University of Illinois

Urbana-Champaign · Chicago · Springfield

ANNUAL FINANCIAL REPORT

Fiscal Year 2007

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TABLE OF CONTENTS

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UNIVERSITY OF ILLINOIS

Established in 1867, the University of Illinois at **Urbana-Champaign** is a premier public research university distinguished by the breadth and quality of its programs. Faculty conduct world-class interdisciplinary research and scholarship in an environment that enables creative thinking, promotes academic excellence and advances understanding. Students enroll in an array of academic and extracurricular programs that strengthens their educational experiences and prepares them to be leaders in a global society. ■

www.uiuc.edu

The University of Illinois at **Chicago** is an urban university that is a vital partner in the educational, technological and cultural fabric of the Chicago metropolitan area. UIC operates the state's major public medical center and is a principal educator of Illinois' physicians, dentists, pharmacists, nurses and other health-care professionals. A noted research center, particularly in urban affairs, medicine and the health sciences, UIC is committed to creating and disseminating new knowledge. ■

www.uic.edu

The University of Illinois at **Springfield** offers an outstanding liberal arts education by pairing academic excellence with small class size, high-quality programs and internships in public affairs, journalism and government. Faculty and students enrich the life of Illinois' capital city of Springfield, and graduates assume leadership positions in government, media and communications. Making a difference in the world is a central tenet of the UIS educational philosophy. ■

www.uis.edu

MESSAGE FROM THE PRESIDENT

On behalf of our Board of Trustees and our faculty, students and staff, I am pleased to present the University of Illinois Financial Report for fiscal year 2007.

This document provides detailed information about the University's financial position and performance for the fiscal year that ended June 30, 2007. The graphs, tables, charts and financial statements show that our resources have been prudently managed and that the U of I financial house is in order.

The University of Illinois' biggest single patron is the state of Illinois, through its elected legislature and officials. The state's direct annual investment in this University exceeds $700 million; an additional $377 million in state funds pays for medical and pension benefits for the more than 24,000 employees whose commitment to this institution and its students is second to none.

In addition to the financial information, I am delighted to have the opportunity to showcase in the Financial Report a few of the outstanding research and instructional successes from our three campuses. Our faculty are leading researchers and our students are among the best in the country, which made the process of selecting the highlights a challenge.

I have long said, and continue to believe, that the University of Illinois is an asset of extraordinary value in creating a prosperous future for the people of Illinois. The wealth of the emerging economy comes from educated people and the knowledge derived from research that creates new industries, companies and jobs. At the University of Illinois, people and knowledge are our currency and we believe we are prudent and wise stewards.

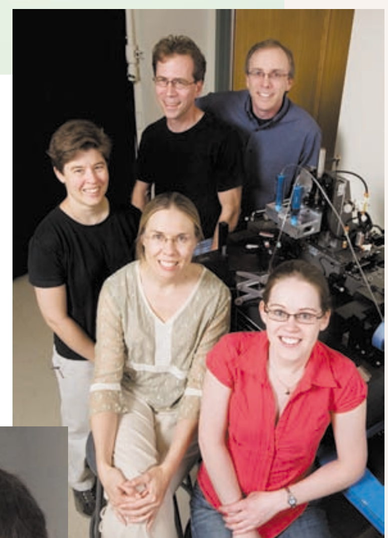
As always, I welcome your comments.

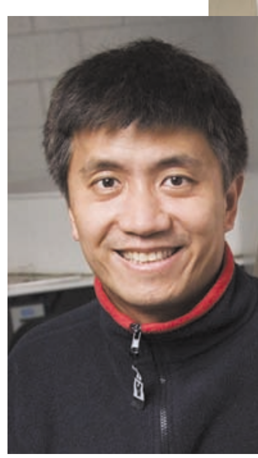
Sincerely,

B. Joseph White

President

SCIENCE





Energy Biosciences Institute Established

A $500 million research program funded by the energy company BP will bring farm bioenergy production to Illinois on a grand scale. Urbana campus researchers have joined colleagues at the University of California at Berkeley and the Lawrence Berkeley National Laboratory to form the Energy Biosciences Institute. Approximately 340 acres of farmland at the Urbana campus will be devoted to the study and production of feedstock for biofuel production. Researchers, led by Professor Stephen Long, will explore the potential benefits of using a variety of plants as fuel sources, including *Miscanthus x giganticus*, a hybrid grass that can grow to be 13 feet tall. The initiative will explore how adequate supplies of high-quality plant biomass can be sustainably produced and utilized in facilities that convert biomass to fuels. ■

Soy Tasty!

Urbana scientist Soo-Yeun Lee developed a cereal that is soy-protein packed, low in fat and high in fiber. Rather than a soy-fortified cereal, Lee's version uses the high protein and B-vitamin-rich soy as a major base ingredient. Taste-testers liked the unflavored and cinnamon-flavored varieties and both scored well against commercially available cereals. Lee says she is confident that soy-based, high-protein cereals can not only optimize nutrition, they can also taste good. ■

Nano Propellers Pump with Proper Chemistry

The ability to pump liquids at the cellular scale opens up exciting possibilities for development, such as precisely targeting medicines and regulating flow into and out of cells. But designing this molecular machinery has proven difficult. UIC chemists have created a theoretical blueprint for assembling a nanoscale propeller with molecule-sized blades. Using classical molecular dynamics simulations, Petr Král, assistant professor of chemistry at UIC, and his laboratory coworkers were able to study realistic conditions in this microscopic environment to learn how the tiny propellers pump liquids. The team discovered that propeller pumping efficiency in liquids is highly sensitive to the size, shape, chemical or biological composition of the blades. The research was featured in the journal *Nature* in July. ■

Self-healing Materials

The next generation of self-healing materials, invented by Urbana researchers, mimics human skin by healing itself time after time. The new materials rely upon embedded, three-dimensional microvascular networks that emulate biological circulatory systems. According to Nancy Sottos, a professor of materials science and engineering, a crack in the new materials causes the flow of healing agent to repair that damage in a similar way that a break in the skin triggers blood flow to promote healing. ■

Coming Soon: Smart Textiles

Urbana scientists have fabricated the world's smallest chain-mail fabric. Combined with existing processing techniques, the flexible, metallic fabric, similar in construction to the chain-mail armor worn by medieval knights, holds promise for fully engineered smart textiles that could result in wearable electronic devices. The fabric consists of a network of small rings about 500 microns in diameter and even smaller links about 400 microns. Chang Liu, a professor of electrical and computer engineering, says the miniature fabric is an important step toward creating textiles where structure and electronics can be designed, integrated and controlled from the ground up. ■

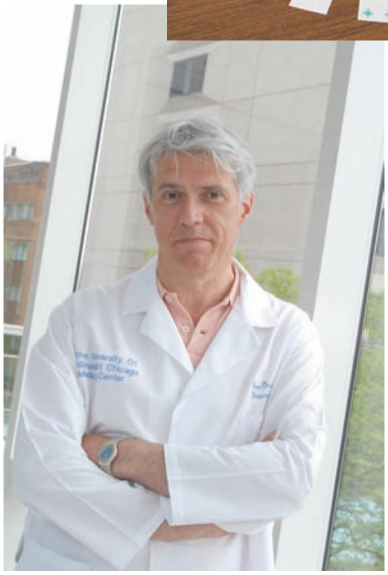
MEDICINE/HEALTHCARE

Traumatic Brain Injury

At least 1.6 million people in the United States sustain a traumatic brain injury (TBI) each year—the result of falls, sports injuries, gunshot wounds and combat. Few professionals are trained to recognize, assess and treat pediatric (people 21 and younger) TBI cases. Adele Proctor, professor of speech and hearing science in Urbana, and her colleagues, with support from a $1 million, five-year grant from the US Department of Education, have developed a program that awards fellowships to graduate students in speech-language pathology. The students receive special training, giving them the experience and education to provide TBI-related services in a variety of settings, from schools and social service agencies to clinics and hospitals. ■

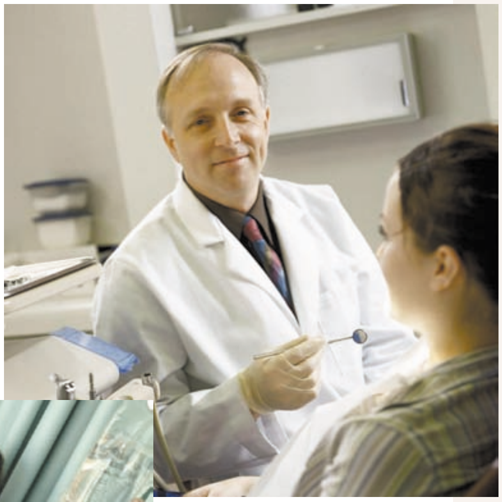
Robotic Surgeon Joins UIC

An experienced surgeon who has performed hundreds of robotic surgical procedures was named the Lloyd M. Nyhus Professor of Surgery and chief of the division of minimally invasive, general and robotic surgery at UIC in May 2007. Dr. Pier Cristoforo Giulianotti has perfected robotic-assisted surgical techniques for the removal of cancerous tumors of the lung and pancreas and is credited with developing specific procedures, including one to repair aneurysms of the renal artery, that can be performed robotically. The former head of surgery at a hospital in Italy, Giulianotti has trained more than 60 international physicians in robotic surgery. ■



Slower to Heal

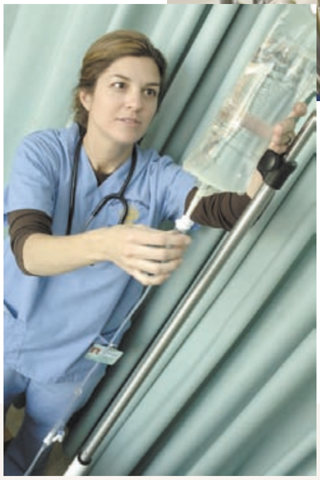
Wounds in the mouth heal more slowly in women and older adults, according to a new study by Dr. Phillip Marucha, head of periodontics at the UIC College of Dentistry. According to Marucha, regardless of age, men's mouth wounds heal faster than women's and older women are at the highest risk for delayed healing. Discovering the reasons behind these age and sex differences will help improve treatment, and postsurgical recovery times may be reduced. The findings of the study, says Marucha, could have important implications for surgical practices. ■



Nursing News

Beginning in the fall of 2007, UIC's College of Nursing will offer a new doctorate of nursing practice program, designed to prepare nursing leaders to practice in complex health care systems, manage diverse populations and reduce disparities in health care outcomes. UIC already has a doctor of philosophy degree in nursing science.

The College of Nursing recently received a $932,000 federal grant to reduce the shortage of public health nurses in Illinois. The funds from the Health Resources and Services Administration will be used to recruit and train nurses in either a graduate degree in nursing through UIC's advanced community health nurse program or in a joint master's degree in public health. ■



ACADEMICS/INSTRUCTION

To Ireland on Fulbright

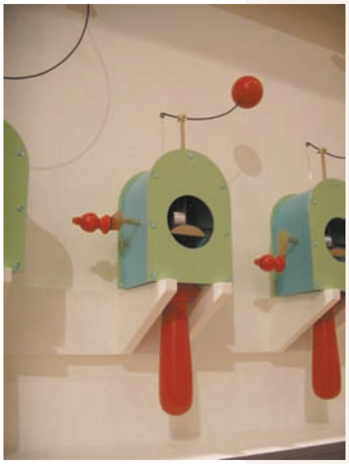
Brent Never, UIS assistant professor of public administration, received a Fulbright grant to study conflict resolution in Northern Ireland. Never seeks to determine what types of nonprofit organizations get involved in different types of conflict. He will spend the 2007 fall semester at the University of Ulster, outside Belfast, doing research and teaching courses in public administration as a visiting faculty member. ■

As Good as He Can Be

UIC English and creative writing professor Luis Alberto Urrea published two "cataclysmic" books—one non-fiction, one novel—in the last two years. "The Devil's Highway: A True Story," a Pulitzer Prize finalist, lays out illegal Mexican immigration to the United States in human, cultural and economic terms. Urrea's novel, "The Hummingbird's Daughter," is based on his great aunt, a Yaqui Indian faith healer. In the classroom, Urrea teaches fiction workshops to UIC grad students and literature to undergrads. ■

Building Research and Teaching Capacity

The more than 7,000-acre Emiquon Preserve, a collaboration between UIS and The Nature Conservancy, is the largest floodplain restoration project in the Midwest. In the first phase of the restoration process, planting by the Conservancy and partner organizations is covering 1,400 acres of bottomland forest, prairie, upland forest and wetland. More than a quarter of a million trees and thousands of pounds of seed have been planted, as well as prairie flowers and plants. Under construction is a 3,600-square foot field station that will house offices, a smart classroom, conference room, library/study, wet and dry laboratories, and sample and chemical storage spaces. Emiquon will be used for teaching and research. ■



Graduate Student Work Featured at I space

The art of Urbana art and design graduate students was featured at I space, the Chicago gallery on West Superior Street coordinated by the Urbana College of Fine and Applied Arts. The summer 2007 exhibit was titled "Dookie," which refers to excess of all kinds, according to professor and exhibit organizer Deke Weaver. The opening of the exhibit was part of Vision Chicago, a citywide celebration of the arts in July. ■

Competitive Scholarships Awarded Across the University

Each spring, University of Illinois graduate and undergraduate students are awarded scholarships for the next academic year in highly competitive, national programs. Seven Urbana students earned National Security Education Program Boren Undergraduate Scholarships for study abroad during the 2007-08 academic year. Three UIC doctoral candidates in anthropology were awarded fellowships by the Henry R. Luce Foundation to conduct projects in East Asian archaeology and early history. An Urbana graduate student will study at Tongji University in Shanghai as a Luce Scholar. A UIC Honors College senior was one of 10 students selected nationwide to receive a Fulbright Fellowship to conduct research in Israel in the fall of 2007. A UIS MBA candidate, who studies for her degree in Peoria while working fulltime, was named an FMC Graduate Fellow.

