UNIVERSITY OF ILLINOIS

AUXILIARY FACILITIES SYSTEM

Annual Financial Report

June 30, 2016

(With Independent Auditors' Report Thereon)

UNIVERSITY OF ILLINOIS
AUXILIARY FACILITIES SYSTEM

Annual Financial Report

June 30, 2016

Table of Contents

From the Vice President/Chief Financial Officer, Comptroller

UNIVERSITY OF ILLINOIS

Urbana-Champaign ● Chicago ● Springfield

Office of Vice President/Chief Financial Officer, Comptroller
349 Henry Administration Building
506 South Wright Street
Urbana, IL 61801

February 1, 2017

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

I am pleased to transmit the Annual Financial Report of the University of Illinois Auxiliary Facilities System for the fiscal year ended June 30, 2016. This report supplements the financial statements of the University of Illinois presented in the Annual Financial Report.

The 2016 financial statements and accompanying notes appearing on pages 4 through 27 have been audited by CliftonLarsonAllen LLP, Independent Certified Public Accountants, as special assistants to the Auditor General of the State of Illinois, whose report on the financial statements appears on pages 2 and 3.

CliftonLarsonAllen LLP will also prepare a report for the year ended June 30, 2016, containing special data requested by the Auditor General and another report covering their audit of the compliance of the University with applicable state and federal laws and regulations for the year ended June 30, 2016. These reports, which include some data related to the Auxiliary Facilities System, are not contained herein and are primarily for the use of the Auditor General and state and federal agencies.

Very truly yours,

Walter K. Knorr,
Vice President/Chief Financial Officer,
Comptroller

CliftonLarsonAllen

CliftonLarsonAllen LLP
CLAconnect.com

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the business-type activities of the University of Illinois Auxiliary Facilities System (the System) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities for the System as of June 30, 2016, and the changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1(a), the financial statements of the System are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the business-type activities of University of Illinois that is attributable to the transactions of the System. They do not purport to, and do not, present fairly the financial position of University of Illinois as of June 30, 2016, and its changes in financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Report on Summarized Comparative Information

We have previously audited the Systems' 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 23, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America required to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report under separate cover dated February 1, 2017, 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 in considering the System's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Peoria, Illinois
February 1, 2017

UNIVERSITY OF ILLINOIS
AUXILIARY FACILITIES SYSTEM

Statement of Net Position

June 30, 2016
(with comparative totals for June 30, 2015)

Assets and Deferred Outflow of Resources	**2016**	**2015**
Current assets:		
Claim on cash and on pooled investments	$ 184,650,044	$ 174,388,755
Cash and cash equivalents	12,050,755	11,083,464
Investments	3,002,700	1,501,755
Accrued investment income	601,296	979,807
Accounts receivable, net of allowance for uncollectible	7,880,012	7,299,374
Inventories	7,981,658	6,854,470
Prepaid expenses	511,762	548,625
Total current assets	216,678,227	202,656,250
Noncurrent assets:		
Cash and cash equivalents	7,049,821	16,098,521
Cash and cash equivalents, restricted	16,065,994	
Investments		4,067,139
Investments, restricted	66,210,888	142,717,250
Capital assets, net of accumulated depreciation	1,135,186,813	1,075,984,902
Total noncurrent assets	1,224,513,516	1,238,867,812
Deferred outflow of resources	31,430,988	37,257,159
Total assets and deferred outflow of resources	$ 1,472,622,731	$ 1,478,781,221
Liabilities and Net Position		
Current liabilities:		
Accounts payable	$ 29,100,775	$ 36,356,890
Accrued liabilities	2,922,134	4,563,762
Accrued compensated absences	494,617	545,819
Accrued interest	11,242,052	11,881,792
Unearned revenues	7,332,081	15,719,286
Notes payable to the University	1,561,299	2,418,548
Bonds and leaseholds payable	48,533,834	51,493,455
Total current liabilities	101,186,792	122,979,552
Noncurrent liabilities:		
Accrued compensated absences	5,683,792	5,765,390
Notes payable to the University	8,826,198	7,907,431
Bonds and leaseholds payable	1,134,154,940	1,158,932,274
Total noncurrent liabilities	1,148,664,930	1,172,605,095
Total liabilities	1,249,851,722	1,295,584,647
Net investment in capital assets	41,563,780	21,203,093
Restricted - Expendable for debt service	26,731,206	24,664,207
Unrestricted	154,476,023	137,329,274
Total net position	222,771,009	183,196,574
Total liabilities and net position	$ 1,472,622,731	$ 1,478,781,221

See accompanying notes to financial statements.

