



To: Municipal Securities Rulemaking Board's Electronic Municipal Market Access System (EMMA)

From: University of Illinois

Date: October 8, 2021

Re: NOTICE REGARDING FISCAL YEAR 2018 FINANCIAL STATEMENTS, FISCAL YEAR 2019 FINANCIAL STATEMENTS, AND FISCAL YEAR 2020 FINANCIAL STATEMENTS

During the ongoing Fiscal Year 2021 financial audit of the University of Illinois, the University was advised of a material error regarding the University's other postemployment benefits (OPEB) amounts recorded within the University's Fiscal Year 2018 financial statements¹, Fiscal Year 2019 financial statements², and Fiscal Year 2020 financial statements³ for the Auxiliary Facilities System (AFS).

This error occurred due to the Illinois State Toll Highway Authority (Tollway) and the State of Illinois, Department of Central Management Services not separately stating OPEB balances for the Tollway's employees who only partake in the State Employees Group Insurance Program (SEGIP) upon their retirement from the Tollway from other employees accounted for within SEGIP's cost-sharing proportionate share allocation of OPEB balances. This error impacted SEGIP's cost-sharing proportionate share allocation, which is used by the State of Illinois' agencies and public universities, including the University, to record their OPEB activity.

This error impacts, to the extent OPEB-related, operating expenses and nonoperating revenues within the special funding situation for fringe benefits account. As this error only impacted balances within the AFS' special funding situation, this specific error had no impact on AFS' net position.

At this time, the full impact of this error cannot be reasonably estimated. Accordingly, the University's AFS Fiscal Year 2018, Fiscal Year 2019, and Fiscal Year 2020 financial statements should no longer be relied upon.

More information about this error will be forthcoming upon the completion and release of the University's AFS Fiscal Year 2021 financial statements (to be contained with the University's AFS Fiscal Year 2021 Annual Financial Report), which is expected to be released next calendar year.

¹ The University's AFS Fiscal Year 2018 financial statements (contained with the University's AFS Fiscal Year 2018 Annual Financial Report) as filed on the EMMA System on January 24, 2019.

² The University's AFS Fiscal Year 2019 financial statements (contained with the University's AFS Fiscal Year 2019 Annual Financial Report) as filed on the EMMA system on January 23, 2020.

³ The University's AFS Fiscal Year 2020 financial statements (contained with the University's AFS Fiscal Year 2020 Annual Financial Report) as filed on the EMMA system on May 28, 2021.

**UNIVERSITY OF ILLINOIS
AUXILIARY FACILITIES SYSTEM**

Annual Financial Report

June 30, 2020

(With Independent Auditors' Report Thereon)

THE BOARD OF TRUSTEES

EX OFFICIO MEMBER The Governor of Illinois

Honorable J.B. Pritzker Springfield

MEMBERS

Ramón Cepeda Darien
Kareem Dale Chicago
Donald J. Edwards Chicago
Ricardo Estrada Chicago
Patricia Brown Holmes Chicago
Naomi D. Jakobsson Urbana
Stuart C. King Champaign
Edward L. McMillan Greenville
Jill B. Smart Downers Grove

STUDENT TRUSTEES

Trayshawn N. W. Mitchell University of Illinois at Urbana – Champaign
Susan E. Panek University of Illinois at Chicago
Rosie Dawoud University of Illinois at Springfield

BOARD OFFICERS

Donald J. Edwards Chair
Lester H. McKeever, Jr. Treasurer
Avijit Ghosh Chief Financial Officer and Comptroller
Thomas R. Bearrows University Counsel
Dedra M. Williams Secretary (through May 31, 2020)
Gregory J. Knott Secretary (effective June 1, 2020)

ADMINISTRATIVE OFFICERS

University System

Timothy L. Killeen President
Avijit Ghosh Chief Financial Officer and Comptroller

University of Illinois at Urbana – Champaign

Robert Jones Chancellor and Vice President
Danita M. Brown Young Vice Chancellor for Student Affairs

University of Illinois at Chicago

Michael Amiridis Chancellor and Vice President
John Coronado Vice Chancellor for Administrative Services
J. Rex Tolliver Vice Chancellor for Student Affairs

University of Illinois at Springfield

Susan J. Koch Chancellor and Vice President
Clarice Ford Vice Chancellor for Student Affairs (through April 19, 2020)
Van Vieregge Interim Vice Chancellor for Student Affairs (effective April 20, 2020)

**UNIVERSITY OF ILLINOIS
AUXILIARY FACILITIES SYSTEM**

Annual Financial Report

June 30, 2020

Table of Contents

	Page
Letter of Transmittal	1
Independent Auditors' Report	2
Financial Statements:	
Statement of Net Position	5
Statement of Revenues, Expenses and Changes in Net Position	6
Statement of Cash Flows	7
Notes to Financial Statements	9
Required Supplementary Information	29



UNIVERSITY OF ILLINOIS SYSTEM

Office of the Vice President, Chief Financial Officer and Comptroller
349 Henry Administration Building, 506 South Wright Street • Urbana, Illinois 61801

May 11, 2021

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, 2020. This report supplements the Annual Financial Report of the University of Illinois.

The Auxiliary Facilities System includes housing, and recreational and athletic facilities utilized by students, staff, faculty, alumni, and university guests. Although housing and student service fees were partially refunded due to the disruption of services as a result of the COVID-19 pandemic, the System's strong financial position in addition to the financial support provided by the Coronavirus Aid, Relief, and Economic Security Act allowed it to endure these financial challenges.

The 2020 financial statements, accompanying notes, and required supplementary information appearing on pages 5 through 30 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 through 4.