Twenty students, representing all three campuses, won U of I Avery Brundage Scholarships for excellence in academics and athletics. ■ ■ ■

Photo Credits: Roberta Dupuis-Devlin, UIC News Bureau; Brian Stauffer, Urbana News Bureau and ACES Information and Technical Communications Services; UIS News Bureau; Don Hamerman/Professor Stephen Long's miscanthus.uiuc.edu website; Kalev Leetaru/Phantasm Image Database; AACSB

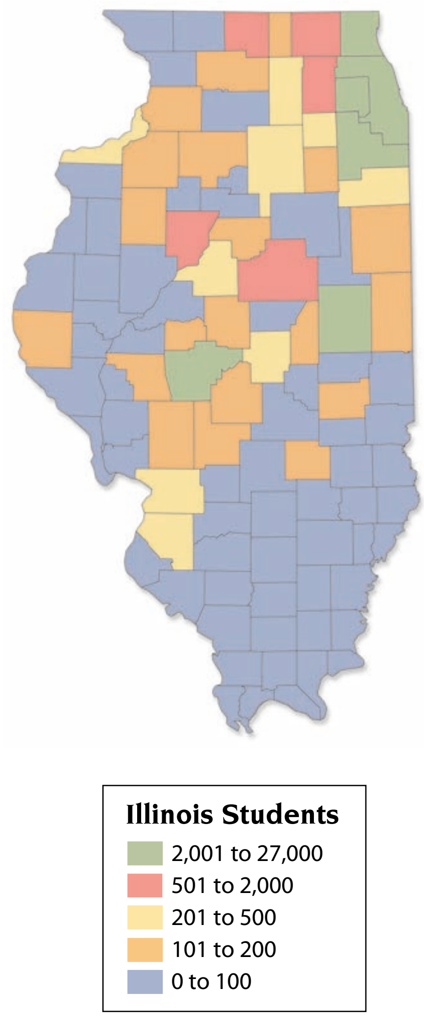
A State University With A Global Reach

Total University enrollment for the fall semester of 2006 was approximately 69,000. Illinois residents account for 82% of the total enrollment. The remaining 18% of the University's enrollment is divided between students from other states and U.S. territories, 8%, and international students, 10%.

The primary focus of the University's educational program is to provide the highest quality educational experience to Illinois residents. Illinois taxpayers provide a direct subsidy to the University that represents about one-third of the University's operating budget. The enrollment of students from other states, U.S. territories and foreign countries help broaden the educational and life experience of all our students.

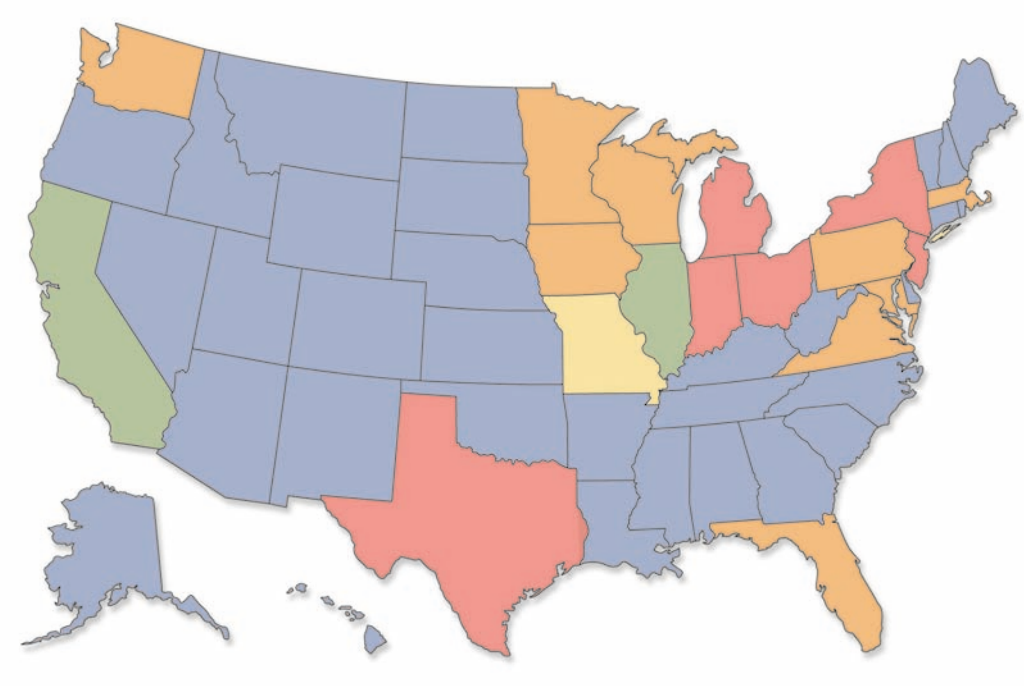
Enrollment by County, Fall 2006

Adams	165
Alexander	5
Bond	27
Boone	122
Brown	13
Bureau	104
Calhoun	7
Carroll	24
Cass	50
Champaign	4,280
Christian	174
Clark	22
Clay	16
Clinton	51
Coles	146
Cook	25,715
Crawford	41
Cumberland	16
Dekalb	222
Dewitt	35
Douglas	83
Du Page	6,520
Edgar	48
Edwards	8
Effingham	115
Fayette	21
Ford	67
Franklin	29
Fulton	55
Gallatin	5
Greene	38
Grundy	143
Hamilton	3
Hancock	40
Hardin	0
Henderson	8
Henry	138
Iroquois	127
Jackson	95
Jasper	44
Jefferson	39
Jersey	37
JoDaviess	25
Johnson	10
Kane	1,313
Kankakee	237
Kendall	222
Knox	100
Lake	3,540
La Salle	302
Lawrence	15
Lee	84
Livingston	99
Logan	138
McDonough	66
McHenry	1,086
McClean	633
Macon	353
Macoupin	106
Madison	451
Marion	48
Marshall	32
Mason	50
Massac	14
Menard	93
Mercer	31
Monroe	87
Montgomery	126
Morgan	152
Moultrie	64
Ogle	119
Peoria	579
Perry	20
Piatt	125
Pike	39
Pope	8
Pulaski	2
Putnam	25
Randolph	33
Richland	30
Rock Island	293
St. Clair	384
Saline	19
Sangamon	2,072
Schuyler	21
Scott	22
Shelby	40
Stark	20
Stephenson	84
Tazewell	329
Union	11
Vermilion	180
Wabash	23
Warren	34
Washington	26
Wayne	15
White	18
Whiteside	110
Will	2,476
Williamson	60
Winnebago	628
Woodford	113
Unknown	4



56,337

Enrollment by State, Fall 2006



Alabama	29
Alaska	13
Arizona	64
Arkansas	22
California	551
Colorado	75
Connecticut	52
Delaware	12
District of Columbia	20
Florida	154
Georgia	93
Hawaii	21
Idaho	22
Illinois	56,337
Indiana	275
Iowa	135
Kansas	87
Kentucky	82
Louisiana	32
Maine	12
Maryland	162
Massachusetts	107
Michigan	282
Minnesota	147
Mississippi	14
Missouri	345
Montana	6
Nebraska	53
Nevada	24
New Hampshire	24
New Jersey	220
New Mexico	30
New York	270
North Carolina	77
North Dakota	11
Ohio	280
Oklahoma	45
Oregon	55
Pennsylvania	127
Rhode Island	8
South Carolina	26
South Dakota	12
Tennessee	68
Texas	250
Utah	58
Vermont	16
Virginia	133
Washington	101
West Virginia	10
Wisconsin	199
Wyoming	3
Unknown	0
Other*	221

*U.S. residents with foreign addresses

61,472

United States
(AK & HI inset)

- 401 to 57,000
- 301 to 400
- 201 to 300
- 101 to 200
- 0 to 100

Enrollment by Continent, Fall 2006

North/Central America & W. Indies	276
U.S. and U.S. Territories*	61,522
Subtotal North/Central America	61,798
Asia (includes Middle East)	5,623
Europe	678
South America	274
Africa	141
Oceania	36
Unknown – International	259

*Includes U.S. residents with foreign addresses or unknown addresses.

68,809

STAFF AND STUDENT DATA

as of October 2006

Staff Full-Time Equivalent (all funds)

	Chicago	Springfield	Urbana-Champaign	University Administration	Total University
Faculty	2,453	240	2,978	6	5,677
Academic Professional	3,676	183	3,419	761	8,039
Support Staff	5,297	281	4,527	459	10,564
Graduate Assistant	2,140	140	2,663	17	4,960
TOTAL	13,566	844	13,587	1,243	29,240

Note: Chicago campus includes University of Illinois Hospital; Urbana-Champaign campus includes Cooperative Extension Service.

Degrees Awarded FY 2006

	Chicago	Springfield	Urbana-Champaign	Total University
Certificates	—	—	9	9
Bachelors	3,184	674	6,732	10,590
Postbaccalaureate Certificates	—	2	—	2
Masters	1,765	461	2,545	4,771
Post-Masters Certificates	—	0	10	10
Doctorate	311	2	689	1,002
First-Professional	496	—	309	805
First-Professional-Certificates	25	—	—	25
TOTAL	5,781	1,139	10,294	17,214

Student Full-Time Equivalent Enrollment

	Chicago*	Springfield	Urbana-Champaign	Total University
Undergraduate	14,999	1,987	30,935	47,921
Graduate	6,704	1,375	9,267	17,346
Professional	2,497	0	1,045	3,542
TOTAL	24,200	3,362	41,247	68,809

*Includes 982 residents.
Note: Fte calculated based on IBHE definition

MESSAGE FROM THE VICE PRESIDENT/ CHIEF FINANCIAL OFFICER, COMPTROLLER

I am pleased to present the Annual Financial Report of the University of Illinois for the fiscal year ended June 30, 2007. The financial position of the University is sound, reflecting the commitment throughout the institution to follow best practices in business to ensure the integrity of all of our programs and initiatives.

Within the framework of our strategic plan, the University of Illinois is competing successfully in a dynamic and competitive funding environment. I am confident that our financial base and the outstanding faculty, staff and students on our three campuses will keep the University of Illinois a leader in higher education.

I knew when I joined the University in February 2007 that I was becoming part of an institution that is academically decentralized and financially centralized. I also knew that the unifying and driving forces of access and excellence are behind all that we do in university administration and on our campuses in Urbana-Champaign, Chicago and Springfield. Our dedicated faculty and staff are committed to achieving academic and research excellence by creating knowledge and putting that knowledge to work on a large scale. Access to our institution transforms the lives of our students.

Our tradition of excellence in teaching, research, public service and economic development, combined with innovative initiatives, will drive the University of Illinois to an even greater level of recognition as an educational leader.

Walter Knorr

Vice President/Chief Financial Officer, Comptroller

February 8, 2008

INDEPENDENT AUDITOR'S REPORT

Clifton Gunderson LLP
Certified Public Accountants & Consultants

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

As Special Assistant Auditors for the Auditor General, we have audited the accompanying basic financial statements of the University of Illinois (University) and its aggregate discretely presented component units, collectively a component unit of the State of Illinois, as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year partial comparative information has been derived from the University's 2006 financial statements and, in our report dated October 4, 2006 we expressed unqualified opinions on those financial statements.

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

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

In accordance with *Government Auditing Standards*, we have also issued a report dated February 8, 2008 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report, which has been issued under separate cover, is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Clifton Gunderson LLP

February 8, 2008
Peoria, Illinois

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis (MD&A) provides an overview of the financial position and activities of The University of Illinois for the year ended June 30, 2007.

We encourage you to read this MD&A section in conjunction with the audited financial statements and footnotes appearing in this report.

INTRODUCTION AND BACKGROUND

The following Management's Discussion and Analysis (MD&A) provides an overview of the financial position and activities of the University of Illinois for the year ended June 30, 2007 with comparative information for the year ended June 30, 2006. The MD&A should be read in conjunction with the audited financial statements and footnotes appearing in this report.

The University of Illinois was founded in 1867 in response to the federal Land Grant Act of 1862. The University's evolution over nearly 140 years as a land-grant institution has produced a set of core values that underlie all aspects of its present and future programs. The University is a comprehensive public university, a family of three distinct campuses — Chicago, Springfield and Urbana-Champaign serving the people of Illinois through a shared commitment to our missions of excellence in teaching, research, public service and economic development.

Our campuses currently enroll approximately 69,000 on-campus students and thousands more take courses off campus and online. The University of Illinois has internationally renowned faculty that are known for being world leaders in research and currently employs approximately 5,700 faculty members on its three campuses. The University offers a diverse range of degree programs from baccalaureate to post-doctoral levels. Approximately 17,000 degrees are awarded annually. The operating budget for fiscal year 2007, from all fund sources, was approximately $3.7 billion. Our faculty, staff and students share their knowledge and expertise and the resources of the University with citizens in every corner of Illinois through more than 700 public service and outreach programs.

The University has a mission to transform lives and serve society by educating, creating knowledge, and putting knowledge to work on a large scale and with excellence. Our vision is to create a brillant future for the University in which students, faculty, and staff thrive and citizens of Illinois, the nation, and the world benefit.

A commitment to research is an integral part of the University's mission. The University's world-class faculty are the drivers of cutting-edge research, yielding inventions and the discovery of new knowledge, which can be commercialized into new processes, products, and services. The faculty members at the University generate external grants that bring employment, graduate students, and resources to Illinois.