UNIVERSITY OF ILLINOIS
AUXILIARY FACILITIES SYSTEM

Statement of Revenues, Expenses and Changes in Net Position

Year ended June 30, 2016
(with comparative totals for the year ended June 30, 2015)

	2016	2015
Operating revenues:		
Room and board, net	$ 142,453,215	$ 141,495,946
Merchandise and retail food sales	34,479,410	37,137,604
Student service fees	97,417,339	95,824,279
Public events and recreation fees	6,191,979	5,567,387
Parking income	27,042,324	26,665,333
Rental and lease income	32,335,993	25,184,158
Printing and vending income	3,752,108	4,549,226
Other operating revenue	9,374,597	8,665,850
Total operating revenues	353,046,965	345,089,783
Operating expenses:		
Salaries and wages	89,806,163	91,911,015
Merchandise and food for resale	33,340,189	36,592,720
Repair and maintenance	6,199,775	5,795,556
Professional and other contractual services	33,041,420	34,672,162
Utilities	28,820,202	30,368,219
Supplies	11,407,448	10,960,625
Noncapitalized renovations and equipment	12,161,929	20,007,082
Administrative services	16,036,810	15,670,039
Other operating expense	5,261,439	4,956,647
Depreciation	34,437,307	33,516,002
On-behalf payments for fringe benefits	53,857,598	48,304,812
Total operating expenses	324,370,280	332,754,879
Operating income	28,676,685	12,334,904
Nonoperating revenues (expenses):		
On-behalf payments for fringe benefits	53,857,598	48,304,812
Investment income, net of related expenses	2,000,394	1,830,781
Interest on capital asset-related debt	(43,346,299)	(46,936,267)
Loss on disposal of capital assets	(797,226)	(183,189)
Other nonoperating expenses, net	(816,717)	(625,768)
Net nonoperating revenues	10,897,750	2,390,369
Increase in net position	39,574,435	14,725,273
Net position, beginning of year	183,196,574	168,471,301
Net position, end of year	$ 222,771,009	$ 183,196,574

See accompanying notes to financial statements.

UNIVERSITY OF ILLINOIS
AUXILIARY FACILITIES SYSTEM

Statement of Cash Flows

Year ended June 30, 2016
(with comparative totals for the year ended June 30, 2015)

	2016	2015
Cash flows from operating activities:		
Room and board	$ 140,486,653	$ 141,908,827
Merchandise and retail food sales	33,222,627	37,145,251
Student service fees	93,261,033	95,778,917
Public events and recreation fees	5,918,668	5,564,210
Parking income	27,197,176	26,502,607
Rental and lease income	31,468,382	32,188,038
Printing and vending income	3,687,957	4,549,671
Other sources	8,836,626	8,658,385
Payments to employees and for benefits	(91,580,591)	(91,664,739)
Payments to suppliers	(145,769,534)	(158,940,215)
Net cash provided by operating activities	106,728,997	101,690,952
Cash flows from noncapital financing activities:		
Other receipts, net	5,546	147,016
Net cash provided by noncapital financing activities	5,546	147,016
Cash flows from capital and related financing activities:		
Proceeds from issuance of bonds	160,721,888	117,683,225
Purchase of capital assets	(94,913,061)	(87,357,573)
Principal paid on bonds and capital leases	(190,369,374)	(155,655,070)
Proceeds from notes payable to the University	2,620,955	2,038,764
Repayment of notes payable to the University	(2,559,437)	(2,920,812)
Interest paid on bonds and notes payable	(44,618,837)	(46,076,023)
Payments of bond issuance costs	(822,263)	(772,785)
Net cash used in capital and related financing activities	(169,940,129)	(173,060,274)
Cash flows from investing activities:		
Interest on investments	1,044,605	4,488,943
Pooled cash allocated to University related to unrealized losses	(651,667)	(639,942)
Proceeds from sales and maturities of investments	165,705,432	199,483,609
Purchase of investments	(84,646,910)	(124,162,927)
Net cash provided by investing activities	81,451,460	79,169,683
Net increase in cash and cash equivalents	18,245,874	7,947,377
Cash and cash equivalents, beginning of year	201,570,740	193,623,363
Cash and cash equivalents, end of year	$ 219,816,614	$ 201,570,740

(Continued)

