,665,122	(7,746,173)
Cash and cash equivalents, beginning of year	<u>35,738,840</u>	<u>43,485,013</u>
Cash and cash equivalents, end of year	<u>\$ 59,403,962</u>	<u>\$ 35,738,840</u>

The University's cash and cash equivalents increased by \$23,665,122 as the University maintained a more flexible and liquid cash position to address operating cash flow needs and construction account drawdown requirements. For additional information regarding the detail behind the four categories summarized above, please refer to the Statement of Cash Flows.

### Capital Asset and Debt Administration

At the end of fiscal year 2005, the University had \$1,059,580,236 invested in capital assets, with accumulated depreciation of \$587,531,002. Depreciation expense for the current year was \$31,842,676.

Long-term debt activity included the issuance of the Housing and Auxiliary Facilities System Bonds, Series 2004A, on October 14, 2004, in the par amount of \$40,390,000. The revenue bonds were issued to finance the construction of apartment-style living quarters for 400 students and the installation of automatic sprinkler systems in three residence halls, all at Carbondale, and the modification of the HVAC systems and humidity controls and remediation of damage in three residence halls on the Edwardsville campus.

For additional information concerning the University's Capital Assets and Debt Administration, see Notes 5, 7 and 9 in the Notes to Financial Statements.

### **Economic Outlook**

Fiscal year 2006 appropriations for higher education operations were approved at the same funding level as the fiscal year 2005 appropriations. The State continues to request that public universities contribute toward the cost of group health insurance premiums, a cost previously paid in full by the State on behalf of the universities. Southern Illinois University's portion of the payment for health insurance is approximately \$7 million per year.

As state funding has declined, Southern Illinois University continues to develop and expand its resource base to seek more funding from tuition and fees, grants, contracts, and fund raising activities. This is demonstrated in the fiscal year 2006 operating budget in which, despite level funding from the state, there is a projected increase in revenues of 4.3%. As part of the university's normal budgetary process, 2% of state appropriated funds and tuition income are held as a contingency reserve.

Effective for fiscal year 2005, all public universities in the state of Illinois were required to implement a "guaranteed tuition program" in which charges to enrolling undergraduate resident freshmen students remain constant for four continuous academic years following the initial enrollment. Due to the implementation of this program, Southern Illinois University revised the timetable for Board approval of tuition and fees. Effective in fiscal year 2006, fall tuition and fees will be approved the spring semester before they become effective. Previously, tuition and fees were approved a year and a half in advance of their effective date. This change will allow additional flexibility to assure that tuition levels approved are balanced with the University's operational needs and student affordability. Southern Illinois University approved tuition increases for first time resident freshmen of 7.9% at Carbondale and 7.4% at Edwardsville, effective fall 2005.

**Audited  
Financial  
Statements**

**Fiscal Year 2005**

**Southern Illinois University**  
**Statement of Net Assets**  
**June 30, 2005 (with comparative totals for 2004)**

	UNIVERSITY		UNIVERSITY RELATED ORGANIZATIONS	
	2005	2004	2005	2004 (Restated)
<b>ASSETS</b>				
<b>Current Assets:</b>				
Cash and cash equivalents (Note 3)	\$ 55,674,977	\$ 32,559,288	\$ 4,288,247	\$ 594,712
Short-term investments (Note 3)	80,934,233	60,470,238	27,111,108	29,082,979
Deposits with University	-	-	10,758,981	9,895,974
Appropriations receivable from State of Illinois General Revenue	797,262	193,411	-	-
Appropriations receivable from State of Illinois Capital Development	684,772	2,901	-	-
Reimbursement due from State Treasurer	6,061,342	2,232,337	-	-
Accounts receivable, net (Note 4)	26,446,453	27,471,903	21,628,028	15,938,471
Notes receivable, net (Note 4)	4,892,297	5,115,493	-	678,876
Accrued interest receivable	1,822,373	1,467,335	154,182	108,712
Due from related organizations	2,446,526	2,380,522	179,649	508,322
Inventories	6,364,389	6,159,935	-	-
Prepaid expenses and other assets	1,239,795	1,250,171	856,062	629,783
<b>Total Current Assets</b>	<b>187,364,419</b>	<b>139,303,534</b>	<b>64,976,257</b>	<b>57,437,829</b>
<b>Noncurrent Assets:</b>				
Cash and cash equivalents (Note 3)	3,728,985	3,179,552	8,505	48,542
Long-term investments (Note 3)	81,752,885	100,795,663	90,872,596	76,682,583
Notes receivable, net (Note 4)	13,723,302	14,521,247	46,470	29,791
Prepaid expenses and other assets	5,144,878	4,838,308	12,645,091	13,630,688
Due from related organizations	-	-	416,125	572,914
Capital assets, net (Note 5)	472,049,234	449,902,411	5,651,882	3,360,759
<b>Total Noncurrent Assets</b>	<b>576,399,284</b>	<b>573,237,181</b>	<b>109,640,669</b>	<b>94,325,277</b>
<b>TOTAL ASSETS</b>	<b>763,763,703</b>	<b>712,540,715</b>	<b>174,616,926</b>	<b>151,763,106</b>
<b>LIABILITIES</b>				
<b>Current Liabilities:</b>				
Accounts payable	21,819,881	20,508,322	1,611,076	746,817
Notes payable (Notes 6 and 9)	327,532	313,939	169,864	308,239
Accrued interest payable	1,865,390	1,042,741	34,238	34,444
Accrued payroll	7,530,430	7,270,663	3,429,165	2,859,893
Accrued compensated absences (Note 6)	3,713,956	4,224,198	-	-
Revenue bonds payable (Note 6 and 7)	8,588,396	8,142,996	-	-
Certificates of participation (Notes 6 and 9)	1,664,614	1,593,513	-	-
Liabilities under capitalized leases (Notes 6 and 8)	2,170,156	1,244,336	-	-
Annuities payable (Note 6)	-	-	501,881	367,886
Accrued liability for self-insurance (Notes 6 and 10)	5,607,698	4,214,627	-	-
Deposits held for University related organizations	10,758,981	9,895,974	-	-
Deposits held in custody for others (Note 6)	1,538,471	1,197,490	56,288	53,341
Deferred revenue	46,628,094	47,460,922	770,453	434,116
Housing deposits (Note 6)	111,240	112,787	-	-
Due to related organizations (Note 6)	179,649	508,322	2,446,526	2,380,522
<b>Total Current Liabilities</b>	<b>112,504,488</b>	<b>107,730,830</b>	<b>9,019,491</b>	<b>7,185,258</b>
<b>Noncurrent Liabilities:</b>				
Notes payable (Notes 6 and 9)	341,715	669,247	784,389	1,204,264
Accrued compensated absences (Note 6)	41,164,702	40,205,928	-	-
Revenue bonds payable (Note 6 and 7)	176,383,302	139,190,892	1,650,000	1,650,000
Certificates of participation (Notes 6 and 9)	33,217,242	34,881,856	-	-
Liabilities under capitalized leases (Notes 6 and 8)	3,390,908	2,320,329	-	-
Annuities payable (Note 6)	-	-	3,813,417	3,629,144
Accrued liability for self-insurance (Notes 6 and 10)	11,352,434	14,565,994	-	-
Federal loan program contributions refundable (Note 6)	16,933,315	16,642,668	-	-
Due to related organizations (Note 6)	416,125	572,914	-	-
Housing deposits (Note 6)	135,960	137,850	-	-
Other accrued liabilities (Note 6)	181,207	191,645	1,283,112	1,233,026
Deposits held in custody for others (Note 6)	-	-	2,087,469	1,740,087
<b>Total Noncurrent Liabilities</b>	<b>283,516,910</b>	<b>249,379,323</b>	<b>9,618,387</b>	<b>9,456,521</b>
<b>TOTAL LIABILITIES</b>	<b>396,021,398</b>	<b>357,110,153</b>	<b>18,637,878</b>	<b>16,641,779</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	297,905,669	303,479,541	3,620,543	1,316,952
Restricted for:				
Nonexpendable	3,936,928	3,780,020	65,553,852	57,610,111
Expendable				
Quasi-endowment	213,911	213,711	-	-
Scholarships, research, instruction and other	11,221,303	8,693,709	45,556,910	43,272,936
Loans	4,040,879	3,880,665	398,581	202,163
Capital projects and debt service	31,837,027	24,168,223	2,307,044	2,329,006
Unrestricted	18,586,588	11,214,693	38,542,118	30,390,159
<b>TOTAL NET ASSETS</b>	<b>\$ 367,742,305</b>	<b>\$ 355,430,562</b>	<b>\$ 155,979,048</b>	<b>\$ 135,121,327</b>

The accompanying notes are an integral part of this statement.



Southern Illinois University  
**Statement of Revenues, Expenses and Changes in Net Assets**  
For the Year Ended June 30, 2005 (with comparative totals for 2004)

	UNIVERSITY		UNIVERSITY RELATED ORGANIZATIONS	
	2005	2004	2005	2004 (Restated)
<b>REVENUES</b>				
<b>Operating Revenues:</b>				
Student Tuition and Fees (net of scholarship allowances of \$21,479,891 for 2005)	\$ 144,102,417	\$ 128,651,935	\$ -	\$ -
Federal grants and contracts	35,456,115	37,459,244	-	-
State of Illinois grants and contracts	27,111,055	23,713,814	-	-
Other government grants and contracts	7,819,651	6,241,787	-	-
Private grants and contracts	20,314,440	20,595,461	-	-
Sales and services of educational departments	83,291,635	72,907,124	-	-
Auxiliary enterprises:				
Funded debt enterprises (net of scholarship allowances of \$4,432,396 for 2005)	68,248,953	64,090,248	-	-
Other auxiliary enterprises (net of scholarship allowances of \$972,943 for 2005)	6,457,924	6,588,766	-	-
Loan interest income	273,566	325,567	-	-
Other operating revenues	101,298	142,519	77,039,153	66,359,756
<b>Total Operating Revenues</b>	<b>393,177,054</b>	<b>360,716,465</b>	<b>77,039,153</b>	<b>66,359,756</b>
<b>EXPENSES</b>				
<b>Operating Expenses:</b>				
Instruction	242,327,412	225,548,481	-	-
Research	48,383,431	48,493,944	-	-
Public service	55,440,574	52,498,428	-	-
Academic support	98,746,353	92,270,967	-	-
Student services	52,675,779	47,787,416	-	-
Institutional support	56,640,579	58,298,105	83,649,696	74,048,122
Operation and maintenance of plant	60,947,591	59,610,827	-	-
Scholarships and fellowships	19,019,815	18,501,136	-	-
Depreciation (Note 5)	31,842,676	29,140,624	226,612	199,817
Auxiliary enterprises:				
Funded debt enterprises	62,482,476	62,597,481	-	-
Other auxiliary enterprises	7,697,924	8,040,135	-	-
Additional on behalf SURS allocation for unfunded liability	-	141,111,746	-	-
Provision for doubtful notes receivable	(29,784)	(183,894)	-	-
Loan cancellations	132,770	77,535	-	-
Loan administrative expenses	307,241	196,687	-	-
<b>Total Operating Expenses</b>	<b>736,614,837</b>	<b>843,989,618</b>	<b>83,876,308</b>	<b>74,247,939</b>
<b>Operating Loss</b>	<b>(343,437,783)</b>	<b>(483,273,153)</b>	<b>(6,837,155)</b>	<b>(7,888,183)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
State appropriations - General Revenue Fund	217,425,727	213,458,064	-	-
Gifts and contributions	6,179,491	7,840,550	11,907,369	9,046,021
Investment income (Note 3)	6,637,755	569,096	8,496,591	10,199,109
Grants and contracts	26,580,194	25,512,441	1,669,906	-
Interest on capital asset-related debt	(6,626,082)	(4,417,034)	(102,665)	(112,043)
Accretion on bonds payable	(4,068,318)	(3,979,140)	-	-
University related organizations	116,681	(2,291,754)	-	-
Payments on behalf of the university (Note 2)	98,121,894	92,928,477	-	-
Additional on behalf SURS allocation for unfunded liability	-	141,111,746	-	-
Other nonoperating revenues	2,341,758	968,349	605,572	6,140,359
<b>Net Nonoperating Revenues</b>	<b>346,709,100</b>	<b>471,700,795</b>	<b>22,576,773</b>	<b>25,273,446</b>
<b>Income (Loss) Before Other Revenues</b>	<b>3,271,317</b>	<b>(11,572,358)</b>	<b>15,739,618</b>	<b>17,385,263</b>
<b>Other Revenues:</b>				
Capital state appropriations	7,892,449	17,072,430	-	-
Additions to permanent endowments	200	-	4,195,843	3,587,322
Capital grants and gifts	1,147,777	3,647,328	922,260	5,813,468
<b>Total Other Revenues</b>	<b>9,040,426</b>	<b>20,719,758</b>	<b>5,118,103</b>	<b>9,400,790</b>
<b>Increase in Net Assets</b>	<b>12,311,743</b>	<b>9,147,400</b>	<b>20,857,721</b>	<b>26,786,053</b>
<b>NET ASSETS</b>				
Net assets at beginning of year	355,430,562	346,283,162	131,150,536	105,994,972
Prior-period adjustment - unrecorded receivable in 2004 and 2003 (Note 2)	-	-	3,970,791	2,340,302
Net assets at beginning of year, as restated	355,430,562	346,283,162	135,121,327	108,335,274
<b>Net Assets at End of Year</b>	<b>\$ 367,742,305</b>	<b>\$ 355,430,562</b>	<b>\$ 155,979,048</b>	<b>\$ 135,121,327</b>

The accompanying notes are an integral part of this statement.

**Southern Illinois University**  
**Statement of Cash Flows**  
For the Year Ended June 30, 2005 (with comparative totals for 2004)

	UNIVERSITY		UNIVERSITY RELATED ORGANIZATIONS	
	2005	2004	2005	2004 (Restated)
<b>Cash Flows from Operating Activities</b>				
Tuition and fees	\$ 153,397,893	\$ 142,649,900	\$ -	\$ -
Grants and contracts	87,093,933	83,132,389	-	-
Sales and services of educational activities	75,723,865	71,317,328	-	-
Auxiliary enterprise revenues:				
Funded debt	71,021,591	67,725,505	-	-
Other auxiliary	7,329,354	7,582,185	-	-
Payments to employees for salaries and benefits	(413,847,243)	(390,034,765)	(23,441,485)	(20,485,310)
Payments to suppliers	(225,695,426)	(212,749,366)	(48,850,741)	(41,800,545)
Payments for scholarships and fellowships	(46,582,864)	(44,582,700)	-	(4,903,564)
Loans issued to students	(2,038,995)	(6,335,126)	-	-
Interest earned on loans to students	265,825	309,456	-	-
Collection of loans from students	2,667,793	5,406,218	-	-
Patient service revenue	-	-	62,766,555	52,280,282
Other operating receipts	73,752,884	64,139,280	3,914,179	2,504,427
<b>Net cash used in operating activities</b>	<b>(216,911,390)</b>	<b>(211,439,696)</b>	<b>(5,611,492)</b>	<b>(12,404,710)</b>
<b>Cash Flows from Noncapital Financing Activities</b>				
State appropriations	216,821,842	213,799,227	-	-
Direct lending receipts	122,527,422	120,708,468	-	-
Direct lending payments	(122,375,377)	(120,470,794)	-	-
Grants and contracts	26,580,194	25,512,441	29,000	-
Government advances for federal loan funds	359,559	401,396	-	-
Payments to annuitants	-	-	(391,658)	(317,778)
Other	(255,065)	(3,395,639)	(446,634)	2,017,173
Gifts for other than capital purposes	7,670,167	10,866,902	13,845,683	15,447,218
<b>Net cash provided by noncapital financing activities</b>	<b>251,328,742</b>	<b>247,422,001</b>	<b>13,036,391</b>	<b>17,146,613</b>
<b>Cash Flows from Capital and Related Financing Activities</b>				
Capital appropriations	6,009,285	18,004,647	-	-
Capital gifts received	-	-	922,259	827,768
Capital grants	-	-	850,829	-
Payments received on capital financing leases	-	-	234,131	232,940
Retained bond proceeds	-	-	-	400,000
Sale of capital assets	18,000	18,000	-	-
Purchases of capital assets	(47,698,689)	(48,622,675)	(2,343,417)	(281,955)
Proceeds from 2004A Certificates of Participation	-	32,648,520	-	-
Proceeds from 2004A H&AFS Revenue Bonds	41,739,890	-	-	-
Issuance costs paid on new debt issue	-	(434,733)	-	-
Principal paid on capital debt	(10,173,939)	(7,820,000)	(164,629)	(153,863)
Interest paid on capital debt	(6,197,927)	(4,189,211)	(113,983)	(96,938)
<b>Net cash provided by (used in) capital and related financing activities</b>	<b>(16,303,380)</b>	<b>(10,395,452)</b>	<b>(614,810)</b>	<b>927,952</b>
<b>Cash Flows from Investing Activities</b>				
Purchases of investments	(89,756,601)	(104,245,825)	(10,274,995)	(10,783,125)
Proceeds from sales of investments and maturities	88,614,977	65,610,138	4,563,841	2,155,044
Investment income	6,692,774	5,302,661	2,554,563	2,243,532
<b>Net cash provided by (used in) investing activities</b>	<b>5,551,150</b>	<b>(33,333,026)</b>	<b>(3,156,591)</b>	<b>(6,384,549)</b>
<b>Net increase (decrease) in cash</b>	<b>23,665,122</b>	<b>(7,746,173)</b>	<b>3,653,498</b>	<b>(714,694)</b>
Cash and cash equivalents, beginning of the year	35,738,840	43,485,013	643,254	1,357,948
<b>Cash and cash equivalents, end of the year</b>	<b>\$ 59,403,962</b>	<b>\$ 35,738,840</b>	<b>\$ 4,296,752</b>	<b>\$ 643,254</b>

**Southern Illinois University**  
**Statement of Cash Flows**  
For the Year Ended June 30, 2005 (with comparative totals for 2004)

	UNIVERSITY		UNIVERSITY RELATED ORGANIZATIONS	
	2005	2004	2005	2004 (Restated)
<b>Reconciliation of Operating Loss to Net Cash Used in Operating Activities</b>				
Operating loss	\$(343,437,783)	\$(483,273,153)	\$ (6,837,155)	\$ (7,888,183)
Adjustments to reconcile operating loss to net cash used in operating activities:				
Depreciation expense	31,842,676	29,140,624	226,612	199,817
Impairment loss	-	3,787,837	-	-
Amortization expense	-	-	357,126	193,443
Noncash grants to University	-	-	1,111,544	1,181,247
Noncash expenditures for the benefit of the University	-	-	481,029	1,301
Budget expended at University	(194,111)	(170,150)	-	-
Payments on behalf of the university	98,121,894	234,040,223	-	-
Change in assets and liabilities:				
Accounts receivable (net)	(2,869,121)	979,183	(4,742,182)	(2,836,050)
Deposits with University	-	-	542,870	(177,663)
Reimbursement due from State Treasurer	(3,829,005)	7,810,483	-	-
Inventories	(204,454)	440,619	-	-
Prepaid expenses	30,815	(362,677)	(7,706)	7,604
Other assets	4,497,872	111,531	1,129,237	(3,667,629)
Accounts payable	671,150	3,661,329	1,507,072	700,797
Accrued payroll	226,576	891,070	-	-
Deferred revenue	(35,020)	(3,076,212)	424,527	(42,634)
Compensated absences	448,532	(2,279,568)	-	-
Deposits held for others	25,859	(19,195)	5,637	(2,900)
Other liabilities	(1,823,926)	(3,007,277)	(37,359)	16,202
Due to/from related organizations	(383,344)	(114,363)	227,256	(90,062)
<b>Net cash used in operating activities</b>	<b><u>\$(216,911,390)</u></b>	<b><u>\$(211,439,696)</u></b>	<b><u>\$ (5,611,492)</u></b>	<b><u>\$ (12,404,710)</u></b>

The accompanying notes are an integral part of this statement.

