



Crowe Chizek and Company LLC
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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, 2007

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, 2007

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

Southern Illinois University
Annual Financial Report
Fiscal Year 2007

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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 28, 2007



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, 2007.

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 Crowe Chizek & Co. LLC, Certified Public Accountants, for fiscal year 2007. As Special Assistant Auditors for the Auditor General, they have issued reports covering their audits of the compliance of the University with applicable state and federal laws and regulations and a report containing supplementary financial information and special data requested by the Auditor General. These reports are available at the Office of the Auditor General, State of Illinois.

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

Respectfully submitted,

Duane Stucky
Board Treasurer

DS/lap

**Southern Illinois University
Board of Trustees and
Officers of Administration
Fiscal Year 2007**

BOARD OF TRUSTEES OF SOUTHERN ILLINOIS UNIVERSITY

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Catherine A. Hagler, Executive Director of Administration
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Paul W. Ferguson, Provost and Vice Chancellor for Academic Affairs
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Narbeth Emmanuel, Vice Chancellor for Student Affairs
Gary A. Giamartino, Interim Vice Chancellor for University Relations

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FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying basic financial statements of Southern Illinois University was conducted by Crowe Chizek and Company LLC.

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



Independent Auditors' Report

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

As Special Assistant Auditors for the Auditor General, we have audited the accompanying basic financial statements, as listed in the table of contents, of Southern Illinois University ("the University") and its aggregate discretely presented component units, collectively a component unit of the State of Illinois, as of and for the year ended June 30, 2007. 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 2006 financial statements and, in our report dated November 10, 2006, we expressed an unqualified opinion on those statements.

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

In our opinion, the financial statements referred to above present fairly, in all material aspects, the respective financial position of the University and of its aggregate discretely presented component units as of June 30, 2007, 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 February 28, 2008, 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.


Crowe Chizek and Company LLC

Oak Brook, Illinois
February 28, 2008

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Southern Illinois University

Management's Discussion and Analysis

For the Year Ended June 30, 2007

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, 2007. 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 2007 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, 2007 and 2006:

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Assets:		
Current assets	\$ 191,961,159	\$ 220,263,723
Capital assets, net	572,516,218	501,153,312
Other assets	<u>103,801,268</u>	<u>105,989,806</u>
Total Assets	<u>\$ 868,278,645</u>	<u>\$ 827,406,841</u>
Liabilities:		
Current liabilities	119,105,457	117,941,387
Noncurrent liabilities	<u>323,035,752</u>	<u>333,977,434</u>
Total Liabilities	<u>\$ 442,141,209</u>	<u>\$ 451,918,821</u>
Net Assets:		
Invested in capital assets, net	330,124,020	302,463,542
Restricted - nonexpendable	4,058,461	3,605,416
Restricted - expendable	57,850,190	48,033,624
Unrestricted	<u>34,104,765</u>	<u>21,385,438</u>
Total Net Assets	<u>\$ 426,137,436</u>	<u>\$ 375,488,020</u>

The University's financial position remained strong at June 30, 2007, with assets of \$868,278,645 and liabilities of \$442,141,209. Net assets, the difference between total assets and total liabilities, increased \$50,649,416, or over 13%, compared to the previous year.

Statement of Revenues, Expenses and Changes in Net Assets

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

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

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

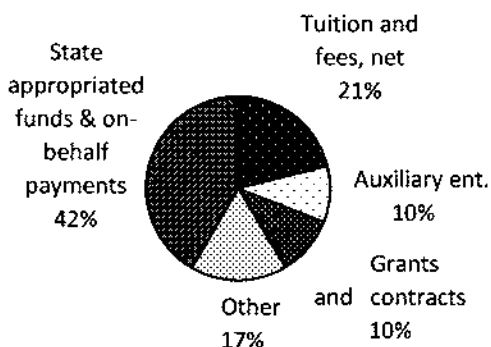
The following summarizes the University's financial activity for fiscal years 2007 and 2006:

	<u>Year Ended June 30, 2007</u>	<u>Year Ended June 30, 2006</u>
Operating revenues:		
Tuition and fees, net	\$ 182,140,804	\$ 156,557,921
Auxiliary enterprises	83,367,711	78,597,396
Grants and contracts	89,604,596	100,738,941
Other	92,132,855	92,463,666
Operating expenses	<u>(793,238,172)</u>	<u>(770,648,162)</u>
Operating loss	<u>(345,992,206)</u>	<u>(342,290,238)</u>
State appropriations	223,149,103	217,597,790
On-behalf payments	106,525,874	94,771,410
Other nonoperating revenues & expenses, net	<u>34,315,848</u>	<u>29,676,351</u>
Income (loss) before other revenues	17,998,619	(244,687)
Other revenues	<u>32,650,797</u>	<u>8,681,091</u>
Increase in net assets	50,649,416	8,436,404
Net assets at beginning of year	<u>375,488,020</u>	<u>367,051,616</u>
Net assets at end of year	<u>\$ 426,137,436</u>	<u>\$ 375,488,020</u>

The Statement of Revenues, Expenses and Changes in Net Assets reflects a positive year with an increase in net assets for the year. A significant portion of this increase is the result of completed construction projects, including new apartments for students at Carbondale and a new residence hall for students at Edwardsville, which have resulted in an increase of over \$27.5 million in capital assets.

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, 2007. The revenue from charges for tuition and fees is shown net of the scholarship allowance of \$25,141,792. Other operating revenues consist primarily of income from sales and services of educational activities that includes conferences and seminars, investment income, and income from the Physicians and Surgeons practice plan.

REVENUES BY SOURCE:



Operating Expenses

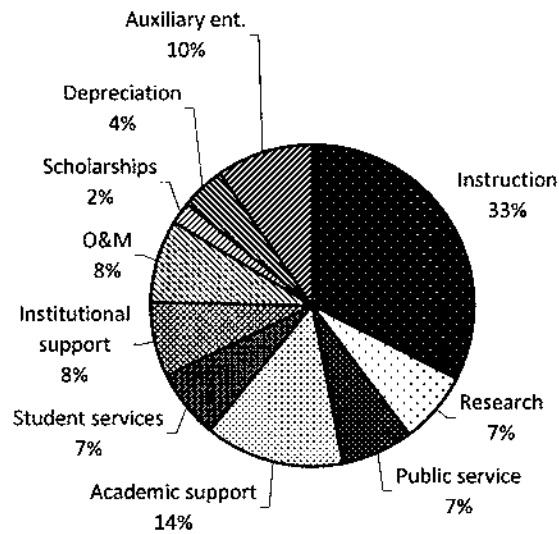
A summary of the University's operating expenses by functional classification for the years ended June 30, 2007 and 2006 is as follows:

	<u>Year Ended</u> <u>June 30, 2007</u>	<u>Year Ended</u> <u>June 30, 2006</u>
Instruction	\$ 259,860,902	\$ 249,878,046
Research	57,700,962	63,636,130
Public service	56,378,043	54,923,313
Academic support	112,268,877	103,935,635
Student services	55,192,637	51,296,734
Institutional support	54,640,752	51,562,883
Operation and maintenance of plant	65,398,396	66,850,255
Scholarships and fellowships	19,159,776	19,047,927
Depreciation	34,958,458	35,641,988
Auxiliary enterprises	77,328,543	73,435,273
Other expenditures	<u>350,826</u>	<u>439,978</u>
	<u>\$ 793,238,172</u>	<u>\$ 770,648,162</u>

Operating expenses include \$106,525,874 for health care and retirement costs paid on-behalf of University employees by the State of Illinois. These expenses have been allocated by function.

The following is a graphic illustration of operating expenses by function for the year ended June 30, 2007:

EXPENSES BY FUNCTION:



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, 2007</u>	<u>Year Ended June 30, 2006</u>
Cash provided by (used in):		
Operating activities	\$ (205,353,142)	\$ (219,698,646)
Noncapital financing activities	250,858,575	255,391,468
Capital and related financing activities	(93,129,362)	(9,372,289)
Investing activities	<u>59,369,660</u>	<u>10,376,357</u>
Net increase (decrease) in cash	11,745,731	36,696,890
Cash and cash equivalents, beginning of year	<u>96,100,852</u>	<u>59,403,962</u>
Cash and cash equivalents, end of year	<u><u>\$ 107,846,583</u></u>	<u><u>\$ 96,100,852</u></u>

The University's cash and cash equivalents increased by \$11,745,731 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 2007, the University had \$330,124,020 invested in capital assets, net of accumulated depreciation and related debt. Depreciation expense for the current year was \$34,958,458, with accumulated depreciation of \$645,789,182..

The University did not issue any new long-term debt during fiscal year 2007, but two significant facilities were completed for the fall 2007 semester: a 400 bed apartment-style residence hall on the Carbondale campus, the first new housing constructed at Carbondale in nearly 40 years, and a 515 bed residence hall on the Edwardsville campus. In addition, work continues on the construction of the Simmons-Cooper Cancer Institute, which is expected to be completed during fiscal year 2008.

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

Economic Outlook

State appropriations for fiscal year 2008 increased \$4,033,100, or 1.8% above the fiscal year 2007 appropriation budget. The University was also successful in acquiring continuing support from the Governor and General Assembly for approximately \$1.1 million to fund the James E. Walker Scholarship Fund and \$1.2 million for on-going maintenance support of a newly renovated research lab at the SIU School of Medicine in Springfield. The State continues to appropriate funds for the payment of University employees' benefits; however, in fiscal year 2003, the State required the University to supplement the appropriated funds. The University will contribute \$7 million toward employee health coverage in fiscal year 2008.

The General Assembly did not approve any new capital appropriations for public universities for fiscal year 2008. However, the budget did include re-appropriations of spending authority for previously authorized higher education capital projects. The University anticipates some consideration of a capital bill during the fall veto session. SIU is well positioned to receive funding for a new Science Building at the SIUE campus, a new Regional Center for Patient Safety at the School of Medicine, additional funding for the renovation of Morris Library, and a new Transportation Educational Center at SIUC if a capital bill is passed.

Over the past ten years, enrollment at the Edwardsville campus has increased 20% in conjunction with a shift from a primarily commuter campus to a residential campus. In order to accommodate the increase in on-campus students, a fourth residence hall was completed and opened fall 2007. Over the next few years, the Edwardsville campus will focus on expanding student services to address the growing needs of on-campus students. Upcoming construction projects include a planned expansion of the Student Fitness Center, construction of a Student Success Center, and renovation of academic space. The Carbondale campus is an older campus with many aging facilities and will focus on addressing deferred maintenance needs. Planned projects at the Carbondale campus include completion of the Morris Library renovation, installation of sprinkler systems in the Thompson Point and University Hall residence facilities, construction of a new football stadium, and renovations to the existing basketball arena. The School of Medicine should see the completion of the Simmons-Cooper Cancer Institute in fiscal year 2008.

The University approved increases in tuition and fees for fiscal year 2008. Tuition increases of 9.3% at the Carbondale campus and 9.9% at the Edwardsville campuses were approved for entering freshmen. Existing student fees were increased 13.9% for full-time students at the Carbondale campus and 12.9% for full-time students at the Edwardsville campus. In addition, a new facilities maintenance fee was established at each campus. The revenue generated from this fee will be used primarily to address deferred maintenance. Including the new facilities maintenance fee, student fees increased 28.4% at the Carbondale campus and 52.9% at the Edwardsville campus.

Under the leadership of President Glenn Poshard, the University has placed highest priority on student recruitment and retention, promoting degree completion, and increasing graduation rate initiatives. Fall 2007 enrollment at the Edwardsville campus was down 51 students, but full time equivalents (FTEs) were up 75. Total enrollment at the Carbondale campus was down 20 students, but FTEs were up by 22. Much of the Carbondale decline is attributed to off-campus enrollment within military programs due to the deployment of military personnel to serve in the Iraq war.

Southern Illinois University continues to develop and expand its resource base by seeking more revenue opportunities from grants and contracts, sales and services of educational activities that include clinics, conferences and seminars, other self-supporting activities, and fund raising efforts. This is demonstrated in the fiscal year 2008 operating budget where projected increases in these revenue sources are estimated to reach 11.6%.

The University is committed to strong fiscal stewardship of its resources and to maintaining a sound financial position. To that end, University management establishes institutional priorities that are linked to additional funding, sets funding guidelines for asset maintenance of facilities and equipment, and holds 2% of state appropriated funds and tuition income as a contingency reserve for fiscal emergencies.

**Audited
Financial
Statements**

Fiscal Year 2007

Southern Illinois University
Statement of Net Assets
June 30, 2007 with Comparative Totals for 2006

	UNIVERSITY		UNIVERSITY RELATED ORGANIZATIONS	
	2007	2006	2007	2006
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 98,703,044	\$ 90,668,082	\$ 6,379,437	\$ 4,899,894
Short-term investments	40,369,884	78,679,414	34,228,494	26,147,868
Deposits with University	-	-	13,346,452	16,501,113
Appropriations receivable from State of Illinois General Revenue	374,564	43,393	-	-
Appropriations receivable from State of Illinois Capital Development	1	15,232	-	-
Reimbursement due from State Treasurer	2,356,137	2,386,762	-	-
Accounts receivable, net	35,742,540	29,845,153	21,577,695	23,648,454
Notes receivable, net	3,986,528	4,814,777	-	-
Accrued interest receivable	628,815	944,334	146,102	207,721
Due from related organizations	2,524,941	5,337,180	203,323	218,168
Inventories	6,362,336	6,744,425	-	-
Prepaid expenses and other assets	912,369	784,971	577,233	660,494
Total Current Assets	191,961,159	220,263,723	76,458,736	72,283,712
Noncurrent Assets:				
Cash and cash equivalents	9,143,539	5,432,770	8,505	8,505
Long-term investments	73,247,083	81,131,007	118,949,507	101,203,814
Notes receivable, net	15,583,678	14,019,582	54,174	16,435
Prepaid expenses and other assets	5,826,968	5,406,447	20,544,588	20,028,066
Due from related organizations	-	-	88,094	254,566
Capital assets, not depreciated	128,297,713	77,413,884	-	4,624,343
Capital assets, net of depreciation	444,218,505	423,739,428	4,932,462	3,209,527
Total Noncurrent Assets	676,317,486	607,143,118	144,577,330	129,345,256
TOTAL ASSETS	868,278,645	827,406,841	221,036,066	201,628,968
LIABILITIES				
Current Liabilities:				
Accounts payable	22,692,377	26,711,556	1,121,680	1,116,123
Notes payable	-	341,715	166,472	161,558
Accrued interest payable	2,368,346	2,225,182	34,238	34,238
Accrued payroll	7,208,596	6,363,660	4,270,813	3,272,462
Accrued compensated absences	3,765,472	3,763,247	-	-
Revenue bonds payable	11,816,500	10,921,747	1,650,000	-
Certificates of participation	2,586,088	2,340,387	-	-
Liabilities under capitalized leases	1,074,140	1,406,399	-	-
Annuities payable	-	-	553,500	540,245
Accrued liability for self-insurance	5,279,983	5,738,648	-	-
Deposits held for University related organizations	13,346,452	16,469,173	-	-
Deposits held in custody for others	1,098,729	1,011,378	43,933	28,206
Deferred revenue	47,554,520	40,320,530	730,432	692,773
Housing deposits	120,589	117,180	-	-
Due to related organizations	193,665	210,585	2,534,599	5,344,763
Total Current Liabilities	119,105,457	117,941,387	11,105,667	11,190,368
Noncurrent Liabilities:				
Notes payable	-	-	88,094	254,566
Accrued compensated absences	43,055,372	41,541,083	-	-
Revenue bonds payable	224,852,482	232,439,849	-	1,650,000
Certificates of participation	28,290,768	30,876,856	-	-
Liabilities under capitalized leases	2,041,100	2,873,446	-	-
Annuities payable	-	-	3,723,208	3,681,905
Accrued liability for self-insurance	7,419,377	8,781,855	-	-
Federal loan program contributions refundable	16,982,124	16,896,211	-	-
Due to related organizations	88,094	254,566	-	-
Housing deposits	147,386	143,220	-	-
Other accrued liabilities	159,049	170,348	1,559,489	1,454,775
Deposits held in custody for others	-	-	2,646,250	2,187,952
Total Noncurrent Liabilities	323,035,752	333,977,434	8,017,041	9,229,198
TOTAL LIABILITIES	442,141,209	451,918,821	19,122,708	20,419,566
NET ASSETS				
Invested in capital assets, net of related debt	330,124,020	302,463,542	3,282,462	4,694,920
Restricted for:				
Nonexpendable	4,058,461	3,605,416	79,997,422	73,556,940
Expendable	57,850,190	48,033,624	74,686,256	60,845,233
Unrestricted	34,104,765	21,385,438	43,947,218	42,112,309
TOTAL NET ASSETS	\$ 426,137,436	\$ 375,488,020	\$ 201,913,358	\$ 181,209,402

The accompanying notes are an integral part of this statement.

