



**ILLINOIS
MEDICAL
DISTRICT**

ILLINOIS MEDICAL DISTRICT COMMISSION

(A Component Unit of the State of Illinois)

CHICAGO, ILLINOIS

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

**ILLINOIS MEDICAL DISTRICT COMMISSION
(A Component Unit of the State of Illinois)
CHICAGO, ILLINOIS**

**FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

TABLE OF CONTENTS

| | |
|---|------------|
| INDEPENDENT AUDITOR'S REPORT | 1-2 |
| MANAGEMENT'S DISCUSSION AND ANALYSIS | 3-6 |
| BASIC FINANCIAL STATEMENTS | |
| Statement of Net Position | 7 |
| Statement of Revenues, Expenses, and Changes in Net Position | 8 |
| Statement of Cash Flows | 9 |
| Notes to Basic Financial Statements | 10-25 |
| REQUIRED SUPPLEMENTAL INFORMATION | |
| Schedule of Changes in Net Pension Liability and Related Ratios | 26 |
| Schedule of Employer Contributions | 27-28 |
| OTHER SUPPLEMENTAL INFORMATION | |
| Schedule of Capital Assets of the Pledged Revenue Properties | 29 |
| Reconciliation of Due to Other State Agency | 30 |

Independent Auditor's Report

To the Board of Commissioners
Illinois Medical District Commission

Report on the Financial Statements

We have audited the accompanying financial statements of Illinois Medical District Commission (the "Commission"), a component unit of the State of Illinois, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the basic financial statements of Illinois Medical District Commission, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Illinois Medical District Commission as of June 30, 2017 and the changes in its financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Commissioners
Illinois Medical District Commission

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in the net pension liability and related ratios, and the schedule of employer contributions, as identified in the table of contents, 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, which 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 supplemental 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 audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Illinois Medical District Commission's basic financial statements. The other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The other supplemental information, as identified in the table of contents, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplemental information, as identified in the table of contents, is fairly stated in all material respects in relation to the basic financial statements as a whole.

Report on Summarized Comparative Information

We have previously audited Illinois Medical District Commission's June 30, 2016 financial statements and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 8, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Plante & Morse, PLLC

February 27, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

**State of Illinois
Illinois Medical District Commission
(A Component Unit of the State of Illinois)
Management's Discussion and Analysis**

This section of the Commission's financial report presents our discussion and analysis of the Commission's financial performance during the fiscal years that ended on June 30, 2017 and 2016. Please read it in conjunction with the Commission's financial statements, which follow this section.

Financial Highlights

- The Commission's total net position decreased to \$48,434,996. This year's decrease of \$6,030,275 is attributable to the Commission's debt restructuring expenses. For the year ended June 30, 2016, the Commission's net position increased by \$12,304,196, which was the result of the sale of capital assets during the year.
- During fiscal year 2017, the Commission's operating expenses were \$4,646,311, an increase of \$256,241 over fiscal year 2016's operating expenses. The fiscal year 2017 expense increase is attributed to increases in legal and salary expenses.
- During fiscal year 2017, the Commission's operating revenues were \$4,939,396, an 11.6 percent decrease over fiscal year 2016.
- In fiscal year 2017, the Commission recorded nonoperating expenses related to debt restructuring and loss on debt extinguishment totaling \$4,598,065.

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements of the Commission have been prepared on the accrual basis of accounting following the business-type activities reporting requirements of the Governmental Accounting Standards Board (GASB) as a single enterprise fund. These statements are as follows:

- **Statement of Net Position** - includes all of the Commission's assets and liabilities and provides information about the amounts and investments in assets and the obligations to Commission creditors. It also provides a basis of assessing the liquidity and financial flexibility of the Commission. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial health of the Commission is improving or deteriorating.
- **Statement of Revenues, Expenses and Changes in Net Position** - provides information as to the increase or decrease of current year revenues over expenses.
- **Statement of Cash Flows** - provides information about the Commission's cash receipts and disbursements during the reporting period. The statement discloses net cash provided by, or used in, operating activities, noncapital financing activities, capital and related financing activities, and from investing activities.

Condensed Financial Information

The following table presents condensed information about the Commission's financial position as of June 30, 2016 and 2017:

| | 2016 | 2017 |
|----------------------------------|----------------------|----------------------|
| Other assets | \$ 42,626,815 | \$ 27,868,385 |
| Capital assets | <u>63,974,425</u> | <u>67,326,914</u> |
| Total assets | 106,601,240 | 95,195,299 |
| | | |
| Deferred outflows of resources | 286,899 | 248,329 |
| | | |
| Current liabilities | 3,918,161 | 3,735,642 |
| Long-term liabilities | <u>47,947,786</u> | <u>42,894,398</u> |
| Total liabilities | <u>51,865,947</u> | <u>46,630,040</u> |
| | | |
| Deferred inflows of resources | 556,921 | 378,592 |
| | | |
| Net position | | |
| Net investment in capital assets | 35,637,717 | 43,619,051 |
| Restricted | 13,545,569 | 31,639 |
| Unrestricted | <u>5,281,985</u> | <u>4,784,306</u> |
| Total net position | <u>\$ 54,465,271</u> | <u>\$ 48,434,996</u> |

Capital assets increased as a result of the Commission's purchase of a new rental property. The difference in other assets is attributable to the use of cash of \$13,513,968, which was used to pay down bond debt in fiscal year 2017.

Current liabilities decreased in fiscal year 2017; this is the result of debt restructuring.

Long-term liabilities declined as a result of a partial bond redemption; however, the Commission entered into two mortgages during the year; one was related to the bond redemption process the other was related to the acquisition of a new rental property in the district. Net long-term liabilities declined by \$5,053,388 in fiscal year 2017.

The following table presents condensed information about the Commission's revenue and expenses for the years ended June 30, 2016 and 2017:

| | 2016 | 2017 |
|---|----------------------|-----------------------|
| Operating revenue | \$ 5,585,489 | \$ 4,936,396 |
| Operating expenses, other than depreciation | 3,069,032 | 3,296,871 |
| Depreciation and amortization | <u>1,321,038</u> | <u>1,349,440</u> |
| Operating income (loss) | 1,195,419 | 290,085 |
| Interest income | 1,163,918 | 1,121,865 |
| Interest expense | (2,827,727) | (2,843,118) |
| Debt restructuring | - | (1,717,942) |
| Loss on early debt extinguishment | - | (2,880,123) |
| (Loss) gain on sale of capital assets | <u>12,772,586</u> | <u>(1,042)</u> |
| Change in net position | <u>\$ 12,304,196</u> | <u>\$ (6,030,275)</u> |

Operating revenue decreased by 11.6 percent; a property sale in fiscal year 2016 led to less revenue in fiscal year 2017. Operating expenses other than depreciation increased by \$227,839, which is a 7.4 percent increase. Categories that experienced increases were legal and salary expenses.

Bond debt was partially redeemed by utilizing funds from a sale of property in fiscal year 2016 and the issuance of mortgage debt. Nonoperating debt restructuring and loss on debt extinguishment expenses were incurred in fiscal year 2017 totaling \$4,598,065.

Budgetary Highlights

The 2017 actual results in comparison to the original budget were favorable. The Commission's 2017 budget called for budgetary income of \$648,700. The Commission ended 2017 year with budgetary income of \$1,639,525. This improvement is the result of revenue from a major tenant.