# Southern Illinois University

## Notes to Financial Statements

### June 30, 2005

#### 1. The financial reporting entity and component unit disclosures

Southern Illinois University (the "University"), a component unit of the State of Illinois (the "State"), conducts education, research, public service, and related activities principally at its two campuses. One is in Carbondale and includes the School of Medicine in Springfield. The other is in Edwardsville and includes the School of Dental Medicine in Alton and the East St. Louis Center. The governing body of the University is the Board of Trustees of Southern Illinois University (the "Board"). As required by accounting principles generally accepted in the United States of America, these financial statements present the financial position and financial activities of the University (the primary unit) and its component units as well as certain activities and expenditures funded by other State agencies on behalf of the University or its employees. The component units discussed below are included in the University's financial reporting entity because of the significance of their financial relationship with the University.

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

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

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

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

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

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

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

## **2. Summary of significant accounting policies**

### ***Basis of presentation***

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB), including Statement No. 35, *Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities*. The University now follows the business-type activity reporting requirements of GASB Statement No. 35 that provides a comprehensive, entity-wide perspective of the University’s financial activities and replaces the fund group presentation previously required.

For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University’s financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting applicable to public colleges and universities. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation to pay has been incurred. All significant intra-agency transactions have been eliminated. The University has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The University has elected to not apply FASB pronouncements issued after the applicable date.

The accounts of the University’s financial reporting entity are still maintained internally in accordance with the principles of fund accounting. Under fund accounting, resources are classified for accounting and reporting purposes into funds according to specified activities or objectives.

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

The financial statements include prior year comparative information, which has been derived from the University’s 2004 financial statements. Such information does not include all of the information required to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the University’s financial statements for the year ended June 30, 2004.

### ***Allowance for uncollectibles***

The University provides allowances for uncollectible accounts and notes receivable based upon management’s best estimate of uncollectible accounts and notes at the statement of net assets date, considering type, age, collection history of receivables, and any other factors as considered appropriate. The University’s accounts receivable and notes receivable are reported net of allowances of \$8,871,158 and \$2,316,019, respectively, at June 30, 2005.

### ***Inventories***

Inventories are stated at the lower of cost (first-in, first-out method) or market with the exception of the Textbook Rental Service at the Edwardsville campus. The rental books are recorded at depreciated cost with the related expense reported as depreciation expense.

### ***Capital assets***

Capital assets are recorded at cost at the date of acquisition or at the fair market value at the date of donation in the case of gifts. In accordance with accounting principles generally accepted in the United States of America for public colleges and universities, depreciation is computed using the straight-line method over the estimated useful lives of the assets. The following month prorate convention is being used, in which no depreciation is recorded in the month of acquisition and an entire month of depreciation is recorded in the month of disposition.

### ***Prior-period adjustment***

SIU Physicians & Surgeons, Inc.: The financial statements for fiscal year 2004 have been restated to recognize an unrecorded accrual of additional Medicaid reimbursements based on an agreement with the Illinois Department of Public Aid. The effect of the restatement was to increase net assets by \$3,970,791. Also, comparative totals for fiscal year 2004 have been restated to reflect the unrecorded accrual. Net assets at the beginning of fiscal year 2004 have been increased by \$2,340,302 due to the effects of the restatement on prior years. The effect on the restatement for fiscal year 2004 was to increase the change in net assets by \$1,630,489.

## 2. Summary of significant accounting policies (continued)

Capitalization thresholds and useful lives are as follows:

<u>Category</u>	<u>Capitalization</u>	
	<u>Threshold</u>	<u>Useful Life</u>
Land	\$ -	not depreciated
Improvements	25,000	15 years
Infrastructure	1,000,000	20 years
Buildings	100,000	40 years
Building improvements	25,000	15 years
Equipment and library books	5,000	5-10 years
Works of art, historical treasures	5,000	not depreciated

Vehicles and electronic data processing equipment are depreciated over five years. Other equipment and books are depreciated over seven years.

### **Revenue and expense recognition**

In accordance with GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, the University reported on-behalf payments of \$98,121,894 for fiscal year 2005 for health care and retirement costs. These costs are reflected in the Statement of Revenues, Expenses and Changes in Net Assets as nonoperating revenues entitled "Payments on behalf of the University" and as operating expenses under the appropriate functional classifications.

Substantially all employees participate in group health insurance plans administered by the State of Illinois. The employer contributions to these plans for University employees paid from State appropriations and auxiliary enterprises are paid by the State on behalf of the University. On-behalf payments for health care costs totaled \$71,590,591 for the year ended June 30, 2005. The employer contributions to these plans for employees paid from other University held funds are paid by the University. On-behalf payments of \$26,531,303 for the year ended June 30, 2005, were made for retirement costs.

### **Classification of revenues and expenses**

The University has classified its revenues and expenses as either operating or nonoperating as follows:

**Operating:** Operating revenues and expenses include activities that have the characteristics of exchange transactions, such as student tuition and fees, sales and services of educational departments, sales and services of auxiliary enterprises, and most grants and contracts. Tuition and fees are generally recognized as operating revenues as they are assessed. The summer session tuition and fees are allocated between the two fiscal years. The majority of the University's expenses are operating expenses.

**Nonoperating:** Nonoperating revenues and expenses include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other sources and uses that are defined as nonoperating by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, such as state appropriations, investment income, and federal student aid programs. Appropriations made to the University from the State of Illinois General Revenue Fund are recognized as nonoperating revenues in the year appropriated to the extent expended. Other nonoperating revenues and expenses include transactions relating to capital and financing activities, noncapital financing activities, and investing activities.

Restricted grant revenues from external sources are recognized to the extent of related expenditures on the accrual basis.

### **Expenses**

Accrued compensated absences for University personnel are charged to current funds based on earned but unused vacation and sick leave days including the University's share of Social Security and Medicare taxes. At June 30, 2005, the University estimates \$35,384,358 will be paid from state appropriated accounts funded by the State of Illinois General Revenue Fund and the Income Fund, and \$9,494,400 from local funds in subsequent years for a combined total of \$44,878,658.

## 2. Summary of significant accounting policies (continued)

### ***New Governmental Accounting Standards***

The Governmental Accounting Standards Board (GASB) has recently issued the following statements:

Statement No. 40 - *Deposit and Investment Risk Disclosures, an amendment of GASB Statement No. 3*, addresses common deposit and investment risks related to credit risk and interest rate risk. The statement is effective for fiscal year 2005, and changes have been made to Note 3, Cash and Investments, to meet the additional disclosure requirements.

Statement No. 41 - *Budgetary Comparison Schedules-Perspective Differences-an amendment of GASB Statement No. 34*, clarifies the budgetary presentation requirements for governments and is not applicable to the University.

Statement No. 42 - *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, addresses the accounting for situations in which a capital asset's service utility experiences a significant and unexpected decline and the accounting treatment for insurance recoveries. The University elected early adoption of the statement during fiscal year 2004.

Statement No. 43 - *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes uniform financial reporting standards for other postemployment benefit (OPEB) plans and supersedes the interim guidance included in Statement No. 26, *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans*. The statement is effective for the period beginning July 1, 2006. It is not expected to impact the University.

Statement No. 44 - *Economic Condition Reporting: The Statistical Section - an amendment of NCGA Statement 1*, is applicable for institutions that present a statistical section with basic financial statements, such as within a comprehensive annual financial report, and is effective for the period beginning July 1, 2005. It is not expected to impact the University.

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

Statement No. 46 - *Net Assets Restricted by Enabling Legislation*, clarifies the meaning of the phrase legally enforceable as it applies to restrictions imposed on net asset use by enabling legislation. The statement is effective for the period beginning July 1, 2005. It is not expected to impact the University.

Statement No. 47 - *Accounting for Termination Benefits*, provides accounting and reporting guidance for both voluntary and involuntary termination benefits offered by government employers. The statement is effective for the period beginning July 1, 2005. It is not expected to impact the University.

## 3. Cash and investments

### ***Investment Policy***

It is University policy to invest funds in a manner which will provide investment returns and security consistent with good business practices, while meeting the daily cash flow demands of the University and conforming to all statutes governing the investments of funds. Funds are invested in accordance with the provisions of the Illinois Compiled Statutes, Chapter 30, Sections 235/0.01 - 235/8, the *Illinois Public Funds Investment Act*; the policies of the Board; and covenants provided from the University's bond and certificate of participation issuance activities. The University's Investment Policy authorizes the University to invest in securities of the U.S. Government or its agencies; interest bearing savings accounts, certificates of deposit, interest bearing time deposits, and other direct obligations of any bank defined in the Illinois Banking Act; certain short term obligations of U.S. corporations, limited to 33 percent of the portfolio; money market mutual funds; Public Treasurer's Investment Pool (The Illinois Funds); repurchase agreements of Government securities; and other specifically defined repurchase agreements.

The three basic objectives of the University's investment policy are safety of invested funds; maintenance of sufficient liquidity to meet cash flow needs; and attainment of the maximum investment returns possible consistent with the first two objectives. The University insures the safety of its invested funds by limiting credit and interest rate risks. The University's portfolio is structured to ensure that securities mature at the same time as cash is needed to meet anticipated demands. Additionally, since all possible cash demands cannot be anticipated, the portfolio consists largely of securities with active secondary or resale markets. The investment returns on the University's portfolio is a priority after the safety and liquidity objectives have been met. Investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Information relating to the specific investment policies of each University Related Organization can be obtained by contacting those entities listed in Note 1 on page 14.

### 3. Cash and investments (continued)

#### **Cash and Investments**

Cash and cash equivalents of the University include bank accounts and investments with original maturities of ninety days or less at the time of purchase, primarily U.S. Treasury Bills and money market funds. The University has pooled its operating cash and investments to provide for efficiencies and economies in their management. Proceeds related to revenue bonds and certificate of participation financing activities are pooled to the extent allowed under covenants. Investment income earned on the operating cash and investments, including realized gains and losses resulting from the sale or other disposition of investments, is distributed on a quarterly basis to the pooled participants based upon their respective average balances over the prior three-month period.

At June 30, 2005, the actual bank balances related to the cash deposits of the University amounted to \$65,689,502; all such balances were covered by federal depository insurance or collateral held by an agent in the University's name, except for \$402,866 (foreign banks) held by the University. The foreign bank cash balance consists of \$401,664 in yen and \$1,202 in euros. There is no foreign currency risk related to investments.

Investments are reported at fair value. The fair value is determined to be the amount, usually quoted market prices, at which financial instruments could be exchanged in a current transaction between willing partners. Also, certain money market investments having a remaining maturity of one year or less at time of purchase and non-negotiable certificates of deposit with redemption terms that do not consider market rates are carried at amortized cost.

The calculation of realized gains is independent of the calculation of the net increase in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year.

Investment income net of realized and unrealized gains and losses on investments for the year ended June 30, 2005, are reflected below.

<b><u>UNIVERSITY</u></b>	
Interest earnings	\$ 5,821,116
Realized loss on investments	(110,053)
Unrealized gain on investments	<u>926,692</u>
Net investment income	<u>\$ 6,637,755</u>

<b><u>UNIVERSITY RELATED ORGANIZATIONS</u></b>	
Interest earnings and realized gain on investments	\$ 3,026,807
Unrealized gain on investments	<u>5,469,784</u>
Net investment income	<u>\$ 8,496,591</u>

**Credit Risk:** Credit risk is the risk of loss due to the failure of the security issuer or backer. Credit risk is mitigated by limiting investments to those specified in the *Illinois Public Funds Investment Act*; pre-qualifying the financial institutions which are utilized; and diversifying the investment portfolio so that the failure of any one issue or backer will not place an undue financial burden on the University. U.S. Treasuries are federal government securities that do not require the disclosure of credit risk. The U.S. agencies investments include the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, and the Federal Home Loan Bank, all of which were rated AAA.

**Concentration of Credit Risk:** The University's investment policy states that the portfolio should consist of a mix of various types of securities, issues and maturities.

**Interest Rate Risk:** Interest rate risk is the risk that the market value of portfolio securities will fall due to an increase in general interest rates. Interest rate risk is mitigated by structuring the University's portfolio so that securities mature to meet the University's cash requirements for ongoing operations. The internally managed portfolio is managed in accordance with covenants provided from the University's debt issuance activities. The externally managed portfolio is typically allocated with up to 30 percent of assets held in the Illinois Funds; 20 to 30 percent of assets held in the short-term portfolio; and 45 to 55 percent of assets held in the intermediate-term portfolio.



### 3. Cash and investments (continued)

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

Interest rate risk is disclosed below using the segmented time distribution method. As of June 30, 2005, the University and University Related Organizations had the following cash and investment balances:

<b>UNIVERSITY</b>						
<b>Investment Type</b>	<b>Fair Value</b>	<b>Investment Maturities (in Years)</b>				
		<b>Less Than 1</b>	<b>1-5</b>	<b>6-10</b>	<b>More Than 10</b>	<b>No Maturity</b>
U.S. Treasuries	\$ 83,272,858	\$ 23,494,865	\$ 44,690,274	\$ 15,087,719	\$ -	\$ -
U.S. Agencies	70,821,135	27,199,582	41,529,732	2,091,821	-	-
Common Stock	44,300	-	-	-	-	44,300
Corporate Bonds	746,450	746,450	-	-	-	-
Cash and Equivalents	7,802,375	-	-	-	-	7,802,375
<b>Total Investments</b>	<b>162,687,118</b>	<b>\$ 51,440,897</b>	<b>\$ 86,220,006</b>	<b>\$ 17,179,540</b>	<b>\$ -</b>	<b>\$ 7,846,675</b>
<b>Cash and Equivalents</b>						
The Illinois Funds	57,120,709					
Cash and Equivalents	2,283,253					
<b>Total Cash and Equivalents</b>	<b>59,403,962</b>					
<b>Total Cash &amp; Investments</b>	<b>\$ 222,091,080</b>					

<b>UNIVERSITY RELATED ORGANIZATIONS</b>						
<b>Investment Type</b>	<b>Fair Value</b>	<b>Investment Maturities (in Years)</b>				
		<b>Less Than 1</b>	<b>1-5</b>	<b>6-10</b>	<b>More Than 10</b>	<b>No Maturity</b>
U.S. Treasuries	\$ 1,323,030	\$ -	\$ 1,005,992	\$ 285,458	\$ 31,580	\$ -
U.S. Agencies	2,541,546	151,734	2,381,104	8,708	-	-
Nonnegotiable Certificates of Deposit	4,120,546	1,240,837	2,630,843	248,866	-	-
Commercial paper	247,892	247,892	-	-	-	-
Corporate Debt Securities	589,678	101,294	329,712	158,672	-	-
Corporate Equity Securities	16,737,576	10,750,047	-	-	-	5,987,529
Foreign Equity Securities	11,919,394	11,245,290	-	-	-	674,104
Money Market Funds	3,659,584	3,659,584	-	-	-	-
Open Ended Mutual Funds	75,462,615	71,735,095	-	-	-	3,727,520
Cash and Equivalents	1,381,843	1,381,843	-	-	-	-
<b>Total Investments</b>	<b>117,983,704</b>	<b>\$ 100,513,616</b>	<b>\$ 6,347,651</b>	<b>\$ 701,704</b>	<b>\$ 31,580</b>	<b>\$ 10,389,153</b>
<b>Cash and Equivalents</b>	<b>4,296,752</b>					
<b>Total Cash &amp; Investments</b>	<b>\$ 122,280,456</b>					

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

Relevant risk disclosures as described in GASB Statement No. 40 applicable to each University Related Organization can be obtained by contacting those entities listed in Note 1 on page 14.

#### 4. Accounts and notes receivable

Accounts and notes receivable consisted of the following at June 30, 2005:

	<u>UNIVERSITY</u>	
	<u>ACCOUNTS RECEIVABLE</u>	<u>NOTES RECEIVABLE</u>
Student tuition and fees	\$ 11,571,380	\$ -
Auxiliary enterprises	5,372,240	-
Grants and contracts	11,279,126	-
General operating	6,369,627	-
Student loans	40,054	20,734,907
Plant funds	-	196,711
Other accounts receivable	685,184	-
	<u>35,317,611</u>	<u>20,931,618</u>
Less: Allowance for doubtful accounts	(8,871,158)	(2,316,019)
Net receivable	<u>\$ 26,446,453</u>	<u>\$ 18,615,599</u>

	<u>UNIVERSITY RELATED ORGANIZATIONS</u>	
	<u>ACCOUNTS RECEIVABLE</u>	<u>NOTES RECEIVABLE</u>
Accounts receivable	\$ 50,568,205	\$ -
Student loans	-	46,470
	<u>50,568,205</u>	<u>46,470</u>
Less: Allowances for assignment losses and doubtful accounts	(28,940,177)	-
Net receivable	<u>\$ 21,628,028</u>	<u>\$ 46,470</u>

During fiscal year 2003, Southern Illinois University entered into a contract for deed agreement with Equipping the Saints Ministry, International, Inc. for the sale of the Auburn Clinic building in Auburn, Illinois. The contract is in the amount of \$240,000 at an interest rate of 4%, to be paid over a term of ten years in eighteen semi-annual installments of \$9,000, including interest, beginning June 19, 2003, with a final installment of \$124,790 due on December 19, 2011. A down payment of \$24,000 was paid upon signing of the contract. As of June 30, 2005, the outstanding balance of the note was \$196,711.