UNIVERSITY OF ILLINOIS
AUXILIARY FACILITIES SYSTEM

Statement of Cash Flows

Year ended June 30, 2016
(with comparative totals for the year ended June 30, 2015)

	2016	2015
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 28,676,685	$ 12,334,904
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	34,437,307	33,516,002
On-behalf payments of fringe benefits	53,857,598	48,304,812
Changes in assets and liabilities:		
Accounts receivable (net)	(580,638)	(219,028)
Inventories	(1,127,188)	625,857
Prepaid expenses	36,863	(232,503)
Accounts payable	1,590,003	(310,519)
Accrued liabilities	(1,774,428)	246,277
Unearned revenue	(8,387,205)	7,425,150
Net cash provided by operating activities	$ 106,728,997	$ 101,690,952
Noncash investing, capital and financing activities:		
On-behalf payments for fringe benefits	$ 53,857,598	$ 48,304,812
Change in fair value of investments	1,985,767	(2,028,329)
(Decrease) increase of capital assets obligations in accounts payable	(8,846,118)	6,568,214
Capital appreciation on bonds payable	7,039,155	7,782,738
Net interest capitalized	8,369,501	6,457,180
Loss on disposal of capital assets	(797,226)	(183,189)

See accompanying notes to financial statements.

(1) Organization and Summary of Significant Accounting Policies

Organizational Background and Basis of Presentation

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

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

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

The financial statements include certain prior year comparative information, which has been derived from the System's 2015 financial statements. Such information does not include all of the information required to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the System's financial statements for the year ended June 30, 2015.

Certain items in the June 30, 2015 comparative information have been reclassified to correspond to the June 30, 2016 financial statement presentation.

(Continued)

Significant Accounting Policies

(a) Financial Statement Presentation and Basis of Accounting

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

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

(b) Cash and Cash Equivalents

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

(c) Investments

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

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

(d) Accounts Receivable

Accounts receivable are reported net of allowance for uncollectible. This allowance was $4,496,994 at June 30, 2016.

(e) Inventories

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

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

(f) Capital Assets

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

(Continued)

Estimated useful lives for capital assets are as follows:

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

(g) Deferred Outflow of Resources

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

Deferred Outflow of Resources

	Beginning balance	Additions	Deductions	Ending balance
Unamortized deferred loss on refunding	$ 37,257,159		(5,826,171)	$ 31,430,988

(h) Compensated Absences

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

Changes in Compensated Absences Balance

Balance, beginning of year	$ 6,311,209
Additions	396,652
Deductions	(529,452)
Balance, end of year	6,178,409
Less current portion	494,617
Balance, end of year – noncurrent portion	$ 5,683,792

(i) Premiums

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

(j) Net Position

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

(k) Classification of Revenues

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

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

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

(l) Classification of Expenses

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

(m) On-Behalf Payments for Fringe Benefits

In accordance with GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, the System reported payments made by the State of Illinois (State) on behalf of the System for contributions to State group insurance and retirement programs, including postemployment benefits, for System employees and its retirees of $53,857,598 for the year ended June 30, 2016. The on-behalf payments amount that relates to State group health insurance is an allocation of estimated costs incurred by the State on behalf of the System.

On-behalf payments are classified as nonoperating revenues and the corresponding expenses are reported as operating expenses.

(n) Pensions

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

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

(o) Use of Estimates

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

(p) New Accounting Pronouncements

The System adopted the provisions of GASB Statement No. 72, *Fair Value Measurement and Application*, which was effective for periods beginning after June 15, 2015. This Statement provides guidance for determining a fair value measurement for financial reporting purposes and for applying fair value to certain investments and disclosures related to all fair value measurements. This Statement requires the System to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. The techniques should be consistent with one or more of the following approaches: the market approach, the cost approach, or the income approach. The Statement establishes a hierarchy of inputs to valuation techniques used to measure fair value. The hierarchy has three levels. Level 1 inputs are quoted prices, Level 2 inputs are observable inputs other than quoted prices, and Level 3 inputs are unobservable inputs. Implementation of this pronouncement required additional disclosures related to investments in the notes to the System's financial statements.

The System adopted the provisions of GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which was effective for periods beginning after June 15, 2015. The Statement establishes the hierarchy of generally accepted accounting principles (GAAP). This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP (category A – GASB Statements & category B – GASB Tech Bulletins, Implementation Guides, AICPA Literature cleared by GASB) and addresses the use of authoritative and nonauthoritative literature in the event that accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. Implementation of this pronouncement did not impact the System's financial statements.