Capital Asset and Debt Administration

At the end of 2017, the Commission had invested \$67,326,914 in a broad range of capital assets, including land, buildings and equipment (see Note 5 to the financial statements). This amount represents a net increase (including additions and deductions) of \$3,352,489, or 5.2 percent, over last year.

At year end, the Commission had \$44,677,863 in bonds and notes outstanding, a net decrease of 11.0 percent over last year. More detailed information about the Commission's long-term liabilities is presented in Note 6 to the financial statements.

Economic Factors and Next Year's Budgets and Rates

Cost controls continue to be in effect, and we believe we will meet our budgetary goals in fiscal year 2018.

Contacting the Commission's Management

This financial report is intended to provide the Commission's users with a general overview of the Commission's finances and to show the Commission's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Commission via email at: administration@medicaldistrict.org.

BASIC FINANCIAL STATEMENTS

State of Illinois
 Illinois Medical District Commission
 (A Component Unit of the State of Illinois)
 Statements of Net Position

| | As of |
|--|----------------------|
| | June 30, 2017 |
| ASSETS | |
| <i>Current assets:</i> | |
| Cash and cash equivalents | \$ 2,498,498 |
| Accounts receivable - net | 274,823 |
| Interest receivable | 90,077 |
| Notes receivable | 1,311,042 |
| <i>Total current assets</i> | <u>4,174,440</u> |
| <i>Noncurrent assets:</i> | |
| Cash and cash equivalents, restricted | 31,639 |
| Notes receivable | 23,653,332 |
| Capital assets - net | 67,326,914 |
| Other assets | 8,974 |
| <i>Total noncurrent assets</i> | <u>91,020,859</u> |
| <i>Total assets</i> | <u>95,195,299</u> |
| DEFERRED OUTFLOWS OF RESOURCES | |
| Deferred pension payments | 248,329 |
| <i>Total deferred outflows of resources</i> | <u>248,329</u> |
| LIABILITIES | |
| <i>Current liabilities:</i> | |
| Accounts payable and accrued expenses | 318,787 |
| Debt restructuring payable | 850,000 |
| Unearned revenue | 168,119 |
| Interest payable | 379,615 |
| Security deposits | 83,526 |
| Certificates of participation | 965,000 |
| Due to other state agency | 635,000 |
| Mortgage payable | 335,595 |
| <i>Total current liabilities</i> | <u>3,735,642</u> |
| <i>Noncurrent liabilities:</i> | |
| Compensated absences | 124,995 |
| Certificates of participation | 20,005,000 |
| Due to other State agency | 7,165,938 |
| Mortgage payable | 15,571,330 |
| Net pension liability | 27,135 |
| <i>Total noncurrent liabilities</i> | <u>42,894,398</u> |
| <i>Total liabilities</i> | <u>46,630,040</u> |
| DEFERRED INFLOWS OF RESOURCES | |
| Deferred pension inflows | 378,592 |
| <i>Total deferred outflows of resources</i> | <u>378,592</u> |
| NET POSITION | |
| Net investment in capital assets | 43,619,051 |
| Restricted for: | |
| Expendable for grant activities | 31,639 |
| Unrestricted | 4,784,306 |
| TOTAL NET POSITION | <u>\$ 48,434,996</u> |

State of Illinois
Illinois Medical District Commission
(A Component Unit of the State of Illinois)
Statements of Revenues, Expenses, and Changes in Net Position

| | Year Ended June 30, 2017 | Year Ended June 30, 2016 |
|--|-----------------------------|-----------------------------|
| OPERATING REVENUES | | |
| Rental income | \$ 4,783,318 | \$ 5,126,621 |
| Tenant reimbursement revenue | 46,599 | 46,599 |
| Other operating revenues | 106,479 | 412,269 |
| Total operating revenues | 4,936,396 | 5,585,489 |
| OPERATING EXPENSES | | |
| Property management and development | | |
| Advertising and promotion | - | 842 |
| Automotive expense | 3,435 | 6,748 |
| Capital outlay | 21,275 | 27,431 |
| Consulting services | 121,243 | 281,389 |
| Dues and subscriptions | 20,137 | 15,631 |
| Insurance | 115,836 | 120,486 |
| Legal and professional fees | 500,654 | 386,664 |
| Office expense | 620 | 747 |
| Other | 151,990 | 55,758 |
| Printing and copier expense | 5,639 | 5,965 |
| Rental expense | 9,236 | 9,552 |
| Repairs and maintenance | 201,700 | 308,768 |
| Salaries, wages and related expenses | 1,767,586 | 1,457,309 |
| Small tools and equipment | 1,314 | 8,752 |
| Supplies | 22,933 | 35,836 |
| Telecommunications | 51,067 | 33,448 |
| Travel expense | 14,755 | 5,639 |
| Utilities | 287,451 | 308,067 |
| Subtotal property management and development | 3,296,871 | 3,069,032 |
| Depreciation expense | 1,349,440 | 1,321,038 |
| Total operating expenses | 4,646,311 | 4,390,070 |
| Operating income | 290,085 | 1,195,419 |
| NONOPERATING REVENUES (EXPENSES) | | |
| Interest income | 1,121,865 | 1,163,918 |
| Interest expense | (2,843,118) | (2,827,727) |
| Debt restructuring expense | (1,717,942) | - |
| Loss on early debt extinguishment | (2,880,123) | - |
| (Loss) gain on sale of capital assets | (1,042) | 12,772,586 |
| Net nonoperating (expenses) revenues | (6,320,360) | 11,108,777 |
| (Decrease) Increase in Net Position | (6,030,275) | 12,304,196 |
| NET POSITION | | |
| Net position, beginning of year | 54,465,271 | 42,161,075 |
| Net position, end of year | \$ 48,434,996 | \$ 54,465,271 |

**State of Illinois
Illinois Medical District Commission
(A Component Unit of the State of Illinois)
Statements of Cash Flows**