Southern Illinois University

Statement of Revenues, Expenses and Changes in Net Assets

Year Ended June 30, 2007 with Comparative Totals for 2006

	UNIVERSITY		UNIVERSITY RELATED ORGANIZATIONS	
	2007	2006	2007	2006
REVENUES				
Operating Revenues:				
Student tuition and fees (net of scholarship allowances of \$25,141,792 for 2007)	\$ 182,140,804	\$ 156,557,921	\$ -	\$ -
Federal grants and contracts	34,312,568	34,616,466	-	-
State of Illinois grants and contracts	31,153,895	34,408,770	-	-
Other government grants and contracts	6,095,411	6,000,736	-	-
Private grants and contracts	18,042,722	25,712,969	-	-
Sales and services of educational departments	52,529,185	56,730,894	-	2,518,794
Physicians and Surgeons practice plan	39,342,615	35,410,494	-	-
Patient service revenue (net)	-	-	76,492,659	68,934,176
Auxiliary enterprises:				
Funded debt enterprises (net of scholarship allowances of \$4,695,614 for 2007)	75,865,362	71,929,031	-	-
Other auxiliary enterprises (net of scholarship allowances of \$898,711 for 2007)	7,502,349	6,668,365	-	-
Loan interest income	187,376	193,792	-	-
Other operating revenues	73,679	128,486	8,960,483	8,677,181
Total Operating Revenues	447,245,966	428,357,924	85,453,142	80,130,151
EXPENSES				
Operating Expenses:				
Instruction	259,860,902	249,878,046	-	-
Research	57,700,962	63,636,130	-	-
Public service	56,378,043	54,923,313	-	-
Academic support	112,268,877	103,935,635	-	-
Student services	55,192,637	51,296,734	-	-
Institutional support	54,640,752	51,562,883	113,954,665	88,989,214
Operation and maintenance of plant	65,398,396	66,850,255	-	-
Scholarships and fellowships	19,159,776	19,047,927	-	-
Depreciation	34,958,458	35,641,988	328,881	275,719
Auxiliary enterprises:				
Funded debt enterprises	68,415,537	65,580,735	-	-
Other auxiliary enterprises	8,913,006	7,854,538	-	-
Other operating expenses	350,826	439,978	-	-
Total Operating Expenses	793,238,172	770,648,162	114,283,546	89,264,933
Operating Loss	(345,992,206)	(342,290,238)	(28,830,404)	(9,134,782)
NONOPERATING REVENUES (EXPENSES)				
State appropriations - General Revenue fund	223,149,103	217,597,790	-	-
Gifts and contributions	6,464,905	5,909,367	22,247,192	17,945,632
Investment income	12,836,875	6,547,904	20,485,079	8,477,299
Grants and contracts	25,324,987	26,844,821	(4,352)	212,326
Interest on capital asset-related debt	(9,302,595)	(7,603,103)	(85,691)	(90,324)
Accretion on bonds payable	(4,229,132)	(4,149,398)	-	-
University related organizations	267,057	175,175	-	-
Payments on behalf of the university	106,525,874	94,771,410	-	-
Other nonoperating revenues	2,953,751	1,951,585	1,516,807	957,061
Net Nonoperating Revenues	363,990,825	342,045,551	44,159,035	27,501,994
Income (Loss) Before Other Revenues	17,998,619	(244,687)	15,328,631	18,367,212
Other Revenues:				
Capital state appropriations	28,666,554	8,537,781	-	-
Additions to permanent endowments	165,200	100	4,449,837	6,401,771
Capital grants and gifts	3,819,043	143,210	925,488	461,371
Total Other Revenues	32,650,797	8,681,091	5,375,325	6,863,142
Increase in Net Assets	50,649,416	8,436,404	20,703,956	25,230,354
NET ASSETS				
Net assets at beginning of year	375,488,020	367,051,616	181,209,402	155,979,048
Net assets at end of year	\$ 426,137,436	\$ 375,488,020	\$ 201,913,358	\$ 181,209,402

The accompanying notes are an integral part of this statement.

Southern Illinois University
Statement of Cash Flows
Year Ended June 30, 2007 with Comparative Totals for 2006

	UNIVERSITY		UNIVERSITY RELATED ORGANIZATIONS	
	2007	2006	2007	2006
Cash Flows from Operating Activities				
Tuition and fees	\$ 181,088,391	\$ 165,364,380	\$ -	\$ -
Grants and contracts	89,680,310	89,976,374	-	-
Sales and services of educational activities	54,433,540	50,974,935	-	-
Physicians and Surgeons	42,098,157	35,410,494	-	-
Auxiliary enterprise revenues:				
Funded debt	78,033,808	75,235,839	-	-
Other auxiliary	8,812,677	7,400,989	-	-
Payments to employees for salaries and benefits	(451,744,220)	(435,275,737)	(28,041,405)	(25,563,955)
Payments to suppliers	(246,137,050)	(244,582,570)	(65,641,837)	(54,477,657)
Payments for scholarships and fellowships	(53,204,825)	(49,778,433)	-	-
Loans issued to students	(4,671,381)	(5,251,595)	-	-
Interest earned on loans to students	188,785	193,786	-	-
Collection of loans from students	4,168,484	5,293,147	-	-
Patient service revenue	-	-	80,296,523	65,462,871
Other operating receipts	91,900,182	85,339,745	3,298,571	3,544,795
Net cash used in operating activities	(205,353,142)	(219,698,646)	(10,088,148)	(11,033,946)
Cash Flows from Noncapital Financing Activities				
State appropriations	222,817,475	219,021,165	-	-
Direct lending receipts	130,907,761	125,400,323	-	-
Direct lending payments	(130,750,769)	(125,454,126)	-	-
Grants and contracts	25,324,988	26,846,622	50,000	233,000
Government advances for federal loan funds	(83,193)	(279,272)	-	-
Payments to annuitants	-	-	(502,259)	(469,249)
Other	(486,904)	(38,124)	(16,698)	(119,704)
Gifts for other than capital purposes	3,129,217	9,894,880	12,404,672	14,113,693
Net cash provided by noncapital financing activities	250,858,575	255,391,468	11,935,715	13,757,740
Cash Flows from Capital and Related Financing Activities				
Capital appropriations	27,919,459	7,496,643	-	-
Capital gifts received	-	-	925,488	461,371
Capital grants	1,000,000	-	(23,070)	638,121
Payments received on capital financing leases	-	-	252,195	229,149
Sale of capital assets	18,000	18,000	51,248	510,219
Purchases of capital assets	(99,860,508)	(62,456,956)	(461,904)	(1,549,029)
Proceeds from capital debt	-	94,966,770	-	-
Deposit to bond escrow accounts	-	(30,947,263)	-	-
Principal paid on capital debt	(13,265,000)	(10,732,532)	(161,558)	(538,128)
Interest paid on capital debt	(8,941,313)	(7,716,951)	(85,691)	(107,893)
Net cash provided by (used in) capital and related financing activities	(93,129,362)	(9,372,289)	496,708	(356,190)
Cash Flows from Investing Activities				
Purchases of investments	(32,494,930)	(150,725,262)	(10,887,347)	(13,506,087)
Proceeds from sales of investments and maturities	79,824,665	150,495,716	5,180,011	7,150,406
Investment income	12,039,925	10,605,903	4,842,604	3,760,724
Net cash provided by (used in) investing activities	59,369,660	10,376,357	(864,732)	(2,594,957)
Net increase (decrease) in cash	11,745,731	36,696,890	1,479,543	(227,353)
Cash and cash equivalents, beginning of the year	96,100,852	59,403,962	4,908,399	5,135,752
Cash and cash equivalents, end of the year	\$ 107,846,583	\$ 96,100,852	\$ 6,387,942	\$ 4,908,399

Southern Illinois University

Statement of Cash Flows

Year Ended June 30, 2007 with Comparative Totals for 2006

	UNIVERSITY		UNIVERSITY RELATED ORGANIZATIONS	
	2007	2006	2007	2006
Reconciliation of Operating Loss to Net Cash Used in Operating Activities				
Operating loss	\$ (345,992,206)	\$ (342,290,238)	\$ (28,830,404)	\$ (9,134,782)
Adjustments to reconcile operating loss to net cash used in operating activities:				
Depreciation expense	34,958,458	35,641,988	328,881	275,719
Amortization expense	-	-	357,126	357,126
Noncash grants to University	-	-	4,257,773	568,670
Noncash expenditures for the benefit of the University	-	-	11,828,975	728,696
Budget expended at University	(202,533)	(177,974)	-	-
Payments on behalf of the university	106,525,874	94,771,410	-	-
Change in assets and liabilities:				
Accounts receivable (net)	(8,321,731)	(2,772,477)	523,739	(249,670)
Deposits with University	-	-	3,137,448	64,163
Reimbursement due from State Treasurer	26,172	3,674,580	-	-
Inventories	382,088	(380,036)	-	-
Prepaid expenses	(152,031)	461,982	(785)	6,526
Other assets	4,276,653	(3,411,401)	(69,993)	(5,814,645)
Accounts payable	(3,997,087)	3,822,847	(1,697,074)	2,221,752
Accrued payroll	844,936	(1,166,770)	-	-
Deferred revenue	6,616,191	(6,307,973)	115,264	86,760
Compensated absences	1,510,365	425,672	-	-
Deposits held for others	(30,391)	29,422	16,806	(12,070)
Other liabilities	(1,813,568)	(2,426,428)	36,025	(3,974)
Due to/from related organizations	15,668	406,750	(91,929)	(128,217)
Net cash used in operating activities	\$ (205,353,142)	\$ (219,698,646)	\$ (10,088,148)	\$ (11,033,946)
Noncash investing, capital and financing activities:				
Payments on behalf of the university for fringe benefits	\$ 106,525,874	\$ 94,771,410	\$ -	\$ -
Accretion on bonds payable	4,229,132	4,149,398	-	-
Gifts in kind	4,193,196	591,145	12,158,318	2,950,653
Capital assets in accounts payable	4,483,578	8,712,698	-	-
Capital asset acquisition by CDB	28,666,553	8,537,547	-	-
Loss on disposals of capital assets	1,134,164	2,098,262	-	-
Other capital asset adjustments	3,459,286	5,195,863	-	-

The accompanying notes are an integral part of this statement.

Southern Illinois University

Notes to Financial Statements

June 30, 2007

1. The financial reporting entity and component unit disclosures

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

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

The Foundations were formed for the purpose of providing 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. Significant accounting policies

Basis of presentation

The 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). The University has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The University has elected to not apply FASB pronouncements issued after the applicable date.

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

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

The financial statements include prior year comparative information, which has been derived from the University's 2006 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, 2006.

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 \$12,257,353 and \$1,939,762, respectively, at June 30, 2007.

Inventories

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

Capital assets

Capital assets are recorded at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. The University's capitalization policy for capital assets is as follows: infrastructure \$1,000,000 or greater, buildings \$100,000 or greater, site or building improvements \$25,000 or greater, and equipment and library books \$5,000 or greater. Renovations to buildings that significantly increase the value or extend the useful life of the asset are capitalized. Routine repairs and maintenance are charged to operating expense in the year incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 40 years for buildings, 20 years for infrastructure, and 15 years for site or building improvements. Vehicles and electronic data processing equipment are depreciated over five years. Other equipment and books are depreciated over seven years. Land, works of art, and historical treasures are not depreciated. The "following-month" prorate convention is used, in which no depreciation is recorded in the month of acquisition and an entire month of depreciation is recorded in the month of disposition.

Revenue and expense recognition

In accordance with GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, the University reported on-behalf payments of \$106,525,874 for fiscal year 2007 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 \$81,983,487 for the year ended June 30, 2007. The employer contributions to these plans for employees paid from other University held funds are paid by the University. On behalf-payments of \$24,542,387 for the year ended June 30, 2007, were made for retirement costs.

2. Significant accounting policies (continued)

Classification of revenues and expenses

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

Operating: Operating revenues and expenses include activities that have the characteristics of exchange transactions, such as student tuition and fees, sales and services of educational departments, sales and services of auxiliary enterprises, and most grants and contracts. The majority of the University's expenses are operating expenses.

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

Tuition and fees are generally recognized as revenues as they are assessed. The portion of summer session tuition and fees applicable to the following fiscal year is deferred.

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

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

Compensated absences

Accrued compensated absences for University personnel are charged to current funds based on earned but unused vacation and sick leave days including the University's share of Social Security and Medicare taxes. At June 30, 2007, the University estimates \$36,910,716 will be paid from state appropriated accounts funded by the State of Illinois General Revenue Fund and the Income Fund, and \$9,910,128 from local funds in subsequent years for a combined total of 46,820,844.

New Governmental Accounting Standards

The Governmental Accounting Standards Board (GASB) has issued the following statements which are effective for periods beginning July 1, 2006, or later which may impact the University:

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. The statement was effective for the period beginning July 1, 2006. It did not 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. 48 – *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, establishes criteria that governments will use to ascertain whether proceeds received from collecting specific receivables or specific future revenues for immediate cash payments should be reported as revenue or as a liability. The statement is effective for the period beginning July 1, 2007. The University will be required to disclose pledged revenues in the notes to the financial statements.

Statement No. 51 – *Accounting and Financial Reporting for Intangible Assets*, provides guidance on the accounting for and reporting of intangible assets such as easements, computer software, water rights, timber rights, patents, and trademarks. The statement is effective for the period beginning July 1, 2009, but should be applied retroactively to intangible assets acquired since July 1, 1980. The University will identify and recognize intangible assets as required by the statement.

Reclassification

Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

3. Cash, deposits and cash equivalents

Cash, deposits and cash equivalents of the University include bank accounts and investments with original maturities of ninety days or less at the time of purchase, primarily U.S. Treasury Bills and money market funds. The University classifies its investment in The Illinois Funds as a deposit for financial statement purposes. At June 30, 2007, the actual bank balances related to the deposits of the University amounted to \$108,294,810; all such balances were covered by federal depository insurance or collateral held by an agent in the University's name.

Cash, deposits and cash equivalents at June 30, 2007, are as follows:

<u>UNIVERSITY:</u>	
Cash and cash equivalents	\$ 3,782,755
The Illinois Funds	104,063,828
Total cash and cash equivalents	<u>\$ 107,846,583</u>
<u>UNIVERSITY RELATED ORGANIZATIONS:</u>	
Total cash and cash equivalents	<u>\$ 6,387,942</u>

4. Investments

University investment policy

It is University policy to invest funds in a manner which will provide investment returns and security consistent with good business practices, while meeting the daily cash flow demands of the University and conforming to all statutes governing the investments of funds. Funds are invested in accordance with the provisions of the Illinois Compiled Statutes, Chapter 30, Sections 235/0.01 – 235/8, the *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 Governments 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.

University Related Organizations investment policies

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

Southern Illinois University Foundation (at Carbondale)

The Board of Directors of the Foundation is responsible for the management of the Foundation's investments. The Board, through the bylaws, has given authority to the Investment Committee to formulate an investment policy for funds and assets of the Foundation. Investment performance is reviewed quarterly. The Foundation's Treasurer is authorized by the Board of Directors to invest funds in compliance with state investment policies.

If a donor has not provided specific instructions, state law permits the Board of Directors to authorize for expenditure the net appreciation (realized and unrealized) of the investments of endowment funds. When administering its power to spend net appreciation, the Board is required to consider the Foundation's long and short-term needs, present and anticipated financial requirements, expected total return on its investments, price-level trends, and general economic conditions. Any net appreciation expended will be required to be spent for the purposes for which the endowment was established. The net appreciation on investments of donor-restricted endowments available for authorization for expenditure approximated \$26,938,000 at June 30, 2007.

The Board chooses to spend only a portion of the investment income, including changes in the value of investments, each year. Under the policy established by the board, four percent of the average market value of the endowment investment pool at the

4. Investments (continued)

end of the previous twelve quarters has been authorized for expenditure. The remaining income, if any, is retained to be used in future years when the amount computed using the spending policy exceeds the investment income.

Southern Illinois University at Edwardsville Foundation

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

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

Information relating to the specific investment policies of the other University Related Organizations can be obtained by contacting those entities listed in Note 1 on page 14.