The University of Illinois serves as an essential partner with the State in sustaining growth in the economy and thriving, healthy communities. Our very operation means billions in direct spending in Illinois and employment for more than 34,000. In addition, the increased earning power of hundreds of thousands of alumni living in Illinois results in additional tax revenue for our state.

The University is dedicated to using the resources at all three campuses in an integrated fashion to strengthen the services to the State through the education of a modern work force, engagement in research and development, technology commercialization, and partnerships with business, government and community groups. Each campus makes specific and different contributions to the University's overarching mission and vision. The campuses are strengthened by intercampus cooperation and by university-wide services, yet carry out their academic functions with a high degree of delegated authority and autonomy. In addition to the three main campuses, the University also has health professions sites in the Illinois towns of Rockford, Peoria, and the Quad Cities, continuing education centers and offices across the State of Illinois. In fiscal year 2007, the University expanded its on-line education opportunities by launching the plan for the Global Campus Partnership. The financial plan for the Global Campus was approved in July of 2007 and it will enroll its first cohort of students in January 2008 with a plan to expand enrollments dramatically over a five year period.

University of Illinois at Chicago

The University of Illinois at Chicago (UIC) is a major research university located in the heart of one of the world's great cities. The largest university in Chicago, UIC ranks among the nation's top 50 universities in federally funded research. UIC plays a critical role in Illinois healthcare, operating the state's major public medical center and serving as the principal educator of Illinois' physicians, dentists, pharmacists, nurses and other health professionals. UIC's student body is one of the nation's most diverse, reflecting the global character of Chicago. The hallmark of the campus is its Great Cities Commitment, through which UIC faculty, staff and students engage in hundreds of programs with civic, community, corporate and government partners to improve the quality of life in Chicago and other metropolitan areas around the world.

University of Illinois at Springfield

The University of Illinois at Springfield (UIS) is located on 746 picturesque acres in the state capital of Illinois. UIS is a small, public liberal arts university where faculty place the top priority on teaching. The resulting close relationships they build with students are consistently cited by graduates as the University's greatest strength. Classes are small so students benefit from hands on learning; they do not just observe in the classrooms and labs. Through extraordinary internships in the community and in government, UIS offers 42 undergraduate and graduate degree programs, and is known for an emphasis on public affairs and service, its wireless campus, and its extensive online offerings.

University of Illinois at Urbana-Champaign

The University of Illinois at Urbana-Champaign is a place of excellence, innovation, and tradition. At our State's classic land-grant university, approximately 3,000 faculty members lead more than 40,000 undergraduate, graduate and professional students from around the world in a process of discovery and learning in 16 colleges and schools, and more than 80 research centers and labs. Illinois faculty and students are engaged with top scholars from around the world and across disciplines to address humanity's critical issues. Their work has earned the world's top prizes and recognitions, including Nobel and Pulitzer Prizes, Tony Awards, MacArthur "genius" awards, and National Medals of Science and Technology. Many faculty members have been inducted into the nation's elite academies of arts and sciences. Unique campus resources include one of the world's largest university libraries, outstanding centers for the arts, and many world-class research facilities, including the National Center for Supercomputing Applications, Beckman Institute for Advanced Science and Technology, and Siebel Center for Computer Science.

USING THE FINANCIAL STATEMENTS

The University's financial report includes three financial statements: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. The financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles, which establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a consolidated basis to focus on the University as a whole. The financial statements encompass the University and its discretely presented component units, the University of Illinois Foundation, the University of Illinois Alumni Association, and Wolcott, Wood and Taylor, Inc. Additional information regarding these component units is summarized in Note 1 to the financial statements. This MD&A focuses on the University excluding the discretely presented component units. MD&A for these component units is included in their separately issued financial statements.

FINANCIAL HIGHLIGHTS AND KEY TRENDS

The fiscal year 2007 budget for direct state appropriations, as approved by the Governor, was approximately $713 million, which represented about a 2% increase from the approved fiscal year 2006 budget. The overall budget utilized by the University increased by about 6%. This trend demonstrates the University's ability to rely on other diverse sources of funding to provide services to our students and support our mission.

Net assets, which represent the residual interest in the University's assets after liabilities, increased during the current year by approximately $46 million attributed largely to increases of approximately $34 million in restricted funds, $8 million in invested in capital assets, and $4 million in unrestricted funds. As of June 30, 2007, the University's total assets were $4.9 billion compared to total assets of $4.5 billion as of June 30, 2006. The largest components of this growth were increases in capital assets and increases in cash and cash equivalents related to the borrowings for capital projects during the fiscal year 2007. The University issued Auxiliary Facilities System Revenue Series 2006 Bonds in the amount of $318 million to fund various improvements and additions to the System, to provide for the refunding of portions of the outstanding System bonds, and to pay all costs incidental to the issuance of the bonds.

STATEMENT OF NET ASSETS

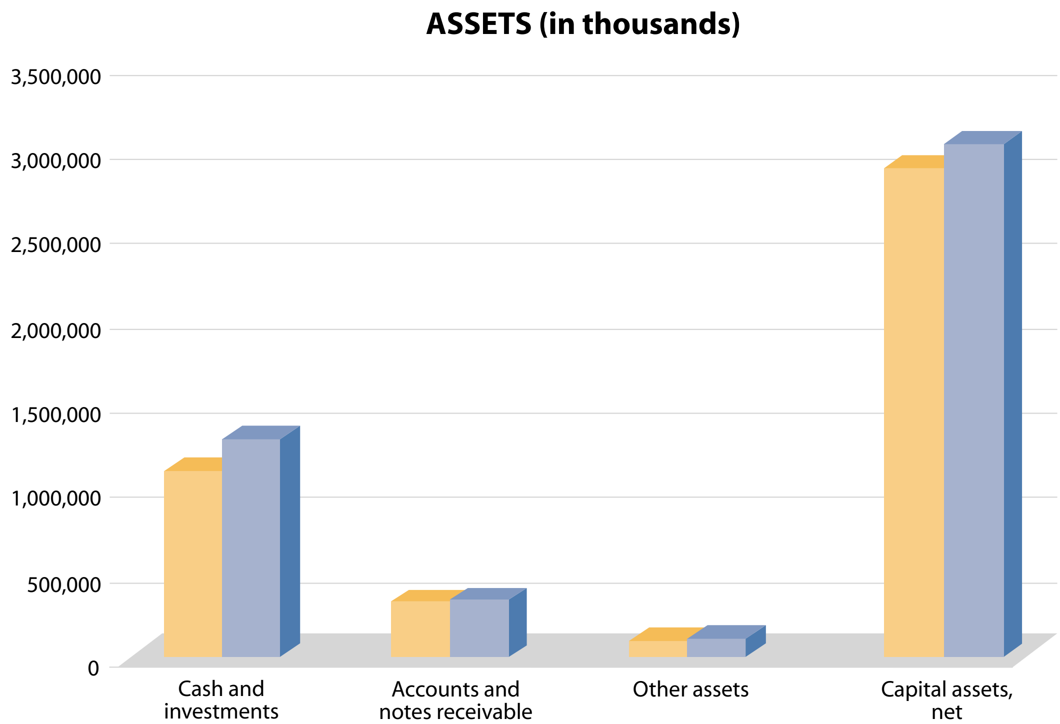
The Statement of Net Assets presents the financial position of the University at the end of the fiscal year and includes all assets and liabilities of the University using the accrual basis of accounting. The difference between total assets and total liabilities, net assets, is one indicator of the current financial condition of the University. The changes in net assets that occur over time indicate improvement or deterioration in the University's financial condition. Generally assets and liabilities are reported at cost with the exception of investments which are reported at fair value and capital assets which are stated at historical cost less accumulated depreciation. A summarized comparison of the University's assets, liabilities and net assets at June 30, 2007 and 2006 is as follows:

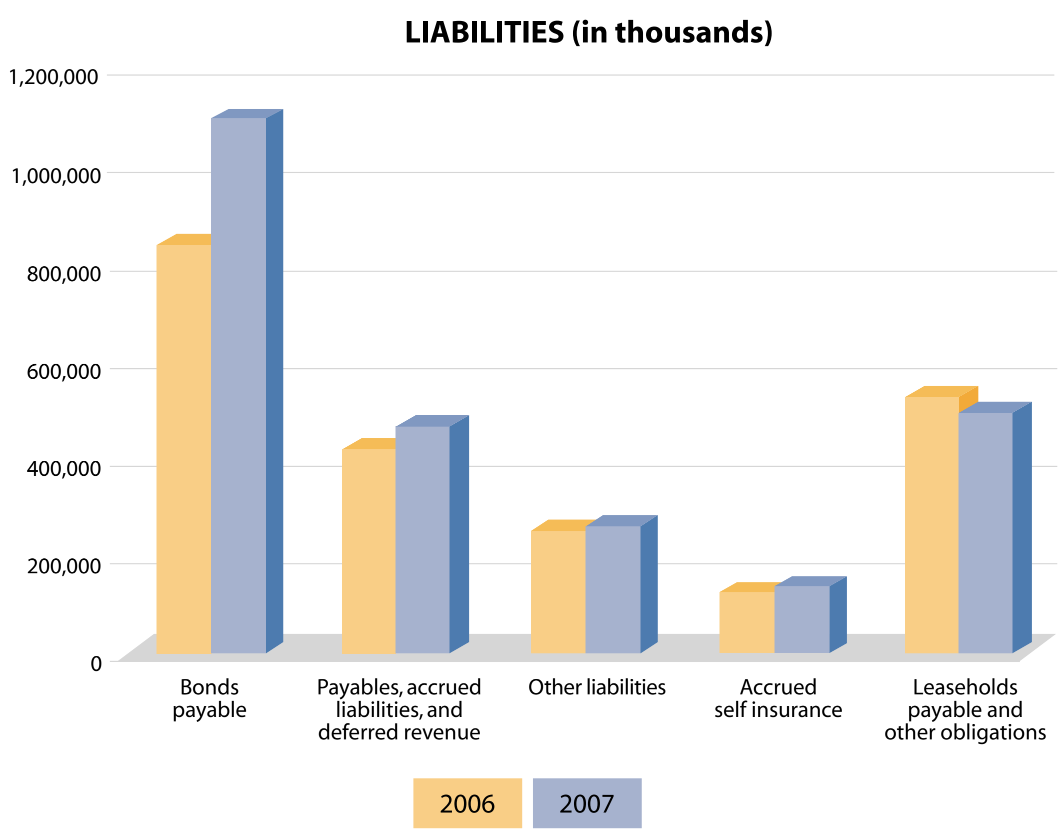
(in thousands)	2007	2006
Current assets:		
Cash and investments	$ 700,357	$ 479,317
Accounts and notes receivable	346,260	340,310
Other current assets	61,205	54,039
Noncurrent assets:		
Investments	575,244	616,118
Notes receivable	50,349	42,086
Capital assets, net of accumulated depreciation	3,109,396	2,969,989
Other assets	40,837	35,228
Total assets	$ 4,883,648	$ 4,537,087
Current liabilities:		
Accounts payable, accrued liabilities and deferred revenue	$ 462,624	$ 415,564
Bonds payable	31,243	29,133
Leaseholds payable and other obligations	34,285	32,691
Accrued self insurance	39,761	34,105
Other current liabilities	66,482	58,953
Noncurrent liabilities:		
Bonds payable	1,060,804	805,579
Leaseholds payable and other obligations	463,755	492,332
Accrued self insurance	116,417	108,109
Accrued compensated absences	192,421	190,636
Total liabilities	$ 2,467,792	$ 2,167,102
Net assets	$ 2,415,856	$ 2,369,985

Total assets increased by $347 million or 8% to $4.9 billion during fiscal year 2007. The change is attributed to an increase in cash and investments of $180 million, an increase in accounts and notes receivable of $14 million, an increase in capital assets of $139 million, and an increase in other assets of $13 million. The increase in total University cash and investments is largely due to the issuance of bonds during the second quarter for projects related to the Auxiliary Facilities System that were not fully expended at year-end. The increase in accounts and notes receivable was attributable to increases in receivables from sponsoring agencies, hospital and other medical activities, and student loans during the fiscal year.

Total liabilities increased by approximately $301 million or 14% during fiscal year 2007. Bonds payable increased by $257 million primarily due to the sale of bonds for Auxiliary Facilities System capital projects. There was also an increase in accounts payable and accrued liabilities of $47 million primarily due to increases in construction-related payables and medical center-related third party settlements, along with timing differences on State appropriated expenses at the end of fiscal year 2007. The residual changes included a net decrease of leaseholds payable and other obligations, partially offset by increases in accrued compensated absences, accrued payroll, and accrued self insurance.

The following graphs illustrate the University's assets and liabilities with the current and non current categories combined:





Capital Assets

Capital assets, net, which includes the University's land, buildings, improvements, and equipment including capitalized software and library books, increased by $139 million to approximately $3.1 billion at June 30, 2007. The University's policy requires the capitalization of all land and collection purchases regardless of cost, equipment at $5,000, buildings and improvements at $100,000, and infrastructure at $1,000,000. The University depreciates its capital assets on a straight-line basis, using estimated useful lives ranging from three to fifty years. Facilities under construction include projects funded from State capital appropriations, private gifts, revenue bonds, certificates of participation, and internal funds. No new State capital appropriation funding was received for fiscal year 2007, but funds reappropriated from prior years were utilized for costs related to the completion of a classroom and office building at the Springfield campus, as well as survey and public broadcasting facilities at the Urbana-Champaign campus. Revenue bonds were used to fund residence hall improvements, recreation facility upgrades, Memorial Stadium renovations, new construction at each of the campuses and a portion of the South Campus Project at the Chicago campus. The following chart illustrates the composition of the University's capital assets, net of accumulated depreciation, by category.

CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION
(in thousands)

	2007		2006	
Buildings	$ 1,858,991	59.7%	$ 1,778,318	59.8%
Improvements and infrastructure	384,920	12.4%	336,615	11.3%
Construction in progress	289,517	9.3%	262,974	8.9%
Land	126,301	4.1%	121,851	4.1%
Equipment and software	328,381	10.6%	352,360	11.9%
Collections	121,286	3.9%	117,871	4.0%
	$ 3,109,396		$ 2,969,989	

Long-Term Debt

The University has historically utilized revenue bonds to finance auxiliary and health service facility needs, and more recently, the UIC South Campus Project. These activities generally have the ability to generate resources from student fees, users, and third parties sufficient to service the debt. During fiscal year 2007, the University issued Auxiliary Facilities System Revenue Bonds Series 2006 in the amount of $318 million to fund various additions and improvements to the System and to refund portions of the System's outstanding bonds. The following chart details the various bonded debt outstanding at June 30, 2007 and 2006:

BONDS PAYABLE
(in thousands)

	2007	2006
Auxiliary Facilities System	$ 957,093	$ 694,867
Health Services Facilities System	60,911	62,636
UIC South Campus	73,534	76,466
Other Issues	509	743
	$ 1,092,047	$ 834,712

The University has issued certificates of participation (COPS) for infrastructure projects that have a projected cost savings payback. The cost of updating its physical plant and utility infrastructure, as well as the cost to replace existing mainframe legacy systems, has been funded by the sale of COPS. The University has also issued COPS to fund the construction of a new business instructional facility on the Urbana campus and various improvements to buildings across all three campuses. The COPS are reported as leaseholds payable. The following chart details the various outstanding issues as of June 30, 2007 and 2006:

CERTIFICATES OF PARTICIPATION OUTSTANDING
(in thousands)

	2007	2006
Utility infrastructure projects	$ 205,103	$ 214,418
UI Integrate project	110,759	123,076
South Farms relocation project	22,824	23,854
UIC College of Medicine building	19,220	19,905
Academic facilities maintenance	80,213	83,661
	$ 438,119	$ 464,914

Net Assets

The University's resources are classified into net asset categories in the Statement of Net Assets. These categories are defined as (a) Invested in capital assets, net of related debt - capital assets net of accumulated depreciation and outstanding debt balances, (b) Restricted nonexpendable - assets restricted by externally imposed stipulations, (c) Restricted expendable - assets subject to externally imposed restrictions that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time and (d) Unrestricted - assets not subject to externally imposed stipulations but may be designated for specific purposes by action of management or the Board of Trustees. The University's net assets increased by $46 million during fiscal year 2007. Net assets balances are detailed below:

NET ASSETS
(in thousands)

	2007	2006
Net Assets:		
Invested in capital assets, net of related debt	$ 1,842,039	$ 1,834,372
Restricted:		
Nonexpendable	51,345	45,520
Expendable	392,651	364,599
Unrestricted:		
Designated	111,897	124,594
Undesignated	17,924	900
	$ 2,415,856	$ 2,369,985

Invested in capital assets, net of related debt increased by $8 million as the result of increases in capital assets offset by the changes in bonds and capital leases outstanding. The restricted-expendable category of net assets increased by $28 million, largely due to increases in restricted operating, capital, and endowment funds. Other categories combined increased by $10 million primarily due to increases in permanent endowments and net changes in unrestricted balances.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

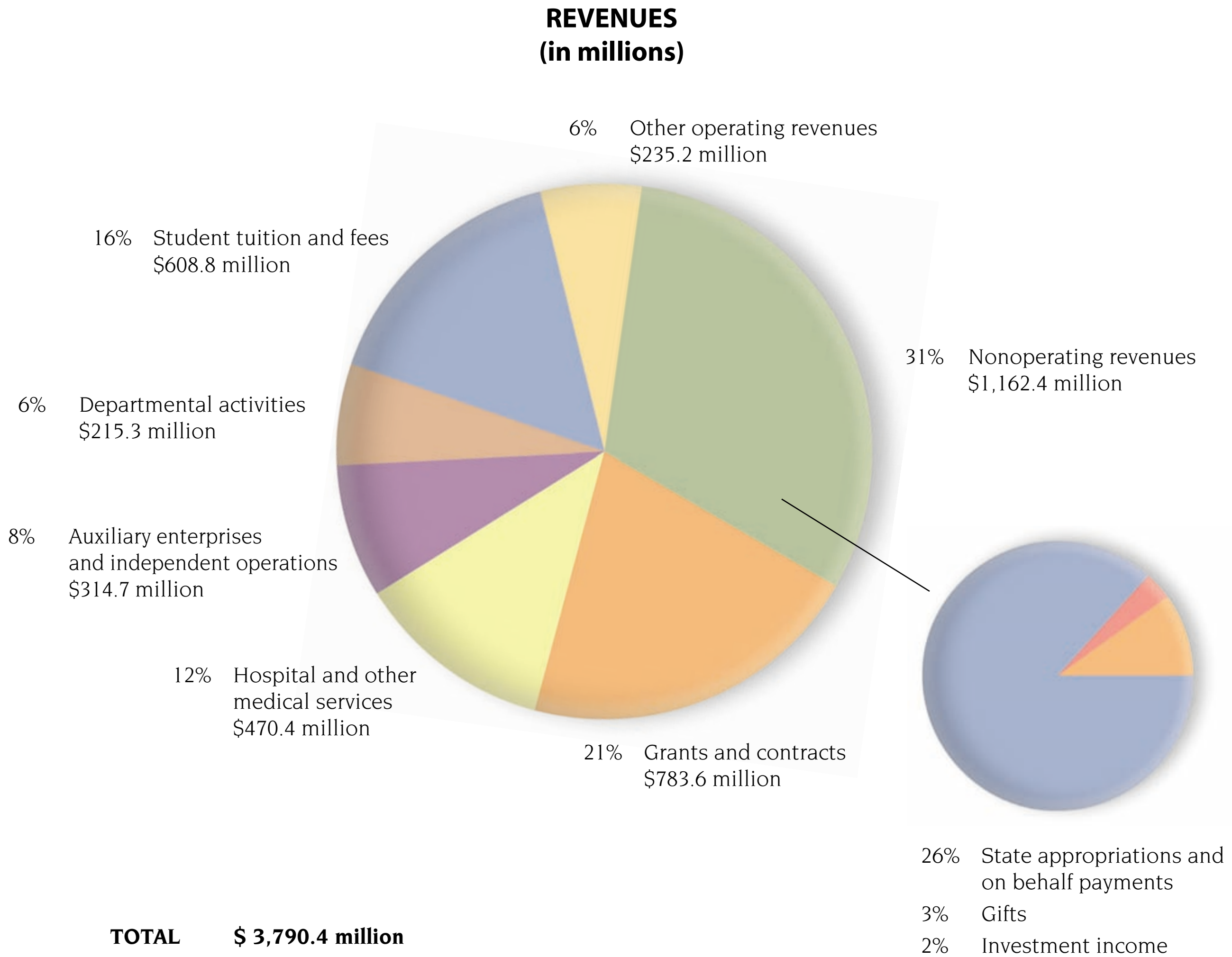
The Statement of Revenues, Expenses, and Changes in Net Assets presents the University's results of operations. In accordance with GASB reporting standards, revenues and expenses are classified as either operating or nonoperating. A summarized comparison of the University's Statement of Revenues, Expenses and Changes in Net Assets for the years ended June 30, 2007 and 2006 is as follows:

(in thousands)	2007	2006
Operating revenues:		
Student tuition and fees	$ 608,780	$ 554,856
Grants and contracts	783,573	769,949
Hospital and other medical activities	470,418	453,032
Auxiliary enterprises and independent operations	314,714	294,107
Educational activities	215,348	197,089
Medical service plan	144,303	141,336
Other	90,893	79,939
Total operating revenues	2,628,029	2,490,308
Operating expenses	3,744,787	3,548,600
Operating loss	(1,116,758)	(1,058,292)
Nonoperating revenues (expenses):		
State appropriations and on behalf payments	970,799	922,227
Private gifts	127,907	116,111
Investment income	63,733	38,992
Other net nonoperating expenses	(21,583)	(23,945)
Net nonoperating revenues	1,140,856	1,053,385
Capital state appropriations and capital gifts and grants	20,828	65,600
Endowment gifts	945	208
Increase in net assets	45,871	60,901
Net assets, beginning of year, as restated	2,369,985	2,309,084
Net assets, end of year	$ 2,415,856	$ 2,369,985

Revenues

The University's revenues are generated from multiple sources, which supplements what is received from state appropriations and student tuition and fees. GASB reporting standards require revenues to be categorized as operating or nonoperating. Operating revenues are derived from activities associated with providing goods and services by the University and generally result from exchange transactions where each of the parties to the transaction either give up or receive something of equal or similar value. The University also relies on such revenue as State appropriations, gifts, and investment income to support operations which GASB reporting standards define as nonoperating.

The following graph illustrates the revenues by source (both operating and certain nonoperating) which were used to fund the University's operating activities for the year ended June 30, 2007:



Student tuition and state appropriations are primary sources of funding for the University's academic programs. State appropriation revenue increased by approximately $12 million between fiscal year 2006 and fiscal year 2007. Tuition and fees revenue increased by $54 million during fiscal year 2007. The increase in tuition is primarily due to a tuition increase approved by the Board of Trustees for fiscal year 2007 and additional tuition as the result of special tuition differentials in various graduate and undergraduate programs. Payments made by the State on behalf of the University to Central Management Services (CMS) and the State Universities Retirement System (SURS) for FY07 were $377 million compared to $328 million in FY06. This increase is caused by growth in state funding for employer required contributions to SURS and CMS.

Expenses

The majority of the University's expenses are exchange transactions which GASB standards define as operating expenses. Nonoperating expenses include capital financing costs and costs related to capital assets.

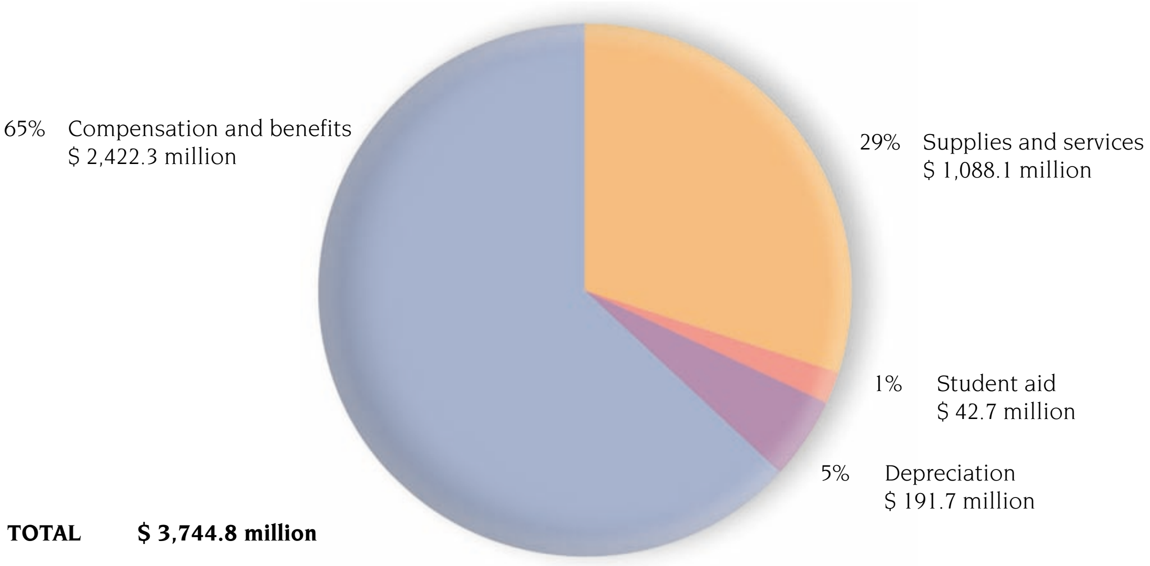
OPERATING EXPENSES
(in thousands)

	2007		2006	
Instruction	$ 703,540	18.8%	$ 666,200	18.8%
Research	561,876	15.0%	556,874	15.8%
Public service	326,348	8.7%	300,990	8.5%
Support services	492,107	13.2%	451,271	12.7%
Hospital and medical activities	431,762	11.5%	406,466	11.4%
Auxiliary enterprises and independent operations	244,774	6.5%	239,574	6.7%
Scholarships and fellowships	198,016	5.3%	185,155	5.2%
Operation and maintenance of plant	218,028	5.8%	229,038	6.5%
Depreciation	191,679	5.1%	185,105	5.2%
On behalf payments for fringe benefits	376,657	10.1%	327,927	9.2%
	$ 3,744,787		$ 3,548,600	

Operating expenses per the Statement of Revenues, Expenses and Changes in Net Assets increased by $196 million during fiscal year 2007. Expenses related to the University's mission of instruction, research and public service increased by 4.4%, or $67.7 million primarily due to expanded programs and inflationary increases. Expenses related to support services increased by 9.0%, or $40.8 primarily due to network upgrades and increases in personnel-related costs. Hospital and medical activities expenses increased by $25.3 million or 6.2% which correlates to normal inflationary increases and corresponding revenue increases during fiscal year 2007. Depreciation expense increased $6.6 million due to the completion of new buildings and improvements and the purchase of equipment. Other increases are attributable to the increases in payments by the State on behalf of the University for fringe benefits as discussed previously and scholarship and fellowship expenses, which correlate with inflation and corresponding revenue increases.