The System adopted the provisions of GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, which was effective for periods beginning after June 15, 2015. This Statement establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity, and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant. Implementation of this pronouncement did not impact the System's financial statements.

(2) Cash, Cash Equivalents and Investments

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

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

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

The following details the carrying value of the System's cash, cash equivalents and investments as of June 30, 2016:

U.S. government treasuries	$ 24,566,036
U.S. government securities	30,202,236
Corporate bonds	1,008,033
Money market funds	27,175,157
Commercial paper	21,428,696
Subtotal	104,380,158
Claim on cash and on pooled investments	184,650,044
Total cash, cash equivalents and investments	$ 289,030,202

(a) Interest Rate Risk

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

The System's nonpooled investments and maturities of June 30, 2016 are illustrated as follows:

	Maturities (in years)			
	Less than 1	**1 - 5**	**5 - 10**	**Total**
U.S. government treasuries	$ 18,486,356	6,079,680		$ 24,566,036
U.S. government securities	28,724,762	1,477,474		30,202,236
Corporate bonds			1,008,033	1,008,033
Money market funds	27,175,157			27,175,157
Commercial paper	21,428,696			21,428,696
Total cash equivalents and investments	$ 95,814,971	7,557,154	1,008,033	$ 104,380,158

Claim on cash and on pooled investments represents the System's share of participation in the University's operating internal investment pool. At June 30, 2016, the University's operating funds internal investment portfolio had an effective duration of 1.3 years. The operating internal investment pool consists of money market funds and other short-term investments (37%), stocks (10%) and long-term investments such as corporate bonds and government securities (53%).

(b) Credit Risk

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

The University reports the credit ratings of fixed income securities and short term instruments using Standard and Poor's and Moody's ratings. Securities with split ratings or with a different rating assignment are disclosed using the rating indicative of the greatest degree of risk. At June 30, 2016, the University's operating internal investment pool and non-pooled investments primarily consisted of securities with quality ratings of A or better.

(c) Custodial Credit Risk

Custodial credit risk is the risk that in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Exposure to custodial credit risk relates to investment securities that are held by someone other than the University and are not registered in the University's name. The University's investment policy does not limit the value of investments that may be held by an outside party. At June 30, 2016, the System's investments and deposits had no custodial credit risk exposure.

(d) Concentration of Credit Risk

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

As of June 30, 2016, not more than 5% of the University's total investments were invested in securities of any one issuer, excluding money market funds, tri-party repurchase agreements or obligations of, or issues guaranteed by, the U.S. Treasury, U.S. agencies or U.S. government sponsored enterprises.

(e) Foreign Currency Risk

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

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

(f) Investments and Fair Value Measurements

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

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

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

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

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

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

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

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

The following table summarizes assets measured at fair value as of June 30, 2016, based on the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

Fair Value Measurements as of June 30, 2016		
Investments in which fair value was measured based on significant other observable inputs (Level 2):		
U.S. government treasuries	$	24,566,036
U.S. government securities		30,202,236
Corporate bonds		1,008,033
Commercial paper		21,428,696
Total subject to fair value hierarchy	$	77,205,001
Investments measured at cost:		
Money market funds		27,175,157
Total cash equivalents and investments	$	104,380,158

(3) Capital Assets

Net interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Net interest of $8,369,501 was capitalized during the year ended June 30, 2016. The capital assets of the System are not pledged to secure outstanding indebtedness of the Board.

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

Capital assets	Beginning balance	Additions	Retirements	Transfers	Ending balance
Nondepreciable capital assets:					
Land	$ 19,238,069				$ 19,238,069
Construction in progress	141,379,873	93,379,911		(74,385,571)	160,374,213
Total nondepreciable capital assets	160,617,942	93,379,911	—	(74,385,571)	179,612,282
Depreciable capital assets:					
Buildings	1,306,224,988		3,142,770	70,175,618	1,373,257,836
Improvements	53,187,425			4,209,953	57,397,378
Equipment	17,258,722	1,056,533	108,934		18,206,321
Total depreciable capital assets	1,376,671,135	1,056,533	3,251,704	74,385,571	1,448,861,535
Less accumulated depreciation:					
Buildings	413,123,270	31,685,582	2,281,067		442,527,785
Improvements	36,770,018	1,326,717			38,096,735
Equipment	11,410,887	1,425,008	173,411		12,662,484
Total accumulated depreciation	461,304,175	34,437,307	2,454,478	—	493,287,004
Total net depreciable capital assets	915,366,960	(33,380,774)	797,226	74,385,571	955,574,531
Total	$ 1,075,984,902	59,999,137	797,226	—	$ 1,135,186,813