University investments

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

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

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

Investment income net of realized and unrealized gains and losses on investments for the year ended June 30, 2007, are reflected below:

<u>UNIVERSITY:</u>	
Interest earnings	\$ 13,795,588
Realized loss on investments	(278,167)
Unrealized loss on investments	(680,546)
Net investment income	<u>\$ 12,836,875</u>
<u>UNIVERSITY RELATED ORGANIZATIONS:</u>	
interest earnings and realized	
gain on investments	\$ 17,760,303
Unrealized gain on investments	2,724,776
Net investment income	<u>\$ 20,485,079</u>

4. Investments (continued)

University risk disclosures

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

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

Custodial credit risk: Disclosure of custodial credit risk is exception-based and is required only when a government has category 3 exposure, which the University does not.

Interest rate risk: Interest rate risk is the risk that the market value of portfolio securities will fall or rise due to changes in general interest rates. Interest rate risk is mitigated by maintaining significant balances in cash equivalent and other short maturity investments and by establishing an asset allocation policy that is consistent with the expected cash flows of the University. The internally managed portfolio is managed in accordance with covenants provided from the University's debt issuance activities. The externally managed portfolio is typically allocated with 20 to 35 percent of assets held in cash equivalents; 10 to 40 percent of assets held in the short-term portfolio; and 35 to 60 percent of assets held in the intermediate-term portfolio.

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

Southern Illinois University Foundation (at Carbondale) risk disclosures

Credit Risk: The Foundation's general investment policy is to apply the prudent person rule: Investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and in general, avoid speculative investments. The Foundation has not set a limit on the credit rating of bonds in order to allow investment managers the opportunity to invest in securities such as high yield bonds.

Concentration of credit risk: The Foundation has no limit on the amount it may invest in any one issuer. The Foundation did not have more than five percent of its investments with any one issuer at June 30, 2007.

Custodial credit risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Foundation will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Foundation has \$12,198,057 of securities which were at risk at June 30, 2007.

Interest rate risk: In order to capture the highest yield and because a majority of the Foundation's investments have a long time horizon, the Foundation has not set limits on investment maturities.

Foreign currency risk: The Foundation has investments in five different non-U.S. mutual funds. These funds invest in securities of various countries.

Southern Illinois University at Edwardsville Foundation risk disclosures

Credit risk: Credit risk is mitigated by limiting investments to those specified in the Board approved policy and diversifying the investment portfolio so that the failure of any one issuer or backer will not place an undue financial burden on the Foundation. Board policy requires investments in fixed income securities or corporate securities to be purchased or retained only if the security is A2 or higher by Moody's Investor Service or is rated A or higher by Standard and Poor's Corporation (S&P), Fitch Investors Service, or Duff and Phelps Credit Rating Co. Commercial paper, money markets, and banker's acceptances must be rated at least Prime-1 by Moody's or at least A1 by S&P. U.S. Treasuries are federal government securities that do not require the disclosure of credit risk. The U.S. agencies include the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, and the Federal Home Loan Bank, all rated AAA and Aaa by S&P and Moody's, respectively.

Concentration of credit risk: Concentration of credit risk is the risk of loss attributable to the magnitude of investment in a single issuer. The Foundation's investment policy encourages diversification and prohibits investments of five percent or more of total investments in any one issuer.

4. Investments (continued)

Custodial credit risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Foundation will not be able to recover the value of its investments that are in the possession of an outside party. The investment custodians hold these investments in their name for the benefit of the Foundation. The Foundation does not maintain a policy regarding custodial credit risk.

Interest rate risk: The Foundation does not maintain a policy that limits investment maturities in regards to interest rate risk; however, its overall risk management requires sound investment decisions and diversification of overall risk.

Foreign currency risk: The Foundation had no investment in common stocks of foreign companies at June 30, 2007. The Foundation's policy related to foreign currency risk is that no purchase of a foreign equity may be made if such purchase would cause the total value of foreign equity assets to exceed the lesser of ten percent of the total or 25 percent of the equity portion of the endowment portfolio.

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

Investment maturities

Interest rate risk is disclosed below using the segmented time distribution method. As of June 30, 2007, the University and University Related Organizations had the following investment balances:

UNIVERSITY:

Investment Type:	Investment Maturities (in Years)					
	Fair Value	Less Than 1	1-5	6-10	More Than 10	No Maturity
U.S. Treasuries	\$ 22,573,483	\$ 8,862,795	\$ 8,339,787	\$ 5,370,901	\$ -	\$ -
U.S. Agencies	90,999,184	14,683,707	57,751,175	11,967,780	6,596,522	-
The Illinois Funds	104,063,828	104,063,828	-	-	-	-
Common Stock	44,300	-	-	-	-	44,300
Subtotal	217,680,795	\$ 127,610,330	\$ 66,090,962	\$ 17,338,681	\$ 6,596,522	\$ 44,300
Less: Investment in The Illinois Funds reported as cash	(104,063,828)					
Total Investments	\$ 113,616,967					

UNIVERSITY RELATED ORGANIZATIONS:

Investment Type:	Investment Maturities (in Years)					
	Fair Value	Less Than 1	1-5	6-10	More Than 10	No Maturity
U.S. Treasuries	\$ 1,696,560	\$ 571,214	\$ 983,936	\$ 141,410	\$ -	\$ -
U.S. Agencies	4,022,696	546,855	3,049,434	396,432	29,975	-
Certificates of Deposit	6,492,416	4,580,859	1,668,825	242,732	-	-
Commercial paper	12,198,057	12,198,057	-	-	-	-
Corporate Debt Securities	491,926	99,611	246,621	145,694	-	-
Corporate Equity Securities	6,425,839	-	-	-	-	6,425,839
Money Market Funds	1,646,902	1,646,902	-	-	-	-
Open Ended Mutual Funds	120,203,605	120,203,605	-	-	-	-
Total Investments	\$ 153,178,001	\$ 139,847,103	\$ 5,948,816	\$ 926,268	\$ 29,975	\$ 6,425,839

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

5. Accounts and notes receivable

Accounts and notes receivable consisted of the following at June 30, 2007:

UNIVERSITY:

	<u>Accounts Receivable</u>	<u>Notes Receivable</u>
Student tuition and fees	\$ 17,543,175	\$ -
Auxiliary enterprises	6,083,169	-
Grants and contracts	17,508,243	-
General operating	6,444,516	-
Student loans	15,358	21,334,136
Plant funds	-	175,832
Other accounts receivable	405,432	-
	<u>47,999,893</u>	<u>21,509,968</u>
Less: Allowance for doubtful accounts	(12,257,353)	(1,939,762)
Net receivable	<u>\$ 35,742,540</u>	<u>\$ 19,570,206</u>

UNIVERSITY RELATED ORGANIZATIONS:

	<u>Accounts Receivable</u>	<u>Notes Receivable</u>
Accounts receivable	\$ 49,000,109	\$ -
Student loans	-	54,174
	<u>49,000,109</u>	<u>54,174</u>
Less: Allowances for assignment losses and doubtful accounts	(27,422,414)	-
Net receivable	<u>\$ 21,577,695</u>	<u>\$ 54,174</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, 2007, the outstanding balance of the note was \$175,832.

6. Capital assets

Capital asset activity for the year ended June 30, 2007, was as follows:

UNIVERSITY:

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Capital assets not being depreciated:					
Land	\$ 21,519,811	\$ 356,742	\$ -	\$ 3,000	\$ 21,879,553
Nondepreciable historical treasures and works of art	6,208,241	11,900	-	-	6,220,141
Construction in progress	49,685,832	85,380,909	614,306	(34,254,416)	100,198,019
Total capital assets not being depreciated	77,413,884	85,749,551	614,306	(34,251,416)	128,297,713
Capital assets being depreciated:					
Site improvements	43,074,962	444,570	3,200	544,223	44,060,555
Buildings	706,685,664	2,477,171	-	36,328,070	745,490,905
Equipment	281,058,035	16,546,239	6,263,283	507,509	291,848,500
Infrastructure	8,607,727	-	-	-	8,607,727
Total capital assets being depreciated	1,039,426,388	19,467,980	6,266,483	37,379,802	1,090,007,687
Less accumulated depreciation for:					
Site improvements	31,140,245	1,127,245	-	-	32,267,490
Buildings	354,340,455	16,383,763	-	-	370,724,218
Equipment	221,765,778	17,293,071	4,856,236	-	234,202,613
Infrastructure	8,440,482	154,379	-	-	8,594,861
Total accumulated depreciation	615,686,960	34,958,458	4,856,236	-	645,789,182
Total capital assets being depreciated, net	423,739,428	(15,490,478)	1,410,247	37,379,802	444,218,505
Capital assets, net	\$ 501,153,312	\$ 70,259,073	\$ 2,024,553	\$ 3,128,386	\$ 572,516,218

UNIVERSITY RELATED ORGANIZATIONS:

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Capital assets not being depreciated:					
Construction in progress	\$ 4,624,343	\$ 106,532	\$ -	\$ (4,730,875)	\$ -
Capital assets being depreciated:					
Site improvements	298,147	17,483	-	-	315,630
Buildings	2,478,121	-	-	1,602,489	4,080,610
Equipment	1,831,816	432,305	20,336	-	2,243,785
Total capital assets being depreciated	4,608,084	449,788	20,336	1,602,489	6,640,025
Less accumulated depreciation for:					
Site improvements	15,413	29,944	-	-	45,357
Buildings	366,553	70,856	-	-	437,409
Equipment	1,016,591	228,081	19,875	-	1,224,797
Total accumulated depreciation	1,398,557	328,881	19,875	-	1,707,563
Total capital assets being depreciated, net	3,209,527	120,907	461	1,602,489	4,932,462
Capital assets, net	\$ 7,833,870	\$ 227,439	\$ 461	\$ (3,128,386)	\$ 4,932,462

The SIUC Foundation transferred costs in the amount of \$3,128,386 associated with the construction of the Troutt-Wittmann Center for athletics to the University during fiscal year 2007. The Foundation received restricted funds from a donor to build the center. The building costs were transferred from construction in progress to the University when the donor restrictions were fulfilled and the project was complete.

7. Noncurrent liabilities

Noncurrent liability activity for the year ended June 30, 2007, is as follows:

UNIVERSITY:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Notes payable	\$ 341,715	\$ -	\$ 341,715	\$ -	\$ -
Compensated absences	45,304,330	4,986,788	3,470,274	46,820,844	3,765,472
Revenue bonds payable	243,361,596	4,229,132	10,921,746	236,668,982	11,816,500
Certificates of participation	33,217,243	-	2,340,387	30,876,856	2,586,088
Capitalized leases	4,279,845	396,261	1,560,866	3,115,240	1,074,140
Self insurance	14,520,503	4,912,223	6,733,366	12,699,360	5,279,983
Federal loan programs refundable	16,896,211	85,913	-	16,982,124	-
Due to related organizations	465,151	-	183,392	281,759	193,665
Other accrued liabilities	170,348	-	11,299	159,049	-
Housing deposits	260,400	195,004	187,429	267,975	120,589
Total long-term liabilities	\$ 358,817,342	\$ 14,805,321	\$ 25,750,474	\$ 347,872,189	\$ 24,836,437

UNIVERSITY RELATED ORGANIZATIONS:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Notes payable	\$ 416,124	\$ -	\$ 161,558	\$ 254,566	\$ 166,472
Revenue bonds payable	1,650,000	-	-	1,650,000	1,650,000
Annuities payable	4,222,150	1,854,895	1,800,337	4,276,708	553,500
Other accrued liabilities	1,454,775	117,960	13,246	1,559,489	-
Deposits held in custody for others	2,216,158	613,693	139,668	2,690,183	43,933
Total long-term liabilities	\$ 9,959,207	\$ 2,586,548	\$ 2,114,809	\$ 10,430,946	\$ 2,413,905

8. Revenue bonds payable

Revenue bonds payable activity for the year ended June 30, 2007, is as follows:

UNIVERSITY:

Series	Annual Maturity To	Beginning Balance	Accretion/ New Debt	Principal Paid/Debt Refunded	Ending Balance	Current Portion
1993A	2018	\$ 18,971,290	\$ 1,178,893	\$ -	\$ 20,150,183	\$ -
1996A	2007	2,555,000	-	2,555,000	-	-
1997A	2009	1,730,000	-	550,000	1,180,000	575,000
1997A	2018	25,942,638	1,402,381	2,775,000	24,570,019	2,875,000
1999A	2029	29,671,190	1,647,858	370,000	30,949,048	370,000
2000A	2010	1,150,000	-	265,000	885,000	280,000
2001A	2017	13,140,000	-	1,770,000	11,370,000	1,845,000
2003A	2029	16,355,000	-	320,000	16,035,000	2,645,000
2004A	2035	40,330,000	-	820,000	39,510,000	840,000
2005	2026	20,885,000	-	620,000	20,265,000	660,000
2006A	2036	69,715,000	-	875,000	68,840,000	1,725,000
		\$ 240,445,118	\$ 4,229,132	\$ 10,920,000	233,754,250	11,815,000
Unamortized debt premium					5,195,619	249,708
Unamortized loss on refunding					(2,280,887)	(248,208)
Total					\$ 236,668,982	\$ 11,816,500

UNIVERSITY RELATED ORGANIZATIONS:

	Annual Maturity To	Beginning Balance	New Debt	Principal Paid/Debt Refunded	Ending Balance	Current Portion
SIUE Fdn.	2008	\$ 1,650,000	-	-	\$ 1,650,000	\$ 1,650,000

8. Revenue bonds payable (continued)

University revenue bonds payable:

The Housing and Auxiliary Facilities System Bonds, Series 1993A were authorized by the University's Board under the Third Supplemental Bond Resolution dated May 13, 1993. The bonds mature at varying amounts from 2011 to 2018 and pay no current interest. 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 matured in 2007.

The Housing and Auxiliary System Bonds, Series 1997A were authorized by the Board under the Fifth Supplemental Bond Resolution dated July 10, 1997. The bonds were issued as current interest and capital appreciation bonds. The current interest bonds mature at varying amounts from 1998 to 2009 with interest 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 2010. 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 2017. Interest payments are due semi-annually.

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.

The Medical Facilities System Bonds, Series 2005 were authorized by the board on October 13, 2005. The bonds mature at varying amounts from 2006 to 2026. Interest payments are due semi-annually.

The Housing and Auxiliary Facilities System Bonds, Series 2006A were authorized by the University's Board under the Eleventh Supplemental Bond Resolution dated May 2, 2006. The bonds mature at varying amounts from 2007 to 2036. Interest payments are due semi-annually.

Housing and Auxiliary Facilities System: 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 from and secured by a pledge of and lien on (i) the net revenues of the System, (ii) pledged tuition in an amount not to exceed maximum annual debt service (subject to prior payment of operating and maintenance expenses of the System), (iii) the Bond and Interest Sinking Fund account, and (iv) the Repair and Replacement Reserve account. Unrefunded bonds issued in 2001 and prior are additionally secured by the Debt Service Reserve.

The bond resolution requires that debt service coverage on a cash basis be at least 120 percent of the maximum annual debt service. For the year ended June 30, 2007, the debt service reserve requirement was \$18,103,756 and the coverage was 204 percent. The bond resolution also requires the Treasurer to transfer annually to Renewals and Replacements from the funds remaining in unrestricted net assets the sum of 10 percent of the maximum annual net debt service requirement or such portion thereof as is available for transfer. The net assets of Renewals and Replacements were \$11,771,538 at June 30, 2007.

8. Revenue bonds payable (continued)

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, 2007, \$860,000 of the bonds refunded in 1978 and \$12,090,000 of the bonds refunded in 2006 were outstanding. The market values of the related escrow funds were \$1,075,562 and \$12,811,246, respectively.

Medical Facilities System: 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 from and secured by a pledge of and lien on (i) the net revenues of the System, (ii) pledged tuition (subject to the prior payment of necessary operating and maintenance expenses of the Housing and Auxiliary Facilities System, debt service of the Housing and Auxiliary Facilities System not to exceed the maximum annual debt service, and then necessary operating and maintenance expenses of the System), and (iii) the Bond and Interest Sinking Fund account.

The bond resolution requires that debt service coverage on the cash basis (net revenues plus pledged tuition) be at least 200 percent of annual debt service and that net revenues shall be at least 100 percent of the annual debt service requirement in each fiscal year. For the year ended June 30, 2007, the debt service reserve requirement was \$1,985,750 and the coverage was 3,655 percent. The bond resolution also 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 percent of the maximum annual debt service, or such portion thereof as is available for transfer and deposit annually, for a repair and replacement reserve. The net assets of Renewals and Replacements were \$1,178,269 at June 30, 2007.