CliftonLarsonAllen LLP also prepares a report for the year ended June 30, 2020, 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, 2020. 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,

SIGNED ORIGINAL ON FILE

Avijit Ghosh
Chief Financial Officer, and Comptroller



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), a segment of the University of Illinois, as of and for the year ended June 30, 2020, 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, 2020, 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, 2020, 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. Our opinion is not modified with respect to this matter.

Other Matters

Report on Summarized Comparative Information

We have previously audited the Systems' 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 19, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Schedule of University of Illinois Auxiliary Facilities System Proportionate Share of the Net Pension Liability on page 29 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report under separate cover dated May 11, 2021, 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 solely 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 effectiveness of the System's 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.

SIGNED ORIGINAL ON FILE

CliftonLarsonAllen LLP

Peoria, Illinois
May 11, 2021

**UNIVERSITY OF ILLINOIS
AUXILIARY FACILITIES SYSTEM**

Statement of Net Position

June 30, 2020

(with summarized comparative information for June 30, 2019)

Assets and Deferred Outflow of Resources	2020	2019
Current assets:		
Claim on cash and on pooled investments	\$ 158,524,815	\$ 189,758,874
Claim on cash and on pooled investments, restricted	3,303,840	2,887,733
Cash and cash equivalents, restricted	12,532,422	2,960,586
Investments		12,851,628
Investments, restricted	3,554,425	8,480,505
Accrued investment income	489,797	999,582
Accounts receivable, net of allowance for uncollectible	7,548,018	7,257,821
Inventories	6,519,666	6,461,384
Prepaid expenses	528,837	712,505
Total current assets	193,001,820	232,370,618
Noncurrent assets:		
Cash and cash equivalents	32,850,677	15,071,277
Cash and cash equivalents, restricted	22,402,807	
Investments, restricted	22,021,265	77,661,501
Prepaid expenses		729,980
Capital assets, net of accumulated depreciation	1,207,816,371	1,167,474,639
Total noncurrent assets	1,285,091,120	1,260,937,397
Deferred outflow of resources	15,056,812	16,753,977
Total assets and deferred outflow of resources	\$ 1,493,149,752	\$ 1,510,061,992
Liabilities and Net Position		
Current liabilities:		
Accounts payable	\$ 29,091,357	\$ 33,160,340
Accrued liabilities	3,012,853	3,139,287
Accrued compensated absences	570,600	541,324
Accrued interest	12,047,347	12,087,272
Unearned revenues	6,011,053	8,825,759
Notes payable to the University	1,799,702	1,548,237
Bonds and leaseholds payable	60,552,919	51,355,304
Total current liabilities	113,085,831	110,657,523
Noncurrent liabilities:		
Accrued compensated absences	6,460,807	5,819,005
Notes payable to the University	3,117,001	4,729,914
Bonds and leaseholds payable	1,120,112,131	1,135,775,444
Total noncurrent liabilities	1,129,689,939	1,146,324,363
Total liabilities	1,242,775,770	1,256,981,886
Net investment in capital assets	116,438,434	91,328,376
Restricted - Expendable for debt service	19,390,687	18,884,347
Unrestricted	114,544,861	142,867,383
Total net position	250,373,982	253,080,106
Total liabilities and net position	\$ 1,493,149,752	\$ 1,510,061,992

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, 2020

(with summarized comparative information for the year ended June 30, 2019)

	2020	2019
Operating revenues:		
Room and board, net	\$ 116,734,613	\$ 148,608,430
Merchandise and retail food sales	27,913,987	34,878,670
Student service fees	96,138,486	102,210,055
Public events and recreation fees	6,141,023	7,927,080
Parking income	22,453,215	26,864,427
Rental and lease income	30,806,303	32,272,604
Printing and vending income	3,415,664	3,998,271
Other operating revenue	9,446,414	10,062,006
Total operating revenues	313,049,705	366,821,543
Operating expenses:		
Salaries, wages and benefits	94,822,773	94,123,990
Merchandise and food for resale	26,611,808	32,970,719
Repair and maintenance	8,076,233	6,785,720
Professional and other contractual services	44,530,957	46,217,128
Utilities	28,687,537	32,739,902
Supplies	12,500,625	12,321,016
Noncapitalized renovations and equipment	14,459,735	13,763,365
Administrative services	14,612,526	16,735,632
Other operating expense	5,037,969	5,425,950
Depreciation	44,169,874	43,561,753
On-behalf for fringe benefits	7,555,738	9,691,641
Special funding situation for fringe benefits	36,519,004	31,695,408
Total operating expenses	337,584,779	346,032,224
Operating (loss) gain	(24,535,074)	20,789,319
Nonoperating revenues (expenses):		
On-behalf for fringe benefits	7,555,738	9,691,641
Special funding situation for fringe benefits	36,519,004	31,695,408
Federal grant - Coronavirus Aid, Relief, and Economic Security Act	19,305,362	
Investment income, net of related expenses	5,728,521	10,224,645
Interest on capital asset-related debt	(45,346,750)	(49,585,042)
Loss on disposal of capital assets	(507,255)	(252,490)
Other nonoperating expenses, net	(1,425,670)	(480,682)
Net nonoperating revenues	21,828,950	1,293,480
(Decrease) increase in net position	(2,706,124)	22,082,799
Net position, beginning of year	253,080,106	230,997,307
Net position, end of year	\$ 250,373,982	\$ 253,080,106

See accompanying notes to financial statements.