| | Year Ended June 30, 2017 | Year Ended June 30, 2016 |
|--|-------------------------------------|-------------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Grant revenue received | \$ 78,105 | \$ 17,158 |
| Insurance reimbursements | - | 306,404 |
| Payments received from tenants | 4,700,345 | 5,122,001 |
| Payments to suppliers | (1,526,672) | (2,857,733) |
| Payments to employees | (2,065,403) | (1,489,393) |
| Net cash provided by operating activities | <u>1,186,375</u> | <u>1,098,437</u> |
| CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES | | |
| Payments on loan from other state agency | (20,375,652) | (816,332) |
| Proceeds from issuance of mortgage debt | 16,285,200 | - |
| Purchase of capital assets | (4,702,971) | (1,397,120) |
| Principal paid on capital debt and leases | (791) | (4,542) |
| Debt restructuring costs | (4,162,950) | - |
| (Loss on) proceeds from the sale of capital assets | (1,042) | 15,912,374 |
| Proceeds from capital grants | - | 2,486,691 |
| Interest paid on capital debt and leases | (1,741,746) | (1,843,735) |
| Net cash (used in) provided by capital financing activities | <u>(14,699,952)</u> | <u>14,337,336</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Collections on notes receivable | 278,973 | 215,700 |
| Sale (purchase) of investments | 13,513,966 | (13,513,968) |
| Net cash provided by (used in) investing activities | <u>13,792,939</u> | <u>(13,298,268)</u> |
| Net increase in cash and cash equivalents | 279,362 | 2,137,505 |
| Cash and cash equivalents, beginning of year | 2,250,775 | 113,270 |
| Cash and cash equivalents, end of year | <u>\$ 2,530,137</u> | <u>\$ 2,250,775</u> |
| RECONCILIATION OF OF CASH AND CASH EQUIVALENTS ABOVE TO STATEMENT OF NET POSITION | | |
| Cash and cash equivalents | \$ 2,498,498 | \$ 2,219,174 |
| Cash and cash equivalents, restricted | 31,639 | 31,601 |
| Net cash and equivalents | <u>\$ 2,530,137</u> | <u>\$ 2,250,775</u> |
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES: | | |
| Operating income | \$ 290,085 | \$ 1,195,419 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Noncash expenses included in operating income: | | |
| Depreciation | 1,349,440 | 1,321,038 |
| Changes in assets and liabilities: | | |
| Accounts receivable | 29,447 | 92,013 |
| Grants receivable | 73,116 | 17,158 |
| Other assets | 12,246 | 334 |
| Deferred outflows and inflows related to pension | (139,759) | 515,403 |
| Accounts payable and accrued expenses | (9,633) | (1,296,713) |
| Unearned revenue | (292,950) | (67,439) |
| Security deposits | 32,441 | (181,658) |
| Compensated absences | 21,130 | 3,006 |
| Net pension liability | (179,188) | (500,124) |
| Net cash provided by operating activities | <u>\$ 1,186,375</u> | <u>\$ 1,098,437</u> |
| NONCASH ITEMS | | |
| Noncash payments received on notes receivable | \$ 562,773 | \$ 583,673 |
| Noncash payments made on certificates of participation | <u>\$ (562,773)</u> | <u>\$ (583,673)</u> |

**Illinois Medical District Commission
(Component Unit of the State of Illinois)
Notes to Basic Financial Statements
Year Ended June 30, 2017**

NOTE 1 – ORGANIZATION

The Illinois Medical District Commission (the “Commission”) is a special district created by statute (70 ILCS 915/0.01 et. seq.). Under this statute, it was formerly considered part of the executive branch of the State of Illinois and operated under the authority and review of the Illinois General Assembly. On July 18, 2012, Public Act 97-0825 was signed into law by the governor of Illinois. This act amended the Illinois Medical District Commission Act (70 ILCS 915). This amendment designates the Commission as a unit of local government and, therefore, the Commission is no longer considered a state agency. The Commission had requested a determination from the comptroller’s office as to whether the Commission will continue to be reported as a component unit of the State of Illinois for financial reporting purposes after the date of the amendment. After reviewing the change in legislation affecting the Commission as well as the effects of the State’s implementation of GASB Statement No. 61, the comptroller’s office concluded on February 20, 2013 that the Commission will continue to be reported as a discretely presented component unit of the State due to the board appointment and ability to impose its will.

The purpose of the Commission is to maintain the proper surroundings for a medical center and a related technology center in order to attract, stabilize, and retain therein hospitals, clinics, research facilities, or other facilities permitted under the Illinois Medical District Act (Act). The Commission also provides for the orderly creation and expansion of various county and local governmental facilities, other ancillary or related facilities, medical research and high technology parks, together with the necessary land, buildings, facilities, equipment, and personal property as permitted under the Act, and administering and exercising ultimate authority for the Chicago Technology Park.

NOTE 2 – SIGNIFICANT ACCOUNTING PRINCIPLES AND POLICIES

The accompanying basic financial statements of the Commission have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as prescribed in pronouncements of the Governmental Accounting Standards Board (GASB).

A. Financial Reporting Entity

As defined by GAAP, the financial reporting entity consists of a primary government, as well as its component units, which are legally separate organizations for which the officials of the primary government are financially accountable. Financial accountability is defined as:

- Appointment of a voting majority of the component unit’s board and either (a) the primary government’s ability to impose its will, or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or
- Fiscal dependency on the primary government

Based upon the required criteria, the Commission is a component unit of the State of Illinois financial reporting entity. The financial balances and activities included in these basic financial statements are, therefore, also included in the State’s Comprehensive Annual Financial Report. The State of Illinois’ Comprehensive Annual Financial Report (CAFR) may be obtained by writing to the State Comptroller’s Office, Financial Reporting Department, 325 West Adams Street, Springfield, Illinois 62704.

The Commission’s reporting entity includes the Commission’s governing board and all related organizations for which the Commission exercises oversight responsibility. Currently there are no related organizations that meet the criteria noted above.

**Illinois Medical District Commission
(Component Unit of the State of Illinois)
Notes to Basic Financial Statements
Year Ended June 30, 2017**

NOTE 2 – SIGNIFICANT ACCOUNTING PRINCIPLES AND POLICIES (Continued)

B. Basis of Accounting

For financial reporting purposes, the Commission is considered a special-purpose government engaged only in business-type activities as defined by GASB Statement No. 34. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services. Accordingly, the Commission's financial statements have been presented on the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place. Revenue from grants, entitlements, and similar items are recognized in the fiscal year in which all eligibility requirements imposed by the provider have been met.

Appropriations made from the State of Illinois General Revenue or Capital Development Funds for the benefit of the Commission are recognized as revenues to the extent expended, limited to available appropriations and represent only the portion of these shared funds that can be directly attributed to the operations of the Commission.

During fiscal year 2017, the Commission did not receive an appropriation from the State of Illinois.

C. Classification of Revenues and Expenses

The Commission has classified its revenues and expenses as either operating or nonoperating according to the following criteria:

Operating revenues and expenses

Operating revenues and expenses include activities that directly relate to the operational purposes of the Commission. Operating revenues primarily include rent and service payments from tenants. Operating expenses primarily include expenses related to property management and development as well as depreciation and amortization expense.

Nonoperating revenues and expenses

Nonoperating revenues include investment income. Nonoperating expenses include interest expense, debt restructuring expense and loss on sale of capital assets.

D. Cash and Cash Equivalents

Cash and cash equivalents include debt securities with a maturity of 90 days or less at the time of acquisition, money market accounts, and cash in banks for locally held funds.

Restricted assets

The restricted cash and cash equivalents relate to amounts to be used for grant purposes.

**Illinois Medical District Commission
(Component Unit of the State of Illinois)
Notes to Basic Financial Statements
Year Ended June 30, 2017**

NOTE 2 – SIGNIFICANT ACCOUNTING PRINCIPLES AND POLICIES (Continued)

E. Accounts, Grants and Notes Receivable

Accounts receivable include amounts due from tenants for rent, parking, or other chargeable costs. The amounts are presented net of an allowance for doubtful accounts. Notes receivable includes amounts due from the University of Illinois and the Illinois State Police related to installment sales of real property.

F. Capital Assets

Capital assets include property and equipment which are reported at cost. Donated assets are reported at acquisition value when received. Capital assets are depreciated using the straight-line method.

Capitalization thresholds and estimated useful lives are as follows:

| <u>Capital Asset Category</u> | <u>Capitalization Threshold</u> | <u>Estimated Useful Life</u> |
|-------------------------------|-------------------------------------|----------------------------------|
| Land | \$ 100,000 | N/A |
| Land improvements | 25,000 | 30 |
| Site improvements | 25,000 | 20-30 |
| Buildings | 100,000 | 10-30 |
| Building improvements | 25,000 | 10-30 |
| Intangible assets | 100,000 | 3-25 |
| Equipment | 5,000 | 3-7 |

G. Long-term Obligations

Long-term debt and other long-term obligations, including amounts due to other state agencies and certificates of participation, are reported as liabilities in the statements of net position. Bond issuance costs are expensed at the time they are incurred.