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 of \$84,769 is payable in fiscal year 2008. As of June 30, 2007, 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, 2007, are:

UNIVERSITY:

	<u>Principal Payments</u>	<u>Interest Payments</u>
2008	\$ 11,815,000	\$ 7,516,718
2009	12,310,000	7,170,399
2010	12,680,000	6,821,298
2011	13,255,000	6,460,487
2012	13,490,000	6,176,374
2013-17	69,510,000	26,337,709
2018-22	63,620,000	18,370,344
2023-27	51,595,000	11,499,125
2028-32	31,350,000	6,450,329
2033-35	14,710,000	1,738,750
Total payments	294,335,000	\$ 98,541,533
Unaccreted appreciation	(60,580,750)	
Subtotal	233,754,250	
Unamortized premiums on bonds	5,195,619	
Unamortized deferred loss on refunding	(2,280,887)	
Total bonds payable	<u>\$ 236,668,982</u>	

UNIVERSITY RELATED ORGANIZATIONS:

	<u>Principal Payments</u>	<u>Interest Payments</u>
2008	\$ 1,650,000	\$ 84,769
Total bonds payable	<u>\$ 1,650,000</u>	<u>\$ 84,769</u>

9. Capitalized leases

The University has entered into lease purchase contracts for certain items of equipment. Minimum lease payments under capital leases together with the present value of the net minimum lease payments are:

<u>UNIVERSITY:</u>	
<u>Year Ending</u>	
2008	\$ 1,180,441
2009	1,137,458
2010	878,149
2011	122,104
2012	4,064
Total minimum lease payments	3,322,216
Less amount representing interest	(206,976)
Present value of net minimum lease payments	<u>\$ 3,115,240</u>

Assets held under capital lease are:

<u>UNIVERSITY:</u>	
Buildings	\$ 3,240,000
Equipment	1,736,245
Subtotal	4,976,245
Less accumulated depreciation	(1,345,905)
Total net assets	<u>\$ 3,630,340</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 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 \$13,193,355 in 2007.

10. Notes and certificates of participation payable

(A) University notes 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%. During 2007 the note was paid in full.

(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, 2007, the mortgage note was outstanding in the amount of \$254,566.

(D) 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

10. Notes and certificates of participation payable (continued)

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, 2007, these certificates were outstanding in the amount of \$28,182,641.

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, 2007, these certificates were outstanding in the amount of \$2,694,215.

Annual aggregate principal and interest payments required for years subsequent to June 30, 2007, are:

UNIVERSITY:

	<u>Certificates of Participation</u>	
	<u>Principal</u>	<u>Interest</u>
2008	\$ 2,590,000	\$ 1,304,097
2009	2,670,000	1,217,090
2010	2,770,000	1,121,140
2011	2,875,000	1,015,410
2012	2,105,000	898,843
2013-17	7,340,000	3,381,753
2018-22	6,410,000	2,000,000
2023-24	4,190,000	345,500
Total payments	30,950,000	\$ 11,283,833
Unamortized premiums (discounts) on COPS	(73,144)	
Total payable	\$ 30,876,856	

UNIVERSITY RELATED ORGANIZATIONS:

	<u>Notes Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2008	\$ 166,472	\$ 5,361
2009	88,094	797
	\$ 254,566	\$ 6,158

11. Accrued self insurance

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

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

The 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.

11. Accrued self insurance (continued)

As of June 30, 2007, the accrual for self-insurance was \$9,689,796 for the general and professional liability fund and \$3,009,564 for the Student Medical Insurance Plan, for a total accrued liability for self-insurance of \$12,699,360. 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, 2007, are reflected below:

	Total	General and Professional	Student Plan
Accrued liability, June 30, 2006	\$ 14,520,503	\$ 10,574,664	\$ 3,945,839
Current year claims and other changes	4,912,223	1,205,932	3,706,291
Payment of Claims	(6,733,366)	(2,090,800)	(4,642,566)
Accrued liability, June 30, 2007	<u>\$ 12,699,360</u>	<u>\$ 9,689,796</u>	<u>\$ 3,009,564</u>

12. Net Assets

Net asset balances by major categories at June 30, 2007:

UNIVERSITY:	
Invested in capital assets, net of related debt	\$ 330,124,020
Restricted for:	
Nonexpendable	4,058,461
Expendable	
Quasi-endowment	267,822
Scholarships, research, instruction and other	10,296,286
Loans	4,546,304
Self insurance	4,579,138
Capital projects	19,182,536
Debt service	18,978,104
Unrestricted	<u>34,104,765</u>
Total	<u>\$ 426,137,436</u>
UNIVERSITY RELATED ORGANIZATIONS:	
Invested in capital assets, net of related debt	\$ 3,282,462
Restricted for:	
Nonexpendable	79,997,422
Expendable	
Scholarships, research, instruction and other	70,667,843
Loans	922,843
Capital projects	1,445,570
Debt service	1,650,000
Unrestricted	<u>43,947,218</u>
Total	<u>\$ 201,913,358</u>

13. Donor-restricted endowments

The University entered into an agreement with the Southern Illinois University Foundation at Carbondale on July 1, 2003, in which the University transferred Endowment funds to the Foundation. The Foundation has agreed to hold and administer these funds as agency funds based upon and consistent with the desires of the donor and/or the University. During fiscal year 2007, an additional \$645,585 was deposited with the Foundation, resulting in a balance of \$2,243,736 held by the Foundation at June 30, 2007. The Foundation distributes earnings to the University on a quarterly basis. Payments during fiscal year 2007 totaled \$66,396.

14. State Universities Retirement System

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

Plan members are required to contribute 8% of their annual covered salary, and substantially all employer contributions are made by the State of Illinois on behalf of the individual employers at an actuarially determined rate. The current rate is 10.61% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the Illinois General Assembly. The employer contribution to SURS for the years ended June 30, 2007, 2006, and 2005 were \$27,308,064, \$19,113,578, and \$29,244,806, respectively, equal to the required contributions for the year. The fiscal year 2007 contribution consisted of \$24,542,387 from State appropriations and \$2,765,677 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.

15. 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.

16. Transactions with related parties

The University has entered into master contracts with the University Related Organizations which specify the relationship between the University and its related organizations in accordance with the Legislative Audit Commission's University Guidelines of 1982 as amended in 1997. Significant transactions for the University during fiscal year 2007 included the receipt of \$33,893,655 from SIU Physicians & Surgeons, inc. (SIU P&S) for services provided by the University. Also, SIU P&S contributed \$7,972,659 to the University for Academic Development for the School of Medicine. Additional information concerning transactions with related parties may be obtained by contacting those entities listed in Note 1 on page 14.

17. Commitments and contingencies

Grants and contracts

The University receives monies from federal and state government agencies under grants and contracts for research and other activities, including medical service reimbursements. 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.

18. 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 8, Revenue bonds payable.

	Housing and Auxiliary Facilities System	Medical Facilities System
CONDENSED STATEMENTS OF NET ASSETS		
June 30, 2007		
Assets:		
Current assets	\$ 54,919,546	\$ 14,671,002
Capital assets, net	173,168,290	23,642,967
Other assets	<u>8,845,300</u>	<u>446,828</u>
Total Assets	236,933,136	38,760,797
Liabilities:		
Current liabilities	22,455,903	1,531,606
Noncurrent liabilities	<u>207,759,599</u>	<u>21,491,515</u>
Total Liabilities	230,215,502	23,023,121
Net Assets (Deficit)		
Invested in capital assets, net of related debt	(31,336,049)	10,732,211
Restricted - expendable	28,569,689	1,950,831
Unrestricted	<u>9,483,994</u>	<u>3,054,634</u>
Total Net Assets	<u>\$ 6,717,634</u>	<u>\$ 15,737,676</u>
CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS		
Year ended June 30, 2007		
Operating revenues	\$ 80,213,392	\$ 34,012,671
Operating expenses	71,931,951	39,861,599
Depreciation expense	<u>6,307,855</u>	<u>596,976</u>
Operating gain (loss)	<u>1,973,586</u>	<u>(6,445,904)</u>
Nonoperating revenues and expenses - net	<u>2,739,135</u>	<u>7,622,702</u>
Gain before other revenues, expenses, gains or losses	4,712,721	1,176,798
Other revenues, expenses, gains or losses - net	<u>58,911</u>	<u>7,935,821</u>
Increase in net assets	4,771,632	9,112,619
Net assets at beginning of year	1,946,002	6,625,057
Net assets at end of year	<u>\$ 6,717,634</u>	<u>\$ 15,737,676</u>
CONDENSED STATEMENTS OF CASH FLOWS		
Year ended June 30, 2007		
Cash provided by (used in):		
Operating activities	\$ 16,174,022	\$ 5,147,623
Noncapital financing activities	1,103,988	-
Capital financing activities	(72,985,043)	(3,120,161)
Investing activities	<u>40,067,592</u>	<u>7,300,493</u>
Net increase (decrease) in cash	(15,639,441)	9,327,955
Cash, beginning of year	<u>48,793,552</u>	<u>2,611,666</u>
Cash, end of year	<u>\$ 33,154,111</u>	<u>\$ 11,939,621</u>

19. 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
CONDENSED STATEMENTS OF NET ASSETS								
JUNE 30, 2007								
Assets:								
Current assets	\$ 29,827,540	\$ 9,404,409	\$ 35,403,765	\$ 918,656	\$ 223,407	\$ 158,802	\$ 522,157	\$ 76,458,736
Noncurrent assets	108,793,745	26,815,090	1,228,427	5,711,566	162,492	266,481	1,599,529	144,577,330
Total Assets	138,621,285	36,219,499	36,632,192	6,630,222	385,899	425,283	2,121,686	221,036,066
Liabilities:								
Current liabilities	947,384	1,884,635	7,317,760	729,052	125,811	6,926	94,099	11,105,667
Noncurrent liabilities	5,995,551	470,499	-	1,416,231	-	28,731	106,029	8,017,041
Total Liabilities	6,942,935	2,355,134	7,317,760	2,145,283	125,811	35,657	200,128	19,122,708
Net Assets:								
Invested in capital assets, net of related debt	34,438	400,564	976,939	4,511	-	266,481	1,599,529	3,282,462
Restricted - nonexpendable	63,401,710	16,595,712	-	-	-	-	-	79,997,422
Restricted - expendable	59,162,168	15,524,088	-	-	-	-	-	74,686,256
Unrestricted	9,080,034	1,344,001	28,337,493	4,480,428	260,088	123,145	322,029	43,947,218
Total Net Assets	\$ 131,678,350	\$ 33,864,365	\$ 29,314,432	\$ 4,484,939	\$ 260,088	\$ 389,626	\$ 1,921,558	\$ 201,913,358

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Year ended June 30, 2007

Operating revenues	\$ 4,268,320	\$ 1,070,360	\$ 77,146,826	\$ 2,002,998	\$ 291,082	\$ 256,866	\$ 416,690	\$ 85,453,142
Operating expenses	28,226,151	3,484,375	79,737,734	1,837,120	326,553	249,097	422,516	114,283,546
Operating income (loss)	(23,957,831)	(2,414,015)	(2,590,908)	165,878	(35,471)	7,769	(5,826)	(28,830,404)
Nonoperating revenues and expenses - net	37,030,378	5,607,757	676,547	796,956	35,015	21,628	(9,246)	44,159,035
Income before other revenues	13,072,547	3,193,742	(1,914,361)	962,834	(456)	29,397	(15,072)	15,328,631
Other revenues	4,534,120	841,205	-	-	-	-	-	5,375,325
Increase in net assets	17,606,667	4,034,947	(1,914,361)	962,834	(456)	29,397	(15,072)	20,703,956
Net assets at beginning of year	114,071,683	29,829,418	31,228,793	3,522,105	260,544	360,229	1,936,630	181,209,402
Net assets at end of year	\$ 131,678,350	\$ 33,864,365	\$ 29,314,432	\$ 4,484,939	\$ 260,088	\$ 389,626	\$ 1,921,558	\$ 201,913,358

CONDENSED STATEMENTS OF CASH FLOWS

Year ended June 30, 2007

Cash provided by (used in):								
Operating activities	\$ (8,497,507)	\$ (1,817,836)	\$ (83,408)	\$ 310,823	\$ 2,702	\$ (40,523)	\$ 37,601	\$ (10,088,148)
Noncapital financing activities	9,585,733	2,239,650	96,701	9,742	31	50,000	(46,142)	11,935,715
Capital financing activities	973,804	(75,281)	(410,961)	(1,549)	-	(17,483)	28,178	496,708
Investing activities	(1,833,283)	1,627,237	(172,940)	(319,016)	9,253	2,910	(178,893)	(864,732)
Net increase (decrease) in cash	228,747	1,973,770	(570,608)	-	11,986	(5,096)	(159,256)	1,479,543
Cash, beginning of year	174,825	1,674,448	2,135,872	-	207,140	60,358	655,756	4,908,399
Cash, end of year	\$ 403,572	\$ 3,648,218	\$ 1,565,264	\$ -	\$ 219,126	\$ 55,262	\$ 496,500	\$ 6,387,942

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Report on Internal Control Over Financial Reporting 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 (the "University") as of and for the year ended June 30, 2007, and have issued our report thereon dated February 28, 2008. 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 University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University'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 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*.

However, we also conducted a State compliance examination of the agency as required by the Illinois State Auditing Act. The results of that examination are reported to management under separate cover.

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, University management, and federal awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.


Crowe Chizek and Company LLC

Oak Brook, Illinois
February 28, 2008



Crowe Chizek and Company LLC
Member Horwath International

STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY
HOUSING AND AUXILIARY FACILITIES SYSTEM

Report of the Treasurer
For the Year Ended June 30, 2007

**Southern Illinois University
Board of Trustees and
Officers of Administration
Fiscal Year 2007**

BOARD OF TRUSTEES OF SOUTHERN ILLINOIS UNIVERSITY

Roger Tedrick, Chair	Mt. Vernon
Ed Hightower, Vice Chair	Edwardsville
John Simmons, Secretary	East Alton
Samuel Goldman	Carbondale
Christine Guerra	Carbondale
Jesse Phelps	Edwardsville
Keith Sanders	Spring Grove
Stephen Wigginton	Belleville
Marquita Wiley	Belleville

OFFICERS OF SOUTHERN ILLINOIS UNIVERSITY

Glenn Poshard, President
Misty Whittington, Executive Secretary of the Board
Jerry Blakemore, General Counsel
John S. Haller, Jr., Vice President, Academic Affairs
Duane Stucky, Vice President, Financial and Administrative Affairs
and Board Treasurer

OFFICERS OF ADMINISTRATION, SOUTHERN ILLINOIS UNIVERSITY CARBONDALE

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Don S. Rice, Interim Provost and Vice Chancellor
Rickey N. McCurry, Vice Chancellor for Institutional Advancement
Larry H. Dietz, Vice Chancellor for Student Affairs
John A. Koropchak, Vice Chancellor for Research and Graduate Dean
Kevin D. Bame, Executive Director of Finance
Catherine A. Hagler, Executive Director of Administration
J. Kevin Dorsey, Dean and Provost, School of Medicine

OFFICERS OF ADMINISTRATION, SOUTHERN ILLINOIS UNIVERSITY EDWARDSVILLE

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Paul W. Ferguson, Provost and Vice Chancellor for Academic Affairs
Kenneth Neher, Vice Chancellor for Administration
Narbeth Emmanuel, Vice Chancellor for Student Affairs
Gary A. Giamartino, Interim Vice Chancellor for University Relations

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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 28, 2007

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, 2007.

Southern Illinois University did not issue revenue bonds in FY 2007, but two significant facilities were completed. A 400-bed, apartment-style, residence hall on the Carbondale campus and a 515-bed residence hall on the Edwardsville campus both opened Fall 2007.

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

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

Respectfully submitted,

Duane Stucky
Board Treasurer

DS/lap

TREASURER'S COMMENTS

SOUTHERN ILLINOIS UNIVERSITY HOUSING AND AUXILIARY FACILITIES SYSTEM

I. SOUTHERN ILLINOIS UNIVERSITY REVENUE BOND OPERATIONS

FACILITIES

The facilities included in the Southern Illinois University Housing and Auxiliary Facilities System (the "System") were acquired in nine phases. The first phase coincided with the creation of the System and the Advance Refunding of 1978 which consolidated the facilities, the operations and the debt of five separate bond indentures, into one entity, the System. These facilities include residence halls and apartment complexes on the Carbondale and Edwardsville campuses which provide student housing; the student unions known as the Student Center at Carbondale and the University Center at Edwardsville; four buildings leased to national organizations of fraternities and sororities for student housing; two buildings which are designated as housing for 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, an apartment complex and office space of 29,100 net square feet for academic, administrative and student service purposes; a student recreation center (including an existing facility and a fitness center addition) at Carbondale; a fitness center addition at Edwardsville; and a child care center.