**UNIVERSITY OF ILLINOIS
AUXILIARY FACILITIES SYSTEM**

Statement of Cash Flows

Year ended June 30, 2020

(with summarized comparative information for the year ended June 30, 2019)

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Room and board	\$ 115,252,468	\$ 148,798,904
Merchandise and retail food sales	27,619,722	35,173,430
Student service fees	95,177,713	103,220,923
Public events and recreation fees	6,079,453	8,008,690
Parking income	22,600,081	27,004,688
Rental and lease income	30,502,074	32,536,874
Printing and vending income	3,395,389	4,019,416
Other sources	9,317,902	10,180,317
Payments to employees and for benefits	(94,278,129)	(94,094,011)
Payments to suppliers	<u>(155,522,510)</u>	<u>(165,898,707)</u>
Net cash provided by operating activities	<u>60,144,163</u>	<u>108,950,524</u>
Cash flows from noncapital financing activities:		
Federal grant - Coronavirus Aid, Relief, and Economic Security Act	19,305,362	
Other (disbursements) receipts, net	<u>(2,555)</u>	<u>869,138</u>
Net cash provided by noncapital financing activities	<u>19,302,807</u>	<u>869,138</u>
Cash flows from capital and related financing activities:		
Proceeds from the issuance of bonds	44,959,832	166,871,863
Payment of bond issuance costs	(702,499)	(2,106,105)
Purchase of capital assets	(82,975,991)	(77,163,619)
Principal paid on bonds and capital leases	(50,592,842)	(69,123,102)
Proceeds from notes payable to the University	204,487	
Repayment of notes payable to the University	(1,565,935)	(11,518,195)
Interest paid on bonds and notes payable	<u>(49,494,181)</u>	<u>(46,966,593)</u>
Net cash used in capital and related financing activities	<u>(140,167,129)</u>	<u>(40,005,751)</u>
Cash flows from investing activities:		
Interest on investments	8,834,779	6,158,514
Pooled cash allocated (to) from University related to unrealized (losses) gains	(822,039)	2,364,748
Proceeds from sales and maturities of investments	130,344,508	67,344,490
Purchase of investments	<u>(58,700,998)</u>	<u>(142,158,031)</u>
Net cash provided by (used in) investing activities	<u>79,656,250</u>	<u>(66,290,279)</u>
Net increase in cash and cash equivalents	18,936,091	3,523,632
Cash and cash equivalents, beginning of year	<u>210,678,470</u>	<u>207,154,838</u>
Cash and cash equivalents, end of year	<u>\$ 229,614,561</u>	<u>\$ 210,678,470</u>

**UNIVERSITY OF ILLINOIS
AUXILIARY FACILITIES SYSTEM**

Statement of Cash Flows

Year ended June 30, 2020

(with summarized comparative information for the year ended June 30, 2019)

	2020	2019
Reconciliation of operating (loss) gain to net cash provided by operating activities:		
Operating (loss) gain	\$ (24,535,074)	\$ 20,789,319
Adjustments to reconcile operating (loss) gain to net cash provided by operating activities:		
Depreciation	44,169,874	43,561,753
On-behalf for fringe benefits	7,555,738	9,691,641
Special funding situation for fringe benefits	36,519,004	31,695,408
Changes in assets and liabilities:		
Accounts receivable (net)	(290,197)	1,062,822
Inventories	(58,282)	97,715
Prepaid expenses	157,362	(113,229)
Accounts payable	(1,104,200)	1,076,239
Accrued liabilities	544,644	29,979
Unearned revenues	(2,814,706)	1,058,877
Net cash provided by operating activities	\$ 60,144,163	\$ 108,950,524
Noncash investing, capital and financing activities:		
On-behalf for fringe benefits	\$ 7,555,738	\$ 9,691,641
Special funding situation for fringe benefits	36,519,004	31,695,408
Change in fair value of investments	(1,774,434)	1,311,446
(Decrease) increase of capital assets obligations in accounts payable	(2,964,783)	9,857,239
Capital appreciation on bonds payable	3,361,197	4,421,944
Net interest capitalized	4,971,983	3,360,264
Loss on disposal of capital assets	\$ (507,255)	\$ (252,490)

See accompanying notes to financial statements.

**UNIVERSITY OF ILLINOIS
AUXILIARY FACILITIES SYSTEM**

Notes to Financial Statements

June 30, 2020

(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 2019 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, 2019.

**UNIVERSITY OF ILLINOIS
AUXILIARY FACILITIES SYSTEM**

Notes to Financial Statements

June 30, 2020

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 \$4,466,498 at June 30, 2020.

(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.

**UNIVERSITY OF ILLINOIS
AUXILIARY FACILITIES SYSTEM**

Notes to Financial Statements

June 30, 2020

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.

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 \$	16,753,977		(1,697,165)	\$ 15,056,812

(h) Compensated Absences

Accrued compensated absences for System personnel are charged as an operating expense, using the vested method based on earned and unused vacation and sick leave days including the System's share of Medicare taxes.

Section 14a of the State Finance Act (30 ILCS 105/14a) provides that employees eligible to participate in the State Universities Retirement System or the Federal Retirement System are eligible for compensation at time of resignation, retirement, death or other termination of System employment for one-half (1/2) of the unused sick leave earned between January 1, 1984 and December 31, 1997. Any sick leave days that were earned before or after this period of time are noncompensable.

Changes in Compensated Absences Balance	
Balance, beginning of year	\$ 6,360,329
Additions	1,316,335
Deductions	(645,257)
Balance, end of year	7,031,407
Less current portion	570,600
Balance, end of year – noncurrent portion	\$ 6,460,807

**UNIVERSITY OF ILLINOIS
AUXILIARY FACILITIES SYSTEM**

Notes to Financial Statements

June 30, 2020

(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 for fringe benefits, special funding situation for fringe benefits, certain federal grants 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 for Fringe Benefits

In accordance with GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, the System has reported outside sources of financial assistance provided by other entities on behalf of the System during the year ended June 30, 2020, as described below.