## 5. Capital assets

Capital asset activity for the year ended June 30, 2005, was as follows:

<b>UNIVERSITY</b>					
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deletions</b>	<b>Transfers</b>	<b>Ending Balance</b>
Capital assets not being depreciated:					
Land	\$ 18,728,686	\$ 502,963	\$ -	\$ -	\$ 19,231,649
Nondepreciable historical treasures and works of art	5,968,722	168,000	5,000	-	6,131,722
Construction in progress	60,350,514	37,000,204	2,297,892	(30,420,051)	64,632,775
<b>Total capital assets not being depreciated</b>	<b>85,047,922</b>	<b>37,671,167</b>	<b>2,302,892</b>	<b>(30,420,051)</b>	<b>89,996,146</b>
Capital assets being depreciated:					
Site improvements	37,707,228	444,169	-	4,081,116	42,232,513
Buildings	626,071,039	5,092,852	301,956	26,338,935	657,200,870
Equipment	255,205,245	13,908,632	7,570,897	-	261,542,980
Infrastructure	8,607,727	-	-	-	8,607,727
<b>Total capital assets being depreciated</b>	<b>927,591,239</b>	<b>19,445,653</b>	<b>7,872,853</b>	<b>30,420,051</b>	<b>969,584,090</b>
Less accumulated depreciation for:					
Site improvements	30,453,305	1,095,085	-	-	31,548,390
Buildings	323,805,646	14,463,594	-	-	338,269,240
Equipment	200,346,077	16,129,618	7,048,424	-	209,427,271
Infrastructure	8,131,722	154,379	-	-	8,286,101
<b>Total accumulated depreciation</b>	<b>562,736,750</b>	<b>31,842,676</b>	<b>7,048,424</b>	<b>-</b>	<b>587,531,002</b>
<b>Capital assets, net</b>	<b>\$ 449,902,411</b>	<b>\$ 25,274,144</b>	<b>\$ 3,127,321</b>	<b>\$ -</b>	<b>\$ 472,049,234</b>
<b>UNIVERSITY RELATED ORGANIZATIONS</b>					
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deletions</b>	<b>Transfers</b>	<b>Ending Balance</b>
Capital assets not being depreciated:					
Construction in progress	\$ 168,414	\$ 2,163,913	\$ -	\$ -	\$ 2,332,327
Capital assets being depreciated:					
Site improvements	-	-	-	2,000	2,000
Buildings	3,005,208	-	-	-	3,005,208
Equipment	1,352,932	354,233	14,382	(2,000)	1,690,783
<b>Total capital assets being depreciated</b>	<b>4,358,140</b>	<b>354,233</b>	<b>14,382</b>	<b>-</b>	<b>4,697,991</b>
Less accumulated depreciation for:					
Site improvements	-	425	-	-	425
Buildings	252,166	79,522	-	-	331,688
Equipment	913,629	146,665	13,971	-	1,046,323
<b>Total accumulated depreciation</b>	<b>1,165,795</b>	<b>226,612</b>	<b>13,971</b>	<b>-</b>	<b>1,378,436</b>
<b>Capital assets, net</b>	<b>\$ 3,360,759</b>	<b>\$ 2,291,534</b>	<b>\$ 411</b>	<b>\$ -</b>	<b>\$ 5,651,882</b>

## 6. Noncurrent liabilities

Noncurrent liability activity for the year ended June 30, 2005, is as follows:

<b>UNIVERSITY</b>					
	<b>Beginning</b>			<b>Ending</b>	<b>Current</b>
	<b>Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance</b>	<b>Portion</b>
Notes payable	\$ 983,186	\$ -	\$ 313,939	\$ 669,247	\$ 327,532
Compensated absences	44,430,126	3,619,945	3,171,413	44,878,658	3,713,956
Revenue bonds payable	147,333,888	45,808,208	8,170,398	184,971,698	8,588,396
Certificates of participation	36,475,369	-	1,593,513	34,881,856	1,664,614
Capitalized leases	3,564,665	3,204,098	1,207,699	5,561,064	2,170,156
Self insurance	18,780,621	4,704,751	6,525,240	16,960,132	5,607,698
Federal loan programs refundable	16,642,668	290,647	-	16,933,315	-
Due to related organizations	1,081,236	-	485,462	595,774	179,649
Other accrued liabilities	191,645	-	10,438	181,207	-
Housing deposits	250,637	171,461	174,898	247,200	111,240
Total long-term liabilities	<u>\$ 269,734,041</u>	<u>\$ 57,799,110</u>	<u>\$ 21,653,000</u>	<u>\$ 305,880,151</u>	<u>\$ 22,363,241</u>

<b>UNIVERSITY RELATED ORGANIZATIONS</b>					
	<b>Beginning</b>			<b>Ending</b>	<b>Current</b>
	<b>Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance</b>	<b>Portion</b>
Notes payable	\$ 1,512,503	\$ -	\$ 558,250	\$ 954,253	\$ 169,864
Revenue bonds payable	1,650,000	-	-	1,650,000	-
Annuities payable	3,997,030	709,926	391,658	4,315,298	501,881
Other accrued liabilities	1,233,026	96,542	46,456	1,283,112	-
Deposits held in custody for others	1,793,428	403,845	53,516	2,143,757	56,288
Total long-term liabilities	<u>\$ 10,185,987</u>	<u>\$ 1,210,313</u>	<u>\$ 1,049,880</u>	<u>\$ 10,346,420</u>	<u>\$ 728,033</u>

## 7. Revenue bonds payable

Revenue bonds outstanding as of June 30, 2005, are as follows:

<b>UNIVERSITY</b>							
	<b>Original</b>			<b>Outstanding</b>		<b>Interest</b>	<b>Annual</b>
	<b>Issue</b>	<b>Accretion</b>	<b>Retirements</b>	<b>Balance</b>	<b>Current</b>	<b>Rates(s)</b>	<b>Maturity</b>
				<b>June 30, 2005</b>	<b>Portion</b>	<b>Accreted</b>	<b>To</b>
Series 1993A	\$ 8,660,507	\$ 9,200,852	\$ -	\$ 17,861,359	\$ -	Accreted	Apr. 2018
Series 1996A	22,800,000	-	17,815,000	4,985,000	2,430,000	5.00 to 5.20%	Apr. 2007
Series 1997	16,855,000	-	1,770,000	15,085,000	330,000	4.45 to 5.875%	Apr. 2023
Series 1997A	8,575,000	-	3,405,000	5,170,000	525,000	4.20 to 5.50%	Apr. 2018
Series 1997A	29,521,284	12,319,745	14,680,000	27,161,029	2,680,000	Accreted	Apr. 2018
Series 1999A	21,001,900	8,091,432	630,000	28,463,332	370,000	Accreted	Apr. 2029
Series 2000A	6,525,000	-	885,000	5,640,000	250,000	5.25 to 5.75%	Apr. 2020
Series 2001A	27,730,000	-	5,040,000	22,690,000	1,700,000	4.00 to 5.50%	Apr. 2021
Series 2003A	17,020,000	-	350,000	16,670,000	315,000	1.15 to 4.85%	Apr. 2029
Series 2004A	40,390,000	-	-	40,390,000	60,000	3.00 to 5.00%	Apr. 2035
	<b>\$ 199,078,691</b>	<b>\$ 29,612,029</b>	<b>\$ 44,575,000</b>	<b>\$ 184,115,720</b>	<b>\$ 8,660,000</b>		

<b>UNIVERSITY RELATED ORGANIZATIONS</b>							
	<b>Original</b>			<b>Outstanding</b>		<b>Interest</b>	<b>Annual</b>
	<b>Issue</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance</b>	<b>Current</b>	<b>Rate</b>	<b>Maturity</b>
				<b>June 30, 2005</b>	<b>Portion</b>		<b>To</b>
SIUE Foundation	\$ 2,000,000	\$ -	\$ 350,000	\$ 1,650,000	\$ -	4.50%	2008

The outstanding balances above do not reflect unamortized debt premium or unamortized deferred loss on refunding.

### University Revenue Bonds Payable:

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

The Housing and Auxiliary Facilities System Bonds, Series 1996A were authorized by the University's Board under the Fourth Supplemental Bond Resolution dated September 12, 1996. The bonds mature at varying amounts from 1997 to 2007. Interest payments are due semi-annually.

The Medical Facilities System Bonds, Series 1997 were authorized by the board on October 10, 1996. The bonds mature at varying amounts from 1999 to 2023. Interest payments are due semi-annually.

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

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

The Housing and Auxiliary Facilities System Bonds, Series 2000A were authorized by the University's Board under the Seventh Supplemental Bond Resolution dated May 11, 2000. The bonds mature at varying amounts from 2002 to 2020. Interest payments are due semi-annually.

The Housing and Auxiliary Facilities System Bonds, Series 2001A were authorized by the University's Board under the Eighth Supplemental Bond Resolution dated July 12, 2001, as amended on December 11, 2003. The bonds mature at varying amounts from 2002 to 2021. Interest payments are due semi-annually.

## 7. Revenue bonds payable (continued)

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

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

These bonds do not constitute a debt of the State of Illinois or the individual members, officers or agents of the Board of Trustees of the University but, together with interest thereon, are payable solely from and secured by, subject to the prior pledge and lien on, (i) the net revenues of the related Housing and Auxiliaries Facilities System and Medical Facilities System, (ii) pledged tuition in an amount not to exceed maximum annual debt service (subject to prior payment of operating and maintenance expenses of the Systems), (iii) the Bond and Interest Sinking Funds, (iv) the Debt Service Reserves, and (v) the Repair and Replacement Reserves. The bonds are callable prior to their maturity in accordance with the provisions of the bond resolution, including premiums of up to two percent.

All of the refunded bonds are considered to be defeased and, accordingly, have been accounted for as if they were retired. As of June 30, 2005, \$2,445,000 of the bonds refunded in 1978, and \$16,360,000 of the bonds refunded in 1985 were outstanding. The market values of the related escrow funds were \$2,594,774 and \$17,453,028, respectively.

### Edwardsville Foundation revenue bonds payable:

On October 22, 1999, the Southern Illinois University Edwardsville Foundation issued a revenue bond payable in the amount of \$2,000,000. The bond was refinanced on March 14, 2003, and principal was paid down in the amount of \$350,000. The bond bears an interest rate of 4.5% and matures in 2008. Annual interest ranging from \$75,281 to \$84,769 is payable through the year 2008. As of June 30, 2005, the revenue bond was outstanding in the amount of \$1,650,000.

Annual aggregate principal and interest payments required on the bonds for years subsequent to June 30, 2005, are:

	<b><u>UNIVERSITY</u></b>	
	<b>Principal Payments</b>	<b>Interest Payments</b>
2006	\$ 8,660,000	\$ 5,342,618
2007	9,795,000	5,083,793
2008	9,840,000	4,769,293
2009	10,235,000	4,515,143
2010	10,635,000	4,237,188
2011-15	56,965,000	17,739,084
2016-20	56,955,000	12,608,017
2021-25	45,670,000	7,046,008
2026-30	35,615,000	3,775,779
2031-35	8,705,000	1,348,250
Total payments	<u>253,075,000</u>	<u>\$ 66,465,173</u>
Unaccreted appreciation	(68,959,280)	
Subtotal	184,115,720	
Unamortized premiums on bonds	1,616,020	
Unamortized deferred loss on refunding	<u>(760,042)</u>	
Total bonds payable	<u>\$ 184,971,698</u>	

	<b><u>UNIVERSITY RELATED ORGANIZATIONS</u></b>	
	<b>Principal Payments</b>	<b>Interest Payments</b>
2006	\$ -	\$ 75,281
2007	-	75,281
2008	1,650,000	84,769
	<u>\$ 1,650,000</u>	<u>\$ 235,331</u>

## 8. Capitalized leases

The University, acting through the Department of Central Management Services (CMS), acquired certain energy conservation measures (ECM's) under a capital lease agreement which is payable over a period of years. The University also leases certain items of equipment from other lessors that are classified as capital leases.

Minimum lease payments under capital leases together with the present value of the net minimum lease payments are:

<u>Year Ending</u>	<u>UNIVERSITY</u>		
	<u>CMS</u>	<u>Other</u>	<u>Total</u>
2006	\$ 1,016,120	\$ 1,352,724	\$ 2,368,844
2007	-	1,282,044	1,282,044
2008	-	814,300	814,300
2009	-	814,300	814,300
2010	-	706,288	706,288
Total minimum lease payments	1,016,120	4,969,656	5,985,776
Less amount representing interest	61,120	363,592	424,712
Present value of net minimum lease payments	<u>\$ 955,000</u>	<u>\$ 4,606,064</u>	<u>\$ 5,561,064</u>

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

The University leases office and instructional space and equipment (principally office machines, automobiles, and farm equipment) under contracts which are renewable annually and many of which are subject to escalation upon proper notice by the lessor. Rental payments on these operating leases totaled \$11,231,904 in 2005.

## 9. Notes and certificates of participation payable

### (A) University note payable

During fiscal year 2002, the purchase of a replacement chiller for the heating and cooling system at Edwardsville was financed through the issuance of a note payable in the amount of \$1,600,000 at an interest rate of 4.33%. It is payable in annual installments through fiscal year 2007. As of June 30, 2005, the note was outstanding in the amount of \$669,247.

### (B) Carbondale Foundation mortgage note payable

On July 3, 1967, the Southern Illinois University Foundation (at Carbondale) entered into a financing agreement with the Federal Housing Administration (FHA) to construct on behalf of the University a 304-unit apartment complex known as Evergreen Terrace (FHA Project No. 072-55010-NP). The original mortgage note was issued in the amount of \$4,000,000 and bears interest at the rate of 3%. It is payable in monthly installments of \$14,319 through February 2009. It is secured by a pledge of thirty-eight acres of land, including buildings and improvements. As of June 30, 2005, the mortgage note was outstanding in the amount of \$572,914.

### (C) SIU Physicians and Surgeons note payable

During 2004, SIU Physicians and Surgeons borrowed \$393,621 from Southern Illinois University School of Medicine to fund the malpractice tail premium related to the acquisition of a medical practice in Springfield, IL. The note was due June 30, 2008. During 2005, the debt was paid in full.

## 9. Notes and certificates of participation payable (continued)

### (D) Edwardsville University Park note payable

On December 12, 2003, University Park at Edwardsville issued a note payable in the amount of \$400,000 at an interest rate of 4.85% for the purchase of a building at 110 N. Research Dr., Edwardsville. It is payable in 35 monthly installments of \$2,608 with a final payment due December 12, 2007, in the amount of \$377,329. As of June 30, 2005, the note was outstanding in the amount of \$381,339.

### (E) Certificates of Participation

**Series 2004A:** On June 17, 2004, the University issued Certificates of Participation (COPS) in the par amount of \$32,740,000. The COPS were issued at a discount of \$91,480. The certificates were issued to finance, in combination with University funds, the renovation of Morris Library, the construction of a library storage facility, the construction of a Research Park, the replacement of campus signage, the purchase of computer and research equipment, and energy conservation measures, all at Carbondale; the construction of a Pharmacy building and the renovation of the Dental School building, both at Edwardsville; and energy performance measures at the School of Medicine in Springfield. The certificates bear interest at rates ranging from 2% to 5% payable semi-annually, and principal installments ranging from \$1,070,000 to \$2,720,000 are payable annually on February 15 beginning 2005 through the year 2024. As of June 30, 2005, these certificates were outstanding in the amount of \$31,418,337.

**Series 2002:** On June 5, 2002, the University issued Certificates of Participation (COPS) in the par amount of \$4,180,000. The COPS were issued at a premium of \$10,540. The certificates were issued to finance, in combination with University funds, the construction of a new support services building to house business services offices and warehouse space for the University's Springfield medical campus. The certificates bear interest at rates ranging from 3.25% to 4.40% payable semi-annually, and principal installments ranging from \$355,000 to \$495,000 are payable annually on August 15 beginning 2003 through the year 2012. As of June 30, 2005, these certificates were outstanding in the amount of \$3,463,519.

Annual aggregate principal and interest payments required for years subsequent to June 30, 2005, are:

	<b>UNIVERSITY</b>			
	<b>Notes Payable</b>		<b>Certificates of Participation</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2006	\$ 327,532	\$ 28,978	\$ 1,670,000	\$ 1,414,302
2007	341,715	14,796	2,345,000	1,372,278
2008	-	-	2,590,000	1,304,097
2009	-	-	2,670,000	1,217,090
2010	-	-	2,770,000	1,121,140
2011-15	-	-	10,125,000	4,121,893
2016-20	-	-	5,865,000	2,551,463
2021-24	-	-	6,930,000	968,150
Total payments	<u>\$ 669,247</u>	<u>\$ 43,774</u>	34,965,000	<u>\$ 14,070,413</u>
Unamortized premiums (discounts) on COPS			(83,144)	
Total payable			<u>\$ 34,881,856</u>	

### **UNIVERSITY RELATED ORGANIZATIONS**

	<b>Notes Payable</b>	
	<b>Principal</b>	<b>Interest</b>
2006	\$ 169,865	\$ 33,259
2007	529,833	19,329
2008	166,472	5,361
2009	88,094	797
	<u>\$ 954,264</u>	<u>\$ 58,746</u>



## 10. Accrued self insurance

The University is exposed to various risks of loss relative to general liability, professional liability, and certain group coverage of student health and life benefits. The University minimizes its exposure through a combination of risk reduction and self-insurance programs, as well as primary and excess insurance coverage with commercial carriers.

The general and professional liability self-insurance fund provides for comprehensive general and professional liability coverage. The University also purchases excess insurance coverage with commercial carriers for claims that may result in catastrophic losses. The University makes contributions to the general and professional liability self-insurance fund based on yearly actuarial analysis.

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

As of June 30, 2005, the accrual for self-insurance was \$11,465,113 for the general and professional liability fund and \$5,495,019 for the Student Medical Insurance Plan, for a total accrued liability for self-insurance of \$16,960,132. Because the amounts accrued and funded are estimates, the aggregate actual claims covered by the self-insurance funds could differ from the amount that has been accrued. Changes in these estimates will be reflected in the Statement of Revenues, Expenses, and Changes in Net Assets in the period in which additional information becomes available. Changes in the self-insurance accrual for the year ended June 30, 2005, are reflected below.

	<u>Total</u>	<u>General and Professional</u>	<u>Student Plan</u>
Accrued liability, June 30, 2004	\$ 18,780,621	\$ 12,969,986	\$ 5,810,635
Current year claims and other changes	4,704,751	(342,886)	5,047,637
Payment of Claims	<u>(6,525,240)</u>	<u>(1,161,987)</u>	<u>(5,363,253)</u>
Accrued liability, June 30, 2005	<u>\$ 16,960,132</u>	<u>\$ 11,465,113</u>	<u>\$ 5,495,019</u>

## 11. Donor-restricted endowments

The University entered into an agreement with the Southern Illinois University Foundation at Carbondale on July 1, 2003, in which the University transferred Endowment funds to the Foundation. The Foundation has agreed to hold and administer these funds as agency funds based upon and consistent with the desires of the donor and/or the University. During fiscal year 2005, an additional \$100 was deposited with the Foundation, resulting in a balance of \$1,598,052 held by the Foundation at June 30, 2005. The Foundation distributes earnings to the University on a quarterly basis. Payments during fiscal year 2005 totaled \$53,516.

## 12. State Universities Retirement System

The University contributes to the State Universities Retirement System of Illinois (SURS), a cost-sharing multiple-employer defined benefit pension plan with a special funding situation whereby the State of Illinois makes substantially all actuarially determined required contributions on behalf of the participating employers. SURS was established July 21, 1941 to provide retirement annuities and other benefits for staff members and employees of the state universities, certain affiliated organizations, and certain other state educational and scientific agencies and for survivors, dependents, and other beneficiaries of state employees. SURS is considered a component unit of the State of Illinois' financial reporting entity and is included in the state's financial reports as a pension trust fund. SURS is governed by Section 5/15, Chapter 40, of the *Illinois Compiled Statutes*. SURS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing SURS, 1901 Fox Drive, Champaign, IL 61820 or by calling 1-800-275-7877.

## **12. State Universities Retirement System (continued)**

Plan members are required to contribute 8% of their annual covered salary, and substantially all employer contributions are made by the State of Illinois on behalf of the individual employers at an actuarially determined rate. The current rate is 11.12% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the Illinois General Assembly. The employer contribution to SURS for the year ended June 30, 2005, was \$29,244,806, equal to the required contributions for the year. The FY 2005 contribution consisted of \$26,531,303 from State appropriations and \$2,713,503 from other current funds.

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

## **13. Post-employment benefits**

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

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

## **14. Commitments and contingencies**

### ***Grants and contracts***

The University receives monies from federal and state government agencies under grants and contracts for research and other activities, including medical service reimbursements. The costs, both direct and indirect, charged to these grants and contracts are subject to audit and disallowance by the granting agency. The University administration believes that any disallowances or adjustments would not have a material effect on the University's financial position.

### ***Legal action***

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

## **15. Subsequent event**

On October 13, 2005, the Board of Trustees of Southern Illinois University authorized the issuance of the Medical Facilities System Revenue Bonds, Series 2005 in an amount not exceeding \$25,000,000 for the purpose of construction of the Cancer Institute at the School of Medicine, acquisition and renovation of other system assets, and refunding of the outstanding Medical Facilities System Revenue Bonds, Series 1997. It is expected the bonds will be delivered in November 2005.

## 16. Segment information

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

The University has issued revenue bonds with the net revenues from the two segments pledged to pay the bond interest and principal. The Housing and Auxiliary Facilities System segment is comprised of University owned housing units, student centers, recreation and athletic facilities, and similar auxiliary enterprise units. The Medical Facilities System is comprised of clinical facilities used to provide patient care at the School of Medicine in Springfield. Condensed financial statements for the University's two segments are shown below. Additional information relating to these segments is included in Note 7, Revenue bonds payable.