The University chooses to report their expenses by functional classifications in the Statement of Revenues, Expenses and Changes in Net Assets. For the reader's information, the expenses are displayed in their natural classification in Note 14. The following graph illustrates the expenses by natural classification:

OPERATING EXPENSES
(in millions)



STATEMENT OF CASH FLOWS

The Statement of Cash Flows provides information about the University's financial results, by reporting the major sources and uses of cash. A comparative summary of the Statement of Cash Flows for the years ended June 30, 2007 and 2006 is as follows:

	(in thousands) 2007	2006
Cash flows from operating activities:		
Total sources	$ 2,566,159	$ 2,436,210
Total uses	(3,153,800)	(3,026,089)
Net cash flows used by operating activities	(587,641)	(589,879)
Cash flows from noncapital financing activities:		
State appropriations	665,104	655,838
Gifts transferred from the Foundation	127,907	116,111
Other sources, net	14,161	24,187
Net cash flows provided by noncapital financing activities	807,172	796,136
Cash flows from capital and related financing activities:		
Proceeds from debt issues	330,171	198,746
State capital appropriations	659	9,004
Payments of principal and interest on bonds and capital leases	(172,929)	(150,576)
Payment of bond issuance costs	(2,667)	(1,330)
Purchase of capital assets	(297,769)	(226,475)
Other sources, net	2,872	19,479
Net cash flows used by capital and related financing activities	(139,663)	(151,152)
Cash flows from investing activities:		
Interest and dividends received	56,759	37,820
Proceeds from sales and maturities of investments net of cash paid for investment purchases	123,324	27,369
Net cash flows provided by investing activities	180,003	65,189
Net increase in cash and cash equivalents	259,951	120,294
Cash and cash equivalents, beginning of year	387,065	266,771
Cash and cash equivalents, end of year	$ 647,016	$ 387,065

The University's cash and cash equivalents increased by $260 million during fiscal year 2007. This increase largely resulted from the issuance of capital debt, along with interest and dividends from investments and proceeds from sales and maturities of investments, and gifts transferred from the Foundation.

THE UNIVERSITY'S ECONOMIC OUTLOOK

The University is well positioned to continue its strong financial condition and level of excellence in service to students, patients, the research community, the state and the nation. A critical element to the University's future continues to be a strong relationship with the State of Illinois. State appropriations from the Governor and General Assembly provide essential operating support for University programs. The direct appropriation for fiscal year 2008, signed into law by the Governor, reflects an increase of approximately $13.0 million (1.8%) from the fiscal year 2007 approved budget. The State of Illinois also appropriates funds for payments-on-behalf of University employees to CMS and SURS to pay benefits for our employees. The fiscal year 2008 budget is $441.3 million, an increase of $64.6 million from the prior year's budget.

The University projects an increase in tuition and miscellaneous departmental revenue. The recommended $599.2 million fiscal year 2008 tuition and miscellaneous departmental revenue budget represents a $59.4 million (11.0%) increase from fiscal year 2007. The estimated increase in tuition revenue is largely due to a 9.5% tuition increase for new undergraduate students. New undergraduate students have a four-year tuition guarantee; this is the fourth year of the tuition guarantee program. In addition, there are several special programs which have differential rate increases along with adjustments for enrollment levels and investment income on tuition revenue.

Private gifts are an important supplement to the University's sources of funding for operating costs, a significant factor in the growth of academic units, and essential for capital acquisition and construction. On June 1, 2007, the University publicly announced the "Brilliant Futures" campaign; the largest and most ambitious campaign in the history of the University of Illinois. The University aims to raise $2.25 billion for students, faculty, research and the campus environment. Private gifts are budgeted to increase by 7.4% during fiscal year 2008.

Research is one of four components of the University's mission. Research leading to the development of new products and services is also the engine driving economic development, another component of the University's mission. The growth in externally sponsored research is testimony to the public and private sector confidence in the University's research faculty. The fiscal year 2008 sponsored project budget is an estimate of grant and contract awards for direct costs and represents a 1.2 % increase from fiscal year 2007.

The University experienced growth from a variety of funding sources during fiscal year 2007. To achieve a continued strong financial position, the University constantly pursues multiple and diverse sources of revenue to support our mission of instruction, research, public service and economic development. The University's Board of Trustees and management are committed to upholding the University's outstanding academic reputation and believe the University's financial condition will remain strong.

AUDITED FINANCIAL STATEMENTS

Statement of Net Assets as of June 30, 2007
with Comparative Totals for 2006 (in thousands)

	University 2007	University 2006	University Related Organizations 2007	University Related Organizations 2006
ASSETS				
Current Assets:				
Cash and cash equivalents	$ 281,621	$ 206,549	$ 3,724	$ 4,746
Cash and cash equivalents, restricted	365,395	180,516	2,346	1,157
Investments	4,490	21,274		
Investments, restricted	48,851	70,978		
Accrued investment income	5,091	5,228	2,033	1,800
Accounts receivable, net of allowance for uncollectible	335,262	326,248	33,905	15,284
Receivable from State of Illinois General Revenue Fund	1,577	929		
Pledges receivable, net of allowance			4,591	5,447
Notes receivable, net of allowance for uncollectible	10,998	14,062		
Accrued interest on notes receivable	2,895	3,011		
Inventories	27,542	25,232	4	3
Prepaid expenses and deferred charges	21,046	16,741	373	371
Due from related organizations	3,054	2,898		
Other assets			4,183	3,896
Total Current Assets	1,107,822	873,666	51,159	32,704
Noncurrent Assets:				
Cash and cash equivalents, restricted			1,447	591
Investments	339,340	353,934	152,774	143,122
Investments, restricted	235,904	262,184	1,095,925	923,111
Pledges receivable, net of allowance			20,656	17,769
Notes receivable, net of allowance for uncollectible	50,349	42,086		
Real estate and farm properties	14,060	13,468	24,406	26,021
Prepaid expenses	10,349	8,849		
Due from related organizations	3,577	6,774		
Irrevocable trust held by other trustees			8,617	9,562
Capital assets, net of accumulated depreciation	3,109,396	2,969,989	9,201	9,164
Other assets	12,851	6,137	15,289	14,777
Total Noncurrent Assets	3,775,826	3,663,421	1,328,315	1,144,117
TOTAL ASSETS	$ 4,883,648	$ 4,537,087	$ 1,379,474	$ 1,176,821
LIABILITIES AND NET ASSETS				
Current Liabilities:				
Accounts payable and accrued liabilities	$ 195,080	$ 158,681	$ 57,584	$ 41,196
Accrued payroll	119,267	115,608	564	457
Accrued compensated absences, current portion	16,761	16,671	984	922
Accrued self insurance, current portion	39,761	34,105		
Deferred revenue and student deposits	148,277	141,275	41	761
Accrued interest payable	17,191	13,648		
Notes payable			6,402	6,657
Annuities payable			6,700	7,331
Bonds payable, current portion	31,243	29,133		
Due to related organizations, current portion			3,054	2,898
Leaseholds payable and other obligations, current portion	34,285	32,691		
Assets held for others	32,530	28,634	89	
Total Current Liabilities	634,395	570,446	75,418	60,222
Noncurrent Liabilities:				
Bonds payable	1,060,804	805,579		
Leaseholds payable and other obligations	463,755	492,332		
Due to related organizations			3,577	6,774
Accrued compensated absences	192,421	190,636		
Accrued self-insurance	116,417	108,109		
Annuities payable			44,408	44,359
Remainder interest due to others			7,360	6,660
Deferred distributions			61	46
Total Noncurrent Liabilities	1,833,397	1,596,656	55,406	57,839
Total Liabilities	2,467,792	2,167,102	130,824	118,061
NET ASSETS				
Invested in capital assets, net of related debt	1,842,039	1,834,372	2,799	2,507
Restricted:				
Nonexpendable	51,345	45,520	838,362	703,487
Expendable	392,651	364,599	377,944	328,947
Unrestricted	129,821	125,494	29,545	23,819
Total Net Assets	2,415,856	2,369,985	1,248,650	1,058,760
TOTAL LIABILITIES AND NET ASSETS	$ 4,883,648	$ 4,537,087	$ 1,379,474	$ 1,176,821

See accompanying notes to financial statements.

Statement of Revenues, Expenses and Changes in Net Assets

Year Ended June 30, 2007 with Comparative Totals for 2006 (in thousands)

	University		University Related Organizations	
	2007	2006	2007	2006
OPERATING REVENUES:				
Student tuition and fees, net	$ 608,780	$ 554,856	$	$
Fee for services - state appropriation	46,207	44,626		
Federal appropriations	18,183	15,805		
Federal grants and contracts	585,981	593,144		
State of Illinois grants and contracts	82,382	68,646		
Private gifts, grants, and contracts	115,210	108,159	111,520	114,954
Educational activities	215,348	197,089		
Auxiliary enterprises, net	304,094	282,321		
Hospital and other medical activities, net	424,211	408,406		
Medical service plan	144,303	141,336		
Independent operations	10,620	11,786		
Interest and service charges on student loans	1,100	2,913		
On behalf - hospital and other medical activities	71,610	61,221		
Allocation from the University			12,324	8,642
Other sources			34,502	30,968
TOTAL OPERATING REVENUES	2,628,029	2,490,308	158,346	154,564
OPERATING EXPENSES:				
Instruction	703,540	666,200		
Research	561,876	556,874		
Public service	326,348	300,990		
Academic support	236,561	218,043		
Student services	88,374	82,656		
Institutional support	167,172	150,572	41,381	35,213
Operation and maintenance of plant	218,028	229,038		
Scholarships and fellowships	198,016	185,155		
Auxiliary enterprises	234,751	229,935		
Hospital and medical activites	431,762	406,466		
Independent operations	10,023	9,639		
Depreciation	191,679	185,105	510	328
On behalf payments for fringe benefits	376,657	327,927		
Distributions on behalf of the University			128,731	127,279
TOTAL OPERATING EXPENSES	3,744,787	3,548,600	170,622	162,820
Operating loss	(1,116,758)	(1,058,292)	(12,276)	(8,256)
NONOPERATING REVENUES (EXPENSES):				
State appropriations	665,752	655,521		
Private gifts	127,907	116,111		
On behalf payments for fringe benefits	305,047	266,706	1,540	1,770
Net investment income (net of investment expense of $2,124 in 2007)	63,733	38,992	10,336	7,499
Net increase in the fair value of investments	36,429	3,200	162,440	85,957
Interest on capital asset related debt	(71,768)	(61,657)	(541)	(465)
Loss on sale/disposal of capital assets	(1,834)	(1,063)		
Other nonoperating revenues	15,590	35,575	38	
Other nonoperating expenses				(6,950)
Net nonoperating revenues (expenses)	1,140,856	1,053,385	173,813	87,811
Income (loss) before other revenues, expenses, gains, or losses	24,098	(4,907)	161,537	79,555
Capital state appropriations	12,287	53,961		
Capital gifts and grants	8,541	11,639		
Private gifts for endowment purposes	945	208	28,353	31,397
INCREASE IN NET ASSETS	45,871	60,901	189,890	110,952
NET ASSETS, BEGINNING OF YEAR	2,369,985	2,309,084	1,058,760	947,808
NET ASSETS, END OF YEAR	$ 2,415,856	$ 2,369,985	$ 1,248,650	$ 1,058,760

See accompanying notes to financial statements.

Statement of Cash Flows

Year Ended June 30, 2007 with Comparative Totals for 2006 (in thousands)

	University		University Related Organizations	
	2007	2006	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:				
Student tuition and fees	$ 609,257	$ 559,611	$	$
Medical fees for service - state appropriations	46,207	44,626		
Federal, state, and local grants and contracts	686,489	680,459		
Private gifts, grants, and contracts	111,556	101,775	2,799	3,336
Sales and services of educational and other departmental activities	216,315	202,755		
Contributions and gifts			98,304	97,889
Service fee revenue			19,561	16,233
Auxiliary activities and independent operations	313,872	293,345		
Hospital and other medical activities	420,791	407,355		
Medical service plan	149,117	131,910		
Distributions on behalf of the University			(119,352)	(116,802)
Allocation from the University			8,376	8,226
Payments to employees and benefits	(2,036,192)	(1,947,205)	(18,866)	(16,800)
Payments to suppliers	(1,058,408)	(1,025,991)	(13,064)	(11,039)
Payments to annuitants	(40,991)	(39,086)	(7,853)	(8,088)
Student loans issued	(18,209)	(13,807)		
Student loans collected	11,297	13,071		
Student loan interest and fees collected	1,258	1,303		
Other operating revenue			11,715	8,193
NET CASH USED BY OPERATING ACTIVITIES	(587,641)	(589,879)	(18,380)	(18,852)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
State appropriations	665,104	655,838		
Gifts transferred from University of Illinois Foundation	127,907	116,111		
Private gifts for endowment purposes	14	663	28,353	31,397
Advances and repayments to related organizations, net	3,041	(4,611)	(1,772)	(400)
Other, net	11,106	28,135	(191)	(78)
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	807,172	796,136	26,390	30,919
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Proceeds from issuance of capital debt	330,171	198,746		
Capital state appropriations	659	9,004		
Capital gifts and grants	2,872	9,634		
Proceeds from the sale of capital assets		9,845		3,084
Purchase of capital assets	(297,769)	(226,475)	(764)	(713)
Principal payments on bonds and capital leases	(115,840)	(100,707)		
Interest payments on bonds and capital leases	(57,089)	(49,869)	(325)	(396)
Payment on notes payable and due to related organizations			(1,398)	(4,803)
Payments of bond issuance costs	(2,667)	(1,330)		
Other, net			(309)	(323)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(139,663)	(151,152)	(2,796)	(3,151)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest and dividends on investments, net	56,759	37,820	13,218	9,789
Proceeds from sales and maturities of investments	13,681,316	10,966,314	1,247,304	1,004,680
Purchase of investments	(13,557,992)	(10,938,945)	(1,264,713)	(1,023,412)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	180,083	65,189	(4,191)	(8,943)
Net increase (decrease) in cash and cash equivalents	259,951	120,294	1,023	(27)
Cash and Cash Equivalents, Beginning of Year	387,065	266,771	6,494	6,521
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 647,016	$ 387,065	$ 7,517	$ 6,494