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

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

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

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

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

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

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

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. Additional debt related to the System facilities has been advance refunded either partially or in full, without extending the final maturity date, in 2006. The refundings have been undertaken by the Board of Trustees (the "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, 209 South LaSalle Street, Chicago, Illinois; while the Advance Refunding of 2006 is held in trust by the LaSalle Bank N.A., 135 South LaSalle Street, Chicago, Illinois. The principal amounts outstanding as of June 30, 2007, relating to the advance refundings, are as follows:

TREASURER'S COMMENTS – Continued

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

\$ 860,000

\$ 860,000

ADVANCE REFUNDING OF 2006:

Housing and Auxiliary Facilities System Revenue Bonds of 1997, 2000 and 2001 – Final Maturity April 1, 2012

\$ 12,090,000

\$ 12,090,000

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. ENROLLMENTS AT SOUTHERN ILLINOIS UNIVERSITY

The University reports the following enrollments, by campus:

	Head Count*	Full-Time Equivalency**
Carbondale Campus (semester basis)		
Fall semester 2006	21,003	17,430
Fall semester 2005	21,441	17,812
Edwardsville Campus (semester basis)		
Fall semester 2006	13,449	11,205
Fall semester 2005	13,460	10,964

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

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

III. HISTORICAL OCCUPANCY OF SYSTEM FACILITIES

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

	Range of Occupancy Charges for 2007	Occupancy Rates				
		2007	2006	2005	2004	2003
Southern Hills Apartments (C)						
271 Apartments	\$5,256 - \$6,060	88.4%	89.9%	86.9%	87.3%	86.0%
Greek Row (C)						
67 Persons*	\$5,810 - \$8,084	70.1%	81.0%	52.1%	72.6%	69.3%
Thompson Point (C)						
1,187 Persons	\$6,116 - \$8,084	94.9%	94.3%	92.9%	95.4%	93.8%
Towers (C)**						
2,171 persons	\$6,116 - \$8,732	88.0%	93.2%	-- --	-- --	-- --
Triads (C)**						
985 persons	\$6,116 - \$8,084	35.7%	69.4%	-- --	-- --	-- --
East Campus (C)**						
University Hall (C)		-- --	-- --	85.9%	91.3%	89.4%
359 persons	\$6,116 - \$8,084	78.0%	81.4%	76.0%	-- --	-- --
Wall & Grand (C)***						
142 persons (Bldg I)	\$2,550 - \$3,100	90.7%	-- --	-- --	-- --	-- --
Cougar Village (E)						
496 Apartments	\$8,150 - \$13,160	95.8%	94.2%	94.8%	96.0%	94.2%
Woodland Hall (E)						
257 Rooms	\$7,940 - \$7,940	97.9%	98.1%	97.2%	98.2%	94.8%
Prairie Hall (E)						
260 Rooms	\$7,940 - \$7,940	97.3%	98.7%	97.9%	97.3%	98.2%
Bluff Hall (E)						
260 Rooms	\$7,940 - \$7,940	96.7%	99.0%	97.5%	97.9%	96.3%

(C) Carbondale Campus, (E) Edwardsville Campus

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

**East Campus is reported as Towers and Triads by University Housing beginning in 2006.

***Wall & Grand Building I opened for occupancy Spring 2007.

TREASURER'S COMMENTS – Continued

IV. DEBT SERVICE COVERAGES

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

	Year ended June 30,	
	2007	2006
Receipts:		
Revenue Account:		
Operating Receipts	\$ 77,435,746	\$ 73,690,804
Revenue Bond Fees	1,407,750	1,964,979
Retirement of Indebtedness – Investment Income	662,631	642,783
Total Receipts	79,506,127	76,298,566
Disbursements:		
Operation and Maintenance Account	60,725,537	59,488,747
Net Revenues	18,780,590	16,809,819
Plus: Pledged Retained Tuition	18,103,756	18,103,756
Total Available for Debt Service	\$ 36,884,346	\$ 34,913,575
Maximum Annual Debt Service	\$ 18,103,756	\$ 18,103,756
Coverage Ratio Based on Net Revenues	104%	93%
Coverage Ratio as Defined in the Bond Resolution	204%	193%

V. RETIREMENT OF INDEBTEDNESS

The net assets are restricted for the following purposes:

	June 30,	
	2007	2006
Bond and Interest Sinking Fund Account	\$ 6,458,003	\$ 6,834,600
Debt Service Reserve Account	9,066,125	9,233,397
	\$ 15,524,128	\$ 16,067,997

VI. RENEWALS AND REPLACEMENTS

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

Additions during the year included transfers from unrestricted net assets of \$4,796,647 (\$5,184,475 in 2006) and investment income (loss) of \$400,427 in 2007 and \$198,805 in 2006. Expenditures charged to the reserve amounted to \$2,033,185 in 2007 and \$2,787,876 in 2006. The net assets of Renewals and Replacements consisted of the following:

	June 30,	
	2007	2006
Pooled Cash and Investments	\$ 12,123,016	\$ 9,094,373
Accrued Interest Receivable	31,762	27,312
Accounts Payable	(383,240)	(514,036)
	\$ 11,771,538	\$ 8,607,649

VII. SCHEDULE OF BONDS PAYABLE OUTSTANDING

A Schedule of Bonds Payable Outstanding is shown as supplementary information and lists the amount of Housing and Auxiliary Facilities System Revenue Project and Refunding Bonds and Revenue Bonds Series 2006A, 2004A, 2003A, 2001A, 2000A, 1999A, 1997A and 1993A issued and outstanding as of June 30, 2007.

VIII. RESTRICTED NET ASSETS – EXPENDABLE

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

	2007	2006
Retirement of indebtedness	\$ 15,524,128	\$ 16,067,997
Renewals and replacements	11,771,538	8,607,649
Unexpended	1,274,023	1,673,613
	\$ 28,569,689	\$ 26,349,259

FINANCIAL STATEMENTS

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Crowe Chizek and Company LLC
Member Horwath International

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, as listed in the table of contents, of Southern Illinois University Housing and Auxiliary Facilities System ("the System") as of and for the year ended June 30, 2007. 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 2006 financial statements and, in a report dated November 10, 2006 an unqualified opinion was expressed 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 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, 2007, and the changes in financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the System as of June 30, 2007, and the changes in financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2008, 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 of the System. 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 2006A, Revenue Bonds Series 2004A, Revenue Bonds Series 2003A, Revenue Bonds Series 2001A, Revenue Bonds Series 2000A, Revenue Bonds Series 1999A, Revenue Bonds 1997A, Revenue Refunding Bonds Series 1996A, and Revenue Bonds Series 1993A adopted May 24, 2006, 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, the System's management, and the bondholders and is not intended to be and should not be used by anyone other than these specified parties.


Crowe Chizek and Company LLC

Oak Brook, Illinois
February 28, 2008

SOUTHERN ILLINOIS UNIVERSITY
HOUSING AND AUXILIARY FACILITIES SYSTEM
STATEMENT OF NET ASSETS
June 30, 2007
(with comparative totals for 2006)

	2007	2006
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 33,154,111	\$ 48,793,552
Short term investments	18,116,186	43,022,799
Accounts receivable, net	1,958,430	2,119,164
Accrued interest receivable	429,682	650,458
Merchandise for resale	1,042,663	1,164,514
Prepaid expenses and other assets	218,474	232,978
TOTAL CURRENT ASSETS	54,919,546	95,983,465
NONCURRENT ASSETS:		
Long term investments	6,039,078	16,427,299
Prepaid expenses and other assets	2,806,222	2,975,585
Capital assets, not depreciated:		
Land	605,395	605,395
Construction in progress	48,254,322	27,694,906
Capital assets, net of depreciation:		
Buildings	118,619,701	94,636,860
Improvements	3,508,887	3,777,331
Equipment	2,179,985	793,102
TOTAL NONCURRENT ASSETS	182,013,590	146,910,478
TOTAL ASSETS	236,933,136	242,893,943
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	5,670,675	10,675,120
Accrued interest payable	1,639,627	1,466,285
Accrued payroll	386,888	274,990
Accrued compensated absences	157,552	143,424
Housing deposits	120,589	117,180
Deferred revenue	3,339,415	3,359,551
Revenue bonds payable	11,141,157	10,283,966
TOTAL CURRENT LIABILITIES	22,455,903	26,320,516
NONCURRENT LIABILITIES:		
Accrued compensated absences	1,993,267	1,953,234
Housing deposits	147,386	143,220
Revenue bonds payable	205,618,946	212,530,971
TOTAL NONCURRENT LIABILITIES	207,759,599	214,627,425
TOTAL LIABILITIES	230,215,502	240,947,941
NET ASSETS (DEFICIT)		
Invested in capital assets, net of related debt	(31,336,049)	(32,956,373)
Restricted for:		
Expendable		
Capital projects and debt service	28,569,689	26,349,259
Unrestricted	9,483,994	8,553,116
TOTAL NET ASSETS	\$ 6,717,634	\$ 1,946,002

The accompanying notes are an integral part of this statement.

SOUTHERN ILLINOIS UNIVERSITY
HOUSING AND AUXILIARY FACILITIES SYSTEM
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Year Ended June 30, 2007
(with comparative totals for 2006)

	2007	2006
REVENUES		
OPERATING REVENUES:		
Residence halls and apartments	\$ 41,409,650	\$ 40,068,687
University student centers		
Sales and services	12,293,984	11,865,048
Student fees	7,216,728	6,842,475
Student recreation and fitness centers		
Sales and services	1,129,117	1,025,283
Student fees	4,917,778	4,657,030
Child care center	866,734	712,300
Student health center	8,338,915	7,116,213
Traffic and parking	2,163,486	2,145,331
Revenue bond fees	1,877,000	1,964,979
TOTAL OPERATING REVENUES	80,213,392	76,397,346
EXPENSES		
OPERATING EXPENSES:		
Salaries and wages	34,570,753	33,077,074
Merchandise for resale	8,019,377	8,266,747
Utilities	7,715,157	7,525,381
Maintenance and repairs	8,976,878	8,904,073
Administrative	7,619,063	7,742,577
Other	5,030,723	3,990,221
Depreciation	6,307,855	5,896,839
TOTAL OPERATING EXPENSES	78,239,806	75,402,912
OPERATING INCOME	1,973,586	994,434
NONOPERATING REVENUES (EXPENSES)		
Investment income	4,551,982	2,457,428
Gifts for other than capital purposes	6,853	4,152
Payments on-behalf of the system	8,042,784	7,393,717
Interest on capital asset-related debt	(6,764,421)	(5,060,794)
Accretion on bonds payable	(4,229,132)	(4,149,398)
Other nonoperating revenue	1,131,069	1,695,451
NET NONOPERATING REVENUES	2,739,135	2,340,556
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES	4,712,721	3,334,990
OTHER REVENUES, EXPENSES, GAINS OR LOSSES		
Capital assets retired	(5,873)	(16,924)
Capital grants and gifts	20,363	-
Additions to plant facilities from other sources	44,421	871,450
TOTAL OTHER REVENUES, EXPENSES, GAINS OR LOSSES	58,911	854,526
INCREASE IN NET ASSETS	4,771,632	4,189,516
NET ASSETS (DEFICIT)		
Net assets (deficit) at beginning of year	1,946,002	(2,243,514)
NET ASSETS AT END OF YEAR	\$ 6,717,634	\$ 1,946,002

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, 2007
(with comparative totals for 2006)

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Residence halls and apartments	\$ 39,827,324	\$ 38,685,065
University student centers		
Sales and services	12,488,931	11,976,203
Student fees	7,217,553	6,742,054
Student recreation and fitness centers		
Sales and services	1,045,023	1,082,517
Student fees	4,909,537	4,587,883
Child care center	850,602	710,121
Student health center	7,975,534	7,164,844
Traffic and parking	2,177,867	2,145,885
Revenue bond fees	1,407,750	1,964,979
Payments to employees	(24,381,336)	(24,080,667)
Payments for utilities	(7,401,151)	(7,191,622)
Payments to suppliers	(29,943,612)	(28,984,791)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>16,174,022</u>	<u>14,802,471</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Gifts for other than capital purposes	6,918	3,967
Other nonoperating revenue	1,097,070	1,511,599
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>1,103,988</u>	<u>1,515,566</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Purchases of capital assets	(56,136,529)	(20,872,957)
Principal paid on capital debt	(10,300,000)	(8,330,000)
Interest paid on capital debt	(6,548,514)	(5,104,875)
Principal paid on internal loan	- ----	(35,015)
Interest paid on internal loan	- ----	(46,534)
Retained bond proceeds	- ----	72,870,475
Deposit to bond escrow account	- ----	(15,177,864)
NET CASH PROVIDED BY (USED IN) CAPITAL FINANCING ACTIVITIES	<u>(72,985,043)</u>	<u>23,303,230</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	62,369,230	45,733,598
Investment income	4,461,552	2,294,039
Purchase of investments	(26,763,190)	(62,530,856)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>40,067,592</u>	<u>(14,503,219)</u>
NET INCREASE (DECREASE) IN CASH	<u>(15,639,441)</u>	<u>25,118,048</u>
CASH AND CASH EQUIVALENTS - BEGINNING OF THE YEAR	<u>48,793,552</u>	<u>23,675,504</u>
CASH AND CASH EQUIVALENTS - END OF THE YEAR	<u>\$ 33,154,111</u>	<u>\$ 48,793,552</u>
RECONCILIATION OF OPERATING INCOME		
TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 1,973,586	\$ 994,434
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	6,307,855	5,896,839
Payments on-behalf of the system	8,042,784	7,393,717
Change in assets and liabilities:		
Receivables, net	(178,065)	53,287
Merchandise for resale	121,851	(42,616)
Prepaid expenses and other assets	(14,318)	(7,525)
Accounts payable	(233,169)	597,984
Accrued payroll	111,898	(264,806)
Accrued compensated absences	54,161	69,314
Housing deposits	7,575	13,200
Deferred revenue	(20,136)	98,643
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 16,174,022</u>	<u>\$ 14,802,471</u>
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Payments on-behalf of the system	\$ 8,042,784	\$ 7,393,717
Capital assets in accounts payable	4,272,182	8,829,236
Accretion on bonds payable	4,229,132	4,149,398
Gifts in kind	20,363	- ----
Other capital asset adjustments	33,998	9,340
Loss on disposal of capital assets	5,873	2,509

The accompanying notes are an integral part of this statement.

**SOUTHERN ILLINOIS UNIVERSITY
HOUSING AND AUXILIARY FACILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2007**

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, the Carbondale student health center, and the Carbondale student information system into one operation. The Revenue Project Bonds of 2006A, 2004A, 2003A, 2001A, 2000A, 1999A, 1997A and 1993A (the "Bonds") are secured in part by the revenues from these operations. The financial statements reflect the combined operations of the System as of and for the year ended June 30, 2007. The individual facilities included in the System are as follows:

Carbondale Campus	Edwardsville Campus
Southern Hills Apartments	University Center
Greek Row	Cougar Village
Thompson Point	Student Fitness Center
Towers	Woodland Hall
Triads	Prairie Hall
University Hall	Traffic and Parking
Northwest Annex	Bluff Hall
Student Center	Evergreen Hall
Student Recreation Center	
Child Care Center	
Football Stadium Turf	
Softball Field	
Student Health Center	
Wall and Grand Apartments	
Student Information System	

These financial statements have been prepared to satisfy the requirements of the System's Revenue Bonds master indenture. The financial balances and activities of the System, included in these financial statements, are included in the University's financial statements. The 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 2006 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, 2006.

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

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

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

(B) Merchandise For Resale

Merchandise for resale includes inventories which are stated at the lower of cost (first-in, first-out) method or market. The Student Center University Bookstore on the Carbondale campus has been leased to Follett Higher Education Group Inc. since May 8, 2001.

**SOUTHERN ILLINOIS UNIVERSITY
HOUSING AND AUXILIARY FACILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2007**

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

(E) Cash and Cash Equivalents

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

(F) Investments

Investments are 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) Allowance for Uncollectibles

The System provides allowances for uncollectible accounts based upon management's best estimate of uncollectible accounts at the statement of net assets date, considering type, age, collection history of receivables, and any other factors as considered appropriate. The System's accounts receivable balance is reported net of allowances of \$3,080,101 at June 30, 2007.