(4) Bonds Payable

On February 24, 2016, the University issued $129,025,000 of AFS Refunding Revenue Bonds, Series 2016A. Proceeds of these bonds were used to provide for the refunding of the outstanding principal of Series 2006A. Proceeds were also used to fund all costs incidental to the issuance of the Series 2016A Bonds. The refunding resulted in a projected savings of $29,134,122 over the life of the issue at a present value of $22,124,603. The difference between the reacquisition price and the net carrying amount of the old debt, gain on refunding, was $641,175. This gain is deferred and amortized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter.

On April 20, 2016, the University issued $20,630,000 of AFS Revenue Bonds, Series 2016B. Proceeds of these bonds were used to provide for constructing a new student union at the University of Illinois Springfield. Proceeds were also used to fund all costs incidental to the issuance of the Series 2016B Bonds.

Bonds payable activity for the year ended June 30, 2016 was as follows:

Bonds payable

Series	Rate on June 30 outstanding debt	Fiscal year maturity dates	Beginning balance	Additions	Deductions	Ending balance	Current portion
1991	7.35%	2017 – 2021	$ 97,620,000		16,270,000	81,350,000	16,270,000
1999A	6.15% to 6.33%	2017 – 2030	38,360,000		1,545,000	36,815,000	1,625,000
2001A	5.50%	2017 – 2024	38,985,000		4,580,000	34,405,000	1,895,000
2001B	5.50%	2017 – 2019	7,935,000		1,740,000	6,195,000	1,835,000
2003A	5.25% to 5.50%	2018 – 2034	38,285,000			38,285,000	
2005A	5.50%	2019 – 2023	42,405,000			42,405,000	
2006			138,885,000		138,885,000		
2008	variable	2017 – 2038	18,045,000		465,000	17,580,000	495,000
2009A	4.00%	2017 – 2019	3,360,000		805,000	2,555,000	825,000
2010A	4.00% to 5.25%	2017 – 2030	53,275,000		1,185,000	52,090,000	1,245,000
2011A	5.00% to 5.50%	2017 – 2041	78,670,000		1,270,000	77,400,000	1,335,000
2011B	3.324% to 4.517%	2017 – 2021	6,615,000		1,070,000	5,545,000	1,180,000
2011C	2.00% to 5.00%	2017 – 2032	68,285,000		1,770,000	66,515,000	1,850,000
2013A	3.25% to 5.00%	2017 – 2032	211,575,000		5,000	211,570,000	2,630,000
2014A	5.00%	2024 – 2044	159,985,000			159,985,000	
2014B	1.285% to 3.926%	2017 – 2023	17,845,000		1,590,000	16,255,000	3,675,000
2014C	variable	2038 – 2044	50,000,000		10,000,000	40,000,000	
2015A	3.00% to 5.00%	2017 – 2038	109,340,000		5,880,000	103,460,000	6,905,000
2016A	4.00% to 5.00%	2017 – 2036		129,025,000		129,025,000	3,675,000
2016B	3.00% to 5.00%	2018 – 2046		20,630,000		20,630,000	
			1,179,470,000	149,655,000	187,060,000	1,142,065,000	45,440,000
Unaccreted appreciation			(33,987,539)	7,039,155		(26,948,384)	(926,894)
			1,145,482,461	156,694,155	187,060,000	1,115,116,616	44,513,106
Unamortized debt premium			64,830,395	11,066,888	8,398,299	67,498,984	3,987,377
Total bonds payable			$ 1,210,312,856	167,761,043	195,458,299	1,182,615,600	48,500,483

Capital appreciation bonds (Series 1991 and 1999A) of $118,165,000 outstanding at June 30, 2016 do not require current interest payments and have a net unappreciated value of $91,216,616. The University records the annual increase in the principal amount of these bonds as interest expense and accretion on bonds payable.

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

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

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

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

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

Equipment Reserve – an amount approved by the Board for the acquisition of movable equipment to be installed in the facilities constituting the System. The reserve may not exceed 20% of the book value of the movable equipment of the System. Additions of $641,501 were made to the Equipment Reserve and expenses of $843,658 were incurred to replace movable equipment during the year ended June 30, 2016. The fund balance of the Equipment Reserve was $6,431,833 at June 30, 2016.