Substantially all active employees participate in group health insurance plans provided by the State and administered by the Illinois Department of Central Management Services (CMS). The State contributed, on-behalf of the System, an estimated \$7,555,738 which is reflected as nonoperating revenues and operating expenses within the System's financial statements.

**UNIVERSITY OF ILLINOIS
AUXILIARY FACILITIES SYSTEM**

Notes to Financial Statements

June 30, 2020

(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 the SURS' plan net position has been determined on the same basis as they are reported by the 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 financial reporting purposes, the State and its public universities and community colleges are under a special funding situation. A special funding situation exists when a non-employer entity (the State) is legally responsible for making contributions directly to a pension plan that is used to provide pensions to the employees of another entity (the University, including the System) and the non-employer (the State) is the only entity with a legal obligation to make contributions directly to a pension plan. The System recognizes its proportionate share of the State's pension expense relative to the System's employees as non-operating revenue and special funding situation for fringe benefits expense.

(o) Other postemployment benefits (OPEB)

The State Employees Group Insurance Act of 1971 (Act) (5 ILCS 375) authorizes the State Employees Group Insurance Program (SEGIP), which includes activity for both active employees and retirees, as a single-employer defined benefit OPEB plan not administered as a trust. Substantially all State and state public universities' unit employees become eligible for these OPEB plan benefits when they become annuitants of one of the State sponsored pension plans. CMS administers these benefits for the annuitants with the assistance of the public retirement systems sponsored by the State General Assembly Retirement System (GARS), Judges Retirement System (JRS), State Employees Retirement System (SERS), Teachers' Retirement System (TRS), and SURS.

In order to fund SEGIP's pay-as-you-go obligations for both current employees and retirees, the Act (5 ILCS 375/11) requires contributions based upon total employee compensation paid from any State fund, including the University's State Appropriations Funds. Additionally, the University shall not be required to make contributions for employees who are fully compensated from the System's operating funds. Pursuant to a long-standing State policy, the State's General Fund covers the contributions for employees who are fully compensated from the System's operating funds. This relationship may be modified through the enactment of a Public Act by the State's highest level of decision-making authority exercised by the Governor and the General Assembly pursuant to the State's Constitution.

The University has two separate components of OPEB administered within SEGIP. The (1) State of Illinois and its public universities are under a special funding situation for employees not paid from trust, federal, and other similar funds, while (2) the University is responsible for OPEB employer contributions when University employees are paid from trust, federal, and other similar funds. The System is under a special funding situation since its employees are not paid from trust, federal, and other similar funds.

A special funding situation exists when a non-employer entity (the State) is legally responsible for making contributions directly to an OPEB plan that is used to provide OPEB to the employees of another entity (the University, including the System) and the non-employer (the State) is the only entity with a legal obligation to make contributions directly to an OPEB plan. The System recognizes the proportionate share of the State's OPEB expense relative to the System's employees as non-operating revenue and special funding situation for fringe benefits operating expense.

**UNIVERSITY OF ILLINOIS
AUXILIARY FACILITIES SYSTEM**

Notes to Financial Statements

June 30, 2020

(p) 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.

(q) New Accounting Pronouncements

The System reviewed the provisions of GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which was effective immediately upon issuance in May of 2020. The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later. Most of the effective dates of certain provisions contained within this pronouncement were postponed by one year with the exception of GASB Statement No. 87, *Leases*, which was postponed by 18 months. As such, in the current fiscal year, the System did not adopt and implement any new GASB 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, 2020:

U.S. government treasuries	\$	15,294,428
U.S. government securities		474,196
Money market funds		67,785,907
Commercial paper		9,807,065
Subtotal		93,361,596
Claim on cash and on pooled investments		161,828,655
Total cash, cash equivalents and investments	\$	255,190,251

**UNIVERSITY OF ILLINOIS
AUXILIARY FACILITIES SYSTEM**

Notes to Financial Statements

June 30, 2020

(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, Barclays Capital Intermediate Government Credit Bond Index and the Barclays Capital Intermediate Aggregate Bond Index.

The System's nonpooled investments and maturities as of June 30, 2020 are illustrated as follows:

	Maturities (in years)	
	Total	Less than 1
U.S. government treasuries	\$ 15,294,428	\$ 15,294,428
U.S. government securities	474,196	474,196
Money market funds	67,785,907	67,785,907
Commercial paper	9,807,065	9,807,065
Total cash equivalents and investments	\$ 93,361,596	\$ 93,361,596

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, 2020, the University's operating funds internal investment portfolio had an effective duration for its interest bearing securities of 1.4 years.

(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. Unrated securities are not allowed unless specifically permitted by an individual manager's guidelines. 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, 2020 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

**UNIVERSITY OF ILLINOIS
AUXILIARY FACILITIES SYSTEM**

Notes to Financial Statements

June 30, 2020

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, 2020, 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 investments (e.g. mortgage-backed securities), concentration is limited to an individual issuance trust (e.g. pooled receivables). These concentration limits do not apply to investments in pooled investment products, 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, 2020, not more than 5% of the University's total investments were invested in securities of any one issuer, excluding pooled investment products, 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's operating fund investments generally are not exposed to foreign currency risk. 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 invests in non-U.S. developed and emerging markets through commingled funds invested in non-U.S. equities, fixed income, private markets and hedge funds. 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.

**UNIVERSITY OF ILLINOIS
AUXILIARY FACILITIES SYSTEM**

Notes to Financial Statements

June 30, 2020

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 bond funds, equity funds, and 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 equities and farm properties.