H. Deferred Outflows and Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Commission has one item that qualifies for reporting in this category. It is related to the deferred pension expenses associated with the differences between actual and expected experience, changes of actuarial assumptions, the net difference between projected and actual earnings on investments within the pension plan, and employer contributions made to the pension plan subsequent to the measurement date of the net pension liability.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Commission has one item that qualifies for reporting in this category. It is related to the deferred pension expenses associated with the differences between actual and expected experience.

**Illinois Medical District Commission
(Component Unit of the State of Illinois)
Notes to Basic Financial Statements
Year Ended June 30, 2017**

NOTE 2 – SIGNIFICANT ACCOUNTING PRINCIPLES AND POLICIES (Continued)

I. Pension

The Commission offers a defined benefit pension plan to its employees. The Commission records a net pension liability for the difference between the total pension liability calculated by the actuary and the pension plan's fiduciary net position. For the purpose of measuring the net pension liability, deferred outflows of resources related to pensions, deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plan and additions to/deductions from the pension plan's fiduciary net position have been determined on the same basis as they are reported by the pension plan. 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.

J. Compensated Absences

The liability for compensated absences consists of vested, accumulated paid time off leave balances for Commission employees. The liability has been calculated based on the employees' current salary level.

K. Net Position

In the financial statements, net position is displayed in three components as follows:

Net investment in capital assets - This consists of capital assets, net of accumulated depreciation, less the outstanding balances of due to other state agency, capital lease obligations, lines of credit, and other liabilities that are attributable to the acquisition, construction, or improvement of those assets.

Restricted - This consists of net position that is legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the Commission's policy to use restricted resources first, then unrestricted resources when they are needed.

Unrestricted - This consists of net position that does not meet the definition of restricted or net investment in capital assets.

L. Use of Estimates

The preparation of financial statements in conformity with GAAP 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.

M. Comparative Information

The financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Commission's financial statements for the year ended June 30, 2016, from which the summarized information was derived.

**Illinois Medical District Commission
(Component Unit of the State of Illinois)
Notes to Basic Financial Statements
Year Ended June 30, 2017**

NOTE 3 – DEPOSITS AND INVESTMENTS

The Public Funds Investment Act (30 ILCS 235/1 et seq.) and Public Funds Deposit Act (30 ILCS 225/1 et seq.) provide general guidance concerning the criteria to be met for the placement of public funds in a financial institution and the types of investment instruments permitted. These statutes authorize the Commission to purchase certain obligations of the U.S. Treasury, federal agencies and instrumentalities; certificates of deposit and time deposits covered by federal depository insurance; commercial paper of U.S. corporations with assets exceeding \$500,000,000, if such paper is rated at the highest classification established by at least two standard rating services; money market mutual funds; and investment in the Illinois Funds.

A reconciliation of deposits presented below and the financial statement captions shown on the statement of net position for the year ended June 30, 2017 is as follows:

| | |
|--|---------------------|
| Carrying amount of deposits | \$ 2,530,137 |
| | <u>\$ 2,530,137</u> |
| Cash and cash equivalents, current | \$ 2,498,498 |
| Cash and cash equivalents, restricted for grants | 31,639 |
| | <u>\$ 2,530,137</u> |

The State Treasurer is the custodian of the State's cash and cash equivalents for funds maintained in the State Treasury. The Commission independently manages cash and cash equivalents maintained outside the State Treasury. As of June 30, 2017, no Commission funds were held in the State Treasury.

Deposits

The Commission utilizes different bank accounts for the various activities of the Commission. The book balance of such accounts was \$2,530,137 at June 30, 2017, while the bank balance was \$2,548,315 at June 30, 2017. The difference between the above amounts primarily represents checks and deposits which had not cleared with the bank.

Custodial credit risk for deposits exists when, in the event of the failure of a depository financial institution, the Commission's deposits may not be recovered. As of June 30, 2017, the Commission had no deposits that were uninsured or uncollateralized. The Commission, therefore, has no custodial credit risk related to its deposits.

**Illinois Medical District Commission
(Component Unit of the State of Illinois)
Notes to Basic Financial Statements
Year Ended June 30, 2017**

NOTE 4 – ACCOUNTS, INTEREST AND NOTES RECEIVABLE

Accounts receivable include amounts due from tenants for rent, parking, or other chargeable costs. The following table presents the amounts due to the Commission by major type as well as the related allowance for doubtful accounts:

| | <u>Accounts Receivable</u> | <u>Allowance for Doubtful Accounts</u> | <u>Net</u> |
|------------------------|--------------------------------|--|------------|
| Rents and related fees | \$305,504 | \$ (30,681) | \$274,823 |

Rents and related fees above include several receivables that are over 360 days past due. The Commission has exhausted all means of collection against former tenants with balances past due.

Interest receivable includes interest due from the University of Illinois of \$90,077 related to the installment sale of real estate as described in Note 6.

Notes receivable inclusive of imputed interest represents two installment sales contracts. The first contract is with the University of Illinois and relates to the installment sale agreement described in Note 6. The contract calls for annual principal payments of \$215,700 each December 1 through the year 2032 for the land portion of the agreement and principal and interest payments equal to the principal and interest payments due on the certificates of participation as noted in Note 6. Total note receivable as of June 30, 2017 was \$24,423,200.

The second contract was entered into with the Illinois State Police (ISP) in July 2004. In accordance with this contract, the Commission sold certain parcels of land and agreed to construct a parking lot thereon. In turn, the ISP will make annual payments (inclusive of imputed interest) over 20 years, totaling \$2,158,668. The total note receivable as of June 30, 2017 was \$541,174.

**Illinois Medical District Commission
(Component Unit of the State of Illinois)
Notes to Basic Financial Statements
Year Ended June 30, 2017**

NOTE 5 – CAPITAL ASSETS

Capital assets activities for the year ended June 30, 2017 are as follows:

| | Balance July 1, 2016 | Additions | Deletions | Balance June 30, 2017 |
|--|--------------------------|-------------------------|-----------------------|-----------------------------|
| Cost: | | | | |
| Land and land improvements | \$39,895,679 | \$ 1,050,000 | \$ - | \$40,945,679 |
| Site improvements | 2,915,244 | - | - | 2,915,244 |
| Buildings and building improvements | 27,654,119 | 3,632,903 | - | 31,287,022 |
| Construction in progress | 6,824,311 | 586,352 | 581,035 | 6,829,628 |
| Equipment | 94,918 | 14,751 | 24,288 | 85,381 |
| Total | <u>77,384,271</u> | <u>5,284,006</u> | <u>605,323</u> | <u>82,062,954</u> |
| Less accumulated depreciation: | | | | |
| Site improvements | 1,015,216 | 194,851 | - | 1,210,067 |
| Buildings and building improvements | 12,307,230 | 1,152,610 | - | 13,459,840 |
| Equipment | 87,400 | 2,326 | 23,593 | 66,133 |
| Total | <u>13,409,846</u> | <u>1,349,787</u> | <u>23,594</u> | <u>14,736,040</u> |
| Capital assets, net | <u><u>63,974,425</u></u> | <u><u>3,934,219</u></u> | <u><u>581,729</u></u> | <u><u>67,326,914</u></u> |

NOTE 6 – LINES OF CREDIT AND SHORT-TERM AND LONG-TERM DEBT

Interest Payable

Interest payable includes interest due to the Illinois Finance Authority (IFA) of \$248,795, interest payable on the Signature Bank mortgage of \$40,742 and interest payable on certificates of participation of \$90,077.