Bond and Interest Sinking Fund and Debt Service Reserve – amounts are transferred into the Bond and Interest Sinking Fund sufficient to pay principal and interest as it becomes due on the outstanding bonds and amounts fund a Debt Service Reserve at least equal to the Maximum Annual Net Debt Service, as defined. At June 30, 2016, the Debt Service Reserve was funded in excess of the Maximum Annual Net Debt Service. If at any time the Debt Service Reserve is less than the Maximum Annual Net Debt Service, the System is required to restore the Debt Service Reserve to the Maximum Annual Net Debt Service by the end of the next fiscal year.

Development Reserve – an amount approved by the Board for System development. No transfers were authorized by the Board during the year ended June 30, 2016, and there was no balance in the reserve at June 30, 2016.

The System made all required transfers for the year ended June 30, 2016.

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

Pledged revenues

Bond issue(s)	Purpose	Source of revenue pledged	Future revenues pledged[1]	Term of commitment	Debt service to pledged revenues (current year)
System	Refundings, various improvements and additions to the System	Net System revenue, student tuition and fees	$ 1,737,002,850	2046	8.03%

[1] Total future principal and interest payments

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

(a) Debt Service Requirements

Future debt service requirements for all bonds outstanding at June 30, 2016 are as follows:

Debt service requirements

	Principal	Interest
Years:		
2017	$ 45,440,000	$ 45,236,939
2018	46,000,000	44,193,246
2019	46,325,000	42,977,448
2020	48,130,000	41,600,373
2021	55,060,000	40,276,310
2022 – 2026	247,890,000	168,750,103
2027 – 2031	255,615,000	112,735,406
2032 – 2036	206,075,000	62,183,172
2037 – 2041	104,410,000	30,075,643
2042 – 2046	87,120,000	6,909,210
Total debt service	1,142,065,000	$ 594,937,850
Unaccreted appreciation	(26,948,384)	
Unamortized debt premium	67,498,984	
Total bonds payable	$ 1,182,615,600	

(b) Auxiliary Facilities System Variable-Rate Debt

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

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

Variable-rate bonds at June 30, 2016

Bond issue	Interest rate at June 30, 2016	Remarketing agent	Remarketing fee	Liquidity facility: Bank	Liquidity facility: Expiration	Liquidity facility: Insured by	Liquidity facility: Fee
AFS, Series 2008	0.88%	Loop Capital	0.075%	JPMorgan Chase	5/19/2021	None	0.525%
AFS, Series 2014C	0.42%	Wells Fargo	0.080%	Northern Trust	2/19/2019	Letter of Credit	0.350%

(c) *Advanced Refunded Bonds Payable*

The System defeased bonds through advance refunding during fiscal year 2016 and in prior years, and accordingly, they are not reflected in the accompanying financial statements. The amount of bonds that have been advance refunded as of June 30, 2016 is as follows:

Advanced Refunded Bonds

Series	Outstanding at June 30, 2016
2009A	$ 76,305,000

(5) Leaseholds Payable

Leaseholds payable activity for the year ended June 30, 2016 consisted of the following:

Leaseholds payable

Beginning balance	Additions	Deductions	Ending balance	Current portion
$ 112,873		39,699	73,174	33,351

The capital lease obligations have maturity dates from 2017 through 2020 and have interest rates ranging from 4.1% to 4.9%. As of June 30, 2016, future minimum lease payments are as follows:

	Principal	Interest
Years:		
2017	$ 33,351	$ 3,287
2018	17,746	1,898
2019	18,896	748
2020	3,181	92
Total minimum payments	$ 73,174	$ 6,025

(6) Related-Party Transactions

The University charged the System administrative service charges totaling $16,036,810 in 2016, based upon the gross expenditures and debt service transfers of various operations of the System. These charges represent a portion of estimated administrative and other service costs incurred by the University in support of the System and are reported as administrative services expense in the accompanying financial statements.

The System includes certain athletic facilities and office space utilized by the Division of Intercollegiate Athletics. Student fees provide the primary funding for the operation of these athletic facilities and office space. The Division of Intercollegiate Athletics transferred funds to the System of $20,800,079 in 2016 to fund the operations not covered by student fees. This transfer has been reported as rental and lease income in the accompanying financial statements.

At June 30, 2016, the System had borrowings of $10,387,497 under multiple internal financing notes with the University for the construction of System facilities. The notes all have repayment terms and interest rates of 3.0%.