The following table summarizes assets measured at fair value as of June 30, 2020, 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, 2020	
Investments in which fair value was measured based on significant other observable inputs (Level 2):	
U.S. government treasuries	\$ 15,294,428
U.S. government securities	474,196
Commercial paper	9,807,065
Total subject to fair value hierarchy	\$ 25,575,689
Investments measured at cost:	
Money market funds	67,785,907
Total cash equivalents and investments	\$ 93,361,596

**UNIVERSITY OF ILLINOIS
AUXILIARY FACILITIES SYSTEM**

Notes to Financial Statements

June 30, 2020

(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 \$4,971,983 was capitalized during the year ended June 30, 2020. 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, 2020 is summarized as follows:

	Capital assets				Ending balance
	Beginning balance	Additions	Retirements	Transfers	
Nondepreciable capital assets:					
Land	\$ 19,238,069	\$ 11,265	\$	\$	\$ 19,249,334
Construction in progress	113,029,995	83,143,108		(82,497,974)	113,675,129
Total nondepreciable capital assets	<u>132,268,064</u>	<u>83,154,373</u>	<u>—</u>	<u>(82,497,974)</u>	<u>132,924,463</u>
Depreciable capital assets:					
Buildings	1,571,588,560			82,497,974	1,654,086,534
Improvements	58,882,797				58,882,797
Equipment	20,056,763	1,864,488	1,779,958		20,141,293
Total depreciable capital assets	<u>1,650,528,120</u>	<u>1,864,488</u>	<u>1,779,958</u>	<u>82,497,974</u>	<u>1,733,110,624</u>
Less accumulated depreciation:					
Buildings	558,859,425	41,501,308			600,360,733
Improvements	42,761,306	1,262,718			44,024,024
Equipment	13,700,814	1,405,848	1,272,703		13,833,959
Total accumulated depreciation	<u>615,321,545</u>	<u>44,169,874</u>	<u>1,272,703</u>	<u>—</u>	<u>658,218,716</u>
Total net depreciable capital assets	<u>1,035,206,575</u>	<u>(42,305,386)</u>	<u>507,255</u>	<u>82,497,974</u>	<u>1,074,891,908</u>
Total	<u>\$ 1,167,474,639</u>	<u>\$ 40,848,987</u>	<u>\$ 507,255</u>	<u>\$ —</u>	<u>\$ 1,207,816,371</u>

(4) Bonds Payable

On October 8, 2019, the University issued \$41,935,000 of AFS Revenue Bonds, Series 2019A. Proceeds of these bonds are or were being used to (i) finance alterations, improvements and repairs to the Townsend Hall and Wardall Hall residence hall facilities on the Urbana-Champaign campus, (ii) pay a portion of the interest on the Series 2019A Bonds, and (iii) pay costs of issuing the Series 2019A Bonds.

**UNIVERSITY OF ILLINOIS
AUXILIARY FACILITIES SYSTEM**

Notes to Financial Statements

June 30, 2020

Bonds payable activity for the year ended June 30, 2020 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%	2021	\$ 32,540,000	\$	\$ 16,270,000	\$ 16,270,000	\$ 16,270,000
1999A	6.27% to 6.33%	2021 – 2030	31,700,000		4,635,000	27,065,000	4,965,000
2001A	5.50%	2021 – 2024	24,665,000		3,570,000	21,095,000	3,670,000
2003A	5.25% to 5.50%	2021 – 2034	34,490,000		2,050,000	32,440,000	2,155,000
2005A	5.50%	2021 – 2023	35,985,000		8,580,000	27,405,000	9,185,000
2010A	4.00% to 5.25%	2021 – 2030	48,205,000		1,400,000	46,805,000	6,630,000
2011A	5.00% to 5.50%	2021 – 2041	73,195,000		2,215,000	70,980,000	2,350,000
2011B	4.52%	2021 – 2021	2,120,000		1,075,000	1,045,000	1,045,000
2011C	2.75% to 5.00%	2021 – 2032	64,515,000		80,000	64,435,000	80,000
2013A	3.25% to 5.00%	2021 – 2032	199,715,000		3,290,000	196,425,000	3,530,000
2014A	5.00%	2024 – 2044	159,985,000		-	159,985,000	
2014B	3.25% to 3.93%	2021 – 2023	8,375,000		1,955,000	6,420,000	2,050,000
2014C	variable	2038 – 2044	31,000,000		-	31,000,000	
2015A	3.00% to 5.00%	2021 – 2038	88,710,000		1,430,000	87,280,000	1,465,000
2016A	4.00% to 5.00%	2021 – 2036	124,220,000		600,000	123,620,000	645,000
2016B	3.00% to 5.00%	2021 – 2046	19,850,000		420,000	19,430,000	440,000
2018A	4.00% to 5.00%	2021 – 2048	138,855,000		2,605,000	136,250,000	2,730,000
2018B	3.00% to 5.00%	2021 – 2048	19,590,000		365,000	19,225,000	385,000
2019A	3.00% to 5.00%	2021 – 2049		41,935,000		41,935,000	760,000
			<u>1,137,715,000</u>	<u>41,935,000</u>	<u>50,540,000</u>	<u>1,129,110,000</u>	<u>58,355,000</u>
Unaccreted appreciation			<u>(10,929,153)</u>	<u>3,361,197</u>		<u>(7,567,956)</u>	<u>(2,079,650)</u>
			<u>1,126,785,847</u>	<u>45,296,197</u>	<u>50,540,000</u>	<u>1,121,542,044</u>	<u>56,275,350</u>
Unamortized debt premium			<u>60,161,024</u>	<u>3,024,832</u>	<u>4,193,885</u>	<u>58,991,971</u>	<u>4,226,428</u>
Total bonds payable			<u>\$ 1,186,946,871</u>	<u>\$ 48,321,029</u>	<u>\$ 54,733,885</u>	<u>\$ 1,180,534,015</u>	<u>\$ 60,501,778</u>

Capital appreciation bonds (Series 1991 and 1999A) of \$43,335,000 outstanding at June 30, 2020 do not require current interest payments and have a net unappreciated value of \$35,767,044. 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

**UNIVERSITY OF ILLINOIS
AUXILIARY FACILITIES SYSTEM**

Notes to Financial Statements

June 30, 2020

maintenance expenses of the System. In the event of default, the bond owners may sue to command performance.