	<b>Housing and Auxiliary Facilities System</b>	<b>Medical Facilities System</b>
<b>CONDENSED STATEMENTS OF NET ASSETS (DEFICIT)</b>		
<b>June 30, 2005</b>		
Assets:		
Current assets	\$ 60,275,867	\$ 5,043,035
Capital assets, net	104,096,684	12,955,810
Other assets	12,771,077	1,599,338
<b>Total Assets</b>	<b>177,143,628</b>	<b>19,598,183</b>
Liabilities:		
Current liabilities	15,677,376	916,233
Noncurrent liabilities	163,709,766	16,743,356
<b>Total Liabilities</b>	<b>179,387,142</b>	<b>17,659,589</b>
Net Assets (Deficit)		
Invested in capital assets, net of related debt	(35,143,370)	(2,113,289)
Restricted - expendable	25,909,962	2,699,712
Unrestricted	6,989,894	1,352,171
<b>Total Net Assets (Deficit)</b>	<b>\$ (2,243,514)</b>	<b>\$ 1,938,594</b>
<b>CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS (DEFICIT)</b>		
<b>Year ended June 30, 2005</b>		
Operating revenues	\$ 72,589,964	\$ 26,027,905
Operating expenses	74,467,957	30,152,748
Operating loss	(1,877,993)	(4,124,843)
Nonoperating revenues and expenses - net	991,492	5,668,491
Income (loss) before other revenues, expenses, gains or losses	(886,501)	1,543,648
Other revenues, expenses, gains or losses - net	80,954	140,451
Increase (decrease) in net assets	(805,547)	1,684,099
Net assets (deficit) at beginning of year	(1,437,967)	254,495
Net assets (deficit) at end of year	<b>\$ (2,243,514)</b>	<b>\$ 1,938,594</b>
<b>CONDENSED STATEMENTS OF CASH FLOWS</b>		
<b>Year ended June 30, 2005</b>		
Cash provided by (used in):		
Operating activities	\$ 10,471,065	\$ 2,737,001
Noncapital financing activities	157,438	-
Capital financing activities	8,378,250	(1,258,615)
Investing activities	(20,839,046)	93,694
Net increase (decrease) in cash	(1,832,293)	1,572,080
Cash, beginning of year	25,507,797	694,669
Cash, end of year	<b>\$ 23,675,504</b>	<b>\$ 2,266,749</b>

## 17. University Related Organizations

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

	SIUC FOUNDATION	SIUE FOUNDATION	SIUC PHYSICIANS & SURGEONS	SIUC ALUMNI	SIUE ALUMNI	SIUC RESEARCH PARK	SIUE UNIV. PARK	TOTAL
<b>CONDENSED STATEMENTS OF NET ASSETS</b>								
<b>JUNE 30, 2005</b>								
Assets:								
Current assets	\$ 24,732,487	\$ 3,399,334	\$33,852,509	\$ 879,481	\$ 169,647	\$ 138,887	\$1,803,912	\$ 64,976,257
Noncurrent assets	82,332,835	21,885,418	593,226	3,976,349	147,352	80,956	624,533	109,640,669
Total Assets	<u>107,065,322</u>	<u>25,284,752</u>	<u>34,445,735</u>	<u>4,855,830</u>	<u>316,999</u>	<u>219,843</u>	<u>2,428,445</u>	<u>174,616,926</u>
Liabilities:								
Current liabilities	1,231,654	853,580	5,858,081	794,506	75,263	61,223	145,184	9,019,491
Noncurrent liabilities	5,781,652	2,193,857	-	1,168,529	-	-	474,349	9,618,387
Total Liabilities	<u>7,013,306</u>	<u>3,047,437</u>	<u>5,858,081</u>	<u>1,963,035</u>	<u>75,263</u>	<u>61,223</u>	<u>619,533</u>	<u>18,637,878</u>
Net Assets:								
Invested in capital assets, net of related debt	2,171,781	525,692	593,226	4,788	906	80,956	243,194	3,620,543
Restricted - nonexpendable	53,926,413	11,627,439	-	-	-	-	-	65,553,852
Restricted - expendable	38,038,374	8,732,211	-	-	-	3,000	1,488,950	48,262,535
Unrestricted	5,915,448	1,351,973	27,994,428	2,888,007	240,830	74,664	76,768	38,542,118
Total Net Assets	<u>\$ 100,052,016</u>	<u>\$22,237,315</u>	<u>\$28,587,654</u>	<u>\$2,892,795</u>	<u>\$ 241,736</u>	<u>\$ 158,620</u>	<u>\$1,808,912</u>	<u>\$155,979,048</u>
<b>CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS</b>								
<b>Year ended June 30, 2005</b>								
Operating revenues	\$ 3,658,646	\$ 1,194,516	\$69,772,792	\$1,712,264	\$ 261,993	\$ 32,319	\$ 406,623	\$ 77,039,153
Operating expenses	16,592,000	3,690,849	61,388,239	1,547,470	249,876	57,705	350,169	83,876,308
Operating income (loss)	<u>(12,933,354)</u>	<u>(2,496,333)</u>	<u>8,384,553</u>	<u>164,794</u>	<u>12,117</u>	<u>(25,386)</u>	<u>56,454</u>	<u>(6,837,155)</u>
Nonoperating revenues and expenses - net	15,878,363	4,513,899	191,330	313,855	15,543	81,532	1,582,251	22,576,773
Income before other revenues	2,945,009	2,017,566	8,575,883	478,649	27,660	56,146	1,638,705	15,739,618
Other revenues	4,867,520	250,583	-	-	-	-	-	5,118,103
Increase in net assets	<u>7,812,529</u>	<u>2,268,149</u>	<u>8,575,883</u>	<u>478,649</u>	<u>27,660</u>	<u>56,146</u>	<u>1,638,705</u>	<u>20,857,721</u>
Net assets at beginning of year, as previously reported	92,239,487	19,969,166	16,040,980	2,414,146	214,076	102,474	170,207	131,150,536
Prior-period adjustment - unrecorded receivable in 2004 and 2003	-	-	3,970,791	-	-	-	-	3,970,791
Net assets at beginning of year, as restated	<u>92,239,487</u>	<u>19,969,166</u>	<u>20,011,771</u>	<u>2,414,146</u>	<u>214,076</u>	<u>102,474</u>	<u>170,207</u>	<u>135,121,327</u>
Net assets at end of year	<u>\$ 100,052,016</u>	<u>\$22,237,315</u>	<u>\$28,587,654</u>	<u>\$2,892,795</u>	<u>\$ 241,736</u>	<u>\$ 158,620</u>	<u>\$1,808,912</u>	<u>\$155,979,048</u>
<b>CONDENSED STATEMENTS OF CASH FLOWS</b>								
<b>Year ended June 30, 2005</b>								
Cash provided by (used in);								
Operating activities	\$ (8,523,965)	\$ (1,471,689)	\$ 3,182,149	\$1,082,201	\$ 21,678	\$ (9,213)	\$ 107,347	\$ (5,611,492)
Noncapital financing activities	10,544,930	2,847,998	(395,180)	9,040	100	29,000	503	13,036,391
Capital financing activities	(984,157)	(77,118)	(344,890)	-	-	(28,183)	819,538	(614,810)
Investing activities	(998,048)	(1,261,471)	200,601	(1,091,241)	218	576	(7,226)	(3,156,591)
Net increase (decrease) in cash	38,760	37,720	2,642,680	-	21,996	(7,820)	920,162	3,653,498
Cash, beginning of year	206,667	15,766	58,860	-	43,428	81,092	237,441	643,254
Cash, end of year	<u>\$ 245,427</u>	<u>\$ 53,486</u>	<u>\$ 2,701,540</u>	<u>\$ -</u>	<u>\$ 65,424</u>	<u>\$ 73,272</u>	<u>\$1,157,603</u>	<u>\$ 4,296,752</u>

# **SOUTHERN ILLINOIS UNIVERSITY**

## **Treasurer's Report to the Bondholders**

Housing and Auxiliary Facilities System

For the Year Ended June 30, 2006

Southern Illinois University  
Housing and Auxiliary Facilities System

Report of the Treasurer

For the Year Ended

June 30, 2005

October 31, 2005

## Table of Contents

	Page
Treasurer's:	
Letter of Transmittal	1
Comments	2-6
Independent Auditors' Report	8-9
Basic Financial Statements	
Statement of Net Assets (Deficit)	10
Statement of Revenues, Expenses and Changes in Net Assets (Deficit)	11
Statement of Cash Flows	12
Notes to Financial Statements	13-20
Supplementary Information:	
Schedule of Bonds Payable Outstanding	22-25
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	26-27

The University also issues an Annual Financial Report.

# Southern Illinois University – Board of Trustees

Board Treasurer  
1400 Douglas Drive  
Mailcode 6801  
Carbondale, IL 62901

Phone: 618-536-3475

FAX: 618-536-3404

September 30, 2005



## TO THE BONDHOLDERS AND THE BOARD OF TRUSTEES OF SOUTHERN ILLINOIS UNIVERSITY

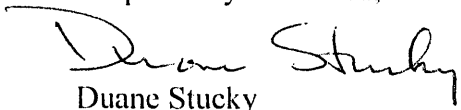
I am pleased to submit the annual Treasurer's Report to the Bondholders for the Southern Illinois University Housing and Auxiliary Facilities System for the fiscal year ended June 30, 2005.

The Series 2004A Bonds were issued in November 2004 in the amount of \$40,390,000. These bonds were sold to: finance the construction of a new apartment complex on the Carbondale campus; install sprinklers in three residence halls at the Carbondale campus; and modify the HVAC systems on the three residence halls on the Edwardsville campus.

The system continues to exceed, by a significant percentage, the 120% debt service coverage requirement as outlined in the bond resolution. A calculation for this coverage requirement is included in the Treasurer's Comments to the financial statements.

I hope you find this financial report informative, and I invite your inquiries on any matter related to the bonds or the report.

Respectfully submitted,

  
Duane Stucky  
Board Treasurer

DS/lap



Southern Illinois University  
Board of Trustees and  
Officers of Administration  
Fiscal Year 2005

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## TREASURER'S COMMENTS

### SOUTHERN ILLINOIS UNIVERSITY HOUSING AND AUXILIARY FACILITIES SYSTEM

#### I. SOUTHERN ILLINOIS UNIVERSITY REVENUE BOND OPERATIONS

##### FACILITIES

The facilities included in the Southern Illinois University Housing and Auxiliary Facilities System (the "System") were acquired in eight phases. The first phase coincided with the creation of the System and the Advanced Refunding of 1978 which consolidated the facilities, the operations and the debt of five separate bond indentures, into one entity, the System. These facilities include dormitories and apartment complexes on the Carbondale and Edwardsville campuses which provide housing for approximately 6,300 students; the student unions known as the Student Center at Carbondale and the University Center at Edwardsville; eight buildings leased to national organizations of fraternities and sororities for housing of approximately 300 students; two buildings which provide housing for approximately 67 professional students; and five buildings used by the University for administrative and student service purposes. The buildings and equipment of this phase were constructed or improved through the issuance of bonds totaling \$72,391,000. Additional improvements of this phase, consisting of an energy conservation project, have been constructed through the issuance of Revenue Bond Series 2000A in the amount of \$6,525,000.

The second phase expanded the System to include the Student Recreation Center, the Northwest Annex and the Child Care Center at the Carbondale campus, and the Student Fitness Center and Woodland Hall at the Edwardsville campus. The recreation center additions were acquired through the issuance of the Southern Illinois University Housing and Auxiliary Facilities System Revenue Project and Refunding Bonds Series 1992A (the "Series 1992A Bonds") in the amount of \$13,465,000 while the other projects were acquired through the issuance of the Revenue Bond Series 1993A (the "Series 1993A Bonds") in the amount of \$16,670,506. These facilities include a dormitory and an apartment complex which provide housing for approximately 500 students and office space of 29,100 net square feet for academic, administrative and student service purposes; a student recreation center (including an existing facility and a fitness center addition) at Carbondale; a fitness center addition at Edwardsville; and a child care center capable of serving 133 children.

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

The fourth phase expanded the System to include a new residence hall on the Edwardsville campus. The residence hall consists of approximately 120,000 square feet and is designed to provide housing for approximately 500 students. This phase also includes expansion and renovations of the University Center food service facilities. The new residence hall, Bluff Hall, was completed and opened for the Fall 2001 semester. The funds for construction and improvements were provided through the issuance of bonds totaling \$21,001,900.

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

The sixth phase expanded the System to include a new Student Health Program building addition on the Carbondale campus. The new facility consists of an approximately 40,000 square foot, two-story addition to the Student Recreation Center. Construction is projected to be completed in December 2005. The funds for construction were provided through the issuance of bonds totaling \$8,635,000.

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

The eighth phase expanded the System to include Wall and Grand Apartments on the Carbondale campus. The residence hall consists of approximately 169,000 gross square feet and is designed to provide apartment-style living quarters for 400 on-campus students. The residence hall projected completion date is Fall 2006. This phase also includes the installation of automatic sprinkler systems in Schneider Hall, Mae Smith Hall and Neely Hall on the Carbondale campus as well as modification of the HVAC systems and humidity controls in Prairie Hall, Bluff Hall and Woodland Hall on the Edwardsville campus. The funds for construction and improvements were provided through the issuance of bonds totaling \$40,390,000.

##### ADVANCE REFUNDINGS

The debt related to the construction of the original System facilities has been advance refunded either partially or in full, without extending the final maturity date, in 1978, and 1985. The refundings have been undertaken by the Board of Trustees (the

**TREASURER'S COMMENTS – Continued**

"Board") for the purposes of consolidating the debt, effecting a cost savings, or resolving operational and parity issues related to the separate bond indentures.

The proceeds of the bonds issued for each of the above refundings were used to purchase U.S. Government securities in amounts which, together with the earnings thereon, will be sufficient to pay, when due or on their redemption date, the interest, premium and principal of the refunded bonds. The U.S. Government securities purchased for the Advance Refunding of 1978 are held in trust by the U.S. Bank, 60 Livingston Avenue, St. Paul, Minnesota; while the Advance Refunding of 1985 is held in trust by the LaSalle Bank N.A., 135 South LaSalle Street, Chicago, Illinois. The principal amounts outstanding as of June 30, 2005, relating to the advance refundings, are as follows:

**ADVANCE REFUNDING OF 1978:**

University Facilities Revenue Bonds, Series E of 1968 (Student Center, Family Housing, and Single Student Housing) – Final Maturity April 1, 2008	\$ 2,445,000
	<u>\$ 2,445,000</u>

**ADVANCE REFUNDING OF 1985:**

Housing and Auxiliary Facilities System Revenue Bonds of 1978 Series J – Final Maturity April 1, 2007	\$16,360,000
	<u>\$16,360,000</u>

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

**II. INSURANCE**

An insurance package policy purchased under the auspices of the Illinois Public Higher Education Cooperative (IPHEC), through the Midwestern Higher Education Commission (MHEC) program, provides all risk coverage on buildings and contents. The following insurance coverages are in force at the University (including the Systems facilities) through June 30, 2006:

	<u>Approximate Amount</u>
1. Lexington Insurance Co., Policy No. 8753260. Primary policy providing \$100,000,000 all risk coverage on scheduled buildings and other property totaling \$1,964,191,000 with a general deductible of \$25,000 per occurrence on all bonded buildings. A \$500,000 per occurrence deductible has been added this year for many of the non-bonded academic buildings. Coverage is first layer of a structured program providing coverage up to \$1,000,000,000 per occurrence.	\$100,000,000 per occurrence
1a. Boiler & Machinery coverage included in the Lexington policy listed above carries a \$25,000 deductible.	\$100,000,000 per occurrence
1b. Flood coverage included in the Lexington policy listed above is limited to \$100,000,000 and carries a \$25,000 per occurrence deductible (2% TIV in FEMA-defined 100-year flood zone).	\$100,000,000 per occurrence
1c. Earthquake coverage included in the Lexington policy listed above carries a \$25,000 per occurrence deductible.	\$100,000,000 per occurrence
2. American International Specialty, Policy No. 679-06-57; Axis Specialty, Policy No. ECF707859-05; Lloyds of London, Policy No. DP442705; Alliance Global, Policy No. CLP3006297; Commonwealth Insurance, Policy No. US5777; Hannover Re, Policy No. 05156600007; Axis Surplus, Policy No. ECF707859-05: second layer of coverage, providing \$400,000,000 excess of the Lexington’s \$100,000,000 layer.	\$400,000,000 per occurrence
3. Allianz Global, Policy No. CLP 3006297; Lloyds of London, Policy No. DP442705; Lloyds of London, Policy No. MQ2L9L438236-015; and Continental Casualty, Policy No. 210728503. Excess layer providing \$500,000,000 excess of the secondary layer of \$400,000,000.	\$500,000,000 per occurrence
4. Self Insurance: The University, pursuant to the provisions of Illinois Public Act 84-0010, has established a Self-Insurance Program (the “Program”) for its traditional liability insurance coverages. Funds have been reserved in amounts to cover the major portion of the estimated liability as determined by the Program’s actuary. The University has also purchased excess liability insurance policies to cover certain of its general liability exposures not elsewhere covered.	

**TREASURER'S COMMENTS – Continued**

**III. ENROLLMENTS AT SOUTHERN ILLINOIS UNIVERSITY**

The University reports the following enrollments, by campus:

	<u>Head Count*</u>	<u>Full-Time Equivalency**</u>
Carbondale Campus (semester basis)		
Fall semester 2004	21,589	17,950
Fall semester 2003	21,387	17,600
Edwardsville Campus (semester basis)		
Fall semester 2004	13,493	10,778
Fall semester 2003	13,295	10,604

\*Head count includes all full and part-time students (including those enrolled in extension courses) whether living on or off campus.

\*\*Full-time equivalency is based on 15 credits for undergraduate students and 12 credits for graduate students.

**IV. HISTORICAL OCCUPANCY OF SYSTEM FACILITIES**

The occupancy charges and rates below are based on the school year (9 months) except for Southern Hills, the charges and rates for which are based on the length of housing contract (12 months).

	Range of Occupancy Charges for 2005	<u>Occupancy Rates</u>				
		<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Southern Hills Apartments (C) 271 Apartments	\$4,752 - \$5,496	86.9%	87.3%	86.0%	89.8%	87.4%
Greek Row (C) 67 Persons*	\$4,642 - \$7,180	52.1%	72.6%	69.3%	82.4%	79.2%
Thompson Point (C) 1,259 Persons	\$5,146 - \$6,682	92.9%	95.4%	93.8%	91.8%	95.3%
East Campus (C) 2,908 persons	\$5,146 - \$7,180	85.9%	91.3%	89.4%	86.9%	89.7%
University Hall (C) 363 persons	\$5,146 - \$7,180	76.0%	-- --	-- --	-- --	-- --
Cougar Village (E) 496 Apartments	\$7,690 - \$12,416	94.8%	96.0%	94.2%	92.0%	90.8%
Woodland Hall (E) 257 Rooms	\$6,512 - \$6,512	97.2%	98.2%	94.8%	92.4%	96.9%
Prairie Hall (E) 260 Rooms	\$6,512 - \$6,512	97.9%	97.3%	98.2%	97.3%	97.5%
Bluff Hall (E) 260 Rooms	\$6,512 - \$6,512	97.5%	97.9%	96.3%	93.1%	-- --

(C) Carbondale Campus, (E) Edwardsville Campus

\*Certain properties are also leased to national organizations of fraternities and sororities for housing (eight buildings) and to the University for administrative and student service purposes (five buildings).