Statement of Cash Flows

Year Ended June 30, 2007 with Comparative Totals for 2006 (in thousands) - (continued)

	University		University Related Organizations	
	2007	2006	2007	2006
Reconciliation of operating loss to net cash used by operating activities:				
Operating loss	$ (1,116,758)	$ (1,058,292)	$ (12,276)	$ (8,256)
Adjustments to reconcile operating loss to net cash used by operating activities:				
On behalf payments for reimbursement of hospital and medical activities	(71,610)	(61,221)		
On behalf payments for fringe benefits expense	376,657	327,927	1,540	1,770
Depreciation expense	191,679	185,105	510	328
Changes in assets and liabilities:				
Accounts receivable, net	(8,674)	(14,042)	(214)	633
Notes receivable, net	(5,198)	(2,149)		
Accrued interest on notes receivable	116	(1,610)		
Inventories	(2,310)	(2,330)	(1)	2
Prepaid expenses and deferred charges	(3,038)	1,671	(4)	(90)
Pledges receivable			(2,000)	(5,000)
Noncurrent assets other			(5,814)	(8,289)
Accounts payable	21,101	10,674	387	(79)
Accrued payroll	3,659	10,768	61	4
Deferred revenue and student deposits	7,001	9,703	(720)	15
Accrued compensated absences	1,874	1,232	62	110
Accrued self insurance	13,964	11,238		
Assets held for others	3,896	(8,553)	89	
Net cash used by operating activities	$ (587,641)	$ (589,879)	$ (18,380)	$ (18,852)
Noncash investing, capital, and financing activities:				
On behalf payments for fringe benefits	$ 305,047	$ 266,706	$ 1,574	$ 1,770
Gifts in kind	5,669	2,005	12,291	19,406
Capital assets in accounts payable	64,258	48,961	50	49
Capital asset acquisitions by CDB	11,628	44,957		
Capital asset acquisitions via leaseholds payable	2,644	11,096		
Capital appreciation on bonds payable	10,763	10,662		
Net interest capitalized	676	1,263		
Other capital asset adjustments	763	1,329		
Loss on sale/disposal of capital assets	1,834	1,063		

See accompanying notes to financial statements.

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Basis of Presentation

The University of Illinois (University), a federal land grant institution and a component unit of the State of Illinois, conducts education, research, public service and related activities principally at its three campuses in Urbana-Champaign, Springfield and Chicago, which include the University of Illinois Hospital (Hospital) and other health care facilities. The governing body of the University is The Board of Trustees of the University of Illinois (Board).

As required by accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB), these financial statements present the financial position and financial activities of the University (the primary government) and its component units as well as certain activities and expenses funded by other State agencies on behalf of the University or its employees. The component units discussed below are included in the University's financial reporting entity (Entity) because of the significance of their financial relationship with the University.

The University Related Organizations' (UROs) column in the financial statements includes the financial data of the University's discretely presented component units. The University of Illinois Foundation (Foundation), the University of Illinois Alumni Association (Alumni Association), and Wolcott, Wood and Taylor, Inc. (WWT) are included in the University's reporting entity because of the significance of their operational or financial relationship with the University. These component units are discretely presented in a separate column to emphasize that they are Illinois non-profit organizations legally separate from the University.

The Foundation was formed for the purpose of providing fund raising and other assistance to the University in order to attract private gifts to support the University's instructional, research and public service activities. In this capacity, the Foundation solicits, receives, holds and administers gifts for the benefit of the University. Complete financial statements for the Foundation may be obtained by writing the Director of Business and Administration, 414C Harker Hall, 1305 W. Green Street, Urbana, IL 61801.

The Alumni Association was formed to promote the general welfare of the University and to encourage and stimulate interest among students, former students and others in the University's programs. In this capacity, the Alumni Association offers memberships in the Alumni Association to former students, conducts various activities for students and alumni, and publishes periodicals for the benefit of alumni. Complete financial statements for the Alumni Association may be obtained by writing the Director of Administration and Business Affairs, Alice Campbell Alumni Center, 601 S. Lincoln Avenue, Urbana, IL 61801.

WWT was formed to provide practice management support services and operate as a billing/collection entity for health care activities under the laws of the State of Illinois. Complete financial information may be obtained by writing the President and CEO, 200 W. Adams, Suite 225, Chicago, IL 60606.

Prairieland Energy, Inc. (Prairieland), a for profit, wholly-owned subsidiary, was formed for the purpose of providing support for the University through delivery of comprehensive economical utility services to all campuses of the University.

Illinois Ventures, LLC, (Illinois Ventures), a for profit, wholly-owned subsidiary, exists to facilitate the development of new companies commercializing technology originated or developed by faculty, staff and/or students of the University. The University desires Illinois Ventures to foster technology commercialization and economic development in accordance with the teaching, research, and public service missions of the University.

The University of Illinois Research Park, LLC, (Research Park), a for profit, wholly-owned subsidiary, was formed to aid and assist the University by establishing and operating a research park on the University's Urbana-Champaign campus. The Research Park was designed to promote the development of new companies which commercialize University technologies.

Activities of Prairieland, Illinois Ventures, and the Research Park for the current fiscal year, which were minimal, have been incorporated in the University's financial statements using the blended method.

The Foundation, Alumni Association, WWT, Prairieland, Illinois Ventures and the Research Park are related organizations as defined under *University Guidelines* adopted by the State of Illinois Legislative Audit Commission.

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

The basic financial statements include prior year comparative information, which has been derived from the University's 2006 financial statements. Such information does not include all of the information required to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the University's financial statements for the year ended June 30, 2006.

Certain items in the June 30, 2006 financial statements have been reclassified to correspond to the June 30, 2007 presentation.

The Entity's resources are classified into net asset categories and reported in the Statement of Net Assets. These categories are defined as (a) Invested in capital assets, net of related debt - capital assets net of accumulated depreciation and outstanding debt balances (b) Restricted nonexpendable - assets restricted by externally imposed stipulations (c) Restricted expendable - assets subject to externally imposed restrictions that can be fulfilled by actions of the Entity pursuant to those stipulations or that expire by the passage of time and (d) Unrestricted - assets not subject to externally imposed stipulations but may be designated for specific purposes by action of management or the Board of Trustees.

Significant Accounting Policies

The Entity prepared its financial statements as a Business Type Activity, as defined by GASB Statement No. 35, 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.

The Statement of Revenues, Expenses, and Changes in Net Assets classifies the Entity's fiscal year activity as operating and nonoperating. Operating revenues generally result from exchange transactions such as payments received for providing goods and services, including tuition and fees, net of scholarships and fellowships, certain grants and contracts, sales and services of educational activities, hospital, and auxiliary enterprise revenues.

Scholarships and fellowships of $144,313,000 and $2,707,000 are netted against student tuition and fees and auxiliary enterprises revenues, respectively. Stipends and other payments made directly to students are reported as scholarship and fellowship expense. Net tuition and fees, except for Summer Session, are recognized as revenues as they are assessed. The portion of Summer Session tuition and fees applicable to the following fiscal year is deferred.

Grant and contract revenues which are received or receivable from external sources are recognized as revenues to the extent of related expenses or satisfaction of eligibility requirements on the accrual basis. Advances are classified as deferred revenue.

Certain revenue sources that the Entity relies on to provide funding for operations including State appropriations, gifts, and investment income are defined by GASB Statement No. 35 as nonoperating. In addition, transactions related to capital and financing activities are components of nonoperating revenues.

Appropriations made from the State of Illinois General Revenue Fund for the benefit of the University are recognized as nonoperating revenues when eligibility requirements are satisfied.

In accordance with GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, the University reported payments made to the State Universities Retirement System on behalf of the Entity for contributions to retirement programs for Entity employees of approximately $107,982,000 for the year ended June 30, 2007. Substantially all employees participate in group health insurance plans administered by the State of Illinois. The employer contributions to these plans for University employees paid by State appropriations and auxiliary enterprises are paid to Central Management Services on behalf of the University. The employer contributions to these plans on behalf of employees paid from other University-held funds are paid by the University. The on behalf payments are approximately $268,675,000 for 2007. The cost of these benefits paid on behalf of the Hospital are reflected as operating revenues as the result of certain contractual agreements. All other on behalf payments are reflected as nonoperating revenues. In all cases, the corresponding on behalf expense is reflected as operating and reported in on behalf payments for fringe benefits.

With respect to the Hospital, net patient service revenue is reported at the estimated net realizable amounts due from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Approximately 93% of the Hospital's net patient service revenues were derived from Medicare, Medicaid, Blue Cross and managed care programs for the year ended June 30, 2007. Payments under these programs are based on established program rates or costs, as defined, of rendering services to program beneficiaries. The Hospital provides contractual allowances on a current basis for the differences between charges for services rendered and the expected payments under these programs. For the year ended June 30, 2007, the contractual allowances totalled $801,308,000.

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

The majority of the Entity's expenses are exchange transactions which GASB defines as operating expenses for financial statement presentation. Nonoperating expenses include capital financing costs and costs related to investment activity.

Employment contracts for certain academic personnel provide for twelve monthly salary payments, although the contracted services are rendered during a nine month period. The liability for those employees who have completed their contracted services, but have not yet received final payment, was approximately $49,087,000 at June 30, 2007 and is recorded in the accompanying financial statements. This amount will be paid from amounts specifically included in State of Illinois General Revenue Fund appropriations to the University for fiscal year 2008 rather than from the unrestricted net assets available at June 30, 2007.

Accrued compensated absences for Entity personnel are charged as an operating expense, using the vesting method, based on earned but unused vacation and sick leave days including the Entity's share of social security and medicare taxes. At June 30, 2007, the University estimates that $119,892,000 of the accrued compensated absences liability will be paid out of State of Illinois General Revenue Fund appropriations to the University in subsequent years, rather than from unrestricted net assets available at June 30, 2007.

The Statement of Cash Flows details the change in the cash and cash equivalents balance for the fiscal year. Cash and cash equivalents include bank accounts and investments with original maturities of ninety days or less at the time of purchase. Such investments consist primarily of U.S. Treasury bills, commercial paper, repurchase agreements and money market funds.

Inventories are stated at the lower of cost or market. Cost is determined principally by the average cost method.

For donor restricted endowments, the Uniform Management of Institutional Funds Act, as adopted in Illinois, permits the Board of Trustees of the University of Illinois to appropriate an amount of realized and unrealized endowment appreciation as they determine to be prudent. The University's policy is to retain the endowment realized and unrealized appreciation with the endowment after spending rule distributions.

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

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities 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. A material estimate that is particularly susceptible to significant change in the near term relates to the determination of the allowance for doubtful accounts and contractual allowances.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Entity follows all applicable GASB pronouncements. In addition, the Entity applies all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The Entity has elected not to apply FASB pronouncements issued after November 30, 1989.

NOTE 2 - CASH AND DEPOSITS

The carrying amount of the University's and the UROs' cash totalled $(17,072,000) and $6,666,000 at June 30, 2007, respectively.

The total bank account balances at June 30, 2007, of the University and the UROs, aggregated $8,272,000, and $5,733,000, respectively, of which $8,272,000, and $4,349,000, respectively, was covered by federal depository insurance or by collateral held by an agent in the Entity's name.

Certificates of Deposit, which are reported as investments per GASB Statement No. 9, for the University and the UROs totaled $400,000 and $33,000, respectively, at June 30, 2007 and were covered by federal depository insurance or collateral held by an agent in the Entity's name.

NOTE 3 - CASH EQUIVALENTS AND INVESTMENTS

Illinois Statutes govern the investment policies of the University and the UROs. Allowable investments under these policies include:

- Obligations of the U.S. Treasury, other federal agencies, and instrumentalities
- Bank and savings and loan time deposits
- Corporate bonds and stocks
- Commercial paper
- Repurchase agreements
- Mutual funds

Additionally, the University has investments in real estate and farm properties that are carried at cost, or when donated, at the fair value at the date of donation. All other investments are carried at their fair value, as determined by quoted market prices when available, and otherwise by generally accepted valuation principles. Investment income and the change in fair value of investments is recognized in the fund which owned such investments, except for income derived from investments of the University Endowment Fund which is recognized in the fund to which the income is restricted.

Illinois Statutes require a third party custodian to perfect the University's security interest under repurchase agreements. The University follows industry standards and requires that securities underlying repurchase agreements must have a fair value of at least 102% of the cost of the repurchase agreement. At June 30, 2007, the University and the UROs had repurchase agreements of $291,943,000 and $851,000, respectively and the market value of securities underlying these repurchase agreements was $307,321,000 and $851,000, respectively, at June 30, 2007.

Nearly all of the University's and the UROs' 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 the UROs, and in the case of mutual funds and other commingled vehicles, in accordance with the applicable prospectus.