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 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 \$144,513 were made to the Equipment Reserve and expenses of \$978,331 were incurred to replace movable equipment during the year ended June 30, 2020. The fund balance of the Equipment Reserve was \$6,733,744 at June 30, 2020.

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, 2020, 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, 2020, and there was no balance in the reserve at June 30, 2020.

The System made all required transfers for the year ended June 30, 2020.

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

<u>Bond issue(s)</u>	<u>Purpose</u>	<u>Pledged revenues</u>			<u>Debt service to pledged revenues (current year)</u>
		<u>Source of revenue pledged</u>	<u>Future revenues pledged¹</u>	<u>Term of commitment</u>	
System	Refundings, various improvements and additions to the System	Net System revenue, student tuition and fees	\$ 1,677,152,852	2049	8.27%

¹ Total future principal and interest payments

**UNIVERSITY OF ILLINOIS
AUXILIARY FACILITIES SYSTEM**

Notes to Financial Statements

June 30, 2020

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, 2020 are as follows:

Debt service requirements			
	Principal		Interest
Years:			
2021	\$ 58,355,000	\$	48,226,890
2022	60,885,000		46,373,291
2023	52,295,000		43,460,241
2024	50,530,000		40,992,238
2025	53,395,000		38,604,288
2026 – 2030	279,825,000		155,953,094
2031 – 2035	248,955,000		96,646,075
2036 – 2040	135,415,000		52,747,343
2041 – 2045	156,075,000		22,373,061
2046 – 2049	33,380,000		2,666,331
Total debt service	1,129,110,000	\$	548,042,852
Unaccrued appreciation	(7,567,956)		
Unamortized debt premium	58,991,971		
Total bonds payable	\$ 1,180,534,015		

(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 letter of credit agreement with a liquidity facility entity.

The System, in the event a liquidity facility is utilized, has a reimbursement agreement with a financial entity. The reimbursement provisions require repayment in eight equal quarterly installments, at an interest rate initially set at slightly above prime or the federal funds rate. The due date of the initial payment per the reimbursement agreement is 366 days after a liquidity advance. The letter of credit agreements contain provisions that the University may terminate and replace the letter of credit agreement so long as the University has paid all of the obligations owed to the liquidity facility. In the event of default, the liquidity facility may cause the bonds to be subject to a mandatory tender.

**UNIVERSITY OF ILLINOIS
AUXILIARY FACILITIES SYSTEM**

Notes to Financial Statements

June 30, 2020

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, 2020							
Bond issue	Interest rate at June 30, 2020	Remarketing agent	Remarketing fee	Liquidity facility			
				Bank	Expiration	Insured by	Fee
AFS, Series 2014C	0.18%	Wells Fargo	0.080%	Northern Trust	2/19/2024	Letter of Credit	0.350%

(5) Leaseholds Payable

Leaseholds payable activity for the year ended June 30, 2020 consisted of the following:

Leaseholds payable					
	Beginning balance	Additions	Deductions	Ending balance	Current portion
Capital lease obligations	\$ 183,877		52,842	131,035	\$ 51,141

The capital lease obligations have maturity dates from 2021 through 2024 and have interest rates ranging from 2.43% to 4.10%. As of June 30, 2020, future minimum lease payments are as follows:

Years:	Principal	Interest
2021	\$ 51,141	\$ 3,075
2022	52,668	1,549
2023	21,716	465
2024	5,510	33
Total minimum payments	\$ 131,035	\$ 5,122

(6) Related-Party Transactions

The University charged the System administrative service charges totaling \$14,612,526 in 2020, 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 \$17,814,300 in 2020 to fund the operations not covered by student fees. This transfer has been reported as rental and lease income in the accompanying financial statements.

**UNIVERSITY OF ILLINOIS
AUXILIARY FACILITIES SYSTEM**

Notes to Financial Statements

June 30, 2020

At June 30, 2020, the System had borrowings under multiple internal financing notes with the University in order to finance acquisition, construction, and renovation of System facilities. The notes 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	2021 – 2024	\$ 6,278,151	204,486	1,565,934	\$ 4,916,703	\$ 1,799,702

Future debt service requirements for the outstanding notes payable as of June 30, 2020 are as follows:

Notes payable to the University Debt service requirements		
	Principal	Interest
Years:		
2021	\$ 1,799,702	\$ 141,367
2022	1,643,070	93,510
2023	1,327,532	44,218
2024	146,399	4,392
Total	\$ 4,916,703	\$ 283,487

(7) Retirement and Postemployment Benefits

(a) Retirement Benefits

General Information about the Pension Plan

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

Benefits Provided: A traditional benefit plan was established in 1941. Public Act 90-0448 enacted effective January 1, 1998, established an alternative defined benefit program known as the portable benefit package. The traditional and portable plan Tier 1 refers to members that began participation prior to January 1, 2011. Public Act 96-0889 revised the traditional and portable benefit plans for members who begin participation on or after January 1, 2011, and who do not have 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 whether to participate in either the traditional or portable

**UNIVERSITY OF ILLINOIS
AUXILIARY FACILITIES SYSTEM**

Notes to Financial Statements

June 30, 2020

benefit plans. A summary of the benefit provisions as of June 30, 2019 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 is primarily responsible for funding the SURS 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 2019 and 2020 respectively, was 12.29% and 13.02% of employee payroll. The normal cost is equal to the value of current year's pension benefit and does not include any allocation for the past unfunded liability or interest on the unfunded liability. Plan members are required to contribute 8.0% of their annual covered salary except for police officers and fire fighters who contribute 9.5% of their earnings. The contribution requirements of plan members and employers are established and may be amended by the State's 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), Section 15-155(g) (relating to contributions payable due to earning increases exceeding 6% during the final rate of earnings period), and Section 15-155 (j-5) (relating to contributions payable due to earnings exceeding the salary set for the Governor).