Notes payable to the University

	Maturity date	Beginning balance	New debt	Principal paid/debt refunded	Ending balance	Current portion
Payable to the University	2017 – 2024	$ 10,325,979	2,620,955	2,559,437	10,387,497	1,561,299

Future debt service requirements for the outstanding notes payable as of June 30, 2016 are as follows:

Notes payable to the University
Debt service requirements

	Principal	Interest
Years:		
2017	$ 1,561,299	$ 311,051
2018	1,472,190	264,391
2019	1,516,355	220,226
2020	1,561,846	174,735
2021	1,608,701	127,880
2022 -2024	2,667,106	119,397
Total	$ 10,387,497	$ 1,217,680

(7) Retirement and Postemployment Benefits

(a) Retirement Benefits

General Information about the Pension Plan

Plan Description: The University contributes to the State Universities Retirement System of Illinois, a cost-sharing multiple-employer defined benefit plan with a special funding situation whereby the State of Illinois (the State) makes substantially all actuarially determined required contributions on behalf of the participating employers. SURS was established July 21, 1941 to provide retirement annuities and other benefits for staff members and employees of the 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.

Benefits Provided: A traditional benefit plan was established in 1941. Public Act 90-0448 enacted effective January 1, 1998, established an alternative defined benefit program known as the portable benefit package. The traditional and portable plan Tier 1 refers to members that began participation prior to January 1, 2011. Public Act 96-0889 revised the traditional and portable benefit plans for members who begin participation on or after January 1, 2011, and who do not have eligible Illinois reciprocal system services. The revised plan is referred to as Tier 2. New employees are allowed 6 months after their date of hire to make an irrevocable election. A summary of the benefit provisions as of June 30, 2015 can be found in the SURS' comprehensive annual financial report (CAFR) Notes to the Financial Statements.

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

Contributions: The State of Illinois is primarily responsible for funding the System on behalf of the individual employers at an actuarially determined amount. Public Act 88-0593 provides a Statutory Funding Plan consisting of two parts: (i) a ramp-up period from 1996 to 2010 and (ii) a period of contributions equal to a level percentage of the payroll of active members of the System to reach 90% of the total Actuarial Accrued Liability by the end of Fiscal Year 2045. Employer contributions from "trust, federal, and other funds" are provided under Section 15-155(b) of the Illinois Pension Code and require employers to pay contributions which are sufficient to cover the accruing normal costs on behalf of applicable employees. The employer normal cost for fiscal year 2015 and 2016 respectively, was 11.71% and 12.69% of employees' payroll. The normal cost is equal to the value of current year's pension benefit and does not include any allocation for past unfunded liability or interest on the unfunded liability. Plan members are required to contribute 8.0% of their annual covered salary. The contribution requirements of plan members and employers are established and may be amended by the Illinois General Assembly.

Participating employers make contributions toward separately financed specific liabilities under Section 15.139.5(e) of the Illinois Pension Code (relating to contributions payable due to the employment of "affected annuitants" or specific return to work annuitants) and Section 15.155(g) (relating to contributions payable due to earning increases exceeding 6% during the final rate of earnings period).

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

Net Pension Liability: At June 30, 2015, SURS reported a net pension liability (NPL) of $23,756,361,087. The net pension liability was measured as of June 30, 2014.

Employer Proportionate Share of Net Pension Liability: The amount of the proportionate share of the net pension liability to be recognized for the System is $0. The proportionate share of the State's net pension liability associated with the System is $405,968,461. This amount should not be recognized in the financial statement. The net pension liability was measured as of June 30, 2015, and the total pension used to calculate the net pension liability was determined based on the June 30, 2014 actuarial valuation rolled forward. The basis of allocation used in the proportionate share of net pension liability is the actual reported pensionable earnings made to SURS during fiscal year 2015.

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

Employer Proportionate Share of Pension Expense: The employer proportionate share of collective pension expense should be recognized similarly to on-behalf payments as both revenue and matching expenditure in the financial statements. The basis of allocation used in the proportionate share of collective pension expense is the actual reported pensionable contributions made to SURS during fiscal year 2015. As a result, the University recognized on-behalf revenue and pension expense of $836,040,000 for fiscal year ended June 30, 2016, of which $34,085,000 was related to the System.