**TREASURER'S COMMENTS – Continued**

**V. DEBT SERVICE COVERAGES**

The bond resolution requires that debt service coverage (net revenues plus pledged retained tuition) be at least 120% of the debt service reserve requirement. The debt service coverage is calculated at the end of the year using cash basis data obtained from the Statement of Cash Flows. Debt service coverage for the System as defined by the bond resolution and based on net revenues has been calculated as follows:

	<u>Year ended June 30,</u>	
	<u>2005</u>	<u>2004</u>
Receipts:		
Revenue Account:		
Operating Receipts	\$ 69,420,724	\$ 66,245,635
Revenue Bond Fees	1,902,446	1,894,747
Retirement of Indebtedness – Investment Income	635,279	716,463
Total Receipts	<u>71,958,449</u>	<u>68,856,845</u>
Disbursements:		
Operation and Maintenance Account	<u>56,793,195</u>	<u>53,551,119</u>
Net Revenues	15,165,254	15,305,726
Plus: Pledged Retained Tuition	<u>13,843,713</u>	<u>11,158,009</u>
Total Available for Debt Service	<u>\$ 29,008,967</u>	<u>\$ 26,463,735</u>
Maximum Annual Debt Service	<u>\$ 13,843,713</u>	<u>\$ 11,158,009</u>
Coverage Ratio Based on Net Revenues	110%	137%
Coverage Ratio as Defined in the Bond Resolution	210%	237%

**VI. RETIREMENT OF INDEBTEDNESS**

The net assets are restricted for the following purposes:

	<u>June 30,</u>	
	<u>2005</u>	<u>2004</u>
Bond and Interest Sinking Fund Account	\$ 4,568,072	\$ 5,615,487
Debt Service Reserve Account	13,843,713	11,158,009
	<u>\$ 18,411,785</u>	<u>\$ 16,773,496</u>

**VII. RENEWALS AND REPLACEMENTS**

The bond resolution requires the Treasurer to transfer annually to Renewals and Replacements from the funds remaining in unrestricted net assets, the sum of 10% of the maximum annual net debt service requirement or such portion thereof as is available for transfer. The maximum amount which may be accumulated in said account shall not exceed 5% of the replacement cost of the facilities constituting the System, plus 20% of the book value of the movable equipment within the System, plus either 10% of the historical cost of the parking lots or 100% of the estimated cost of resurfacing any one existing parking lot which is part of the System.

Additions during the year included transfers from unrestricted net assets of \$7,244,944 (\$7,859,743 in 2004) and investment income (loss) of \$161,146 in 2005 and \$(28,384) in 2004. Expenditures charged to the reserve amounted to \$6,108,438 in 2005 and \$8,612,354 in 2004. The net assets of Renewals and Replacements consisted of the following:

	<u>June 30,</u>	
	<u>2005</u>	<u>2004</u>
Pooled Cash and Investments	\$ 6,026,621	\$ 6,064,048
Accrued Interest Receivable	17,611	(3,686)
Accounts Payable	(31,987)	(1,345,769)
	<u>\$ 6,012,245</u>	<u>\$ 4,714,593</u>

**TREASURER'S COMMENTS – Continued**

**VIII. SCHEDULE OF BONDS PAYABLE OUTSTANDING**

A Schedule of Bonds Payable Outstanding is shown as supplementary information and lists the amount of Housing and Auxiliary Facilities System Revenue Project and Refunding Bonds and Revenue Bonds Series 2004A, 2003A, 2001A, 2000A, 1999A, 1997A, 1996A and 1993A issued and outstanding as of June 30, 2005.

**IX. RESTRICTED NET ASSETS – EXPENDABLE**

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

	<u>2005</u>	<u>2004</u>
Retirement of indebtedness	\$ 18,411,785	\$ 16,773,496
Renewals and replacements	6,012,245	4,714,593
Unexpended	1,485,932	1,313,705
	<u>\$ 25,909,962</u>	<u>\$ 22,801,794</u>

## **FINANCIAL STATEMENTS**



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## Independent Auditors' Report

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

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of Southern Illinois University Housing and Auxiliary Facilities System (the "System") as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the System's 2004 financial statements and, in our report dated October 14, 2004, we expressed an unqualified opinion on those financial statements.

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

As discussed in note 1A, the financial statements of the System are intended to present the financial position, and the changes in financial position and in cash flows of only that portion of the activities of Southern Illinois University that is attributable to the transactions of the System. They do not purport to, and do not, present fairly the financial position of Southern Illinois University as of June 30, 2005, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.



In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the System as of June 30, 2005, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2005, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

In connection with our audit, nothing came to our attention that caused us to believe that the System was not in compliance with any of the fund accounting covenants of the Resolutions of The Board of Trustees of Southern Illinois University, which provided for the issuance of the Southern Illinois University Housing and Auxiliary Facilities System Revenue Bonds Series 2004A, Revenue Bonds Series 2003A, Revenue Bonds Series 2001A, Revenue Bonds Series 2000A, Revenue Bonds Series 1999A, Revenue Bonds Series 1997A, Revenue Refunding Bonds Series 1996A, and Revenue Bonds Series 1993A adopted October 14, 2004, December 12, 2002, July 12, 2001, May 11, 2000, May 13, 1999, July 10, 1997, September 12, 1996, and May 13, 1993, respectively. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

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

*Kulsh. Eck: Bransel LLP*

Springfield, Illinois  
October 17, 2005

**SOUTHERN ILLINOIS UNIVERSITY**  
**HOUSING AND AUXILIARY FACILITIES SYSTEM**  
**STATEMENT OF NET ASSETS (DEFICIT)**

June 30, 2005

(with comparative totals for 2004)

	2005	2004
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents (Note 2)	\$ 23,675,504	\$ 25,507,797
Short term investments (Note 2)	33,090,224	9,467,567
Accounts receivable, net	1,833,651	1,728,366
Accrued interest receivable	345,184	164,912
Merchandise for resale	1,121,898	1,047,555
Prepaid expenses and other assets	209,406	180,152
<b>TOTAL CURRENT ASSETS</b>	<b>60,275,867</b>	<b>38,096,349</b>
<b>NONCURRENT ASSETS:</b>		
Long term investments (Note 2)	10,195,378	11,487,641
Prepaid expenses and other assets	2,575,699	2,205,786
Capital assets, net: (Note 4)		
Land	605,395	579,362
Buildings	86,332,937	81,736,371
Improvements	2,163,346	1,950,990
Equipment	822,949	861,727
Construction in progress	14,172,057	4,098,914
<b>TOTAL NONCURRENT ASSETS</b>	<b>116,867,761</b>	<b>102,920,791</b>
<b>TOTAL ASSETS</b>	<b>177,143,628</b>	<b>141,017,140</b>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	2,252,003	3,762,461
Accrued interest payable	1,116,336	704,861
Accrued payroll	539,796	503,521
Accrued compensated absences (Note 5)	134,192	156,373
Housing deposits (Note 5)	111,240	112,787
Deferred revenue	3,260,908	3,265,715
Revenue bonds payable (Note 5)	8,262,901	7,852,501
<b>TOTAL CURRENT LIABILITIES</b>	<b>15,677,376</b>	<b>16,358,219</b>
<b>NONCURRENT LIABILITIES:</b>		
Accrued compensated absences (Note 5)	1,893,152	1,796,289
Housing deposits (Note 5)	135,960	137,850
Revenue bonds payable (Note 5)	161,680,654	124,162,749
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>163,709,766</b>	<b>126,096,888</b>
<b>TOTAL LIABILITIES</b>	<b>179,387,142</b>	<b>142,455,107</b>
<b>NET ASSETS (DEFICIT)</b>		
Invested in capital assets, net of related debt	(35,143,370)	(32,500,271)
Restricted for:		
Expendable		
Capital projects and debt service	25,909,962	22,801,794
Unrestricted	6,989,894	8,260,510
<b>TOTAL NET ASSETS (DEFICIT)</b>	<b>\$ (2,243,514)</b>	<b>\$ (1,437,967)</b>

The accompanying notes are an integral part of this statement.

**SOUTHERN ILLINOIS UNIVERSITY**  
**HOUSING AND AUXILIARY FACILITIES SYSTEM**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS (DEFICIT)**  
**Year Ended June 30, 2005**  
(with comparative totals for 2004)

	2005	2004
<b>REVENUES</b>		
<b>OPERATING REVENUES:</b>		
Dormitories and apartments	\$ 38,235,743	\$ 35,806,812
University student centers		
Sales and services	11,184,665	10,531,097
Student fees	6,342,375	6,401,029
Student recreation and fitness centers		
Sales and services	993,977	864,903
Student fees	4,284,605	3,945,865
Child care center	682,319	619,073
Student health program	6,977,054	6,307,098
Traffic and parking	1,986,780	2,093,564
Revenue bond fees	1,902,446	1,894,747
<b>TOTAL OPERATING REVENUES</b>	<b>72,589,964</b>	<b>68,464,188</b>
<b>EXPENSES</b>		
<b>OPERATING EXPENSES:</b>		
Salaries and wages	31,861,809	29,555,921
Merchandise for resale	8,169,684	7,925,482
Utilities	7,144,594	7,061,636
Maintenance and repairs	10,875,184	10,230,682
Administrative	6,389,331	5,708,654
Other	4,271,769	4,042,709
Additional on-behalf SURS allocation for unfunded liability	-	8,131,791
Impairment loss on residence halls	-	3,787,837
Depreciation (Note 4)	5,755,586	4,624,777
<b>TOTAL OPERATING EXPENSES</b>	<b>74,467,957</b>	<b>81,069,489</b>
<b>OPERATING LOSS</b>	<b>(1,877,993)</b>	<b>(12,605,301)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Investment income (Note 3)	1,671,619	52,216
Gifts for other than capital purposes	1,264	4,437
Payments on-behalf of the system (Note 1H)	7,425,199	6,868,368
Additional on-behalf SURS allocation for unfunded liability	-	8,131,791
Interest on capital asset-related debt	(4,194,466)	(3,324,052)
Accretion on bonds payable	(4,068,318)	(3,979,141)
Other nonoperating revenue	156,194	140,400
<b>NET NONOPERATING REVENUE</b>	<b>991,492</b>	<b>7,894,019</b>
<b>LOSS BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES</b>	<b>(886,501)</b>	<b>(4,711,282)</b>
<b>OTHER REVENUES, EXPENSES, GAINS OR LOSSES</b>		
Capital assets retired	(27,774)	(54,572)
Additions to plant facilities from other sources (Note 7)	108,728	238,352
<b>TOTAL OTHER REVENUES, EXPENSES, GAINS OR LOSSES</b>	<b>80,954</b>	<b>183,780</b>
<b>DECREASE IN NET ASSETS</b>	<b>(805,547)</b>	<b>(4,527,502)</b>
<b>NET ASSETS (DEFICIT)</b>		
Net assets (deficit) at beginning of year	(1,437,967)	3,089,535
<b>NET ASSETS (DEFICIT) AT END OF YEAR</b>	<b>\$ (2,243,514)</b>	<b>\$ (1,437,967)</b>

The accompanying notes are an integral part of this statement.

**SOUTHERN ILLINOIS UNIVERSITY**  
**HOUSING AND AUXILIARY FACILITIES SYSTEM**  
**STATEMENT OF CASH FLOWS**  
**Year Ended June 30, 2005**  
(with comparative totals for 2004)

	<b>2005</b>	<b>2004</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Dormitories and apartments	\$ 36,727,470	\$ 34,664,438
University student centers		
Sales and services	11,259,714	10,750,874
Student fees	6,322,443	6,406,714
Student recreation and fitness centers		
Sales and services	999,809	904,412
Student fees	4,268,754	3,975,124
Child care center	703,356	608,719
Student health program	6,843,095	6,413,066
Traffic and parking	1,990,487	2,072,895
Revenue bond fees	1,902,446	1,894,747
Payments to employees	(22,640,069)	(21,114,922)
Payments for utilities	(7,291,510)	(7,212,243)
Payments to suppliers	(30,614,930)	(29,511,989)
	<b>10,471,065</b>	<b>9,851,835</b>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Gifts for other than capital purposes	1,244	4,458
Other nonoperating revenue	156,194	140,400
	<b>157,438</b>	<b>144,858</b>
<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>		
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>		
Purchases of capital assets	(21,310,277)	(6,803,569)
Principal paid on capital debt	(7,965,000)	(7,205,000)
Interest paid on capital debt	(4,086,363)	(3,129,635)
Retained bond proceeds	41,739,890	-
	<b>8,378,250</b>	<b>(17,138,204)</b>
<b>NET CASH PROVIDED BY (USED IN) CAPITAL FINANCING ACTIVITIES</b>		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales and maturities of investments	22,900,319	14,259,060
Investment income	1,545,415	1,535,106
Purchase of investments	(45,284,780)	(11,124,161)
	<b>(20,839,046)</b>	<b>4,670,005</b>
<b>NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>		
<b>NET DECREASE IN CASH</b>	<b>(1,832,293)</b>	<b>(2,471,506)</b>
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF THE YEAR</b>	<b>25,507,797</b>	<b>27,979,303</b>
<b>CASH AND CASH EQUIVALENTS - END OF THE YEAR</b>	<b>\$ 23,675,504</b>	<b>\$ 25,507,797</b>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating loss	\$ (1,877,993)	\$ (12,605,301)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation expense	5,755,586	4,624,777
Impairment loss on residence halls	-	3,787,837
Payments on-behalf of the system	7,425,199	6,868,368
Additional on-behalf SURS allocation for unfunded liability	-	8,131,791
Change in assets and liabilities:		
Receivables, net	(105,285)	178,438
Merchandise for resale	(74,343)	(13,834)
Prepaid expenses and other assets	(10,698)	5,772
Accounts payable	(744,114)	(1,196,755)
Accrued payroll	36,275	70,589
Accrued compensated absences	74,682	(107,017)
Housing deposits	(3,437)	3,662
Deferred revenue	(4,807)	103,508
	<b>\$ 10,471,065</b>	<b>\$ 9,851,835</b>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		

The accompanying notes are an integral part of this statement.

**SOUTHERN ILLINOIS UNIVERSITY  
HOUSING AND AUXILIARY FACILITIES SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005**

**1. Significant Accounting Policies**

**(A) Basis of Presentation**

These financial statements include all financial activities over which the Southern Illinois University Housing and Auxiliary Facilities System (the "System") exercises direct responsibility. The System combines the operations of the individual housing units, the student centers, the student recreation center, the student fitness center, the child care center, Edwardsville traffic and parking, Carbondale softball field and football astroturf, and the Carbondale student health program into one operation. The Revenue Project Bonds of 2004A, 2003A, 2001A, 2000A, 1999A, 1997A and 1993A and the Refunding Bonds of 1996A (the "Bonds") are secured in part by the revenues from these operations. The financial statements reflect the combined operations of the System as of and for the year ended June 30, 2005. The individual facilities included in the System are as follows:

Carbondale Campus	Edwardsville Campus
Southern Hills Apartments (Phases I and II)	University Center
Greek Row	Cougar Village
Thompson Point (Phases I and II)	Student Fitness Center
East Campus	Woodland Hall
University Hall	Prairie Hall
Northwest Annex	Traffic and Parking
Student Center	Bluff Hall
Student Recreation Center	
Child Care Center	
Football Stadium Turf	
Softball Field	
Student Health Program	
Wall and Grand Apartments	

These financial statements have been prepared to satisfy the requirements of the System's Revenue Bonds master indenture. The financial balances and activities of the System, included in these financial statements, are included in the University's financial statements. The System is not a separate legal entity and therefore has not presented management's discussion and analysis. The financial statements include prior year comparative information, which has been derived from the System's 2004 financial statements. Such information does not include all of the information required to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the System's financial statements for the year ended June 30, 2004.

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB), including Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. While this standard is scheduled for a phased implementation according to the revenues of the governmental unit, the University is required to adopt the Statement in the year that the State of Illinois adopts it, and the State adopted the Statement for the year ended June 30, 2002. Additionally, effective July 1, 2001, the System adopted GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments : Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. The System now follows the business-type activity reporting requirements of GASB Statements No. 35, 37 and 38 that provide a comprehensive, entity-wide perspective of the System's financial activities and replaces the fund group presentations previously required. Effective July 1, 2004, the System adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. The objective of this statement is to update the custodial credit risk disclosure requirements and to establish more comprehensive disclosure requirements addressing the common risks of deposits and investments.

For financial reporting purposes, the System is considered a special-purpose government engaged only in business-type activities. Accordingly, the System's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting applicable to state colleges and universities. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation to pay has been incurred.

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

**SOUTHERN ILLINOIS UNIVERSITY  
HOUSING AND AUXILIARY FACILITIES SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005**

**(B) Merchandise For Resale**

Merchandise for resale includes food service and bookstore inventories which are stated at cost (first-in, first-out) which does not exceed market. The Student Center University Bookstore on the Carbondale campus has been leased to Follett Higher Education Group Inc. since May 8, 2001.

**(C) Buildings, Improvements and Equipment**

Buildings, improvements and equipment are recorded at cost less accumulated depreciation. The buildings are located on land owned by the University except for the Northwest Annex and University Hall which were purchased in part by the System. There is no charge to the System for the use of the land other than for grounds maintenance. The System's policy is to capitalize all equipment items with an acquisition cost of \$5,000 or more.

**(D) Classification of Revenues and Expenses**

The System has classified its revenues and expenses as either operating or nonoperating. Operating revenues and expenses include activities that have characteristics of exchange transactions, such as sales and services of auxiliary enterprises. Nonoperating revenues and expenses include activities that have characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Government Entities that Use Proprietary Fund Accounting*, and GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Other nonoperating revenues and expenses include transactions relating to capital and financing activities, noncapital financing activities, and investing activities.

**(E) Cash and Cash Equivalents**

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

**(F) Investments**

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

**(G) Revenue Bond Fee**

Transfers from other University funds of the revenue bond fee are based upon the amount budgeted. Fees in the amount of \$22,459 have been collected in excess of the budgetary transfer and are available for future budgetary transfers.

**(H) Bond Issuance Costs**

The bond issuance costs are included in prepaid expenses and other assets and are amortized on a straight line basis over the life of the bonds.

**(I) On-Behalf Payments**

In accordance with GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, the System reported on-behalf payments made by agencies of the State of Illinois for health care and retirement. These costs are reflected in an equal amount in both the nonoperating revenues and salaries and wages of the System. On behalf payments for the year ended June 30, 2005 amounted to \$7,140,571 for group insurance, retirement and post-employment benefits, and \$284,628 for social security and medicare.

**(J) Classification of Net Assets**

Net assets represent the difference between System assets and liabilities and are divided into three major categories. The first category, invested in capital assets, net of related debt, represents the System's equity in property, plant and equipment. The next asset category is restricted net assets. Expendable restricted net assets are available for expenditure by the System but must be spent for purposes as determined by donors or other external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets, which represent balances from operational activities that have not been restricted by parties external to the System and are available for use by the System.

**SOUTHERN ILLINOIS UNIVERSITY  
HOUSING AND AUXILIARY FACILITIES SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005**

**2. Pooled Cash and Investments**

The University has pooled certain cash and investments for the purpose of securing a greater return on investment and providing a more equitable distribution of investment return. Pooled investments, which consist principally of government securities, are stated at market. Income is distributed quarterly based upon average balances invested in the pool over the prior 13 week period. The System's pooled cash and investments are classified as Category 1 investments to reflect the System's level of risk. This category includes investments that are insured or registered, or for which the securities are held by the System or an agent, in its name. There are no investments in foreign currency. It is not feasible to separately determine the System's bank balance at June 30, 2005 due to the pooling of the University's cash and investments.