**Illinois Medical District Commission
(Component Unit of the State of Illinois)
Notes to Basic Financial Statements
Year Ended June 30, 2017**

NOTE 6 – LINES OF CREDIT AND SHORT-TERM AND LONG-TERM DEBT (Continued)

Due to Other State Agency

On January 31, 2006, the IFA issued \$40 million of revenue bonds (Series 2006) on behalf of the Commission. Concurrently, the Commission and the IFA entered into a loan and security agreement, in which the IFA is to loan the \$40 million to the Commission. The intent of this undertaking was to purchase certain real estate parcels within the Illinois Medical District and to construct facilities to be used for medical and other related activities. The security for the loan agreement includes all cash and investments in the trust accounts related to the revenue bonds held on behalf of the IFA (including a Debt Service Reserve Fund discussed on the next page), the revenues from the acquired and built properties, pledged revenues from additional property owned by the Commission and the moral obligation of the State of Illinois.

Changes in debt payable to the IFA were as follows:

| | Balance July 1, 2016 | Increase / (Decrease) | Balance June 30, 2017 | Due Within One Year |
|------------|-------------------------|--------------------------|--------------------------|------------------------|
| Due to IFA | \$28,333,918 | (\$20,532,980) | \$ 7,800,938 | \$635,000 |

Certain cash and investment trust accounts held on behalf of the IFA, totaling \$6,249,062, have been netted against the balance payable to the IFA of \$14,050,000 in the Commission’s basic financial statements. These funds are under the control of trustee for the benefit of the bondholders. A reconciliation of amounts payable to the IFA is shown in the debt service schedule below.

During the year ended June 30, 2017, the Commission voted to redeem the full balance of the series 2006A bonds and a portion of the series 2006B bonds to reduce future debt service requirements. The redemption occurred in May 2017 when \$22,458,689 was deposited with an escrow agent to redeem a total of \$19,375,000 in principal in addition to the payment of the accrued interest through the redemption date and the redemption premium. The Commission secured the resources for the redemption from a combination of disposing assets and securing a note from a lender. The note is presented as a mortgage payable under the liability section of the statement of net position. There are no additional cash flows required to service the bonds that were redeemed. The transaction was accounted for in accordance with GASB Statement No. 86 whereby the redemption premium of \$2,880,123 was recorded as a nonoperating loss on debt extinguishment. Additional costs associated with the debt restructuring including legal expenses and the cost of preparing a piece of property for sale connected to the debt restructuring as described in Note 8.

Interest is paid on September 1 and March 1 of each year beginning in September 2006 with principal payments made on the September date only, beginning in 2010.

**Illinois Medical District Commission
(Component Unit of the State of Illinois)
Notes to Basic Financial Statements
Year Ended June 30, 2017**

NOTE 6 – LINES OF CREDIT AND SHORT-TERM AND LONG-TERM DEBT (Continued)

Future principal and interest requirements on the loan at June 30, 2017 are as follows (in thousands):

| Year ending June 30, | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------------|------------------|-----------------|------------------|
| 2018 | \$ 635 | \$ 730 | \$ 1,365 |
| 2019 | 670 | 697 | 1,367 |
| 2020 | 705 | 661 | 1,366 |
| 2021 | 745 | 622 | 1,367 |
| 2022 | 780 | 581 | 1,361 |
| 2023-2027 | 4,580 | 2,217 | 6,797 |
| 2028-2032 | 5,935 | 824 | 6,759 |
| Total | <u>14,050</u> | <u>6,332</u> | <u>20,382</u> |
| Less amounts held in trust | <u>6,249</u> | - | <u>6,249</u> |
| Amount due to IFA | <u>\$ 7,801</u> | <u>\$ 6,332</u> | <u>\$ 14,133</u> |

Debt Service Reserve Funds (DSR)

Within the provisions of the revenue bonds issued by the IFA, it is specified that funds be set aside that will serve as a debt service reserve for the bonds. These funds are equivalent to one year's debt service (approximately \$1.4 million in total) and are to be used whenever a deficiency exists in the payment of principal and/or interest on the Series 2006 Revenue Bonds. These funds are included in the trust assets above.

Debt Service Coverage Ratio

The loan and security agreement dated January 31, 2006 requires the Commission to achieve a debt service coverage ratio of at least 1.05 for each fiscal year commencing with the fiscal year beginning July 1, 2009. For the fiscal year ended June 30, 2017, using the language definition of "Debt Service Coverage Ratio" found in the Trust agreement, the Commission had a debt service coverage ratio of 0.98, which is below the required ratio of 1.05. Included in the calculation of this ratio are voluntary contributions of \$500,000.

The deficiency in the debt service coverage ratio would not have existed with the exclusion of the Series 2006A bond payments made in fiscal year 2017, and management asserts that no risk of default existed. The May 2017 redemption removed the Series 2006A Bonds from a look-forward basis and produced a debt service coverage ratio of 1.18. The current revenues available for debt service to the debt service of the bonds payable excluding the redeemed bonds are sufficient to meet the debt service ratio of at least 1.05.

Certificates of Participation

On June 1, 2002, the Commission issued \$30,625,000 of certificates of participation in connection with the construction of an office building for the use of the University of Illinois, near its facility on the west side of Chicago. These certificates will mature each June 1 from 2004 to 2032 at various amounts. The coupon rate on the certificates of participation varies from 2.35% to 5.25% with interest paid semiannually on June 1 and December 1. The balance outstanding was \$20,970,000 as of June 30, 2017.

**Illinois Medical District Commission
(Component Unit of the State of Illinois)
Notes to Basic Financial Statements
Year Ended June 30, 2017**

NOTE 6 – LINES OF CREDIT AND SHORT-TERM AND LONG-TERM DEBT (Continued)

Changes in long-term debt related to certificates of participation were as follows:

| | Balance July 1, 2016 | Draws | Payments | Balance June 30, 2017 | Due Within One Year |
|-------------------------------|-------------------------|-------|------------|-----------------------------|------------------------|
| Certificates of participation | \$21,890,000 | \$ – | \$ 920,000 | \$20,970,000 | \$ 965,000 |

Sinking fund maturities and interest requirements on the certificates of participation payable at June 30, 2017 are as follows (in thousands):

| Year ending June 30, | Principal | Interest | Total |
|----------------------|------------------|-----------------|------------------|
| 2018 | \$ 965 | \$ 1,081 | \$ 2,046 |
| 2019 | 1,015 | 1,032 | 2,047 |
| 2020 | 1,065 | 982 | 2,047 |
| 2021 | 1,120 | 929 | 2,049 |
| 2022 | 1,175 | 873 | 2,048 |
| 2023-2027 | 6,825 | 3,404 | 10,229 |
| 2028-2032 | 8,805 | 1,434 | 10,239 |
| Subtotal | 20,970 | 9,735 | 30,705 |
| Less current portion | 965 | - | 965 |
| Total | <u>\$ 20,005</u> | <u>\$ 9,735</u> | <u>\$ 29,740</u> |

In connection with the issuance, the Commission entered into an installment purchase contract with the University of Illinois for the aforementioned building and the respective land on which it stands. The installment payments related to the building (Note 4) are scheduled at the same time and the same amounts as the payments on the certificates of participation. In addition, as part of the issuance process, the Commission purchased credit insurance on the certificates of participation which guarantees the payments of principal and interest when they become due.