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

SURS Collective Deferred Outflows and Deferred Inflows of Resources by Sources

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

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

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

Assumptions and Other Inputs

Actuarial assumptions: The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period June 30, 2010 – 2014. The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Salary increases	3.75 to 12.00 percent, including inflation
Investment rate of return	7.25 percent beginning with the actuarial valuation as of June 30, 2014

Mortality rates were based on the RP2000 Combined Mortality Table, projected with Scale AA to 2017, sex-distinct, with rates multiplied by 0.80 for males and 0.85 for females.

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

For each major asset class that is included in the pension plan's target asset allocation as of June 30, 2015, these best estimates are summarized in the following table:

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

Discount Rate: A single discount rate of 7.120% was used to measure the total pension liability. This single discount rate was based on an expected rate of return on pension plan investments of 7.250% and a municipal bond rate of 3.80% (based on the weekly rate closest to but not later than the measurement date of the 20-Year Bond Buyer Index as published by the Federal Reserve). The projection of cash flows used to determine this single discount rate were the amounts of contributions attributable to current plan members and assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the statutory contribution rates under the SURS' funding policy. Based on these assumptions, the pension plan's fiduciary net position and future contributions were sufficient to finance the benefit payments through the year 2072. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2072, and the municipal bond rate was applied to all benefit payments after that date.

Sensitivity of the SURS' Net Pension Liability to Changes in the Discount Rate: Regarding the sensitivity of the net pension liability to changes in the single discount rate, the following presents the plan's net pension liability, calculated using a single discount rate of 7.12%, as well as what the plan's net pension liability would be if it were calculated using a single discount rate that is 1-percentage-point lower or 1-percentage-point higher:

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

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

(b) Postemployment Benefits

The State Employees Group Insurance Act of 1971 (Act), as amended, authorizes the State to provide health, dental, vision and life insurance benefits for certain retirees and their dependents. Substantially all State and university component unit employees become eligible for these other postemployment benefits (OPEB) if they eventually become annuitants of one of the State sponsored pension plans. The Department of Central Management Services administer these benefits for annuitants with the assistance of the State's sponsored pension plans. The portions of the Act related to OPEB establish a cost-sharing multiple-employer defined-benefit OPEB plan (plan) with a special funding situation in which the State funds substantially all nonparticipant contributions. The plan does not issue a stand-alone financial report but is included as a part of the State's financial statements. A copy of the financial statements of the State can be obtained at www.ioc.state.il.us.

The health, dental and vision benefits provided to and contribution amounts required from annuitants are the result of collective bargaining between the State and various unions that represent the State and the university employees in accordance with limitations established in the Act. Therefore, the benefits provided and contribution amounts are subject to periodic change. The Act requires the State to provide life insurance benefits for annuitants equal to their annual salary as of the last day of employment until age 60, at which time the benefit amount becomes $5,000.

The State makes substantially all of the contributions for OPEB on behalf of the State universities. Since the State contributes substantially all of the employer contributions, the single-employer provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, have been followed for reporting the plan. The State is not required to and does not fund the plan other than the pay-as-you-go amount necessary to provide the current benefits.

(8) Commitments

At June 30, 2016, the System had commitments on various construction projects and contracts for repairs and renovation of auxiliary facilities of $58,263,111 These projects will be funded from the unexpended bond proceeds of Series 2014A, 2014B, 2014C and 2016B along with certain unexpended unrestricted funds and renewal and replacement funds set aside for construction costs.

UNIVERSITY OF ILLINOIS
AUXILIARY FACILITIES SYSTEM

Required Supplementary Information
Year Ended June 30, 2016

Schedule of University of Illinois Auxiliary Facilities System Proportionate Share of the Net Pension Liability	Fiscal Year 2015	Fiscal Year 2014
(a) Proportion Percentage of the Collective Net Pension Liability	0%	0%
(b) Proportion Amount of the Collective Net Pension Liability	$0	$0
(c) Portion of Nonemployer Contributing Entities' Total Proportion of Collective Net Pension Liability associated with Employer	$405,968,461	$376,037,733
Total (b) + (c)	$405,968,461	$376,037,733
Employer Covered-employee payroll	$68,951,536	$68,282,430
Proportion of Collective Net Pension Liability associated with Employer as a percentage of covered-employee payroll	588.77%	550.71%
SURS Plan Net Position as a Percentage of Total Pension Liability	42.37%	44.39%

(Continued)

UNIVERSITY OF ILLINOIS
AUXILIARY FACILITIES SYSTEM

Notes to Required Supplementary Information
June 30, 2016

Changes of benefit terms. There were no benefit changes recognized in the Total Pension Liability as of June 30, 2015.

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

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

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

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

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

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

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

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

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