(H) Revenue Bond Fee

Transfers from other University funds of the revenue bond fee are based upon the amount budgeted. Fees in the amount of \$50,319 have been collected in excess of the budgetary transfer and are available for future budgetary transfers.

(I) Bond Issuance Costs

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

(J) On-Behalf Payments

In accordance with GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, the System reported on-behalf payments made by agencies of the State of Illinois for health care and retirement. These costs are reflected in an equal amount in both the nonoperating revenues and salaries and wages of the System. On behalf payments for the year ended June 30, 2007 amounted to \$7,722,772 for group insurance, retirement and post-employment benefits, and \$320,012 for social security and medicare.

(K) Classification of Net Assets

Net assets represent the difference between System assets and liabilities and are divided into three major categories. The first category, invested in capital assets, net of related debt, represents the System's equity in property, plant and equipment. The next asset category 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, which consist principally of government securities, are stated at market.

**SOUTHERN ILLINOIS UNIVERSITY
HOUSING AND AUXILIARY FACILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2007**

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, 2007 due to the pooling of the University's cash and investments.

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

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 or rise due to changes in general interest rates. Interest rate risk is mitigated by maintaining significant balances in cash equivalent and other short maturity investments and by establishing an asset allocation policy that is consistent with the expected cash flows of the University. The internally managed portfolio is managed in accordance with covenants provided from the University's debt issuance activities. The externally managed portfolio is typically allocated with 20 to 35 percent of assets held in cash equivalents; 10 to 40 percent of assets held in the short-term portfolio; and 35 to 60 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, 2007, 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	\$ 13,987,385	\$ 7,948,307	\$ 6,039,078	\$ -	\$ -
U.S. Agencies	10,167,879	10,167,879	-	-	-
Total Investments	24,155,264	\$ 18,116,186	\$ 6,039,078	\$ -	\$ -
Cash and Equivalents					
The Illinois Funds	14,028,165				
Cash and Equivalents	19,125,946				
Total Cash & Equivalents	33,154,111				
Total Cash & Investments	\$ 57,309,375				

3. Investments and Investment Income

Southern Illinois University has adopted the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. This statement establishes accounting and reporting standards for certain investments and securities and establishes disclosure requirements for most investments held by governmental entities. It requires that investments be recorded at fair (market) value and that unrealized gains and losses be recorded in income. The fair value is determined to be the amount at which financial instruments could be exchanged in a current transaction between willing parties, usually quoted market prices. The investment with the Public Treasurer's Investment Pool (The Illinois Funds) is at fair value, which is the same value as the pool shares. State statutes require the Illinois Funds to comply with the *Illinois Public Funds Investment Act (30ILCS235)*. 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 2007 and 2006.

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, 2007, is reflected below.

Interest earnings	\$ 4,474,048
Realized loss on investments	(897)
Unrealized gain on investments	78,831
	<u>\$ 4,551,982</u>

**SOUTHERN ILLINOIS UNIVERSITY
HOUSING AND AUXILIARY FACILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2007**

4. Capital Assets

Capital asset activity for the year ended June 30, 2007 was as follows:

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Land	\$ 605,395	\$ -	\$ -	\$ -	\$ 605,395
Buildings	209,145,078	29,959	-	29,569,470	238,744,507
Improvements	7,760,952	3,200	3,200	38,082	7,799,034
Equipment	3,241,199	1,835,530	454,413	12,828	4,635,144
Construction in progress	27,694,906	50,180,690	894	(29,620,380)	48,254,322
Total cost of capital assets	<u>\$ 248,447,530</u>	<u>\$ 52,049,379</u>	<u>\$ 458,507</u>	<u>\$ -</u>	<u>\$ 300,038,402</u>
Less accumulated depreciation for:					
Buildings	\$ 114,508,218	\$ 5,616,588	\$ -	\$ -	\$ 120,124,806
Improvements	3,983,621	306,557	31	-	4,290,147
Equipment	2,448,097	384,710	377,648	-	2,455,159
Total accumulated depreciation	<u>120,939,936</u>	<u>\$ 6,307,855</u>	<u>\$ 377,679</u>	<u>\$ -</u>	<u>\$ 126,870,112</u>
Capital assets – net	<u>\$ 127,507,594</u>				<u>\$ 173,168,290</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, 2007 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Revenue bonds payable	\$ 222,814,937	\$ 4,229,132	\$ 10,283,966	\$ 216,760,103	\$ 11,141,157
Compensated absences	2,096,658	106,760	52,599	2,150,819	157,552
Housing deposits	260,400	195,004	187,429	267,975	120,589
Total long-term liabilities	<u>\$ 225,171,995</u>	<u>\$ 4,530,896</u>	<u>\$ 10,523,994</u>	<u>\$ 219,178,897</u>	<u>\$ 11,419,298</u>

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

6. Revenue Bonds Payable

On March 9, 2006 and amended and restated on May 2, 2006 and November 9, 2006, the Board adopted the "Eleventh 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, the Ninth Supplemental Resolution of December 12, 2002 and the Tenth Supplemental Resolution of October 14, 2004. The outstanding bond issues related to the respective bond resolutions of the System are as follows:

(A) Series 2006A Bonds

These bonds were authorized by the Board under the Eleventh Supplemental Bond Resolution dated March 9, 2006 and amended and restated on May 2, 2006 and November 9, 2006 and were issued as current interest bonds in the original amount of \$69,715,000. The bonds were sold on May 24, 2006 at a premium of \$3,155,475. The bonds were issued for the purpose of refunding a portion of the Series 1997A, 2000A and 2001A current interest bonds; financing the construction of a student residence hall with an adjoining parking lot for the Edwardsville campus; construction of an additional 350 parking lot for the Edwardsville campus; funding various safety/security enhancements and other replacements to, and renovations of, the facilities of the System on the Carbondale campus; and purchasing and implementing a student information system for the Carbondale campus. As of June 30, 2007, these bonds were outstanding in the amount of \$71,126,503.

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(B) Series 2004A Bonds

These bonds were authorized by the Board under the Tenth Supplemental Bond Resolution dated October 14, 2004 and were issued as current interest bonds in the original amount of \$40,390,000. The bonds were sold at a premium of \$1,349,890 on February 25, 2003. The bonds were issued to finance the design and construction of a new apartment-style residence hall, Wall and Grand Apartments, and install automatic sprinkler systems in three existing residence halls on the Carbondale campus; and to finance the costs to modify the HVAC systems and humidity controls in three existing residence halls and remediate damage caused by excess humidity at two of such existing residence halls on the Edwardsville campus. As of June 30, 2007, these bonds were outstanding in the amount of \$40,743,584.

(C) 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 Center building addition on the Carbondale campus and to redeem the Series 1993A outstanding bonds. As of June 30, 2007, these bonds were outstanding in the amount of \$15,817,811.

(D) 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. On March 9, 2006 and amended and restated on May 2, 2006, the Board authorized the advance refunding of a portion of the bonds of the Series 2001A. Bonds in the amount of \$7,850,000 were advance refunded. As of June 30, 2007, the remaining bonds were outstanding in the amount of \$11,312,367.

(E) 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. On March 9, 2006 and amended and restated on May 2, 2006, the Board authorized the advance refunding of a portion of the bonds of the Series 2000A. Bonds in the amount of \$4,240,000 were advance refunded. As of June 30, 2007, the remaining bonds were outstanding in the amount of \$876,710.

(F) 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, 2007, after accreting the capital appreciation, these bonds were outstanding in the amount of \$30,988,339.

(G) 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. On March 9, 2006 and amended and restated on May 2, 2006, the Board authorized the advance refunding of a portion of the current interest bonds of the Series 1997A. Bonds in the amount of \$2,915,000 were advance refunded. As of June 30, 2007, after accreting the capital appreciation, the remaining bonds were outstanding in the amount of \$25,744,606.

(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 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, 2007, after accreting the capital appreciation, the remaining capital appreciation bonds were outstanding in the amount of \$20,150,183.

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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 from and secured by a pledge of and lien on (i) the net revenues of the System, (ii) pledged tuition in an amount not to exceed maximum annual debt service (subject to prior payment of operating and maintenance expenses of the System), (iii) the Bond and Interest Sinking Fund Account, and (iv) the Repair and Replacement Reserve Account. Unrefunded bonds issued in 2001 and prior are additionally secured by the Debt Service Reserve.

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, 2007, the debt service reserve requirement was \$18,103,756 and the coverage was 204%.

The bonds bear interest at rates ranging from 2.60% to 6.20% and are payable in annual principal installments ranging from \$2,480,000 to \$13,320,000 through the year 2036. Most of the bonds are callable prior to their maturity in accordance with the provisions of the bond resolution, including premiums of up to 2%.

Revenue bond debt service requirements to maturity are as follows:

Year Ending June 30,	Principal	Interest
2008	\$ 11,155,000	\$ 6,558,506
2009	11,595,000	6,241,886
2010	11,915,000	5,917,811
2011	12,430,000	5,595,249
2012	12,605,000	5,343,474
2013 – 2017	64,070,000	22,818,597
2018 – 2022	55,970,000	16,377,844
2023 – 2027	48,270,000	11,203,575
2028 – 2032	31,350,000	6,450,329
2033 – 2036	14,710,000	1,738,750
Total Payments	<u>\$ 274,070,000</u>	<u>\$ 88,246,021</u>
Less Unaccrued Appreciation	<u>(60,580,750)</u>	
Total Payable	213,489,250	
Unamortized debt premium	4,524,645	
Unamortized deferred loss on refunding	<u>(1,253,792)</u>	
Total Bonds Payable	<u>\$ 216,760,103</u>	

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, 2007, \$860,000 of the bonds refunded in 1978 and \$12,090,000 of the bonds refunded in 2006 were outstanding. The market values of the related escrow funds were \$1,075,562 and \$12,811,246, 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 (\$200,380 in 2007) 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 2007 include \$44,421 paid for by other University funds.

8. Retirement and Post-Employment Benefits

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

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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 10.61% 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 of SURS for the years ended June 30, 2007, 2006 and 2005 were \$27,308,064, \$19,113,578, and \$29,244,806, respectively, equal to the required contributions for the year.

In addition to providing pension benefits, the State provides certain health, dental and life insurance benefits to annuitants who are former State employees. This includes annuitants of the System. Substantially all State employees, including the System's employees, may become eligible for post-employment benefits if they eventually become annuitants. Health 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.

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-appropriate funds funded by the University.

9. Insurance

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

An insurance package policy purchased under the auspices of the Illinois Public Higher Education Cooperative (IPHEC), through the Midwestern Higher Education Commission (MHEC) program, provides all risk coverage on buildings and contents. The following insurance coverages are in force at the University (including the Systems facilities) through June 30, 2008:

	Approximate Amount
1. Lexington Insurance Company, Policy No. 8756143: Primary policy providing \$100,000,000 all risk coverage on scheduled buildings and other property totaling \$2,188,875,871. Academic and bonded buildings generally have a per occurrence deductible of \$250,000. There is a \$500,000 per occurrence deductible for many of the non-bonded academic buildings. The University has established a self-insurance reserve in amounts to cover the portion of estimated liability between \$25,000 and the per occurrence deductibles notes above. Coverage is the 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 the same deductibles as noted above.	\$100,000,000 per occurrence
1b. Flood coverage included in the Lexington policy listed above is limited to \$100,000,000 and carries the same per occurrence deductible noted above unless the flood involves property located in a FEMA-defined 100-year flood zone which there is then a limit of \$50,000,000 and a deductible of 2% of the total insured value subject to a minimum of \$1,000,000 per occurrence.	\$100,000,000 per occurrence
1c. Earthquake coverage included in the Lexington policy listed above is limited to \$100,000,000 and carries a per occurrence deductible of 1% of total insured value subject to a minimum of \$50,000 per occurrence.	\$100,000,000 per occurrence
2. Lexington Insurance Company, Policy No. 8756153: furnishes the secondary layer of \$400,000,000 excess of the Lexington's \$100,000,000 layer.	\$400,000,000 per occurrence
3. Allianz Global, Policy No. CLP3008491; Lloyds of London, Policy No. DP595207; and CNA, Policy No. 2010728503: furnishes the third layer of coverage, which is \$500,000,000 excess of the secondary layer of \$400,000,000.	\$500,000,000 per occurrence
4. Lloyds of London, Policy No. DP608207: furnishes earthquake coverage in excess of coverage included in the policies listed above, with limits of \$50,000,000 that is shared with the University of Illinois and the University of Missouri.	\$50,000,000 per occurrence
5. Self Insurance: The University, pursuant to the provisions of Illinois Public Act 84-0010, has established a Self-Insurance Program (the "Program") for its traditional liability insurance coverages. Funds have been reserved in amounts to cover the major portion of the estimated liability as determined by the Program's actuary. The University has also purchased excess liability insurance policies to cover certain of its general liability exposures not elsewhere covered.	

10. Contingencies

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

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SUPPLEMENTARY INFORMATION

SOUTHERN ILLINOIS UNIVERSITY
HOUSING AND AUXILIARY FACILITIES SYSTEM
SCHEDULE OF BONDS PAYABLE OUTSTANDING
 June 30, 2007

	TOTAL	REVENUE BONDS		
		Principal Amount	Accreted Value at Maturity	Interest Rate
Interest Bearing Bonds:				
Serial Bonds maturing as follows:				
2008	7,910,000	-	-	-
2009	8,250,000	-	-	-
2010	8,470,000	-	-	-
2011	5,480,000	-	-	-
2012	5,675,000	-	-	-
2013	5,395,000	-	-	-
2014	4,905,000	-	-	-
2015	5,150,000	-	-	-
2016	5,415,000	-	-	-
2017	4,820,000	-	-	-
2018	5,070,000	-	-	-
2019	5,295,000	-	-	-
2020	5,555,000	-	-	-
2021	5,265,000	-	-	-
2022	3,135,000	-	-	-
2023	1,980,000	-	-	-
2024	1,630,000	-	-	-
2025	1,715,000	-	-	-
Term Bonds maturing as follows:				
2023	1,315,000	-	-	-
2024	1,820,000	-	-	-
2025	1,910,000	-	-	-
2026	3,810,000	-	-	-
2027	3,990,000	-	-	-
2028	4,190,000	-	-	-
2029	4,395,000	-	-	-
2030	3,350,000	-	-	-
2031	3,520,000	-	-	-
2032	3,695,000	-	-	-
2033	3,880,000	-	-	-
2034	4,075,000	-	-	-
2035	4,275,000	-	-	-
2036	2,480,000	-	-	-
Total Interest Bearing Bonds	137,820,000			
Capital Appreciation Bonds maturing as follows:				
2008	3,123,390	-	-	-
2009	3,054,552	-	-	-
2010	2,978,533	-	-	-
2011	5,622,050	2,747,292	3,435,000	6.050%
2012	5,291,283	2,584,491	3,430,000	6.050%
2013	5,486,907	2,867,149	4,050,000	6.100%
2014	5,355,462	2,699,884	4,050,000	6.100%
2015	4,930,310	2,532,951	4,050,000	6.150%
2016	4,542,568	2,384,033	4,050,000	6.150%
2017	4,268,370	2,233,300	4,050,000	6.200%
2018	4,408,528	2,101,083	4,050,000	6.200%
2019	2,996,300	-	-	-
2020	2,889,653	-	-	-
2021	2,813,660	-	-	-
2022	2,683,296	-	-	-
2023	2,537,052	-	-	-
2024	2,398,440	-	-	-
2025	2,270,784	-	-	-
2026	2,145,996	-	-	-
2027	2,065,497	-	-	-
2028	1,955,428	-	-	-
2029	1,851,191	-	-	-
Total Capital Appreciation Bonds	75,669,250	20,150,183		
Total	\$ 213,489,250	\$ 20,150,183		

**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
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SCHEDULE OF BONDS PAYABLE OUTSTANDING
 June 30, 2007