Mortgage Notes

On September 1, 2016 and June 30, 2017, the Commission secured two separate mortgages for \$12,000,000 and \$4,095,000, respectively. Proceeds from the notes were used as part of the bond redemption described above and to purchase additional properties. These mortgage notes will mature from 2018 to 2023 at various amounts. The coupon rate on the mortgage notes varies from 4.13% to 4.92% with interest paid monthly. The balance outstanding was \$15,906,925 as of June 30, 2017.

**Illinois Medical District Commission
(Component Unit of the State of Illinois)
Notes to Basic Financial Statements
Year Ended June 30, 2017**

NOTE 6 – LINES OF CREDIT AND SHORT-TERM AND LONG-TERM DEBT (Continued)

Future principal and interest requirements on these notes at June 30, 2017 are as follows (in thousands):

| Year ending June 30, | Principal | Interest | Total |
|----------------------|------------------|-----------------|------------------|
| 2018 | \$ 336 | \$ 677 | \$ 1,013 |
| 2019 | 386 | 677 | 1,063 |
| 2020 | 401 | 661 | 1,062 |
| 2021 | 421 | 641 | 1,062 |
| 2022 | 10,727 | 370 | 11,097 |
| 2023 | 3,636 | 15 | 3,651 |
| Subtotal | 15,907 | 3,041 | 18,948 |
| Less current portion | 336 | - | 336 |
| Total | <u>\$ 15,571</u> | <u>\$ 3,041</u> | <u>\$ 18,612</u> |

NOTE 7 – RISK MANAGEMENT

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; workers' compensation; and natural disasters.

The Commission maintains commercial coverage for its medical benefits provided to employees, automobiles, workers' compensation and property liability. Settled claims have not exceeded the amount of insurance coverage in any of the past three years.

NOTE 8 – CONTINGENCIES

The Commission is from time to time subject to various claims, legal actions, and inquiries related to compliance with environmental and other governmental laws and regulations. Although it is difficult to quantify the potential impact of these claims, management believes that the ultimate cost of these matters will not adversely affect the Commission's future financial condition or results of operations. The Commission has recorded a debt restructuring payable in the amount of \$850,000 related to ongoing litigation with Costco, a Commission land tenant, in the basic financial statements as of June 30, 2017.

NOTE 9 – PENSION PLAN

IMRF Plan Description

The Commission's defined benefit pension plan for regular employees provides retirement and disability benefits, postretirement increases, and death benefits to plan members and beneficiaries. The Commission's plan is managed by the Illinois Municipal Retirement Fund (IMRF), the administrator of a multi-employer public pension fund. A summary of IMRF's pension benefits is provided in the "Benefits Provided" section of this note. Details of all benefits are available from IMRF. Benefit provisions are established by statute and may only be changed by the General Assembly of the State of Illinois. IMRF issues a publicly available Comprehensive Annual Financial Report that includes financial statements, detailed information about the pension plan's fiduciary net position, and required supplemental information. The report is available for download at www.imrf.org.

**Illinois Medical District Commission
 (Component Unit of the State of Illinois)
 Notes to Basic Financial Statements
 Year Ended June 30, 2017**

NOTE 9 – PENSION PLAN (Continued)

Benefits Provided

IMRF has three benefit plans. The vast majority of IMRF members participate in the Regular Plan (RP). The Sheriff's Law Enforcement Personnel (SLEP) plan is for sheriffs, deputy sheriffs, and selected police chiefs. Counties could adopt the Elected County Official (ECO) plan for officials elected prior to August 8, 2011 (the ECO plan was closed to new participants after that date).

All three IMRF benefit plans have two tiers. Employees hired **before** January 1, 2011 are eligible for Tier 1 benefits. Tier 1 employees are vested for pension benefits when they have at least eight years of qualifying service credit. Tier 1 employees who retire at age 55 (at reduced benefits) or after age 60 (at full benefits) with eight years of service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 1-2/3% of the final rate of earnings for the first 15 years of service credit, plus 2% for each year of service credit after 15 years to a maximum of 75% of their final rate of earnings. Final rate of earnings is the highest total earnings during any consecutive 48 months within the last 10 years of service, divided by 48. Under Tier 1, the pension is increased by 3% of the original amount on January 1 every year after retirement.

Employees hired **on or after** January 1, 2011 are eligible for Tier 2 benefits. For Tier 2 employees, pension benefits vest after 10 years of service. Participating employees who retire at age 62 (at reduced benefits) or after age 67 (at full benefits) with 10 years of service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 1-2/3% of the final rate of earnings for the first 15 years of service credit, plus 2% for each year of service credit after 15 years to a maximum of 75% of their final rate of earnings. Final rate of earnings is the highest total earnings during any 96 consecutive months within the last 10 years of service, divided by 96. Under Tier 2, the pension is increased on January 1 every year after retirement, upon reaching age 67, by the lesser of:

- 3% of the original pension amount, or
- 1/2 of the increase in the Consumer Price Index of the original pension amount

Employees Covered by Benefit Terms

As of December 31, 2016, the following employees were covered by the benefit terms:

| | IMRF |
|--|-------------|
| Retirees and beneficiaries currently receiving benefits | 2 |
| Inactive plan members entitled to but not yet receiving benefits | 8 |
| Active plan members | <u>14</u> |
| Total | 24 |

Contributions

As set by statute, the Commission's regular plan members are required to contribute 4.5% of their annual covered salary. The statute requires employers to contribute the amount necessary, in addition to member contributions, to finance the retirement coverage of its own employees. The Commission's annual contribution rate for calendar year 2016 was 9.69%. For the fiscal year ended June 30, 2017, the Commission contributed \$121,825 to the plan. The Commission also contributes for disability benefits, death benefits, and supplemental retirement benefits, all of which are pooled at the IMRF level. Contribution rates for disability and death benefits are set by IMRF's board of trustees, while the supplemental retirement benefits rate is set by statute.

**Illinois Medical District Commission
(Component Unit of the State of Illinois)
Notes to Basic Financial Statements
Year Ended June 30, 2017**

NOTE 9 – PENSION PLAN (Continued)

Net Pension Liability

The Commission’s net pension liability was measured as of December 31, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The following are the methods and assumptions used to determine total pension liability at December 31, 2015:

- The **Actuarial Cost Method** used was Entry Age Normal.
- The **Inflation Rate** was assumed to be 2.75%.
- **Salary Increases** were expected to be 3.75% to 14.50%, including inflation.
- The **Investment Rate of Return** was assumed to be 7.50%.
- **Projected Retirement Age** was from the Experience-based Table of Rates, specific to the type of eligibility condition, last updated for the 2014 valuation according to an experience study from years 2011 to 2013.
- The IMRF-specific rates for **Mortality** (for nondisabled retirees) were developed from the RP-2014 Blue Collar Health Annuitant Mortality Table with adjustments to match current IMRF experience.
- For **Disabled Retirees**, an IMRF-specific mortality table was used with fully generational projection scale MP-2014 (base year 2014). The IMRF-specific rates were developed from the RP-2014 Disabled Retirees Mortality Table, applying the same adjustments that were applied for nondisabled lives.
- For **Active Members**, an IMRF-specific mortality table was used with fully generational projection scale MP-2014 (base year 2014). The IMRF-specific rates were developed from the RP-2014 Employee Mortality Table with adjustments to match current IMRF experience.
- 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 to the target asset allocation percentage and adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table as of December 31, 2016:

| <u>Asset Class</u> | <u>Portfolio Target Percentage</u> | <u>Long-Term Expected Real Rate of Return</u> |
|-------------------------|------------------------------------|---|
| Domestic Equity | 38% | 6.85% |
| International Equity | 17% | 6.75% |
| Fixed Income | 27% | 3.00% |
| Real Estate | 8% | 5.75% |
| Alternative Investments | 9% | 2.65-7.35% |
| Cash Equivalents | <u>1%</u> | 2.25% |
| Total | <u>100%</u> | |