*Credit Risk:* Credit risk is the risk of loss due to the failure of the security issuer or backer. Credit risk is mitigated by limiting investments to those specified in the *Illinois Public Funds Investment Act*; pre-qualifying the financial institutions which are utilized; and diversifying the investment portfolio so that the failure of any one issuer or backer will not place an undue financial burden on the University. U.S. Treasuries are federal government securities that do not require the disclosure of credit risk. The U.S. agencies investments include the Federal Home Loan Mortgage Corporation and the Federal Home Loan Bank, both of which were rated AAA.

*Concentration of Credit Risk:* The University's investment policy states that the portfolio should consist of a mix of various types of securities, issues and maturities.

*Interest Rate Risk:* Interest rate risk is the risk that the market value of portfolio securities will fall due to an increase in general interest rates. Interest rate risk is mitigated by structuring the University's portfolio so that securities mature to meet the University's cash requirements for ongoing operations. The internally managed portfolio is managed in accordance with covenants provided from the University's debt issuance activities. The externally managed portfolio is typically allocated with up to 30 percent of assets held in the Illinois Funds; 20 to 30 percent of assets held in the short-term portfolio; and 45 to 55 percent of assets held in the intermediate-term portfolio.

Interest rate risk is disclosed below using the segmented time distribution method. As of June 30, 2005, the System had the following cash and investment balances:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less than 1	1-5	6-10	More than 10
U.S. Treasuries	\$ 28,065,736	\$ 17,870,358	\$ 5,939,966	\$ 4,255,412	\$ -
U.S. Agencies	15,219,866	15,219,866	-	-	-
<b>Total Investments</b>	<b>43,285,602</b>	<b>\$ 33,090,224</b>	<b>\$ 5,939,966</b>	<b>\$ 4,255,412</b>	<b>\$ -</b>
<b>Cash and Equivalents</b>					
The Illinois Funds	22,297,202				
Cash and Equivalents	1,378,302				
<b>Total Cash &amp; Equivalents</b>	<b>23,675,504</b>				
<b>Total Cash &amp; Investments</b>	<b>\$ 66,961,106</b>				

**3. Investments and Investment Income**

Southern Illinois University has adopted the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. This statement establishes accounting and reporting standards for certain investments and securities and establishes disclosure requirements for most investments held by governmental entities. It requires that investments be recorded at fair (market) value and that unrealized gains and losses be recorded in income. The fair value is determined to be the amount at which financial instruments could be exchanged in a current transaction between willing parties, usually quoted market prices. Also, certain money market investments having a remaining maturity of one year or less at time of purchase and nonnegotiable certificates of deposit with redemption terms that do not consider market rates are carried at amortized cost. The statement has been applied to investments and income for fiscal years 2005 and 2004.

The calculation of realized gains is independent of the calculation of the net increase in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year. Investment income net of realized and unrealized gains and losses on investments for the year ended June 30, 2005, is reflected below.

Interest earnings	\$ 1,780,134
Realized loss on investments	(25,305)
Unrealized loss on investments	(83,210)
	<u>\$ 1,671,619</u>

**SOUTHERN ILLINOIS UNIVERSITY  
HOUSING AND AUXILIARY FACILITIES SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005**

**4. Capital Assets**

Capital asset activity for the year ended June 30, 2005 was as follows:

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Land	\$ 579,362	\$ 26,033	\$ -	\$ -	\$ 605,395
Buildings	185,499,095	619,445	-	9,301,322	195,419,862
Improvements	5,485,053	233,986	-	180,194	5,899,233
Equipment	3,156,895	193,283	45,688	(72,713)	3,231,777
Construction in progress	4,098,914	16,724,510	238,695	(6,412,672)	14,172,057
Total cost of capital assets	<u>\$ 198,819,319</u>	<u>\$ 17,797,257</u>	<u>\$ 284,383</u>	<u>\$ 2,996,131</u>	<u>\$ 219,328,324</u>
Less accumulated depreciation for:					
Buildings	\$ 103,762,724	\$ 5,324,201	\$ -	\$ -	\$ 109,086,925
Improvements	3,534,063	201,824	-	-	3,735,887
Equipment	2,295,168	229,561	20,414	(95,487)	2,408,828
Total accumulated depreciation	<u>\$ 109,591,955</u>	<u>\$ 5,755,586</u>	<u>\$ 20,414</u>	<u>\$ (95,487)</u>	<u>\$ 115,231,640</u>
Capital assets – net	<u>\$ 89,227,364</u>				<u>\$ 104,096,684</u>

The following estimated useful lives are used to compute depreciation:

Buildings	40 years
Improvements	15 years
Equipment	5 - 10 years

**5. Long-term Liabilities**

Long-term liability activity for the year ended June 30, 2005 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Revenue bonds payable	\$ 132,015,250	\$ 45,808,208	\$ 7,879,903	\$ 169,943,555	\$ 8,262,901
Compensated absences	1,952,662	85,799	11,117	2,027,344	134,192
Housing deposits	250,637	171,461	174,898	247,200	111,240
Total long-term liabilities	<u>\$ 134,218,549</u>	<u>\$ 46,065,468</u>	<u>\$ 8,065,918</u>	<u>\$ 172,218,099</u>	<u>\$ 8,508,333</u>

Note: Amounts shown in ending balance of long-term liabilities include both current and long-term portions.

**6. Revenue Bonds Payable**

On October 14, 2004, the Board adopted the "Tenth Supplemental System Revenue Bond Resolution" which amended and supplemented the Original Resolution of August 29, 1984, the First Supplemental Resolution of November 13, 1986, the Second Supplemental Resolution of February 13, 1992, the Third Supplemental Resolution of May 13, 1993, the Fourth Supplemental Resolution of September 12, 1996, the Fifth Supplemental Resolution of July 10, 1997, the Sixth Supplemental Resolution of May 13, 1999, the Seventh Supplemental Resolution of May 11, 2000, the Eighth Supplemental Bond Resolution of July 12, 2001, and the Ninth Supplemental Resolution of December 12, 2002. The Board also authorized the issuance of the Southern Illinois University Housing and Auxiliary Facilities System Revenue Bonds, Series 2004A (the "Series 2004A Bonds") in the amount of \$40,390,000 for the purpose of designing and constructing a new apartment-style residence hall and installing automatic sprinkler systems in three existing residence halls on the Carbondale campus as well as modifying HVAC systems and humidity controls in three existing residence halls on the Edwardsville campus. The bond issues related to the respective bond resolutions of the System are as follows:



**SOUTHERN ILLINOIS UNIVERSITY**  
**HOUSING AND AUXILIARY FACILITIES SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**

**(A) Series 2004A Bonds**

These bonds were authorized by the Board under the Tenth Supplemental Bond Resolution dated October 14, 2004 and were issued as current interest bonds in the original amount of \$40,390,000. The bonds were sold on November 18, 2004 at a premium of \$1,349,890 and were used as follows:

- (a) Bond proceeds of \$35,501,838 were deposited in an Unexpended Plant account to finance the costs of designing and constructing a new apartment-style residence hall, Wall and Grand Apartments, and installing automatic sprinkler systems in three existing residence halls on the Carbondale campus; and to finance the costs of modifying the HVAC systems and humidity controls in three existing residence halls and remediating damage caused by excess humidity at two of such existing residence halls on the Edwardsville campus.
- (b) Bond proceeds of \$2,975,534 from the System were deposited in the Bond and Interest Sinking Fund account in either cash or U.S. Government securities which, together with the interest earned thereon, was used solely for a portion of the interest payments on the Series 2004A bonds through October 1, 2006.
- (c) Bond proceeds of \$2,685,704 were deposited into the Debt Service Reserve account and then transferred to an Unexpended Plant account.
- (d) Bond proceeds of \$576,814 were reserved to pay the underwriter's fees and certain other costs related to the issuance of the bonds.

As of June 30, 2005, these bonds were outstanding in the amount of \$41,712,488.

**(B) Series 2003A Bonds**

These bonds were authorized by the Board under the Ninth Supplemental Bond Resolution dated December 12, 2002 and were issued as current interest bonds in the original amount of \$17,020,000. The bonds were sold at par on February 25, 2003. The bonds were issued to finance the design and construction of a new Student Health Programs building addition on the Carbondale campus and to redeem the Series 1993A outstanding bonds. As of June 30, 2005, these bonds were outstanding in the amount of \$16,308,019.

**(C) Series 2001A Bonds**

These bonds were authorized by the Board under the Eighth Supplemental Bond Resolution dated July 12, 2001, as amended on December 11, 2003, and were issued as current interest bonds in the original amount of \$27,730,000. The bonds were sold on January 9, 2002 at a premium of \$440,042. The bonds were issued to finance improvements to the University Center on the Edwardsville campus; the design and construction of a new softball complex on the Carbondale campus; a complete replacement of the turf at McAndrew Stadium on the Carbondale campus; modifications of the heating, ventilation, air conditioning and humidity control systems in Prairie Hall, Bluff Hall and Woodland Hall on the Edwardsville campus; and to redeem the Series 1992A outstanding bonds. As of June 30, 2005, these bonds were outstanding in the amount of \$22,652,463.

**(D) Series 2000A Bonds**

These bonds were authorized by the Board under the Seventh Supplemental Bond Resolution dated May 11, 2000 and were issued as current interest bonds in the original amount of \$6,525,000. The bonds were issued at a discount of \$45,359. These bonds were issued to finance energy conservation improvements at the East Campus housing area on the Carbondale campus. As of June 30, 2005, these bonds were outstanding in the amount of \$5,606,142.

**(E) Series 1999A Bonds**

These bonds were authorized by the Board under the Sixth Supplemental Bond Resolution dated May 13, 1999 and were issued as capital appreciation bonds in the original amount of \$21,001,900. The bonds were issued at a premium of \$53,851. The capital appreciation bonds are non-interest bearing and will accrete the interest factor as additional bonds payable over the term of the bonds. These bonds were issued to finance the construction of a residence hall and renovations of the University Center food service facilities. All projects financed by the Series 1999A bonds are associated with the Edwardsville campus. As of June 30, 2005, after accreting the capital appreciation, these bonds were outstanding in the amount of \$28,506,236.

**SOUTHERN ILLINOIS UNIVERSITY  
HOUSING AND AUXILIARY FACILITIES SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005**

**(F) Series 1997A Bonds**

These bonds were authorized by the Board under the Fifth Supplemental Bond Resolution dated July 10, 1997 and were issued as current interest bonds and capital appreciation bonds in the original amounts of \$8,575,000 and \$29,521,284, respectively. The current interest bonds were issued at a nominal discount while the capital appreciation bonds were issued at par. The capital appreciation bonds are non-interest bearing and will accrete the interest factor as additional bonds payable over the term of the bonds. These bonds were issued to finance the construction of Prairie Hall, a residence hall, renovations of existing housing and food service facilities, and construction and improvement to the parking facilities. All projects financed by the Series 1997A bonds are associated with the Edwardsville campus. As of June 30, 2005, after accreting the capital appreciation, these bonds were outstanding in the amount of \$32,317,682.

**(G) Series 1996A Bonds**

These bonds were authorized by the Board under the Fourth Supplemental Bond Resolution dated September 12, 1996 and were issued in the original amount of \$22,800,000. The bonds were sold on October 30, 1996 at a net premium of \$59,738. The bond proceeds of \$22,270,576 were deposited in the bond escrow account in either cash or U.S. Government securities which, together with interest earned, thereon, were used solely for the interest, premium and principal payments on the \$21,885,000 of the Housing and Auxiliary Facilities System Revenue Refunding Bonds Series 1986A (the "Series 1986A Bonds") outstanding as of October 30, 1996. The payments include accrued interest through the date of closing in the amount of \$128,396. The Series 1986A Bonds were called and redeemed in full on December 5, 1996. As of June 30, 2005, the 1996A bonds were outstanding in the amount of \$4,979,166.

**(H) Series 1993A Bonds**

These bonds were authorized by the Board under the Third Supplemental Bond Resolution dated May 13, 1993 and were issued as current interest bonds and capital appreciation bonds in the original amounts of \$8,010,000 and \$8,660,506, respectively. The current interest bonds were issued at a nominal discount while the capital appreciation bonds were issued at par. The capital appreciation bonds are non-interest bearing and will accrete the interest factor as additional bonds payable over the term of the bonds. These bonds were issued to finance the acquisition of the Northwest Annex, an existing facility, and the construction of the Child Care Center at the Carbondale campus and the construction of Woodland Hall Facility at the Edwardsville campus. On December 12, 2002, the Board authorized the current refunding of the current interest bond portion of the Series 1993A Bonds. The bonds were called and redeemed in full on April 1, 2003. As of June 30, 2005, after accreting the capital appreciation, the remaining capital appreciation bonds were outstanding in the amount of \$17,861,359.

The Bonds do not constitute a general obligation of either the State of Illinois or Southern Illinois University but, together with interest thereon, are payable solely from and are secured by, subject to the prior pledge and lien on, (i) the net revenues of the System, (ii) pledged tuition in an amount not to exceed maximum annual debt service (subject to prior payment of operating and maintenance expenses of the System), (iii) the Bond and Interest Sinking Fund Account, (iv) the Debt Service Reserve Account, and (v) the Repair and Replacement Reserve Account.

The bond resolution requires that debt service coverage on a cash basis (as defined) be at a minimum of 120% of the debt service reserve requirement. For the year ended June 30, 2005, the debt service reserve requirement was \$13,843,713 and the coverage was 210%.

The bonds bear interest at rates ranging from 1.80% to 6.20% and are payable in annual principal installments ranging from \$1,500,000 to \$11,625,000 through the year 2035. The bonds are callable prior to their maturity in accordance with the provisions of the bond resolution, including premiums of up to 2%.

**SOUTHERN ILLINOIS UNIVERSITY  
HOUSING AND AUXILIARY FACILITIES SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005**

Revenue bond debt service requirements to maturity are as follows:

Year Ending June 30,	Principal	Interest
2006	\$ 8,330,000	\$ 4,465,343
2007	9,425,000	4,223,513
2008	9,430,000	3,928,438
2009	9,775,000	3,698,068
2010	10,125,000	3,446,793
2011 – 2015	53,545,000	14,294,899
2016 – 2020	51,680,000	10,361,493
2021 – 2025	41,360,000	6,528,127
2026 – 2030	35,615,000	3,775,779
2031 – 2035	8,705,000	1,348,250
Total Payments	<u>\$ 237,990,000</u>	<u>\$ 56,070,703</u>
Less Unaccrued Appreciation	<u>(68,959,280)</u>	
Total Payable	169,030,720	
Unamortized debt premium	1,672,877	
Unamortized deferred loss on refunding	<u>(760,042)</u>	
Total Bonds Payable	<u>\$ 169,943,555</u>	

All of the refunded bonds referred to in (B), (C) and (G) above are considered to be defeased and, accordingly, have been accounted for as if they were retired. As of June 30, 2005, \$2,445,000 of the bonds refunded in 1978, and \$16,360,000 of the bonds refunded in 1985 were outstanding. The market values of the related escrow funds were \$2,594,774, and \$17,453,028, respectively.

**7. Related Party Transactions**

Expenditures to maintain the University Housing Office and Auxiliary Fiscal Reports Office are allocated by the University to the various related operations, including those of the System, on the basis of gross revenues generated by each.

In addition, five of the buildings on Greek Row, a portion of the Northwest Annex (29,100 net sq. ft.) and one room of the Lentz Hall dining facilities at Thompson Point are leased by the University from the System on a year-to-year basis and are used for a variety of academic, administrative, and student service purposes. The lease rentals (\$210,500 in 2005) are inclusive of the debt service requirements, insurance, administrative overhead and grounds maintenance costs. In addition, the University pays all operating and building maintenance costs for the leased properties.

Expenditures capitalized in 2005 include \$108,728 paid for by other University funds.

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

Substantially all employees of the System participate in the State Universities Retirement System of Illinois (SURS), a cost-sharing multiple employer public employee retirement system, and State group insurance programs. Employer contributions to SURS and the State group insurance programs are funded through State appropriations. These contributions are included in the System's nonoperating revenues as "Payments on behalf of the System" and in its expenditures as "Salaries and Wages." These benefit costs, including funding of SURS and contributions to State health insurance, amounted to \$7,140,571 in 2005. In fiscal years 2004 and 2005, the University was requested to pay a portion of its health insurance costs. The System does not own any of the assets of SURS and has no responsibility for the obligations of SURS.

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

**SOUTHERN ILLINOIS UNIVERSITY  
HOUSING AND AUXILIARY FACILITIES SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005**

Currently, the State does not segregate payments made to annuitants from those made to current employees for health, dental and life insurance benefits. The cost of health, dental and life insurance benefits is recognized on a pay-as-you-go basis. Except for a portion of the health insurance costs mentioned above, these costs are funded by the State and are not an obligation of the University.

**9. Insurance**

The University has established a Self Insurance Program (the "Program") to cover its general liability, its hospital and medical professional liability, and certain other liability exposures. Funds for the Program have been reserved in amounts to cover the major portion of the estimated liability as determined by the Program's actuary. The University has also purchased excess insurance coverages with commercial carriers to cap the risk of loss retained by the Program. The System's buildings, contents and boilers are all directly insured with commercial insurance companies.

**10. Contingencies**

From time to time, the University is a defendant in lawsuits which relate to the System. In the opinion of the University's legal counsel and its administrative officers, any ultimate liability which could result from such litigation would not have a material effect on the System's financial position.

## **SUPPLEMENTARY INFORMATION**

**SOUTHERN ILLINOIS UNIVERSITY**  
**HOUSING AND AUXILIARY FACILITIES SYSTEM**  
**SCHEDULE OF BONDS PAYABLE OUTSTANDING**  
 June 30, 2005

	TOTAL	REVENUE BONDS		
		SERIES 1993A		
		Principal Amount	Accreted Value at Maturity	Interest Rate
<b>Interest Bearing Bonds:</b>				
Serial Bonds maturing as follows:				
2006	5,280,000	-	-	-
2007	6,280,000	-	-	-
2008	6,185,000	-	-	-
2009	6,430,000	-	-	-
2010	6,040,000	-	-	-
2011	2,630,000	-	-	-
2012	2,680,000	-	-	-
2013	2,255,000	-	-	-
2014	2,355,000	-	-	-
2015	2,480,000	-	-	-
2016	2,605,000	-	-	-
2017	2,720,000	-	-	-
2018	2,860,000	-	-	-
2019	3,010,000	-	-	-
2020	1,720,000	-	-	-
2021	1,800,000	-	-	-
2022	1,880,000	-	-	-
2023	1,980,000	-	-	-
2024	1,630,000	-	-	-
2025	1,715,000	-	-	-
Term Bonds maturing as follows:				
2010	640,000	-	-	-
2011	995,000	-	-	-
2012	1,050,000	-	-	-
2013	1,105,000	-	-	-
2014	415,000	-	-	-
2015	435,000	-	-	-
2016	460,000	-	-	-
2017	490,000	-	-	-
2018	515,000	-	-	-
2019	510,000	-	-	-
2020	1,970,000	-	-	-
2021	1,505,000	-	-	-
2022	-	-	-	-
2023	-	-	-	-
2024	440,000	-	-	-
2025	460,000	-	-	-
2026	2,285,000	-	-	-
2027	2,390,000	-	-	-
2028	2,510,000	-	-	-
2029	2,630,000	-	-	-
2030	1,500,000	-	-	-
2031	1,575,000	-	-	-
2032	1,655,000	-	-	-
2033	1,735,000	-	-	-
2034	1,825,000	-	-	-
2035	1,915,000	-	-	-
<b>Total Interest Bearing Bonds</b>	<b>95,545,000</b>			
<b>Capital Appreciation Bonds</b>				
maturing as follows:				
2006	2,938,122	-	-	-
2007	2,879,301	-	-	-
2008	2,820,335	-	-	-
2009	2,753,069	-	-	-
2010	2,679,291	-	-	-
2011	5,020,897	2,438,568	3,435,000	6.050% **
2012	4,723,170	2,294,060	3,430,000	6.050% **
2013	4,891,391	2,542,485	4,050,000	6.100% **
2014	4,772,967	2,394,158	4,050,000	6.100% **
2015	4,390,301	2,243,951	4,050,000	6.150% **
2016	4,042,885	2,112,018	4,050,000	6.150% **
2017	3,796,890	1,976,570	4,050,000	6.200% **
2018	3,923,683	1,859,549	4,050,000	6.200% **
2019	2,687,988	-	-	-
2020	2,591,845	-	-	-
2021	2,523,228	-	-	-
2022	2,405,880	-	-	-
2023	2,274,324	-	-	-
2024	2,149,656	-	-	-
2025	2,035,260	-	-	-
2026	1,923,060	-	-	-
2027	1,850,935	-	-	-
2028	1,752,310	-	-	-
2029	1,658,932	-	-	-
<b>Total Capital Appreciation Bonds</b>	<b>73,485,720</b>	<b>17,861,359</b>		
<b>Total</b>	<b>\$ 169,030,720</b>	<b>\$ 17,861,359</b>		

\*\*Approximate yield to maturity.