	REVENUE BONDS		REVENUE BONDS		REVENUE BONDS	
	SERIES 2000A		SERIES 2001A		SERIES 2003A	
	Principal Amount	Interest Rate	Principal Amount	Interest Rate	Principal Amount	Interest Rate
Interest Bearing Bonds:						
Serial Bonds maturing as follows:						
2008	280,000	5.500%	1,845,000	5.000%	2,645,000	2.600%
2009	295,000	5.500%	1,945,000	5.000%	2,715,000	3.000%
2010	310,000	5.500%	1,390,000	5.000%	3,445,000	3.250%
2011	- ----	- ----	1,455,000	5.000%	255,000	3.500%
2012	- ----	- ----	1,465,000	5.250%	265,000	3.700%
2013	- ----	- ----	1,000,000	5.250%	275,000	3.850%
2014	- ----	- ----	1,050,000	5.250%	285,000	4.000%
2015	- ----	- ----	- ----	- ----	295,000	4.100%
2016	- ----	- ----	- ----	- ----	310,000	4.200%
2017	- ----	- ----	1,220,000	5.000%	320,000	4.250%
2018	- ----	- ----	- ----	- ----	335,000	4.350%
2019	- ----	- ----	- ----	- ----	350,000	4.450%
2020	- ----	- ----	- ----	- ----	365,000	4.500%
2021	- ----	- ----	- ----	- ----	385,000	4.600%
2022	- ----	- ----	- ----	- ----	400,000	4.700%
2023	- ----	- ----	- ----	- ----	420,000	4.750%
2024	- ----	- ----	- ----	- ----	- ----	- ----
2025	- ----	- ----	- ----	- ----	- ----	- ----
Term Bonds maturing as follows:						
2023	- ----	- ----	- ----	- ----	- ----	- ----
2024	- ----	- ----	- ----	- ----	440,000	4.800%
2025	- ----	- ----	- ----	- ----	460,000	4.800%
2026	- ----	- ----	- ----	- ----	480,000	4.800%
2027	- ----	- ----	- ----	- ----	505,000	4.850%
2028	- ----	- ----	- ----	- ----	530,000	4.850%
2029	- ----	- ----	- ----	- ----	555,000	4.850%
2030	- ----	- ----	- ----	- ----	- ----	- ----
2031	- ----	- ----	- ----	- ----	- ----	- ----
2032	- ----	- ----	- ----	- ----	- ----	- ----
2033	- ----	- ----	- ----	- ----	- ----	- ----
2034	- ----	- ----	- ----	- ----	- ----	- ----
2035	- ----	- ----	- ----	- ----	- ----	- ----
2036	- ----	- ----	- ----	- ----	- ----	- ----
Total Interest Bearing Bonds	885,000		11,370,000		16,035,000	
Capital Appreciation Bonds maturing as follows:						
2008	- ----	- ----	- ----	- ----	- ----	- ----
2009	- ----	- ----	- ----	- ----	- ----	- ----
2010	- ----	- ----	- ----	- ----	- ----	- ----
2011	- ----	- ----	- ----	- ----	- ----	- ----
2012	- ----	- ----	- ----	- ----	- ----	- ----
2013	- ----	- ----	- ----	- ----	- ----	- ----
2014	- ----	- ----	- ----	- ----	- ----	- ----
2015	- ----	- ----	- ----	- ----	- ----	- ----
2016	- ----	- ----	- ----	- ----	- ----	- ----
2017	- ----	- ----	- ----	- ----	- ----	- ----
2018	- ----	- ----	- ----	- ----	- ----	- ----
2019	- ----	- ----	- ----	- ----	- ----	- ----
2020	- ----	- ----	- ----	- ----	- ----	- ----
2021	- ----	- ----	- ----	- ----	- ----	- ----
2022	- ----	- ----	- ----	- ----	- ----	- ----
2023	- ----	- ----	- ----	- ----	- ----	- ----
2024	- ----	- ----	- ----	- ----	- ----	- ----
2025	- ----	- ----	- ----	- ----	- ----	- ----
2026	- ----	- ----	- ----	- ----	- ----	- ----
2027	- ----	- ----	- ----	- ----	- ----	- ----
2028	- ----	- ----	- ----	- ----	- ----	- ----
2029	- ----	- ----	- ----	- ----	- ----	- ----
Total Capital Appreciation Bonds	- ----		- ----		- ----	
Total	\$ 885,000		\$11,370,000		\$16,035,000	

**REVENUE BONDS
SERIES 2004A**

Principal Amount	Interest Rate
---------------------	------------------

840,000	3.000%
870,000	3.000%
895,000	3.000%
920,000	3.000%
950,000	3.500%
980,000	4.000%
1,020,000	5.000%
1,075,000	5.000%
1,130,000	5.000%
1,180,000	5.000%
1,240,000	5.000%
1,305,000	4.000%
1,355,000	4.125%
1,415,000	5.000%
1,480,000	5.000%
1,560,000	5.000%
1,630,000	5.000%
1,715,000	5.000%

- ----	- ----
- ----	- ----
- ----	- ----
1,805,000	4.800%
1,885,000	4.800%
1,980,000	4.800%
2,075,000	5.000%
1,500,000	5.000%
1,575,000	5.000%
1,655,000	5.000%
1,735,000	5.000%
1,825,000	5.000%
1,915,000	5.000%
- ----	- ----

39,510,000

\$ 39,510,000

**REVENUE BONDS
SERIES 2006A**

Principal Amount	Interest Rate
---------------------	------------------

1,725,000	5.000%
1,820,000	4.000%
2,430,000	4.000%
2,850,000	5.000%
2,995,000	5.000%
3,140,000	5.000%
2,550,000	5.000%
3,780,000	5.000%
3,975,000	5.000%
2,100,000	5.250%
3,495,000	5.250%
3,640,000	5.250%
3,835,000	5.250%
3,465,000	5.250%
1,255,000	5.000%
- ----	- ----
- ----	- ----
- ----	- ----

1,315,000	5.000%
1,380,000	5.000%
1,450,000	5.000%
1,525,000	5.000%
1,600,000	5.000%
1,680,000	5.000%
1,765,000	5.000%
1,850,000	5.000%
1,945,000	5.000%
2,040,000	5.000%
2,145,000	5.000%
2,250,000	5.000%
2,360,000	5.000%
2,480,000	5.000%

68,840,000

\$ 68,840,000

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Crowe Chizek and Company LLC
Member Horwath International

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, 2007, and have issued our report thereon dated February 28, 2008. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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

Compliance and Other Matters

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

However, we also conducted a State compliance examination of the agency as required by the Illinois State Auditing Act. The results of that examination are reported to management under separate cover.

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, the System management, and bondholders and is not intended to be and should not be used by anyone other than these specified parties.


Crowe Chizek and Company LLC

Oak Brook, Illinois
February 28, 2008



Crowe Chizek and Company LLC
Member Horwath International

STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY
MEDICAL FACILITIES SYSTEM

Report of the Treasurer

For the Year Ended June 30, 2007

Board of Trustees and Officers of Administration

BOARD OF TRUSTEES OF SOUTHERN ILLINOIS UNIVERSITY

Roger Tedrick, Chair
Ed Hightower, Vice Chair
John Simmons, Secretary
Samuel Goldman
Christine Guerra
Jesse Phelps
Keith Sanders
Stephen Wigginton
Marquita Wiley

Mt. Vernon
Edwardsville
East Alton
Carbondale
Carbondale
Edwardsville
Spring Grove
Belleville
Belleville

OFFICERS OF SOUTHERN ILLINOIS UNIVERSITY

Glenn Poshard, President
Misty Whittington, Executive Secretary of the Board
Jerry Blakemore, General Counsel
John S. Haller, Jr., Vice-President, Academic Affairs
Duane Stucky, Vice-President, Financial and Administrative Affairs and Board Treasurer

OFFICERS OF ADMINISTRATION, SOUTHERN ILLINOIS UNIVERSITY CARBONDALE

John M. Dunn, Interim Chancellor
J. Kevin Dorsey, Dean and Provost, School of Medicine
Pamela Speer, Associate Provost for Finance and Administration, School of Medicine
M. Elizabeth Collier, Assistant Provost, Financial Affairs, School of Medicine

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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 28, 2007

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, 2007.

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

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

Respectfully submitted,

Duane Stucky
Board Treasurer

DS/lap

TREASURER'S COMMENTS

SOUTHERN ILLINOIS UNIVERSITY MEDICAL FACILITIES SYSTEM

1. SOUTHERN ILLINOIS UNIVERSITY REVENUE BOND OPERATIONS

FACILITIES

The facilities included in the Southern Illinois University Medical Facilities System (the "System") were acquired in three phases. The first phase coincided with the creation of the system in connection with issuance of the Series 1997 bonds, in the amount of \$16,855,000, pursuant to a resolution of the Board of Trustees (the "Board") adopted on October 10, 1996.

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

The Richard H. Moy, M.D. Building was completed and occupied by the University in May 1993. The building now houses outpatient clinics for the departments of Internal Medicine and Surgery. In addition, the building houses offices and outpatient clinics for the Memory and Aging Center, Dermatology, and the department of Neurology. Space is also included in the building for a medical records unit 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. Additional recent improvements include renovations to the Reproductive Endocrinology space and administrative staff moving to 401 N. Walnut.

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

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

ADVANCED REFUNDING

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

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

On June 30, 2007, the School of Medicine Medical Facilities System owned or occupied fourteen locations where clinics and/or clinical faculty and/or clinical administration were housed. Owned by the University are the Richard H. Moy, M.D. Building 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 and is not occupied by the School of Medicine. In June 2006, the building and land at 401 N. Walnut in Springfield was purchased. This facility will primarily be used for administrative office space. Nine of the remaining locations are leased by the University with one location being utilized for clinical purposes but neither owned nor leased and the Cancer Institute currently under construction.

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

TREASURER'S COMMENTS – Continued

II. ENROLLMENTS AT SOUTHERN ILLINOIS UNIVERSITY

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

	<u>Head Count</u>
Fall semester 2007	291
Fall semester 2006	289

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

III. DEBT SERVICE COVERAGE

The bond resolution requires that debt service coverage (net revenues plus pledged tuition) be at least 200% (2.00 times) of annual debt service and that net revenues shall be at least 100% (1.00 times) of the annual debt service requirement in each fiscal year. The debt service coverage is calculated at the end of the year using cash basis data obtained from the Statement of Cash Flows. Debt service coverage for the System, as defined by the bond resolution and based on actual pledged tuition, has been calculated as follows:

	<u>Year Ended June 30</u>	
	<u>2007</u>	<u>2006</u>
Receipts:		
Revenue Account:		
Operations	\$ 36,768,213	\$ 27,989,699
Investment Income	30,242	85,435
Accrued and Capitalized Interest	160,963	162,035
Retirement of Indebtedness – Investment Income	<u>15,282</u>	<u>177,068</u>
	36,974,700	28,414,237
Disbursements:		
Operation & Maintenance Account	<u>31,619,727</u>	<u>26,893,443</u>
Net Revenues	5,354,973	1,520,794
Plus: Pledged Tuition	<u>67,226,903</u>	<u>64,665,663</u>
Total Available for Debt Service	<u>\$ 72,581,876</u>	<u>\$ 66,186,457</u>
Annual Debt Service	<u>\$ 1,598,363</u>	<u>\$ 1,256,773</u>
Coverage Ratio Based on Net Revenues	3.35	1.21
Coverage Ratio Based on Maximum Annual Debt Service	36.55	33.33

IV. RETIREMENT OF INDEBTEDNESS

The net assets are restricted for the following purposes:

	<u>June 30</u>	
	<u>2007</u>	<u>2006</u>
Bond and Interest Sinking Fund Account	\$471,745	\$ 397,468

V. 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, 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,

TREASURER'S COMMENTS – Continued

facilities constituting the System, as determined by the then current Engineering News Record Building Cost Index (or comparable index) plus 20% of the book value of the movable equipment within the System. All moneys and investments so credited to said Account will be used and held for use to pay the cost of unusual or extraordinary maintenance or repairs, renewals and replacements, and renovating or replacement of the furniture and equipment not paid as part of the ordinary maintenance and operation of the System.

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

Moneys or investments to the credit of such Account are not pledged as security for the payment of the Bonds, but may be used to pay for the payment of Bonds when all Bonds are so paid or provided for.

Additions (deductions) during the year included transfers from unrestricted net assets of \$198,575 (\$369,832 in 2006), gains earned on investments of \$42,609 in 2007 (and gains of \$18,649 in 2006) and other nonoperating revenue of \$18,000 (\$18,000 in 2006).

Expenditures charged to the reserve amounted to \$11,732 (\$-0- in 2006). The restricted net assets of Renewals and Replacements consisted of the following:

	June 30	
	2007	2006
Cash	\$ 1,177,384	\$ 918,457
Pooled Cash and Investments	-0-	-0-
Accounts Receivable	3,076	2,819
Accrued Interest Receivable	3,721	3,947
Notes Receivable	175,831	186,478
Accounts Payable	(11,731)	-0-
Deferred Revenue	(170,012)	(180,884)
	<u>\$ 1,178,269</u>	<u>\$ 930,817</u>

VI. SCHEDULE OF BONDS PAYABLE OUTSTANDING

A Schedule of Bonds Payable Outstanding is shown as supplementary information and lists the amount of Medical Facilities System Revenue Bonds, Series 2005 issued and outstanding as of June 30, 2007.

VII. RESTRICTED NET ASSETS - EXPENDABLE

Restricted net assets as of June 30, 2007 and 2006 are comprised of the following:

	June 30	
	2007	2006
Retirement of indebtedness	\$ 471,745	\$ 397,468
Renewals and replacements	1,178,269	930,817
Unexpended	300,817	101,560
	<u>\$ 1,950,831</u>	<u>\$ 1,429,845</u>

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

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Crowe Chizek and Company LLC
Member Horwath International

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, as listed in the table of contents, of Southern Illinois University Medical Facilities System ("the System") as of and for the year ended June 30, 2007. 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 2006 financial statements and, in a report dated November 10, 2006, the auditors 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 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, 2007, and the changes in financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the System as of June 30, 2007, and the changes in financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2008 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 of the System. 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 2005, adopted October 13, 2005. 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, System management, and the bondholders and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Crowe Chizek and Company LLC". The signature is written in a cursive, flowing style.

Crowe Chizek and Company LLC

Oak Brook, Illinois
February 28, 2008

SOUTHERN ILLINOIS UNIVERSITY
MEDICAL FACILITIES SYSTEM
STATEMENT OF NET ASSETS
June 30, 2007
(with comparative totals for 2006)

	2007	2006
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents (Note 2)	\$ 11,939,621	\$ 2,611,666
Short term investments (Note 2)	403,115	7,105,833
Accounts receivable	2,274,713	5,029,072
Accrued interest receivable	7,739	121,811
Notes receivable (Note 4)	16,781	16,130
Inventories	12,820	13,110
Prepaid expenses and other assets	16,213	16,213
TOTAL CURRENT ASSETS	14,671,002	14,913,835
NONCURRENT ASSETS:		
Notes receivable (Note 4)	159,050	170,348
Prepaid expenses and other assets	287,778	303,991
Capital assets, net: (Note 5)		
Land	2,594,757	2,245,000
Buildings	12,324,547	11,853,759
Equipment	596,936	705,183
Construction in progress	8,126,727	-
TOTAL NONCURRENT ASSETS	24,089,795	15,278,281
TOTAL ASSETS	38,760,797	30,192,116
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	206,337	370,506
Accrued interest payable	239,553	244,591
Accrued payroll	193,213	33,027
Accrued compensated absences (Note 6)	175,958	179,029
Deferred revenue (Note 6)	10,962	10,536
Liabilities under capital leases (Note 6)	30,240	39,620
Revenue bonds payable (Notes 6 and 7)	675,343	637,781
TOTAL CURRENT LIABILITIES	1,531,606	1,515,090
NONCURRENT LIABILITIES:		
Accrued compensated absences (Note 6)	2,069,839	1,913,413
Deferred revenue (Note 6)	159,050	170,348
Liabilities under capital leases (Note 6)	29,090	59,330
Revenue bonds payable (Notes 6 and 7)	19,233,536	19,908,878
TOTAL NONCURRENT LIABILITIES	21,491,515	22,051,969
TOTAL LIABILITIES	23,023,121	23,567,059
NET ASSETS		
Invested in capital assets, net of related debt	10,732,211	1,587,968
Restricted for:		
Expendable		
Capital projects and debt service	1,950,831	1,429,845
Unrestricted	3,054,634	3,607,244
TOTAL NET ASSETS	\$ 15,737,676	\$ 6,625,057

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, 2007
(with comparative totals for 2006)