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

Net Pension Liability: The net pension liability (NPL) was measured as of June 30, 2019. At June 30, 2019, the SURS reported a NPL of \$28,720,071,173.

Employer Proportionate Share of Net Pension Liability: The amount of the proportionate share of the NPL to be recognized for the System is \$0. The proportionate share of the State's NPL associated with the System is \$469,646,501. This amount is not recognized in the System's financial statements. The NPL and total pension liability as of June 30, 2019 was determined based on the June 30, 2018 actuarial valuation rolled forward. The basis of allocation used in the proportionate share of net pension liability is the actual reported pensionable contributions made to the SURS during fiscal year 2019.

Pension Expense: At June 30, 2019 SURS reported a collective net pension expense of \$3,094,666,252.

Employer Proportionate Share of Pension Expense: The employer proportionate share of collective pension expense is recognized as nonoperating revenue with matching operating expense (special funding situation for fringe benefits) 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 the SURS during fiscal year 2019. As a result, the University recognized revenue and pension expense of

**UNIVERSITY OF ILLINOIS
AUXILIARY FACILITIES SYSTEM**

Notes to Financial Statements

June 30, 2020

\$1,373,809,000 from this special funding situation during the year ended June 30, 2020, of which \$50,605,695 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 the SURS that is applicable to future reporting periods. Conversely, deferred inflow of resources are the acquisition 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	\$ 160,132,483	\$ 80,170,745
Changes in assumption	773,321,300	
Net difference between projected and actual earnings on pension plan investments		55,456,660
Total	\$ 933,453,783	\$ 135,627,405

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

Year Ending June 30	Net Deferred Outflows of Resources
2020	\$ 786,021,133
2021	(11,534,848)
2022	(6,661,326)
2023	30,001,419
Total	\$ 797,826,378

Assumptions and Other Inputs

Actuarial assumptions: The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period June 30, 2014 through June 30, 2017. The total pension liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25 percent
Salary increases	3.25 to 12.25 percent, including inflation
Investment rate of return	6.75 percent beginning with the actuarial valuation as of June 30, 2018

**UNIVERSITY OF ILLINOIS
AUXILIARY FACILITIES SYSTEM**

Notes to Financial Statements

June 30, 2020

Mortality rates were based on the RP-2014 White Collar, gender distinct tables with projected generational mortality and a separate mortality assumption for disabled participants.

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, 2019, these best estimates are summarized in the following table:

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return
U.S. Equity	23%	5.25%
Private Equity	6%	8.65%
Non-U.S. Equity	19%	6.75%
Global Equity	8%	6.25%
Fixed Income	19%	1.85%
Treasury-Inflation Protected Securities	4%	1.20%
Emerging Market Debt	3%	4.00%
Real Estate REITS	4%	5.70%
Direct Real Estate	6%	4.85%
Commodities	2%	2.00%
Hedged Strategies	5%	2.85%
Opportunity Fund	<u>1%</u>	<u>7.00%</u>
Total	100%	4.80%
Inflation		<u>2.75%</u>
Expected Arithmetic Return		7.55%

Discount Rate: A single discount rate of 6.59% 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 6.75% and a municipal bond rate of 3.13% (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 2075. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2075, 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 NPL to changes in the single discount rate, the following presents the State's NPL, calculated using

**UNIVERSITY OF ILLINOIS
AUXILIARY FACILITIES SYSTEM**

Notes to Financial Statements

June 30, 2020

a single discount rate of 6.59%, as well as what the State’s NPL would be if it were calculated using a single discount rate that is 1-percentage-point lower or 1-percentage-point higher:

1% Decrease 5.59%	Current Single Discount Rate Assumption 6.59%	1% Increase 7.59%
\$34,786,851,779	\$28,720,071,173	\$23,712,555,197

Additional information regarding the SURS basic financial statements including the plan net position can be found in the SURS CAFR by accessing the website at www.SURS.org.

(b) Postemployment Benefits

Plan description: The State Employees Group Insurance Act of 1971 (Act), as amended, authorizes the SEGIP to provide health, dental, vision, and life insurance benefits for certain retirees and their dependents. Substantially all of the University’s full-time employees are members of SEGIP. Members receiving monthly benefits from the GARS, JRS, SERS, TRS, and SURS are eligible for these other post-employment benefits (“OPEB”). The eligibility provisions for the SURS members were defined within Note 7(a).

The State recognizes SEGIP OPEB benefits as a single-employer defined benefit plan, which does not issue a stand-alone financial report.

Benefits provided: The health, dental, and vision benefits provided to and contribution amounts required from annuitants are the result of collective bargaining between the State and the various unions representing the State’s and the State universities’ employees in accordance with limitations established in the Act. Therefore, the benefits provided and contribution amounts are subject to periodic change. Coverage through SEGIP becomes secondary to Medicare after Medicare eligibility has been reached. Members must enroll in Medicare Parts A and B to receive the subsidized SEGIP premium available to Medicare eligible participants. 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.