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



**SOUTHERN ILLINOIS UNIVERSITY**  
**HOUSING AND AUXILIARY FACILITIES SYSTEM**  
**SCHEDULE OF BONDS PAYABLE OUTSTANDING**  
 June 30, 2005

	REVENUE BONDS			REVENUE BONDS	
	Principal Amount	SERIES 1999A Accreted Value at Maturity	Interest Rate	Principal Amount	SERIES 2000A Interest Rate
<b>Interest Bearing Bonds:</b>					
Serial Bonds maturing as follows:					
2006	- ----	- ----	- ----	250,000	5.500%
2007	- ----	- ----	- ----	265,000	5.500%
2008	- ----	- ----	- ----	280,000	5.500%
2009	- ----	- ----	- ----	295,000	5.500%
2010	- ----	- ----	- ----	310,000	5.500%
2011	- ----	- ----	- ----	- ----	- ----
2012	- ----	- ----	- ----	- ----	- ----
2013	- ----	- ----	- ----	- ----	- ----
2014	- ----	- ----	- ----	- ----	- ----
2015	- ----	- ----	- ----	- ----	- ----
2016	- ----	- ----	- ----	- ----	- ----
2017	- ----	- ----	- ----	- ----	- ----
2018	- ----	- ----	- ----	- ----	- ----
2019	- ----	- ----	- ----	- ----	- ----
2020	- ----	- ----	- ----	- ----	- ----
2021	- ----	- ----	- ----	- ----	- ----
2022	- ----	- ----	- ----	- ----	- ----
2023	- ----	- ----	- ----	- ----	- ----
2024	- ----	- ----	- ----	- ----	- ----
2025	- ----	- ----	- ----	- ----	- ----
<b>Term Bonds maturing as follows:</b>					
2010	- ----	- ----	- ----	- ----	- ----
2011	- ----	- ----	- ----	325,000	5.625%
2012	- ----	- ----	- ----	345,000	5.625%
2013	- ----	- ----	- ----	365,000	5.625%
2014	- ----	- ----	- ----	385,000	5.625%
2015	- ----	- ----	- ----	405,000	5.625%
2016	- ----	- ----	- ----	430,000	5.750%
2017	- ----	- ----	- ----	455,000	5.750%
2018	- ----	- ----	- ----	480,000	5.750%
2019	- ----	- ----	- ----	510,000	5.750%
2020	- ----	- ----	- ----	540,000	5.750%
2021	- ----	- ----	- ----	- ----	- ----
2022	- ----	- ----	- ----	- ----	- ----
2023	- ----	- ----	- ----	- ----	- ----
2024	- ----	- ----	- ----	- ----	- ----
2025	- ----	- ----	- ----	- ----	- ----
2026	- ----	- ----	- ----	- ----	- ----
2027	- ----	- ----	- ----	- ----	- ----
2028	- ----	- ----	- ----	- ----	- ----
2029	- ----	- ----	- ----	- ----	- ----
2030	- ----	- ----	- ----	- ----	- ----
2031	- ----	- ----	- ----	- ----	- ----
2032	- ----	- ----	- ----	- ----	- ----
2033	- ----	- ----	- ----	- ----	- ----
2034	- ----	- ----	- ----	- ----	- ----
2035	- ----	- ----	- ----	- ----	- ----
<b>Total Interest Bearing Bonds</b>	- ----	- ----	- ----	5,640,000	- ----
<b>Capital Appreciation Bonds maturing as follows:</b>					
2006	357,255	370,000	4.700% **	- ----	- ----
2007	340,359	370,000	4.800% **	- ----	- ----
2008	323,645	370,000	4.900% **	- ----	- ----
2009	307,732	370,000	4.950% **	- ----	- ----
2010	291,652	370,000	5.050% **	- ----	- ----
2011	290,791	390,000	5.150% **	- ----	- ----
2012	278,966	395,000	5.200% **	- ----	- ----
2013	300,748	450,000	5.250% **	- ----	- ----
2014	319,072	505,000	5.300% **	- ----	- ----
2015	301,929	505,000	5.330% **	- ----	- ----
2016	307,518	545,000	5.380% **	- ----	- ----
2017	433,577	815,000	5.430% **	- ----	- ----
2018	756,670	1,510,000	5.480% **	- ----	- ----
2019	2,687,988	5,670,000	5.490% **	- ----	- ----
2020	2,591,845	5,780,000	5.500% **	- ----	- ----
2021	2,523,228	5,950,000	5.510% **	- ----	- ----
2022	2,405,880	6,000,000	5.520% **	- ----	- ----
2023	2,274,324	6,000,000	5.530% **	- ----	- ----
2024	2,149,656	6,000,000	5.540% **	- ----	- ----
2025	2,035,260	6,000,000	5.540% **	- ----	- ----
2026	1,923,060	6,000,000	5.550% **	- ----	- ----
2027	1,850,935	6,100,000	5.550% **	- ----	- ----
2028	1,752,310	6,100,000	5.550% **	- ----	- ----
2029	1,658,932	6,100,000	5.550% **	- ----	- ----
<b>Total Capital Appreciation Bonds</b>	28,463,332	- ----	- ----	- ----	- ----
<b>Total</b>	\$ 28,463,332	- ----	- ----	\$ 5,640,000	- ----







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

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

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of Southern Illinois University Housing and Auxiliary Facilities System (the "System") as of and for the year ended June 30, 2005, and have issued our report thereon dated October 17, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the System's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

## Compliance and Other Matters

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

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

*Kuhner, Eck : Braschel LLP*

Springfield, Illinois  
October 17, 2005

# **SOUTHERN ILLINOIS UNIVERSITY**

## **Treasurer's Report to the Bondholders**

Medical Facilities System

For the Year Ended June 30, 2005

# Board of Trustees and Officers of Administration

## BOARD OF TRUSTEES OF SOUTHERN ILLINOIS UNIVERSITY

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John Simmons, Secretary  
Ed Ford  
Marilyn Jackson  
Rick Maurer  
Keith Sanders  
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Jerry Blakemore, General Counsel  
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Duane Stucky, Vice-President, Financial and Administrative Affairs and Board Treasurer

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M. Elizabeth Collier, Assistant Provost, Financial Affairs, School of Medicine

**SOUTHERN ILLINOIS UNIVERSITY**  
**MEDICAL FACILITIES SYSTEM**

**Report of the Treasurer**  
**For the Year Ended**  
**June 30, 2005**

**October, 2005**

## TABLE OF CONTENTS

	<u>Page</u>
Treasurer's:	
Letter of Transmittal	1
Comments	2-4
Independent Auditors' Report	6-7
Basic Financial Statements:	
Statement of Net Assets	8
Statement of Revenues, Expenses and Changes in Net Assets	9
Statement of Cash Flows	10
Notes to Financial Statements	11-16
Supplementary Information:	
Schedule of Bonds Payable Outstanding	18
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	19-20

The University also issues an Annual Financial Report.

# Southern Illinois University – Board of Trustees

Board Treasurer  
1400 Douglas Drive  
Mailcode 6801  
Carbondale, IL 62901

Phone: 618-536-3475

FAX: 618-536-3404



September 30, 2005

## TO THE BONDHOLDERS AND TO THE BOARD OF TRUSTEES OF SOUTHERN ILLINOIS UNIVERSITY

I am pleased to submit the annual Treasurer's Report to the Bondholders for the Southern Illinois University Medical Facilities System for the fiscal year ended June 30, 2005.

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

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

Respectfully submitted,

A handwritten signature in black ink that reads "Duane Stucky". The signature is fluid and cursive, with the first name being the most prominent.

Duane Stucky  
Board Treasurer

DS/lap



**TREASURER'S COMMENTS**

**SOUTHERN ILLINOIS UNIVERSITY MEDICAL FACILITIES SYSTEM**

**I. SOUTHERN ILLINOIS UNIVERSITY REVENUE BOND OPERATIONS**

**FACILITIES**

The primary purpose of issuing the Series 1997 Bonds was to purchase the Richard H. Moy, M.D. Building, formerly known as the SIU Clinics Building, located at 751 N. Rutledge, Springfield, Illinois. The building is a four-story, clinical teaching facility containing 106,904 gross square feet. It is connected by skyways to Memorial Medical Center, an independently owned, tertiary hospital and to the University-owned Medical Instructional Facility. Further, it is connected to a four-story parking garage and a physician office building owned by the Memorial Health Systems.

The Richard H. Moy, M.D. Building was completed and occupied by the University in May 1993. The building now houses outpatient clinics for the departments of Internal Medicine and Surgery. In addition, the building houses offices and outpatient clinics for the Memory and Aging Center, Dermatology, and the department of Neurology. Space is also included in the building for a medical records unit and a clinical billing unit. The design of the Richard H. Moy, M.D. Building includes an allowance in the foundation and other component service areas for the addition of three more stories to the building. Each story would approximate an additional 22,000 square feet. No current plans exist for such expansion.

On June 30, 2005, the School of Medicine Medical Facilities System occupied twelve locations where clinics and/or clinical faculty were housed. Owned by the University are the Richard H. Moy, M.D. Building purchased with the Series 1997 Bonds as well as the Auburn Clinic in Auburn, Illinois. The Auburn Clinic was sold contract for deed in December, 2002. Nine of the remaining locations are leased by the University with one location being utilized for clinical purposes but neither owned nor leased.

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

**II. INSURANCE**

An insurance package policy purchased under the auspices of the Illinois Public Higher Education Cooperative (IPHEC), through the Midwestern Higher Education Commission (MHEC) program, provides all risk coverage on buildings and contents. The following insurance coverages are in force at the University (including the System facilities) through June 30, 2006:

	<u>Approximate Amount</u>
1. Lexington Insurance Co. Policy No. 8753260. Primary policy providing \$100,000,000 all risk coverage on scheduled buildings and other property totaling \$1,964,191,000 with a general deductible of \$25,000 per occurrence on all bonded buildings. A \$500,000 per occurrence deductible has been added this year for many of the non-bonded academic buildings. Coverage is first layer of a structured program providing coverage up to \$1,000,000,000 per occurrence.	\$100,000,000 per occurrence
1a. Boiler & Machinery coverage included in the Lexington policy listed above carries a \$25,000 deductible.	\$100,000,000 per occurrence
1b. Flood coverage included in the Lexington policy listed above is limited to \$100,000,000 and carries a \$25,000 per occurrence deductible (2% TIV in FEMA-defined 100-year flood zone).	\$100,000,000 per occurrence
1c. Earthquake coverage included in the Lexington policy listed above carries a \$25,000 per occurrence deductible.	\$100,000,000 per occurrence
2. American International Specialty, Policy 679-06-57; Axis Specialty, Policy No. ECF707859-05; Lloyds of London, Policy No. DP442705; Allianz Global, Policy No. Commonwealth Insurance, Policy No. US5777; Hannover Re, Policy No. 05156600007; Axis Surplus, Policy No. ECF707859-05; second layer of coverage, providing \$400,000,000 excess of the Lexington's \$100,000,000 layer.	\$400,000,000 per occurrence
3. Allianz Global, Policy No. CLP3006297; Lloyds of London, Policy No. DP442705; Lloyds of London, Policy No. MQ2L9L438236-015; and Continental Casualty, Policy No. 210728503. Excess layer providing \$500,000,000 excess of the secondary layer of \$400,000,000.	\$500,000,000 per occurrence

**TREASURER'S COMMENTS – Continued**

4. Self Insurance:  
 The University, pursuant to the provisions of Illinois Public Act 84-0010, has established a Self Insurance Program (the "Program") for its traditional liability insurance coverages. Funds have been reserved in amounts to cover the major portion of the estimated liability as determined by the Program's actuary. The University has also purchased excess liability insurance policies to cover certain of its general liability exposures not elsewhere covered.

**III. ENROLLMENTS AT SOUTHERN ILLINOIS UNIVERSITY**

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

	<u>Head Count</u>
Fall semester 2005	290
Fall semester 2004	291

All students are enrolled full time. The first year is spent in Carbondale with a core curriculum of basic science courses. The remaining three years are spent at the Springfield campus.

**IV. DEBT SERVICE COVERAGE**

The bond resolution requires that debt service coverage (net revenues plus pledged tuition) be at least 100% of the annual debt service requirement. The debt service coverage is calculated at the end of the year using cash basis data obtained from the Statement of Cash Flows. Debt service coverage for the System, as defined by the bond resolution and based on actual pledged tuition, has been calculated as follows:

	<u>Year Ended June 30</u>	
	<u>2005</u>	<u>2004</u>
Receipts:		
Revenue Account:		
Operations	\$25,778,165	\$21,196,557
Investment Income	6,962	36,762
Retirement of Indebtedness – Investment Income	<u>116,034</u>	<u>113,811</u>
	25,901,161	21,347,130
Disbursements:		
Operation & Maintenance Account	<u>22,991,506</u>	<u>20,201,586</u>
Net Revenues	2,909,655	1,145,544
Pledged Tuition	<u>5,867,000</u>	<u>5,737,800</u>
Total Available for Debt Service	<u>\$8,776,655</u>	<u>\$6,883,344</u>
<u>Coverage Ratios</u>		
Annual Debt Service Requirement	\$1,187,172	\$1,165,043
Coverage Ratio	739%	591%
Maximum Annual Debt Service	\$1,619,888	\$1,619,888
Coverage Ratio	542%	425%

**V. RETIREMENT OF INDEBTEDNESS**

The net assets are restricted for the following purposes:

	<u>June 30</u>	
	<u>2005</u>	<u>2004</u>
Bond and Interest Sinking		
Fund Account	\$ 510,345	\$ 524,950
Debt Service Reserve Account	<u>1,665,030</u>	<u>1,703,226</u>
	<u>\$2,175,375</u>	<u>\$2,228,176</u>

**TREASURER'S COMMENTS – Continued**

**VI. RENEWALS AND REPLACEMENTS**

The bond resolution requires the Treasurer to deposit with a bank designated by the Board, from the funds remaining in the Revenue Fund into the Repair and Replacement Reserve Account on or before the close of each Fiscal Year beginning in Fiscal Year 1998, not less than 10% of the Maximum Annual Debt Service, or such portion thereof as is available for transfer and deposit annually for a repair and replacement reserve. The maximum amount which may be accumulated in such account shall not exceed 5% of the replacement cost of the facilities constituting the System, as determined by the then current Engineering News Record Building Cost Index (or comparable index) plus 20% of the book value of the movable equipment within the System. All moneys and investments so held in said Account will be used and held for use to pay the cost of unusual or extraordinary maintenance or repairs, renewals and replacements, and renovating or replacement of the furniture and equipment not paid as part of the ordinary maintenance and operation of the System.

In the event the moneys in the Bond and Interest Sinking Fund Account or the Debt Service Reserve Account are reduced at any time below the amounts required to be on deposit therein, then the funds so credited to the Repair and Replacement Reserve Account may, at the discretion of the Board, be transferred for deposit in the Bond and Interest Sinking Fund Account or for deposit in the Debt Service Reserve Account, to the extent required to eliminate the deficiency in said Accounts and to restore such sums as may be necessary for that purpose, and all moneys so transferred will thereafter be replaced by a resumption of the specified deposits into the Repair and Replacement Reserve Account.

Additions (deductions) during the year included transfers from unrestricted net assets of \$161,989 (\$161,989 in 2004), gains earned on investments of \$12,878 in 2005 (and losses of \$(9,292) in 2004) and other nonoperating revenue of \$18,000 (\$27,000 in 2004).

Expenditures charged to the reserve amounted to \$4,657 (\$378,468 in 2004). The restricted net assets of Renewals and Replacements consisted of the following:

	June 30	
	2005	2004
Cash	\$510,925	\$372,033
Pooled Cash and Investments	2,381	(254)
Accounts Receivable	1,490	(192)
Accrued Interest Receivable	4,165	4,373
Notes Receivable	196,711	206,546
Accounts Payable	-0-	(45,000)
Deferred Revenue	<u>(191,335)</u>	<u>(201,379)</u>
	<u>\$524,337</u>	<u>\$336,127</u>

**VII. SCHEDULE OF BONDS PAYABLE OUTSTANDING**

A Schedule of Bonds Payable Outstanding is shown as supplementary information and lists the amount of Medical Facilities System Revenue Bonds, Series 1997 issued and outstanding as of June 30, 2005.

**VIII. RESTRICTED NET ASSETS - EXPENDABLE**

Restricted net assets as of June 30, 2005 and 2004, are comprised of the following:

	June 30	
	2005	2004
Retirement of indebtedness	\$2,175,375	\$2,228,176
Renewals and replacements	<u>524,337</u>	<u>336,127</u>
	<u>\$2,699,712</u>	<u>\$2,564,303</u>

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

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## Independent Auditors' Report

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

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of Southern Illinois University Medical Facilities System (the "System") as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the System's 2004 financial statements and, in our report dated October 21, 2004, we expressed an unqualified opinion on those financial statements.

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

As discussed in note 1A, the financial statements of the System are intended to present the financial position, the changes in financial position and in cash flows of only that portion of the activities of Southern Illinois University that is attributable to the transactions of the System. They do not purport to, and do not, present fairly the financial position of Southern Illinois University as of June 30, 2005, the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the System as of June 30, 2005, the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2005, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

In connection with our audit, nothing came to our attention that caused us to believe that the System was not in compliance with any of the fund accounting covenants of the Resolutions of The Board of Trustees of Southern Illinois University, which provided for the issuance of the Southern Illinois University Medical Facilities System Revenue Bonds, Series 1997, adopted March 27, 1997. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

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

*Kerber, Eck & Brueckel LLP*

Springfield, Illinois  
October 19, 2005

**SOUTHERN ILLINOIS UNIVERSITY**  
**MEDICAL FACILITIES SYSTEM**  
**STATEMENT OF NET ASSETS**  
June 30, 2005  
(with comparative totals for 2004)

	2005	2004
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents (Note 2)	\$ 2,266,749	\$ 694,669
Short term investments (Note 2)	908,171	880,493
Accounts receivable	1,778,316	1,526,895
Accrued interest receivable	31,681	43,699
Notes receivable (Note 4)	15,503	14,901
Inventories	18,560	29,850
Prepaid expenses and other assets	24,055	24,055
<b>TOTAL CURRENT ASSETS</b>	<b>5,043,035</b>	<b>3,214,562</b>
<b>NONCURRENT ASSETS:</b>		
Notes receivable (Note 4)	181,208	191,645
Long term investments (Note 2)	1,015,210	1,064,590
Prepaid expenses and other assets	402,920	426,975
Capital assets, net: (Note 5)		
Land	376,542	376,542
Buildings	11,884,288	12,260,030
Equipment	694,980	791,325
<b>TOTAL NONCURRENT ASSETS</b>	<b>14,555,148</b>	<b>15,111,107</b>
<b>TOTAL ASSETS</b>	<b>19,598,183</b>	<b>18,325,669</b>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	136,449	320,141
Accrued interest payable	219,319	223,043
Accrued payroll	23,421	(11,143)
Accrued compensated absences (Note 6)	160,466	168,543
Deferred revenue (Note 6)	10,127	9,734
Liabilities under capital leases (Note 6)	40,956	38,210
Revenue bonds payable (Notes 6 and 7)	325,495	290,495
<b>TOTAL CURRENT LIABILITIES</b>	<b>916,233</b>	<b>1,039,023</b>
<b>NONCURRENT LIABILITIES:</b>		
Accrued compensated absences (Note 6)	1,859,500	1,771,407
Deferred revenue (Note 6)	181,208	191,645
Liabilities under capital leases (Note 6)	- - - - -	40,956
Revenue bonds payable (Notes 6 and 7)	14,702,648	15,028,143
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>16,743,356</b>	<b>17,032,151</b>
<b>TOTAL LIABILITIES</b>	<b>17,659,589</b>	<b>18,071,174</b>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt-(deficit)	(2,113,289)	(1,969,908)
Restricted for:		
Expendable		
Capital projects and debt service	2,699,712	2,564,303
Unrestricted-(deficit)	1,352,171	(339,900)
<b>TOTAL NET ASSETS</b>	<b>\$ 1,938,594</b>	<b>\$ 254,495</b>

The accompanying notes are an integral part of this statement.