**Illinois Medical District Commission
(Component Unit of the State of Illinois)
Notes to Basic Financial Statements
Year Ended June 30, 2017**

NOTE 9 – PENSION PLAN (Continued)

Single Discount Rate

A single discount rate of 7.50% was used to measure the total pension liability. The projection of cash flow used to determine this single discount rate assumed that the plan members' contributions will be made at the current contribution rate, and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. The single discount rate reflects:

1. The long-term expected rate of return on pension plan investments (during the period in which the fiduciary net position is projected to be sufficient to pay benefits), and
2. The tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating (which is published by the Federal Reserve) as of the measurement date (to the extent that the contributions for use with the long-term expected rate of return are not met)

Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments of 7.5% was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the Net Pension Liability

| | Total Pension Liability (A) | Plan Net Position (B) | Net Pension Liability (A) - (B) |
|--|--|--------------------------------------|--|
| Balances at December 31, 2015 | \$ 1,246,797 | \$ 1,453,120 | \$ (206,323) |
| Changes for the year: | | | |
| Service Cost | - | - | - |
| Interest on the Total Pension Liability | 91,236 | - | 91,236 |
| Changes of Benefit Terms | - | - | - |
| Differences Between Expected and Actual Experience of the Total Pension Liability | 412,773 | - | 412,773 |
| Changes of Assumptions | - | - | - |
| Contributions - Employer | - | 121,825 | (121,825) |
| Contributions - Employees | - | 56,513 | (56,513) |
| Net Investment Income | - | 101,434 | (101,434) |
| Benefit Payments, including Refunds of Employee Contributions | (60,637) | (60,637) | - |
| Other (Net Transfer) | - | (9,221) | 9,221 |
| Net Changes | <u>443,372</u> | <u>209,914</u> | <u>233,458</u> |
| Balances at December 31, 2016 | <u>\$ 1,690,169</u> | <u>\$ 1,663,034</u> | <u>\$ 27,135</u> |

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the plan's net pension liability, calculated using a single discount rate of 7.50%, as well as what the plan's net pension liability (asset) would be if it were calculated using a single discount rate that is 1% lower or 1% higher:

| | 1% Lower (6.50%) | Current (7.50%) | 1% Higher (8.50%) |
|--------------------------------------|-----------------------------|----------------------------|------------------------------|
| Net Pension Liability (Asset) | \$ 224,618 | \$ 27,135 | \$ (133,841) |

**Illinois Medical District Commission
(Component Unit of the State of Illinois)
Notes to Basic Financial Statements
Year Ended June 30, 2017**

NOTE 9 – PENSION PLAN (Continued)

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

For the year ended June 30, 2017, the Commission recognized pension expense of \$215,524. At June 30, 2017, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| Deferred Amounts Related to Pensions | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|---|--|
| <i>Deferred Amounts to be Recognized in Pension Expense in Future Periods</i> | | |
| Differences between expected and actual experience | \$ 70,601 | \$ 378,592 |
| Changes of assumptions | 45,949 | - |
| Net difference between projected and actual earnings on pension plan investments | <u>77,268</u> | <u>-</u> |
| Total Deferred Amounts to be recognized in pension expense in future periods | <u>193,818</u> | <u>378,592</u> |
| <i>Pension Contributions made subsequent to the Measurement Date</i> | <u>54,511</u> | <u>-</u> |
| Total Deferred Amounts Related to Pensions | <u>\$ 248,329</u> | <u>\$ 378,592</u> |

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future periods as follows:

| <u>Year Ending December 31</u> | <u>Net Deferred (Inflows) Outflows of Resources</u> |
|---|--|
| 2017 | \$ (129,135) |
| 2018 | (129,135) |
| 2019 | 23,744 |
| 2020 | 25,362 |
| 2021 | 23,040 |
| Thereafter | <u>1,350</u> |
| Total | <u>\$ (184,774)</u> |

**Illinois Medical District Commission
(Component Unit of the State of Illinois)
Notes to Basic Financial Statements
Year Ended June 30, 2017**

NOTE 10 – GRANT FUNDING

On February 25, 2014, the Department of Commerce and Economic Opportunity (DCEO) awarded the Commission a grant in the amount of \$250,000. The grant funds are to be used for the HVAC system that will reduce energy consumption for the new lease to the Anatomical Gift Association of Illinois (AGA) at the building located at 2235 W 13th Street, Chicago, Illinois.

In fiscal year 2017, there were no additional Illinois grant funds.

NOTE 11 – TENANT IMPROVEMENTS

The Commission renovated the second floor at 2100 W. Harrison Street to accommodate changes with the new tenant, Jesse Brown VA Medical Center (VA), effective October 2012. In connection with this renovation, VA paid \$760,041 towards tenant improvements, which is amortized over the life of the lease. A portion of such tenant improvements amounting to \$152,008 has been recognized as revenue in fiscal year 2017 and the remaining portion is part of the unearned revenue in the statement of net position. Future amortization of the tenant improvements at June 30, 2017 is as follows:

| <u>Year Ended</u> | <u>Tenant Improvement Revenue Recognized</u> |
|-------------------|--|
| 6/30/2018 | \$ 46,584 |

**REQUIRED SUPPLEMENTAL INFORMATION
(UNAUDITED)**

**Illinois Medical District Commission
(Component Unit of the State of Illinois)
Schedule of Changes in the Net Pension Liability and Related Ratios
For the Last Three Calendar Years**

| | 2016 | 2015 | 2014 |
|---|---------------------|---------------------|---------------------|
| Total Pension Liability | | | |
| Service Cost | \$ - | \$ 157,246 | \$ 140,414 |
| Interest on the Total Pension Liability | 91,236 | 135,165 | 105,043 |
| Changes of Benefit Terms | - | - | - |
| Differences Between Expected and Actual Experience of the Total Pension Liability | 412,773 | (735,250) | 112,472 |
| Changes of Assumptions | - | - | 73,198 |
| Benefit Payments, including Refunds of Employee Contributions | (60,637) | (67,881) | (7,945) |
| Net Change in Total Pension Liability | 443,372 | (510,720) | 423,182 |
| Total Pension Liability - Beginning | 1,246,797 | 1,757,517 | 1,334,335 |
| Total Pension Liability - Ending (A) | \$ 1,690,169 | \$ 1,246,797 | \$ 1,757,517 |
| Plan Fiduciary Net Position | | | |
| Contributions - Employer | \$ 121,825 | \$ 106,338 | \$ 164,465 |
| Contributions - Employees | 56,513 | 48,731 | 65,435 |
| Net Investment Income | 101,434 | 7,537 | 78,386 |
| Benefit Payments, including Refunds of Employee Contributions | (60,637) | (67,881) | (7,945) |
| Other (Net Transfers) | (9,221) | (105,321) | (10,664) |
| Net Change in Plan Fiduciary Net Position | 209,914 | (10,596) | 289,677 |
| Plan Fiduciary Net Position - Beginning | 1,453,120 | 1,463,716 | 1,174,039 |
| Plan Fiduciary Net Position - Ending (B) | \$ 1,663,034 | \$ 1,453,120 | \$ 1,463,716 |
| Net Pension Liability (Asset) - Ending (A) - (B) | \$ 27,135 | \$ (206,323) | \$ 293,801 |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 98.39% | 116.55% | 83.28% |
| Covered Valuation Payroll | 1,138,181 | 1,073,036 | 1,454,154 |
| Net Pension Liability as a Percentage of Covered Valuation Payroll | 2.38% | -19.23% | 20.20% |

Note to Schedule:

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information is presented for those years for which information is available.