Distributions are made from the University Endowment Fund to the University entities that benefit from the endowment funds. The endowment spending rule provides for an annual distribution of 4.75% of the two-quarter lagged, seven-year moving average market value of fund units. At June 30, 2007 net appreciation of $12,986,000 is available to be spent, of which $11,841,000 is restricted to specific purposes.

The Board develops University policy on investments and delegates the execution of those policies to its administrative agents. The University follows the State of Illinois Uniform Management of Institutional Funds Act when investing its endowment and operating funds. The State of Illinois Public Funds Investment Act provides the context and framework for plant fund investments. The following details the carrying value of the University's and the UROs' investment portfolio as of June 30, 2007:

UNIVERSITY CASH EQUIVALENTS AND INVESTMENTS (in thousands)

Certificates of Deposit	$ 400
U.S. Treasury Put	4,345
U.S.Treasury Bonds and Bills	100,391
U.S. Government Agencies	66,103
Commercial Paper	36,910
Corporate Bonds	115,086
Bond Mutual Funds	67,036
Non Government Mortgage Backed Securities	73,842
Non U.S. Government Bonds	3,355
Repurchase Agreements	291,943
Money Market Funds	320,589
Illinois Public Treasurer's Investment Pool	3,947
Subtotal before equities and other investments	1,083,947
US Equities	27,249
International Equities	45,966
U.S. Equity Mutual Funds	128,454
Limited Partnerships	7,056
Real Estate	1
TOTAL	$ 1,292,673

URO CASH EQUIVALENTS AND INVESTMENTS (in thousands)

Certificates of Deposit	$ 33
U.S. and Other Government Securities	65,401
Municipal Bonds	271
Corporate Bonds and Notes	61,949
Mutual Funds - Bonds	120,973
Mutual Funds - Municipal Bonds	2,268
Mutual Funds - Blended Bonds	4,951
Mutual Funds - Money Market	32,245
Repurchase Agreements	851
Subtotal before equities and other investments	288,942
U.S. Equities	306,777
International Equities	197,938
Preferred Stock	3
Mutual Funds - Stocks	213,486
Real Estate Trust and Partnerships	238,539
Other	3,865
TOTAL	$ 1,249,550

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. 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 in money market instruments. Core operating funds are invested in longer maturity investments. Core operating funds investment manager's performance benchmarks are Lehman Brothers 1-3 year Government Credit Bond Index and the Lehman Brothers Intermediate Aggregate Bond Index. The University's manager guidelines provide that the average weighted duration of the portfolio, including option positions, not vary from that of their respective performance benchmarks by more than +/-20 percent. The University's and the UROs' investments and maturities at June 30, 2007 are illustrated below:

UNIVERSITY INVESTMENT MATURITIES (in thousands)

	Total	Less than 1	1 - 5	6 - 10	Greater than 10
Certificates of Deposit	$ 400	$ 400	$	$	$
U.S. Treasury Put	4,345				4,345
U.S.Treasury Bonds and Bills	100,391	50,774	27,339	20,701	1,577
U.S. Government Agencies	66,103		11,618	5,409	49,076
Commercial Paper	36,910	36,910			
Corporate Bonds	115,086	7,636	65,272	15,741	26,437
Bond Mutual Funds	67,036	1,130	11,440	44,395	10,071
Non Government Mortgage Backed Securities	73,842		633	892	72,317
Non U.S. Government Bonds	3,355	186	2,847	322	
Repurchase Agreements	291,943	291,943			
Money Market Funds	320,589	320,589			
Illinois Public Treasurer's Investment Pool	3,947	3,947			
TOTAL	$ 1,083,947	$ 713,515	$ 119,149	$ 87,460	$ 163,823

At June 30, 2007, the University's operating funds pool portfolio had an effective duration of 1.8 years.

URO INVESTMENT MATURITIES
(in thousands)

	Total	Less than 1	1 - 5	6 - 10	Greater than 10
Certificates of Deposit	$ 33	$ 33	$	$	$
U.S. and Other Government Securities	65,401	1,498		225	63,678
Municipal Bonds	271			271	
Corporate Bonds and Notes	61,949		2,533	1,985	57,431
Mutual Funds - Bonds	120,973	3,051	84,950	32,725	247
Mutual Funds - Municipal Bonds	2,268	186	742	1,043	297
Mutual Funds - Blended Bonds	4,951		4,052	899	
Mutual Funds - Money Markets	32,245	32,223	22		
Repurchase Agreements	851	851			
TOTAL	$ 288,942	$ 37,842	$ 92,299	$ 37,148	$ 121,653

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The University's policy requires that operating funds be invested in fixed income securities and money market instruments. Fixed income securities shall be rated investment grade or better by one or more nationally recognized statistical rating organizations. Securities not covered by the investment grade standard are allowed if, in the manager's judgment, those instruments are of comparable credit quality. Securities which fall below the stated minimum credit requirements subsequent to initial purchase may be held at the manager's discretion. It is expected that the average credit quality of the operating funds will not fall below Standard & Poor's AA- or equivalent. At June 30, 2007 the University and the UROs had debt securities and quality ratings as shown in the charts below:

UNIVERSITY INVESTMENTS QUALITY RATINGS
(in thousands)

	Total	AAA/Aaa	AA/Aa	A/BA	BBB/Baa	BB/Ba	Less than BB or Not Rated
Certificates of Deposit	$ 400	$	$	$	$	$	$ 400
U.S. Treasury Put	4,345						4,345
U.S.Treasury Bonds and Bills	100,391	100,391					
U.S. Government Agencies	66,103	66,103					
Commercial Paper	36,910	36,910					
Corporate Bonds	115,086	27,906	9,640	27,382	33,269	8,308	8,581
Bond Mutual Funds	67,036	49,687	1,041	1,092	7,304	7,565	347
Non Government Mortgage Backed Securities	73,842	71,438	855	154			1,395
Non U.S. Government Bonds	3,355	1,275	356	677	1,047		
Repurchase Agreements	291,943						291,943
Money Market Funds	320,589	316,638					3,951
Illinois Public Treasurer's Investment Pool	3,947						3,947
TOTAL	$ 1,083,947	$ 670,348	$ 11,892	$ 29,305	$ 41,620	$ 15,873	$ 314,909

URO INVESTMENTS QUALITY RATINGS
(in thousands)

	Total	AAA/Aaa	AA/Aa	A/BA	BBB/Baa	BB/Ba	Less than BB or Not Rated
Certificates of Deposit	$ 33	$	$	$	$	$	$ 33
U.S. and Other Government Securities	65,401	64,914		105	382		
Municipal Bonds	271	148	21				102
Corporate Bonds and Notes	61,949	23,820	4,090	2,945	8,000	5,528	17,566
Mutual Funds - Bonds	120,973	88,203	12,351	14,588	2,796	842	2,193
Mutual Funds - Municipal Bonds	2,268	1,622	441	97	105		3
Mutual Funds - Blended Bonds	4,951	250	4,333	263	83		22
Mutual Funds - Money Market	32,245	32,245					
Repurchase Agreements	851						851
TOTAL	$ 288,942	$ 211,202	$ 21,236	$ 17,998	$ 11,366	$ 6,370	$ 20,770

Custodial Credit Risk: Custodial credit risk is the risk that in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Exposure to custodial credit risk relates to investment securities that are held by someone other than the University and are not registered in the University's name. The University investment policy does not limit the value of investments that may be held by an outside party. At June 30, 2007, the University's investments and deposits had no custodial credit risk exposure.

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 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. This diversification is achieved by employing multiple investment managers and imposing maximum position limits for each manager. The University's manager guidelines for operating investments provide that non-U.S. government obligations may not exceed 10% per issuer and private mortgage-backed and asset-backed securities may not exceed 10% per issuer (unless collateral is credit independent of the issuer and the security's credit enhancement is generated internally, in which case the limit is 25% per issuer). Obligations with other issuers, other than the U.S. government, U.S. agencies, or U.S. government sponsored corporations and agencies, may not exceed 5%. As of June 30, 2007, not more than 5% of the University's total investments were invested in securities of any one issuer, excluding securities issued or guaranteed by the U.S. government, mutual funds, and external investment pools or other pooled investments.

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 the investment manager's guidelines, the portfolio's foreign currency exposure may be unhedged or hedged back into U.S. dollars. Cross hedging is not permitted. The U.S. dollar balances of the University's and the UROs' cash equivalents and investments exposed to foreign currency risk as of June 30, 2007 are categorized by currency below:

UNIVERSITY INVESTMENTS FOREIGN CURRENCY EXPOSURE
(in thousands)

	Total	Cash Equivalents	Equity Investments
European Euro	$ 18,519	$ 529	$ 17,990
British Pound	11,636	249	11,387
Swiss Franc	2,640	3	2,637
Japanese Yen	1,634		1,634
Hong Kong Dollar	1,597		1,597
Swedish Krona	1,114		1,114
All other currency	9,651	44	9,607
TOTAL	$ 46,791	$ 825	$ 45,966

URO INVESTMENTS FOREIGN CURRENCY EXPOSURE
(in thousands)

	Total	Cash Equivalents	Equity Investments	International Mutual Funds
European Euro	$ 55,597	$ 576	$ 46,405	$ 8,616
British Pound	57,979	331	52,875	4,773
Japanese Yen	36,138	343	33,140	2,655
Swiss Franc	16,633	9	15,319	1,305
Swedish Krona	7,592	(227)	7,104	715
Australian Dollar	7,951	9	7,406	536
Canadian Dollar	10,869	9	10,552	308
All other currency	51,934	16,374	25,137	10,423
TOTAL	$ 244,693	$ 17,424	$ 197,938	$ 29,331

Securities Lending: To enhance the return on investment, the Board of Trustees of the University has authorized participation in a securities lending program. Through its custodian bank, the University loans securities to independent third parties. Such loans are secured by collateral consisting of cash, cash equivalents or U.S. Government securities and irrevocable bank letters of credit in an amount not less than 102% of the fair value of the securities loaned. Any collateral securities cannot be pledged or sold by the University unless the borrower defaults. The University receives interest and dividends during the loan period as well as a fee from the custodian. At June 30, 2007, the University has no credit risk exposure to borrowers because the amounts the University owes the borrowers exceed the amounts the borrowers owe the University. As of June 30, 2007, approximately $136,983,000 of the investments reported on the University's Statement of Net Assets were on loan, secured by collateral with a fair value of approximately $140,889,000.

NOTE 4 - ACCOUNTS, NOTES, AND PLEDGES RECEIVABLE

The Entity provides allowances for uncollectible accounts and notes receivable based upon management's best estimate of uncollectible accounts and notes at the Statement of Net Assets date, considering type, age, collection history of receivables, and any other factors as considered appropriate. Accounts receivable are reported net of allowances of $263,311,000 at June 30, 2007. Notes receivable are reported net of allowances of $3,005,000 at June 30, 2007.

The composition of accounts receivable and notes and pledges receivable at June 30, 2007 is summarized as follows:

ACCOUNTS RECEIVABLE (in thousands)		
Receivables from sponsoring agencies	$	170,238
Hospital and other medical activities		84,262
Student tuition and fees, net of allowances		22,280
Auxiliaries, net of discounts and allowances		10,734
Medical service plan		32,956
Educational activities		13,531
Other		1,261
TOTAL	$	335,262

NOTES AND PLEDGES RECEIVABLE (in thousands)		
Student notes - University:		
Student notes outstanding	$	64,352
Allowance for uncollectible loans		(3,005)
Total student notes, net	$	61,347
Gift pledges outstanding - UROs:		
Operations	$	28,465
Capital		10,948
Total gift pledges outstanding		39,413
Less:		
Allowance and unamortized discount to present value		(14,166)
Total pledges receivable, net	$	25,247

NOTE 5 - 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 $676,000 was capitalized during the year ended June 30, 2007.

Capital assets activity for the University and the UROs for the year ended June 30, 2007 is summarized as follows:

UNIVERSITY CAPITAL ASSETS
(in thousands)

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Nondepreciable Capital Assets:					
Land	$ 121,851	$ 3,919	$ (113)	$ 644	$ 126,301
Construction in progress	262,974	240,890		(214,347)	289,517
Inexhaustible collections	14,019	794			14,813
Total nondepreciable capital assets	398,844	245,603	(113)	(213,703)	430,631
Depreciable Capital Assets:					
Buildings	2,638,408		(179)	145,148	2,783,377
Improvements and infrastructure	552,060	50		68,555	620,665
Equipment and software	1,083,158	67,618	(47,222)		1,103,554
Library materials	405,287	22,080			427,367
Total depreciable capital assets	4,678,913	89,748	(47,401)	213,703	4,934,963
Less: accumulated depreciation					
Buildings	860,090	64,461	(165)		924,386
Improvements and infrastructure	215,446	20,299			235,745
Equipment and software	730,797	87,460	(43,084)		775,173
Library materials	301,435	19,459			320,894
Total accumulated depreciation	2,107,768	191,679	(43,249)		2,256,198
Total net depreciable capital assets	2,571,145	(101,931)	(4,152)	213,703	2,678,765
TOTAL	$ 2,969,989	$ 143,672	$ (4,265)	$	$ 3,109,396

URO CAPITAL ASSETS
(in thousands)

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Nondepreciable Capital Assets:					
Land	$ 934	$	$ (295)	$	$ 639
Farmland	647	2,497	(647)		2,497
Buildings held for the University's future use	1,709		(1,709)		
Total nondepreciable capital assets	3,290	2,497	(2,651)		3,136
Depreciable Capital Assets:					
Buildings	4,663				4,663
Leasehold improvements	92				92
Equipment and software	3,659	714	(153)		4,220
Total depreciable capital assets	8,414	714	(153)		8,975
Less: accumulated depreciation					
Buildings	31	74			105
Leasehold improvements	76	7			83
Equipment and software	2,433	428	(139)		2,722
Total accumulated depreciation	2,540	509	(139)		2,910
Total net depreciable capital assets	5,874	205	(14)		6,065
TOTAL	$ 9,164	$ 2,702	$ (2,665)	$	$ 9,201

NOTE 6 - ACCRUED SELF-INSURANCE, LOSS CONTINGENCY AND COMPENSATED ABSENCES

The University's accrued self-insurance liability of $156,178,000 at June 30, 2007 covers hospital patient liability; hospital and medical professional liability; estimated general and contract liability; and workers' compensation liability related to employees paid from local funds. The accrued self-insurance liability was discounted at a rate of 5.5% at June 30, 2007. Amounts increasing the accrued self-insurance liability are charged as expenses based upon estimates made by actuaries and the University's risk management division. The workers' compensation self-insurance liability of $12,599,000 at June 30, 2007 related to employees who are paid from State appropriations is included in the University's accounts payable. These claims will be paid from State appropriations in the year in which the claims are finalized, rather than from unrestricted net assets as of June 30, 2007.