**SOUTHERN ILLINOIS UNIVERSITY**  
**MEDICAL FACILITIES SYSTEM**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
For the Year Ended June 30, 2005  
(with comparative totals for 2004)

	2005	2004
<b>REVENUES</b>		
<b>OPERATING REVENUES</b>		
Medical Facilities System	\$ 26,027,905	\$ 21,673,393
<b>TOTAL OPERATING REVENUES</b>	26,027,905	21,673,393
<b>EXPENSES</b>		
<b>OPERATING EXPENSES</b>		
Salaries and wages	22,200,669	20,262,538
Contractual services	6,189,400	5,140,991
Other	1,098,908	974,381
Additional on behalf SURS allocation for unfunded liability	- - - - -	6,812,747
Depreciation (Note 5)	663,771	722,211
<b>TOTAL OPERATING EXPENSES</b>	30,152,748	33,912,868
<b>OPERATING LOSS</b>	(4,124,843)	(12,239,475)
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Investment income (Note 3)	61,864	26,720
Interest on capital asset-related debt	(892,953)	(906,330)
Payments on behalf of the system (Notes 1G and 9)	6,505,635	5,773,741
Additional on behalf SURS allocation for unfunded liability	- - - - -	6,812,747
Bond issuance costs	(24,055)	(24,055)
Other nonoperating revenue	18,000	27,000
<b>NET NONOPERATING REVENUES</b>	5,668,491	11,709,823
<b>INCOME (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES</b>	1,543,648	(529,652)
<b>OTHER REVENUES, EXPENSES, GAINS OR LOSSES</b>		
Capital assets retired (Note 5)	(13,698)	(61,931)
Additions to plant facilities from other sources (Note 8)	154,149	128,264
<b>TOTAL OTHER REVENUES, EXPENSES, GAINS OR LOSSES</b>	140,451	66,333
<b>INCREASE (DECREASE) IN NET ASSETS</b>	1,684,099	(463,319)
<b>NET ASSETS</b>		
Net assets at beginning of year	254,495	717,814
<b>NET ASSETS AT END OF YEAR</b>	\$ 1,938,594	\$ 254,495

The accompanying notes are an integral part of this statement.



**SOUTHERN ILLINOIS UNIVERSITY**  
**MEDICAL FACILITIES SYSTEM**  
**STATEMENT OF CASH FLOWS**  
For the Year Ended June 30, 2005  
(with comparative totals for 2004)

	2005	2004
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Medical Facilities System	\$ 25,778,165	\$ 21,196,557
Payments to employees	(15,580,454)	(14,455,098)
Payments for utilities	(224,131)	(271,624)
Payments to suppliers	(7,236,579)	(6,094,242)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>2,737,001</b>	<b>375,593</b>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>		
Proceeds from sale of capital assets	18,000	18,000
Purchases of capital assets	(89,442)	(244,092)
Principal paid on capital debt	(295,000)	(260,000)
Interest paid on capital debt	(892,173)	(905,043)
<b>NET CASH USED BY CAPITAL FINANCING ACTIVITIES</b>	<b>(1,258,615)</b>	<b>(1,391,135)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales and maturities of investments	1,698,755	1,086,000
Investment income	131,557	165,756
Purchase of investments	(1,736,618)	(1,114,779)
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>93,694</b>	<b>136,977</b>
<b>NET INCREASE (DECREASE) IN CASH</b>	1,572,080	(878,565)
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF THE YEAR</b>	694,669	1,573,234
<b>CASH AND CASH EQUIVALENTS - END OF THE YEAR</b>	<b>\$ 2,266,749</b>	<b>\$ 694,669</b>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Operating loss	\$ (4,124,843)	\$ (12,239,475)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Depreciation expense	663,771	722,211
Payments on behalf of the system	6,505,635	5,773,741
Additional on behalf SURS allocation for unfunded liability	- ----	6,812,747
Changes in assets and liabilities:		
Receivables, net	(249,740)	(476,836)
Inventories	11,290	8,694
Accounts payable	(183,692)	(259,187)
Accrued payroll	34,564	(52,097)
Accrued compensated absences	80,016	85,795
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ 2,737,001</b>	<b>\$ 375,593</b>

The accompanying notes are an integral part of this statement.

**SOUTHERN ILLINOIS UNIVERSITY  
MEDICAL FACILITIES SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005**

**1. Significant Accounting Policies**

**(A) Basis of Presentation**

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB), including Statement No. 35, *Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities*. Additionally, the System has adopted GASB Statement No. 37, *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. The System now follows the business-type activity reporting requirements of GASB Statements Nos. 35, 37 and 38 that provide a comprehensive, entity-wide perspective of the Systems’s financial activities and replaces the fund group presentations previously required. Effective July 1, 2004, the System adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. The objective of this statement is to update the custodial credit risk disclosure requirements and to establish more comprehensive disclosure requirements addressing the common risks of deposits and investments.

For financial reporting purposes, the System is considered a special-purpose government engaged only in business-type activities. Accordingly, the System’s financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting applicable to public colleges and universities. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation to pay has been incurred.

These financial statements have been prepared to satisfy the requirements of the System’s Revenue Bonds master indenture. The financial balances and activities of the System, included in these financial statements, are included in the University’s financial statements. The System is not a separate legal entity and therefore has not presented management’s discussion and analysis. The financial statements include prior year comparative information, which has been derived from the System’s 2004 financial statements. Such information does not include all of the information required to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the System’s financial statements for the year ended June 30, 2004.

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

**(B) Inventories**

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

**(C) Buildings, Improvements and Equipment**

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

**(D) Revenues and Expenses**

The System has classified its revenues and expenses as either operating or nonoperating. Operating revenues and expenses include characteristics of exchange transactions, such as sales and services. Nonoperating revenues and expenses include characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting*, and GASB Statement No. 34 *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. Other nonoperating revenues and expenses include transactions relating to capital and financing activities, noncapital financing activities, and investing activities.

**SOUTHERN ILLINOIS UNIVERSITY  
MEDICAL FACILITIES SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005**

**(E) Cash and Cash Equivalents**

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

**(F) Investments**

Investments are stated at market. The investments, which consist of U.S. Treasury notes, are held in the University's name by its agent.

**(G) Bond Issuance Costs**

The bond issuance costs are included in prepaid expenses and other assets and are amortized on a straight line basis over the life of the bonds.

**(H) On-Behalf Payments**

In accordance with GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, the System reported on-behalf payments made by agencies of the State of Illinois for health care and retirement. These costs are reflected in an equal amount in both the revenues and expenses of the System. On-behalf payments for the year ended June 30, 2005, amounted to \$6,505,635.

**(I) Classification of Net Assets**

Net assets represent the difference between System assets and liabilities and are divided into three major categories. The first category, invested in capital assets, net of related debt, represents the System's equity in property, plant and equipment. The next asset category is restricted net assets. Expendable restricted net assets are available for expenditure by the System but must be spent for purposes as determined by donors or other external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets, which represent balances from operational activities that have not been restricted by parties external to the System and are available for use by the System.

**2. Pooled Cash and Investments**

The University has pooled certain cash and investments for the purpose of securing a greater return on investment and providing a more equitable distribution of investment return. Pooled investments consist principally of government securities and are stated at market. Income is distributed quarterly based upon average balances invested in the pool over the prior 13- week period. The System's pooled cash and investments are classified as Category 1 investments to reflect the System's level of risk. This category includes investments that are insured or registered, or for which the securities are held by the System or an agent, in its name. There are no investments in foreign currency. It is not feasible to separately determine the System's bank balance at June 30, 2005, due to the pooling of the University's cash and investments.

*Credit Risk:* Credit risk is the risk of loss due to the failure of the security issuer or backer. Credit risk is mitigated by limiting investments to those specified in the *Illinois Public Funds Investment Act*; pre-qualifying the financial institutions which are utilized; and diversifying the investment portfolio so that the failure of any one issuer or backer will not place an undue financial burden on the University. U.S. Treasuries are federal government securities that do not require the disclosure of credit risk.

*Concentration of Credit Risk:* The University's investment policy states that the portfolio should consist of a mix of various types of securities, issues and maturities.

*Interest Rate Risk:* Interest rate risk is the risk that the market value of portfolio securities will fall due to an increase in general interest rates. Interest rate risk is mitigated by structuring the University's portfolio so that securities mature to meet the University's cash requirements for ongoing operations. The internally managed portfolio is managed in accordance with covenants provided from the University's debt issuance activities. The externally managed portfolio is typically allocated with up to 30 percent of assets held in the Illinois Funds; 20 to 30 percent of assets held in the short-term portfolio; and 45 to 55 percent of assets held in the intermediate-term portfolio.

**SOUTHERN ILLINOIS UNIVERSITY  
MEDICAL FACILITIES SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005**

Interest rate risk is disclosed below using the segmented time distribution method. As of June 30, 2005, the System had the following cash and investment balances:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1-5	6-10	More than 10
U.S. Treasuries	\$1,923,381	\$ 910,099	\$1,013,282	\$ ----	\$ ----
	----	----	----	----	----
Total Investments	<u>1,923,381</u>	<u>\$ 910,099</u>	<u>\$1,013,282</u>	<u>\$ ----</u>	<u>\$ ----</u>
<b>Cash and Equivalents</b>					
The Illinois Funds	2,247,546				
Cash and Equivalents	<u>19,203</u>				
<b>Total Cash &amp; Equivalents</b>	<u>2,266,749</u>				
<b>Total Cash &amp; Equivalents</b>	<u>\$4,190,130</u>				

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

**3. Investments and Investment Income**

Southern Illinois University has adopted the provisions of GASB Statement No. 31 *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. This statement establishes accounting and reporting standards for certain investments and securities and establishes disclosure requirements for most investments held by governmental entities. It requires that investments be recorded at fair (market) value and that unrealized gains and losses be recorded in income. The fair value is determined to be the amount at which financial instruments could be exchanged in a current transaction between willing parties, usually quoted market prices. Also, certain money market investments, having a remaining maturity of one year or less at time of purchase and nonnegotiable certificates of deposit with redemption terms that do not consider market rates, are carried at amortized cost. The statement has been applied to investments and income for fiscal year 2005.

During 2005, the Southern Illinois University Medical Facilities System did not realize a net gain or loss from the sale of investments. The calculation of realized gains is independent of the calculation of the net increase in the fair value of investments. Realized gains and losses of investments that had been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year. Investment income for the fiscal year end June 30, 2005 is comprised of the following:

Interest Income	\$ 94,985
Decrease in Fair Market Value	<u>(33,121)</u>
Net Investment Income	<u>\$ 61,864</u>

**4. Notes Receivable**

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

Current	15,503
Long-Term	<u>181,208</u>
Total	<u>\$196,711</u>

**SOUTHERN ILLINOIS UNIVERSITY  
MEDICAL FACILITIES SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005**

**5. Capital Assets**

Capital asset activity for the year ended June 30, 2005 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Land	\$ 376,542	\$ -----	\$ -----	\$ 376,542
Buildings	15,029,679	-----	-----	15,029,679
Equipment	4,015,623	205,382	13,698	4,207,307
Total cost of capital assets	<u>\$19,421,844</u>	<u>\$ 205,382</u>	<u>\$ 13,698</u>	<u>\$19,613,528</u>

Less accumulated depreciation for:

Building	\$ 2,769,649	\$ 375,742	\$ -----	\$ 3,145,391
Equipment	3,224,298	288,029	\$ -----	3,512,327
Total accumulated Depreciation	<u>\$ 5,993,947</u>	<u>\$ 663,771</u>	<u>\$ -----</u>	<u>\$ 6,657,718</u>

Capital assets – net	<u>\$13,427,897</u>			<u>\$12,955,810</u>
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The following estimated useful lives are used to compute depreciation:

Buildings	40 years
Equipment	5-7 years

**6. Noncurrent Liabilities**

Noncurrent liability activity for the year ended June 30, 2005 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Revenue bonds payable	\$15,318,638	\$ -----	\$ 290,495	\$15,028,143	\$ 325,495
Compensated absences	1,939,950	149,593	69,577	2,019,966	160,466
Deferred revenue	201,379	-----	10,044	191,335	10,127
Capitalized leases	79,166	-----	38,210	40,956	40,956
Total	<u>\$17,539,133</u>	<u>\$ 149,593</u>	<u>\$ 408,326</u>	<u>\$17,280,400</u>	<u>\$ 537,044</u>

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

The University acquired an ultrasound system under a capital lease agreement which is payable over a period of years. Minimum lease payments under the capital lease together with the present value of the net minimum lease payments are:

Year Ending 2006	\$42,764
Less amount representing interest	<u>1,808</u>
Present value of net minimum lease payments	<u>\$40,956</u>

**7. Revenue Bonds Payable**

On October 10, 1996, the Board authorized the creation of the Southern Illinois University Medical Facilities System and the sale of Medical Facilities System Revenue Bonds. The Series 1997 Bonds were issued on March 27, 1997 in the amount of \$16,855,000 for the purpose of acquiring the SIU Clinics Building, an existing facility, located at 751 North Rutledge, Springfield, Illinois. These bonds were sold at a discount of \$94,059.

The current bonds bear interest at rates ranging from 5.15% to 5.875% payable semi-annually and principal installments ranging from \$330,000 to \$1,530,000 are payable annually April 1 through the year 2023.

**SOUTHERN ILLINOIS UNIVERSITY  
MEDICAL FACILITIES SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005**

Bonds maturing after April 1, 2008 are subject to redemption at the option of the Board, on or after April 1, 2007, in whole or in part, at any time with premiums of up to 2%.

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 330,000	\$ 877,275
2007	370,000	860,280
2008	410,000	840,855
2009	460,000	817,075
2010	510,000	790,395
2011-2015	3,420,000	3,444,185
2016-2020	5,275,000	2,246,524
2021-2023	<u>4,310,000</u>	<u>517,881</u>
Total Payments	\$15,085,000	<u>\$10,394,470</u>
Unamortized debt discount	(56,857)	
Total Bonds Payable	<u>\$15,028,143</u>	

These bonds do not constitute a debt of the State of Illinois or the individual members, officers or agents of the Board of Trustees of the University. The Series 1997 bonds are limited obligations of the Board payable by the Board from and secured by (i) Net Revenues of the Medical Facilities System, (ii) pledged tuition (subject to prior payment of operation and maintenance expenses of the Medical Facilities System and subject to the prior pledge thereof to revenue bonds of the Housing and Auxiliary Facilities System), (iii) the Bond and Interest Sinking Fund Account and (iv) the Debt Service Reserve Account.

**8. Related Party Transactions**

Expenditures capitalized in 2005 include \$154,149 paid for by other University funds. The expenditures were for the purchase of equipment to be utilized in the various Medical Facilities System facilities.

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

Substantially all employees of the System participate in the State Universities Retirement System of Illinois (SURS), a cost-sharing multiple employer public employee retirement system, and State group insurance programs. Employer contributions to SURS and the State group insurance programs are funded through State appropriations. These contributions are included in the System's nonoperating revenues as "Payments on behalf of the System" and in its expenditures as "Salaries and Wages." These benefit costs, including funding of SURS and contributions to State health insurance, amounted to \$6,505,635 for the year ended June 30, 2005. The System does not own any of the assets of SURS and has no responsibility for the obligations of SURS.

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

Currently, the State does not segregate payments made to annuitants from those made to current employees for health, dental and life insurance benefits. The cost of health, dental and life insurance benefits is recognized on a pay-as-you-go basis. Except for a portion of the health insurance costs mentioned above, these costs are funded by the State and are not an obligation of the University.

**10. Insurance**

The University has established a Self Insurance Program (the "Program") to cover its general liability, its hospital and medical professional liability, and certain other liability exposures. Funds for the Program have been reserved in amounts to cover the major portion of the estimated liability as determined by the Program's actuary. The University has also purchased excess insurance coverages with commercial carriers to cap the risk of loss retained by the Program. The System's buildings, contents and boilers are all directly insured with commercial insurance companies.

**SOUTHERN ILLINOIS UNIVERSITY  
MEDICAL FACILITIES SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005**

**11. Contingencies**

From time to time, the University is a defendant in lawsuits which relate to the System. In the opinion of the University's legal counsel and its administrative officers, any ultimate liability which could result from such litigation would not have a material effect on the System's financial position.

**12. Subsequent Event**

On October 13, 2005, the Board of Trustees of Southern Illinois University authorized the issuance of the Medical Facilities Revenue Bonds, Series 2005 in an amount not exceeding \$25,000,000 for the purpose of construction of the Cancer Institute at the School of Medicine, acquisition and renovation of other System assets, and refunding of the System's outstanding Series 1997 revenue bonds. It is expected the bonds will be delivered in November 2005.

**SUPPLEMENTARY INFORMATION**



**SOUTHERN ILLINOIS UNIVERSITY**  
**MEDICAL FACILITIES SYSTEM**  
**SCHEDULE OF BONDS PAYABLE OUTSTANDING**  
June 30, 2005

	<u>Principal Amount</u>	<u>Interest Rate</u>
<b>Interest Bearing Bonds</b>		
Serial Bonds Maturing		
as follows:		
2006	\$ 330,000	5.15%
2007	370,000	5.25%
Term Bonds maturing		
as follows:		
2008	410,000	5.80%
2009	460,000	5.80%
2010	510,000	5.80%
2011	560,000	5.80%
2012	620,000	5.80%
2013	680,000	5.80%
2014	745,000	5.80%
2015	815,000	5.80%
2016	885,000 *	5.80%
Term Bonds maturing		
as follows:		
2017	965,000	5.875%
2018	1,050,000	5.875%
2019	1,140,000	5.875%
2020	1,235,000	5.875%
2021	1,335,000	5.875%
2022	1,445,000	5.875%
2023	<u>1,530,000 *</u>	5.875%
Total Interest Bearing Bonds	<u>\$ 15,085,000</u>	

\* Subject to mandatory redemption in the years indicated

This schedule of bonds payable outstanding does not reflect unamortized debt discount.



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

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

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of Southern Illinois University Medical Facilities System (the "System") as of and for the year ended June 30, 2005, and have issued our report thereon dated October 19, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the System's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

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

*Kurt W. Eck: President LLP*

Springfield, Illinois  
October 19, 2005