**Illinois Medical District Commission
(Component Unit of the State of Illinois)
Schedule of Employer Contributions
For the Last Ten Calendar Years**

| Calendar Year Ended December 31, | Actuarially Determined Contribution | Actual Contribution | Contribution Deficiency (Excess) | Covered Valuation Payroll | Actual Contribution as a Percentage of Covered Valuation Payroll |
|---|--|--------------------------------|---|--|---|
| 2016 | \$110,290 | \$121,825 | (\$11,535) | \$1,138,181 | 10.70% |
| 2015 | 105,158 | 106,338 | (1,180) | 1,073,036 | 9.91% |
| 2014 | 172,462 | 164,465 | 7,997 | 1,524,867 | 10.79% |
| 2013 | 147,708 | 147,708 | 0 | 1,169,500 | 12.63% |
| 2012 | 119,922 | 119,922 | 0 | 892,940 | 13.43% |
| 2011 | 98,076 | 98,076 | 0 | 754,427 | 13.00% |
| 2010 | 104,081 | 88,963 | 15,118 | 726,824 | 12.24% |
| 2009 | 68,461 | 68,461 | 0 | 615,108 | 11.13% |
| 2008 | 62,815 | 62,815 | 0 | 491,897 | 12.77% |
| 2007 | 75,285 | 75,285 | 0 | 589,547 | 12.77% |

**Illinois Medical District Commission
(Component Unit of the State of Illinois)
Schedule of Employer Contributions (continued)**

Notes to Schedule:

Summary of Actuarial Methods and Assumptions Used in the Calculation of the 2016 Contribution

Rate*

Valuation Date:

Notes Actuarially determined contribution rates are calculated as of December 31 each year, which are 18 months prior to the beginning of the fiscal year in which contributions are reported.

Methods and Assumptions Used to Determine 2016 Contribution Rates:

| | |
|---------------------------------------|---|
| <i>Actuarial Cost Method:</i> | Aggregate entry age = normal |
| <i>Amortization Method:</i> | Non-Taxing bodies: 10-year rolling period. |
| <i>Remaining Amortization Period:</i> | 28-year closed period |
| <i>Asset Valuation Method:</i> | 5-year smoothed market; 20% corridor |
| <i>Wage Growth:</i> | 3.5% |
| <i>Price Inflation:</i> | 2.75%, approximate; No explicit price inflation assumption is used in this valuation. |
| <i>Salary Increases:</i> | 3.75% to 14.50%, including inflation |
| <i>Investment Rate of Return:</i> | 7.50% |
| <i>Retirement Age:</i> | Experience-based table of rates that are specific to the type of eligibility condition; last updated for the 2014 valuation pursuant to an experience study of the period from 2011 to 2013. |
| <i>Mortality:</i> | For active members, an IMRF specific mortality table was used with fully generational projection scale MP-2014 (base year 2012). The IMRF specific rates were developed from the RP-2014 Employee Mortality Table, with adjustments to match current IMRF experience. |

Other Information:

Notes: There were no benefit changes during the year.

* Based on valuation assumptions used in the December 31, 2014 actuarial valuation.

OTHER SUPPLEMENTAL INFORMATION

State of Illinois
Illinois Medical District Commission
(A Component Unit of the State of Illinois)
Schedule of Capital Assets of the Pledged Revenue Properties
For the Year Ended June 30, 2017

COST

| | |
|------------------------------------|-------------------|
| Land and land improvements | \$ 15,585,995 |
| Site improvements | 1,655,617 |
| Building and building improvements | 15,776,233 |
| Construction in progress | 6,468,874 |
| Equipment | 22,051 |
| <i>Total cost</i> | <u>39,508,770</u> |

ACCUMULATED DEPRECIATION

| | |
|--|------------------|
| Site improvements | 553,536 |
| Building and building improvements | 6,176,194 |
| Equipment | 4,777 |
| <i>Total accumulated depreciation</i> | <u>6,734,507</u> |

| | |
|-----------------------------------|-----------------------------|
| <i>Capital assets, net</i> | <u><u>\$ 32,774,263</u></u> |
|-----------------------------------|-----------------------------|

CAPITAL ASSETS, NET BY PLEDGED REVENUE PROJECT

| | |
|--|-----------------------------|
| 1350 South Leavitt Street Project | \$ 2,750,618 |
| Guest House Project/1910 West Harrison Street | 1,468,098 |
| ASCP Buildings Project | 10,397,997 |
| District Development Commercial/Retail Project | 6,256,884 |
| District Development Vertiport Project | 5,431,792 |
| AGA Building Project | 6,468,874 |
| | <u>32,774,263</u> |
| | <u><u>\$ 32,774,263</u></u> |

State of Illinois
Illinois Medical District Commission
(A Component Unit of the State of Illinois)
Reconciliation of Due to Other State Agency
For the Year Ended June 30, 2017

REMAINING PRINCIPAL BALANCE

| | |
|--------------------|-------------------|
| Series 2006A bonds | \$ - |
| Series 2006B bonds | 14,050,000 |
| | <u>14,050,000</u> |

LESS CASH AND INVESTMENTS HELD IN TRUST

| | |
|--|---------------------|
| Revenue fund | 26,212 |
| Bond fund - 2006A | - |
| Bond fund - 2006B | 1,008,193 |
| Debt service reserve fund - 2006A | 564,074 |
| Debt service reserve fund - 2006B | 2,781,439 |
| Operating fund | 1 |
| Operation reserve fund | 500,689 |
| Commission fund | 1,041,844 |
| Replacement reserve fund | 325,386 |
| Special account | 1,224 |
| Total cash and investments held by the IFA | <u>6,249,062</u> |
| Balance at end of period | <u>\$ 7,800,938</u> |

SUMMARY OF TRUST ACCOUNT ACTIVITY

| | |
|--|---------------------|
| Balance at beginning of period | \$ 28,333,918 |
| Principal payments made from trust accounts | 1,460,000 |
| Reduction of outstanding principal balance | (20,835,000) |
| Interest payments made from trust accounts | 1,772,856 |
| Rents transfered to the Trustee by the Commission | (2,755,657) |
| Operating reimbursements from trust accounts | 478,650 |
| Voluntary contributions made by the Commission | (500,000) |
| Administrative and legal fees paid to the Trustee | 3,500 |
| (Earnings) loss on investments held by the Trustee | (157,329) |
| Balance at end of period | <u>\$ 7,800,938</u> |

BALANCE PER COMBINING SCHEDULE OF NET ASSETS

| | |
|-------------------|---------------------|
| Current portion | \$ 635,000 |
| Long-term portion | 7,165,938 |
| | <u>\$ 7,800,938</u> |