	2007	2006
REVENUES		
OPERATING REVENUES		
Medical Facilities System	\$ 34,012,671	\$ 31,236,455
TOTAL OPERATING REVENUES	34,012,671	31,236,455
EXPENSES		
OPERATING EXPENSES		
Salaries and wages	28,287,959	23,924,904
Contractual services	9,203,223	8,098,996
Other	2,370,417	1,918,785
Depreciation (Note 5)	596,976	675,105
TOTAL OPERATING EXPENSES	40,458,575	34,617,790
OPERATING LOSS	(6,445,904)	(3,381,335)
NONOPERATING REVENUES (EXPENSES)		
Investment income (Note 3)	485,148	331,560
Interest on capital asset-related debt	(971,757)	(869,458)
Payments on behalf of the system (Notes 11 and 9)	8,091,311	6,728,553
Other nonoperating revenue	18,000	18,000
NET NONOPERATING REVENUES	7,622,702	6,208,655
INCOME (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES	1,176,798	2,827,320
OTHER REVENUES, EXPENSES, GAINS OR LOSSES		
Capital assets retired (Note 5)	(14,731)	(4,848)
Additions to plant facilities from other sources (Note 8)	7,950,552	1,863,991
TOTAL OTHER REVENUES, EXPENSES, GAINS OR LOSSES	7,935,821	1,859,143
INCREASE (DECREASE) IN NET ASSETS	9,112,619	4,686,463
NET ASSETS		
Net assets at beginning of year	6,625,057	1,938,594
NET ASSETS AT END OF YEAR	\$ 15,737,676	\$ 6,625,057

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, 2007 (with comparative totals for 2006)

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Medical Facilities System	\$ 36,768,213	\$ 27,989,699
Payments to employees	(19,885,294)	(17,114,755)
Payments for utilities	(280,457)	(241,900)
Payments to suppliers	(11,454,839)	(9,536,788)
NET CASH PROVIDED BY OPERATING ACTIVITIES	5,147,623	1,096,256
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Proceeds from sale of capital assets	18,000	18,000
Purchases of capital assets	(1,539,798)	(606,101)
Principal paid on capital debt	(620,000)	(405,000)
Interest paid on capital debt	(978,363)	(1,139,933)
Retained bond proceeds (Note 7)	- - - - -	22,096,296
Deposit to bond escrow account (Note 7)	- - - - -	(15,769,399)
NET CASH PROVIDED (USED) BY CAPITAL FINANCING ACTIVITIES	(3,120,161)	4,193,863
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	8,510,457	3,009,466
Investment income	585,453	385,806
Purchase of investments	(1,795,417)	(8,340,474)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	7,300,493	(4,945,202)
NET INCREASE IN CASH	9,327,955	344,917
CASH AND CASH EQUIVALENTS - BEGINNING OF THE YEAR	2,611,666	2,266,749
CASH AND CASH EQUIVALENTS - END OF THE YEAR	\$ 11,939,621	\$ 2,611,666
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating loss	\$ (6,445,904)	\$ (3,381,335)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Depreciation expense	596,976	675,105
Payments on behalf of the system	8,091,311	6,728,553
Changes in assets and liabilities:		
Receivables, net	2,755,578	(3,246,792)
Inventories	290	5,450
Accounts payable	(164,169)	233,194
Accrued payroll	160,186	9,605
Accrued compensated absences	153,355	72,476
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 5,147,623	\$ 1,096,256
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
On behalf payments for fringe benefits	8,091,311	6,728,553
Gifts in kind	11,480	8,579
Capital asset acquisitions from other sources	7,939,072	1,855,412
Loss on disposal of capital assets	14,731	4,848

The accompanying notes are an integral part of this statement.

**SOUTHERN ILLINOIS UNIVERSITY
MEDICAL FACILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2007**

1. Significant Accounting Policies

(A) Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB), including Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. Additionally, the System has adopted GASB Statement No. 37, *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. The System now follows the business-type activity reporting requirements of GASB Statement Nos. 35, 37 and 38 that provide a comprehensive, entity-wide perspective of the System's financial activities and replaces the fund group presentations previously required. 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 resolution. The financial balances and activities of the System, included in these financial statements, are included in the University's financial statements. The System is not a separate legal entity 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 2006 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, 2006.

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

The System has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The System has elected to not apply FASB pronouncements issued after the applicable date.

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

(E) Cash and Cash Equivalents

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

(F) Investments

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

(G) Allowance for Uncollectibles

The System does not report an allowance for uncollectibles. As the accounts receivables amount represents actual collections as of June 30 that have not yet been transferred from the Physicians & Surgeons URO agency account to the System revenue accounts. The funds have been collected and therefore no allowance for uncollectible accounts is reported.

(H) Bond Issuance Costs

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

(I) On-Behalf Payments

In accordance with GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, the System reported on-behalf payments made by agencies of the State of Illinois for health care and retirement. These costs are reflected in an equal amount in both the revenues and expenses of the System. On-behalf payments for the year ended June 30, 2007, amounted to \$8,091,311.

(J) Classification of Net Assets

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

2. Pooled Cash and Investments

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, 2007, 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.

**SOUTHERN ILLINOIS UNIVERSITY
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Interest Rate Risk: Interest rate risk is the risk that the market value of portfolio securities will fall or rise due to changes in general interest rates. Interest rate risk is mitigated by maintaining significant balances in cash equivalent and other short maturity investments and by establishing an asset allocation policy that is consistent with the expected cash flows of the University. The internally managed portfolio is managed in accordance with covenants provided from the University's debt issuance activities. The externally managed portfolio is typically allocated with 20 to 35 percent of assets held in cash equivalents; 10 to 40 percent of assets held in the short-term portfolio; and 35 to 60 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, 2007, 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	\$ 403,115	\$ 403,115	\$ ----	\$ ----	\$ ----
U.S. Agencies	----	----	----	----	----
Total Investments	<u>403,115</u>	<u>\$ 403,115</u>	<u>\$ ----</u>	<u>\$ ----</u>	<u>\$ ----</u>
Cash and Equivalents					
The Illinois Funds	11,939,621				
Cash and Equivalents	----				
Total Cash & Equivalents	<u>11,939,621</u>				
Total Cash & Investments	<u>\$ 12,342,736</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. The investment with the Public Treasurer's Investment Pool (The Illinois Funds) is at fair value, which is the same value as the pool shares. State statutes require the Illinois Funds to comply with the *Illinois Public Funds Investment Act* (30 ILCS 235). Also, certain money market investments, having a remaining maturity of one year or less at the time of 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 2007.

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, 2007 is comprised of the following:

Interest Income	\$ 475,506
Increase in Fair Market Value	10,358
Loss on Investments	<u>(716)</u>
Net Investment Income	<u>\$ 485,148</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	\$ 16,781
Long-Term	<u>159,050</u>
Total	<u>\$ 175,831</u>

**SOUTHERN ILLINOIS UNIVERSITY
MEDICAL FACILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2007**

5. Capital Assets

Capital asset activity for the year ended June 30, 2007 was as follows:

	Beginning Balance	Additions	Reductions	Transfers	Ending Balance
Land	\$ 2,245,000	\$ 349,757	\$ -----	\$ -----	\$ 2,594,757
Buildings	15,374,892	855,160	-----	-----	16,230,052
Equipment	4,516,873	119,088	122,775	-----	4,513,186
Construction in progress	-----	8,126,727	-----	-----	8,126,727
Total cost of capital assets	<u>\$ 22,136,765</u>	<u>\$ 9,450,732</u>	<u>\$ 122,775</u>	<u>\$ -----</u>	<u>\$ 31,464,722</u>

Less accumulated depreciation for:

Building	\$ 3,521,133	\$ 384,372	\$ -----	\$ -----	\$ 3,905,505
Equipment	3,811,690	212,604	\$ 108,044	\$ -----	3,916,250
Total accumulated Depreciation	<u>\$ 7,332,823</u>	<u>\$ 596,976</u>	<u>\$ 108,044</u>	<u>\$ -----</u>	<u>\$ 7,821,755</u>
Capital assets – net		<u>\$ 14,803,942</u>			<u>\$ 23,642,967</u>

The construction in progress addition amount relates to the construction of the Cancer Institute, a 60,000 square foot multi-story building that will include space for clinical care and cancer treatment, patient supportive care, education and support services, research, program outreach and coordination.

Estimated total costs of \$22,500,000 for construction of the Cancer Institute were provided from \$14,500,000 of state appropriations, \$1,000,000 from a state grant and revenue bonds proceeds and related interest earnings totaling \$7,000,000. Substantial completion is estimated for April 2008.

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, 2007 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Revenue bonds payable	\$ 20,546,659	\$ -----	\$ 637,780	\$ 19,908,879	\$ 675,343
Compensated absences	2,092,442	236,453	83,098	2,245,797	175,958
Deferred revenue	180,884	-----	10,872	170,012	10,962
Capitalized leases	98,950	-----	39,620	59,330	30,240
Total	<u>\$ 22,918,935</u>	<u>\$ 236,453</u>	<u>\$ 771,370</u>	<u>\$ 22,384,018</u>	<u>\$ 892,503</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 leases certain items of equipment that are classified as capital leases and 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 2008	31,720
Year Ending 2009	21,072
Year Ending 2010	<u>8,780</u>
Total minimum lease payments	61,572
Less amount representing interest	<u>2,242</u>
Present value of net minimum lease payments	<u>\$ 59,330</u>

**SOUTHERN ILLINOIS UNIVERSITY
MEDICAL FACILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2007**

7. Revenue Bonds Payable

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

On October 13, 2005, the Board adopted the "Medical Facilities System Revenue Bonds Series 2005" resolution which amended and restated the original resolution of October 10, 1996. The Board also authorized the issuance of the Medical Facilities system Revenue Bonds Series 2005. The bonds were issued as current interest bonds in the amount of \$21,290,000 and included accrued interest of \$41,314. The bonds were sold on November 15, 2005 at the premium of \$806,296 and used as follows:

- a. Bond proceeds of \$14,699,511 and Board funds of \$1,069,888 from the System were deposited in the bond escrow account in either cash or U.S. Government securities which, together with the interest earned thereon is used to finance the advance refunding of the Boards Series 1997 bonds. The advance refunding, which was undertaken by the Board to affect a cost savings, resulted in a net decrease in debt service payments of \$3,153,133 and an economic gain of \$1,146,547. The accounting loss on the refunding was \$1,185,421.
- b. Bond proceeds of \$6,783,042 were deposited in an Unexpended Plant account to finance the costs of constructing and equipping a new Cancer Institute building on the Springfield campus.
- c. Bond proceeds of \$315,726 were provided for the payment of capitalized interest through October 1, 2006 and accrued interest payable.
- d. Bond proceeds of \$339,331 were reserved to pay the underwriter's fees and certain other costs related to the issuance of the bonds.

The current bonds bear interest at rates ranging from 3.50% to 5.00% payable semi-annually and principal installments ranging from \$480,000 to \$1,825,000 are payable annually April 1 through the year 2026.

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2008	660,000	958,213
2009	715,000	928,513
2010	765,000	903,488
2011	825,000	865,237
2012	885,000	832,900
2013-2017	5,440,000	3,519,112
2018-2022	7,650,000	1,992,500
2023-2026	<u>3,325,000</u>	<u>295,550</u>
Total Payments	\$ 20,265,000	<u>\$ 10,295,513</u>
Unamortized debt premium	670,974	
Unamortized deferred amount on refunding	<u>(1,027,095)</u>	
Total Bonds Payable	<u>\$ 19,908,879</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 2005 bonds are limited obligations of the Board payable from and secured by a pledge of and lien on (i) the net revenues of the System, (ii) pledged tuition (subject to prior payment of necessary operation and maintenance expenses of the Housing and Auxiliary Facilities System, debt service of the Housing and Auxiliary Facilities System not to exceed the maximum annual debt service, and then necessary operating and maintenance expenses of the System), and (iii) the Bond and Interest Sinking Fund Account.

All of the Series 1997 bonds referred to above are considered defeased and accordingly, have been accounted for as if they were retired. On April 1, 2007, all of the Series 1997 bonds were called for redemption and payment prior to their maturity at a redemption price of 102% of the principal. As of June 30, 2007 none of the Series 1997 Bonds were outstanding.

**SOUTHERN ILLINOIS UNIVERSITY
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NOTES TO FINANCIAL STATEMENTS
June 30, 2007**

8. Related Party Transactions

Expenditures capitalized in 2007 include \$7,950,552 paid for by other University funds. The expenditures were for the purchase of equipment to be utilized in the various Medical Facilities System facilities, the purchase of land to be used as the site of the Cancer Institute and for construction costs for the Cancer Institute.

9. Retirement and Post-Employment Benefits

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

Plan members are required to contribute 8% of their annual covered salary, and substantially all employer contributions are made by the State of Illinois on behalf of the individual employers at an actuarially determined rate. The current rate is 10.61% 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 of SURS for the years ended June 30, 2007, 2006 and 2005 were \$27,308,064, \$19,113,578, and \$29,244,806, respectively, equal to the required contributions for the year.

In addition to providing pension benefits, the State provides certain health, dental and life insurance benefits to annuitants who are former State employees. This includes annuitants of the System. Substantially all State employees, including the System's employees, may become eligible for post-employment benefits if they eventually become annuitants. Health 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 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.

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.

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, 2008:

**SOUTHERN ILLINOIS UNIVERSITY
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June 30, 2007**

		<u>Approximate Amount</u>
1.	Lexington Insurance Co. Policy No. 8756143. Primary policy providing \$100,000,000 all risk coverage on scheduled buildings and other property totaling \$2,188,875,871. Academic and bonded buildings generally have a per occurrence deductible of \$250,000. There is a \$500,000 per occurrence deductible for many of the non-bonded academic buildings. The University has established a self-insurance reserve in amounts to cover the portion of estimated liability between \$25,000 and the per occurrence deductibles noted above. 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 the same deductibles as noted above.	\$100,000,000 per occurrence
1b.	Flood coverage included in the Lexington policy listed above is limited to \$100,000,000 and carries the same per occurrence deductible noted above unless the flood involves property located in a FEMA-defined 100-year flood zone which there is then a limit of \$50,000,000 and a deductible of 2% of the total insured value subject to a minimum of \$1,000,000 per occurrence.	\$100,000,000 per occurrence
1c.	Earthquake coverage included in the Lexington policy listed above is limited to \$100,000,000 and carries a per occurrence deductible of 1% of total insured value subject to a minimum of \$50,000 per occurrence.	\$100,000,000 per occurrence
2.	Lexington Insurance Company, Policy No. 8756153: furnishes the secondary layer of \$400,000,000 excess of the Lexington's \$100,000,000 layer.	\$400,000,000 per occurrence
3.	Allianz Global, Policy No. CLP3008491; Lloyds of London, Policy No. DP595207; and CNA, Policy No. 2010728503: furnishes the third layer of coverage, which is \$500,000,000 excess of the secondary layer of \$400,000,000.	\$500,000,000 per occurrence
4.	Lloyds of London, Policy No. DP608207: furnishes earthquake coverage in excess of coverage included in the policies listed above, with limits of \$50,000,000 that is shared with the University of Illinois and the University of Missouri.	\$50,000,000 per occurrence
5.	Self Insurance: The University, pursuant to the provisions of Illinois Public Act 84-0010, has established a Self Insurance Program (the "Program") for its traditional liability insurance coverages. Funds have been reserved in amounts to cover the major portion of the estimated liability as determined by the Program's actuary. The University also has purchased excess liability insurance policies to cover certain of its general liability exposures not elsewhere covered.	

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.

SUPPLEMENTARY INFORMATION

SOUTHERN ILLINOIS UNIVERSITY
MEDICAL FACILITIES SYSTEM
SCHEDULE OF BONDS PAYABLE OUTSTANDING
June 30, 2007

	Principal Amount	Interest Rate
Interest Bearing Bonds		
Serial Bonds Maturing		
as follows:		
2008	\$ 660,000	4.50%
2009	715,000	3.50%
2010	765,000	5.00%
2011	265,000	3.75%
2011	560,000	4.00%
2012	885,000	4.00%
2013	945,000	5.00%
2014	1,015,000	4.25%
2015	1,085,000	4.25%
2016	1,155,000	5.00%
2017	1,240,000	5.00%
2018	1,330,000	5.00%
2019	1,425,000	5.00%
2020	1,525,000	5.00%
2021	1,630,000	5.00%
2022	1,740,000	5.00%
2023	1,825,000	5.00%
Term Bonds maturing		
as follows:		
2024	480,000	4.500%
2025	500,000	4.500%
2026	520,000 *	4.500%
 Total Interest Bearing Bonds	 \$ 20,265,000	

* Subject to mandatory redemption in the years indicated

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



Crowe Chizek and Company LLC
Member Horwath International

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, 2007, and have issued our report thereon dated February 28, 2008. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance 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*.

However, we also conducted a State compliance examination of the agency as required by the Illinois State Auditing Act. The results of that examination are reported to management under separate cover.

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, System management, and bondholders and is not intended to be and should not be used by anyone other than these specified parties.


Crowe Chizek and Company LLC

Oak Brook, Illinois
February 28, 2008