Funding policy and annual other postemployment benefit cost: OPEB offered through SEGIP are financed through a combination of retiree premiums, SEGIP contributions pursuant to the Act, and Federal government subsidies from the Medicare Part D program. Contributions are deposited in the Health Insurance Reserve Fund, which covers both active State employees and retirement members. Annuitants may be required to contribute towards health and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants who retired prior to January 1, 1998, and who are vested in the State Employee’s Retirement System do not contribute toward health and vision benefits. For annuitants who retired on or after January 1, 1998, the annuitant’s contribution amount is reduced five percent for each year of credited service with the State allowing those annuitants with twenty or more years of credited service to not have to contribute towards health and vision benefits. All annuitants are required to pay for dental benefits regardless of retirement date. The Director of CMS, on an annual basis, determines the amount of contributions necessary to fund the basic program of group benefits. State contributions are made primarily from the State’s General Fund on a

**UNIVERSITY OF ILLINOIS
AUXILIARY FACILITIES SYSTEM**

Notes to Financial Statements

June 30, 2020

pay-as-you-go basis. No assets are accumulated or dedicated to funding the retiree health insurance benefit and a separate trust has not been established for the funding of OPEB. The State is not required to fund the plan other than the pay-as-you-go amount necessary to provide the current benefits to retirees.

Special funding situation of OPEB: The proportionate share of the State's OPEB expense relative to the System's former employees or retirees was estimated to be (\$14,086,691) during the year ended June 30, 2020. The amount of the total proportionate share of the total OPEB liability to be recognized by the System related to the special funding situation is \$0.

(8) Commitments

At June 30, 2020, the System had commitments on various construction projects and contracts for repairs and renovation of auxiliary facilities of \$79,565,272.

(9) Subsequent Event

On July 9, 2020, the System issued Auxiliary Facilities System Revenue Bonds, Series 2020A in the amount of \$59,775,000 and Series 2020B in the amount of \$31,175,000. The proceeds from the Series 2020A bonds will be used, together with other lawfully available moneys, to (i) acquire a Conference Center and to finance the renovation of a Soccer Park (Demirjian Park Phase 1) on the Urbana-Champaign campus and (ii) refund the Series 2010A Bonds and to pay costs of issuing the Series 2020A bonds. The proceeds from the Series 2020B bonds will be used to refund the Series 2014C Bonds and to pay certain interest and costs of issuing the Series 2020B Bonds.

**UNIVERSITY OF ILLINOIS
AUXILIARY FACILITIES SYSTEM**

**Required Supplementary Information
Year Ended June 30, 2020**

Schedule of University of Illinois Auxiliary Facilities System Proportionate Share of the Net Pension Liability	Fiscal Year 2019	Fiscal Year 2018	Fiscal Year 2017	Fiscal Year 2016	Fiscal Year 2015	Fiscal Year 2014
(a) Proportion Percentage of the Collective Net Pension Liability	0%	0%	0%	0%	0%	0%
(b) Proportion Amount of the Collective Net Pension Liability	\$0	\$0	\$0	\$0	\$0	\$0
(c) Portion of Nonemployer Contributing Entities' Total Proportion of Collective Net Pension Liability associated with Employer	\$469,646,501	\$481,127,752	\$439,226,001	\$454,842,862	\$405,968,461	\$376,037,733
Total (b) + (c)	\$469,646,501	\$481,127,752	\$439,226,001	\$454,842,862	\$405,968,461	\$376,037,733
Employer defined benefit covered payroll	\$63,305,672	\$61,876,367	\$61,699,212	\$60,763,503	\$61,425,191	\$60,842,520
Proportion of Collective Net Pension Liability associated with Employer as a percentage of defined benefit covered payroll	741.87%	777.56%	711.88%	748.55%	660.92%	618.05%
SURS Plan Net Position as a Percentage of Total Pension Liability	40.71%	41.27%	42.04%	39.57%	42.37%	44.39%

* GASB Statement #82 amended GASB Statements #67 & #68 to require the presentation of covered payroll, defined as payroll on which contributions to a pension plan are based, and ratios that use that measure. For the SURS plans, the covered payroll are those employees within the defined benefit plan.

**UNIVERSITY OF ILLINOIS
AUXILIARY FACILITIES SYSTEM**

**Notes to Required Supplementary Information
June 30, 2020**

These pension schedules are presented to illustrate the requirements of the Governmental Accounting Standards Board's Statement No. 68 to show information for 10 years. However, until a full 10-year trend is compiled, the System will only present available information measured in accordance with the requirements of Statement No. 68.

Changes of benefit terms. There were no benefit changes recognized in the Total Pension Liability as of June 30, 2019.

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, 2014 to June 30, 2017 was performed in February 2018, resulting in the adoption of new assumptions as of June 30, 2018.

- Salary increase. Decrease in the overall assumed salary increase rates, ranging from 3.25 percent to 12.25 percent based on years of service, with underlying wage inflation of 2.25 percent.
- Investment return. Decrease the investment return assumption to 6.75 percent. This reflects maintaining an assumed real rate of return of 4.50 percent and decreasing the underlying assumed price inflation to 2.25 percent.
- Effective rate of interest. Decrease the long-term assumption for the ERI for crediting the money purchase accounts to 6.75 percent (effective July 2, 2019).
- Normal retirement rates. A slight increase in the retirement rate at age 50. No change to the rates for ages 60-61, 67-74 and 80+, but a slight decrease in rates at all other ages. A rate of 50 percent if the member has 40 or more years of service and is younger than age 80.
- Early retirement rates. Decrease in rates for all Tier 1 early retirement eligibility ages (55-59).
- Turnover rates. Change rates 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.
- Mortality rates. Maintain the RP-2014 mortality tables with projected generational mortality improvement. Update the projection scale from the MP-2014 to the MP-2017 scale.
- Disability rates. Decrease current rates to reflect that certain members who receive disability benefits do not receive the benefits on a long-term basis.