Accrued self-insurance includes $105,036,000 at June 30, 2007 for the currently estimated ultimate cost of uninsured medical malpractice liabilities. Ultimate cost consists of amounts estimated by the University's risk management division and independent actuaries for asserted claims, unasserted claims arising from reported incidents, expected litigation expenses, and amounts determined by actuaries using relevant industry data and Hospital specific data to cover projected losses for claims incurred but not reported. Because the amounts accrued are estimates, the aggregate claims actually incurred could differ significantly from the accrued self-insurance liability at June 30, 2007. Changes in these estimates will be reflected in the Statement of Revenues, Expenses and Changes in Net Assets in the period when additional information is available.

The University has contracted with several commercial carriers to provide varying levels and upper limits of excess indemnity coverage. These coverages have been considered in determining the required accrued self-insurance liability. There were no settlements which exceeded insurance coverage during the last three years.

CHANGES IN ACCRUED SELF-INSURANCE
(in thousands)

	2007	2006
Balance, beginning of year	$ 142,214	$ 130,976
Claims incurred and changes in estimates	63,188	45,563
Claim payments	(49,224)	(34,325)
Balance, end of year	156,178	142,214
Less: current portion	(39,761)	(34,105)
Balance, end of year - noncurrent portion	$ 116,417	$ 108,109

Accrued compensated absences includes personnel earned but unused vacation and sick leave days, including the University's share of social security and medicare taxes, valued at the current rate of pay.

CHANGES IN COMPENSATED ABSENCES BALANCE
(in thousands)

Balance, beginning of year	$ 207,307
Additions/(Deductions)	1,875
Balance, end of year	209,182
Less: current portion	(16,761)
Balance, end of year - noncurrent portion	$ 192,421

NOTE 7 - BONDS AND NOTES PAYABLE

On October 5, 2006 the University issued Auxiliary Facilities System Revenue Bonds Series 2006 in the amount of $318,155,000. Series 2006 Bonds were issued to fund various improvements to the System, provide for the refunding of portions of the outstanding System bonds, Series 1996 and Series 2001B, to pay debt service during construction, and to pay all costs incidental to the issuance of the bonds. This resulted in savings of $3,820,000 over the life of the issue at a present value of approximately $2,226,000. The difference between the reacquisition price and net carrying amount of the old debt, loss on refunding was $2,026,000. This loss is deferred and amortized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter.

BONDS PAYABLE
(in thousands)

	Maturity Dates	Beginning Balance	New Debt	Principal Paid/Debt Refunded	Ending Balance	Current Portion
AUXILIARY FACILITIES SYSTEM -						
Current Interest Bonds	2008-2036	$ 526,220	$ 318,155	$ 63,155	$ 781,220	$ 12,120
Capital Appreciation Bonds	2008-2030	280,055		15,015	265,040	15,005
WILLARD AIRPORT	2008-2009	745		235	510	250
HEALTH SERVICES FACILITIES SYSTEM	2008-2027	63,230		1,755	61,475	1,834
UIC SOUTH CAMPUS	2008-2023	80,490		3,190	77,300	2,255
		$ 950,740	$ 318,155	$ 83,350	1,185,545	31,464
Unaccreted appreciation					(109,966)	(458)
					1,075,579	31,006
Unamortized debt premium					34,085	1,231
Unamortized loss on refunding					(17,617)	(994)
TOTAL					$ 1,092,047	$ 31,243

Capital appreciation bonds of $265,040,000 outstanding at June 30, 2007 do not require current interest payments and have a net unappreciated value of $155,074,000. The University records the annual increase in the principal amount of these bonds as interest expense and accretion on bonds payable.

On April 2, 2007 the University entered into a variable-to-fixed interest rate swap agreement with Lehman Brothers Commercial Bank. The purpose of this interest rate swap was to hedge variable rate demand Health Services Facility System revenue refunding bonds planned to be issued in July 2007. The notional amount of the interest rate swap was $40,875,000 and equal to the planned par amount of the bonds. The University will make monthly payments to the counterparty equal to 3.534% times the notional amount and will receive monthly payments from the counterparty equal to 68% of one-month LIBOR, commencing October 1, 2007.

The University engaged a third-party consultant to calculate the "mark to market" or "market value" of the swap transaction. On June 30, 2007, the mark to market value of the swap was $896,000. Since this is a positive number, it represents an approximation of the amount of money that a swap provider may have been willing to pay the University to terminate the swap. In accordance with governmental accounting standards, this amount is not required to be included in the accompanying financial statements.

The University has the option to terminate the swap early. The University or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. The University may terminate the swap if both credit ratings of the counterparty fall below BBB+ as issued by Standard & Poor's and Baa1 as issued by Moody's Investors Service. The counterparty credit rating by Standard & Poor's was A+ and by Moody's Investors Service was A1. If at the time of termination the swap has a negative fair value, the University would be liable to the counterparty for a payment equal to the swap's fair value.

The UIC South Campus Series 2006A Bonds, the Auxiliary Facilities System Series 2005B Bonds, and the Health Services Facilities System Series 1997B Bonds are variable rate bonds which bear interest at a defined weekly rate and are paid monthly. The required future interest payments for the Series 2006A, Series 2005B, and Series 1997B Bonds have been calculated using the current interest rate, based upon short term tax exempt rates, of 3.77%, 3.73%, and 3.77%, respectively, over the life of the bonds. Other outstanding bond issues bear interest at fixed rates ranging from 3.00% to 7.96%.

To facilitate the advance refunding of the UIC South Campus Development Project Series 1999 Bonds and, as a means to lower its borrowing costs, when compared against fixed-rate bonds at the time of issuance in February 2006, the University entered into two interest rate swaps in connection with its $53,700,000 variable-rate Bonds (UIC South Campus Development Project) Series 2006A. The intention of the swaps was to effectively change the University's variable interest rate on the Bonds to a synthetic fixed rate of 1.030% through August 1, 2007 and 4.292% thereafter, which includes the Bonds' current liquidity facility fee of 0.200%. In addition, there is a 0.080% current remarketing fee.

The Bonds and related swap agreements mature on January 15, 2022, and the swaps' initial notional amount of $53,700,000 matches the $53,700,000 variable-rate Bonds. The swaps were entered at the same time as the Bonds were issued (February 2006). Starting in fiscal year 2011, the notional value of the swaps and the principal amount of the associated bonds decline. Under the swaps, the University pays the counterparties a fixed payment of 0.830% through August 1, 2007 and 4.092% thereafter and receives a variable payment equal to its cost-of-funds through February 3, 2010 and thereafter receives a variable payment equal to 68% of one-month LIBOR. The credit ratings for the first counterparty by Standard & Poor's and Moody's Investors Service were AA- and Aa2, respectively. The credit ratings for the second counterparty by Standard & Poor's and Moody's Investors Service were A+ and Aa3, respectively.

The University engaged a third-party consultant to calculate the "mark to market" or "market value" of the swap transaction. On June 30, 2007, the combined mark to market value of the two swaps was ($785,000). Since this is a negative number it represents an approximation of the amount of money that the University may have have to pay a swap provider to terminate the swap. In accordance with governmental accounting standards, this amount is not required to be included in the accompanying financial statements.

The University has the option to terminate the swap early. The University or the counterparties may terminate the swaps if the other party fails to perform under the terms of the contract. The University may terminate the swap if both credit ratings of the counterparties fall below BBB+ as issued by Standard & Poor's and Baa1 as issued by Moody's Investors Service. If the swaps are terminated, the variable-rate Bonds would no longer carry a synthetic fixed interest rate. Also, if at the time of termination, the swaps have a negative fair value, the University would be liable to the counterparties for a payment equal to the swaps' fair value.

Using the actual rate of 3.77% in effect as of June 30, 2007, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, were as follows. As rates vary, variable-rate bond interest payments and net swap payments will also vary.

UIC SOUTH CAMPUS BONDS SERIES 2006A
VARIABLE-RATE DEBT SERVICE REQUIREMENTS
(in thousands)

	Variable-Rate Bonds		Interest Rate	
	Principal	**Interest**	**Swaps, Net**	**Total**
2008	$	$ 2,030	$ (125)	$ 1,905
2009		2,024	173	2,197
2010		2,024	173	2,197
2011	215	2,021	173	2,409
2012	540	2,014	166	2,720
2013-2017	21,290	8,329	705	30,324
2018-2022	31,655	3,280	275	35,210
TOTAL	$ 53,700	$ 21,722	$ 1,540	$ 76,962

None of the University's bonds described above constitute obligations of the State of Illinois. Series 1979, 1991, 1993, 1996, 1999A, 1999B, 2000, 2001A, 2001B, 2001C, 2003A, 2005A, 2005B, and 2006 Auxiliary Facilities System Bonds are payable solely from net revenues of the Auxiliary Facilities System, student tuition and fees and certain restricted plant funds. Series 1997 Bonds are payable solely from the net revenues of the Airport and related restricted plant funds. Series 1997A and 1997B Bonds are payable solely from net revenues of the Health System, Medical Service Plan revenue net of bad debt expense, and College of Medicine net tuition revenue. Series 2000, 2003, and 2006A Bonds are payable from revenue derived from the defined tax increment financing (TIF) district, student tuition and fees, and funds on deposit in the Bond and Interest Sinking Fund. In addition, the Series 2000 Bonds are payable from the sales proceeds derived from the sale of certain land in the University of Illinois UIC South Campus Development Project. During fiscal year 2007, the debt service payments related to the Series 2000, 2003, and 2006A Bonds were $5,406,000. Proceeds from the sale of land of $2,928,000 and revenue from other legally available sources of $2,478,000 funded these payments.

Costs associated with the issuance of the Series 1991, 1993, 1996, 1999A, 1999B, 2000, 2001A, 2001B, 2001C, 2003A, 2005A, 2005B, and 2006 Auxiliary Facilities System Bonds; Series 1997 Willard Airport Bonds; Series 1997A and 1997B Health Services Facilities Bonds; and Series 2000, 2003, and 2006A UIC South Campus Bonds have been recorded as deferred charges and are being amortized over the life of the related bond issue.

The Foundation has a demand note outstanding with interest at 5.82% and principal outstanding of $6,402,000. The change in the balance for fiscal year 2007 is as follows:

CHANGE IN NOTES PAYABLE
(in thousands)

Balance, beginning of year	$ 6,657
Payments	(255)
Balance, end of year	$ 6,402

The University has defeased bonds through advanced funding in prior years and, accordingly, they are not reflected in the accompanying statements. The amount of bonds which have been defeased as of June 30, 2007 consists of the following:

ADVANCE REFUNDED BONDS
(in thousands)

Series	Outstanding at June 30, 2007
1978-M	$ 35,030
1999	49,365
1999A	85,300
2000	10,785
2001B	55,315
TOTAL	$ 235,795

Future debt service requirements for all bonds outstanding at June 30, 2007 are as follows:

DEBT SERVICE REQUIREMENTS
(in thousands)

	Principal	Interest
2008	$ 31,464	$ 45,560
2009	33,475	44,803
2010	34,105	43,818
2011	36,005	42,814
2012	37,805	41,723
2013-2017	214,940	190,158
2018-2022	261,230	153,479
2023-2027	204,215	104,593
2028-2032	209,345	55,032
2033-2036	122,961	11,895
TOTAL	$ 1,185,545	$ 733,875

Certain bonds of the University have debt service reserve requirements. The Maximum Annual Net Debt Service for those bonds, as defined, is $15,388,000.

NOTE 8 - LEASEHOLDS AND OTHER OBLIGATIONS

Leaseholds payable and other obligations activity for the year ended June 30, 2007 consist of the following:

LEASEHOLDS AND OTHER OBLIGATIONS
(in thousands)

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
University:					
Certificates of Participation	$ 467,300	$	$ (26,530)	$ 440,770	$ 26,970
Unamortized debt premium	13,200		(1,487)	11,713	1,487
Unamortized deferred loss on refunding	(15,586)		1,222	(14,364)	(1,222)
	464,914		(26,795)	438,119	27,235
Other capital leases	55,385	5,579	(5,883)	55,081	6,675
Environmental remediation liability	4,724	300	(184)	4,840	375
Total University	$ 525,023	$ 5,879	$ (32,862)	$ 498,040	$ 34,285
UROs:					
Annuities payable	$ 51,690	$	$ (582)	$ 51,108	$ 6,700
Other liabilities	6,660	700		7,360	
Total UROs	$ 58,350	$ 700	$ (582)	$ 58,468	$ 6,700

The University leases various plant facilities and equipment under capital leases. This includes assets obtained with certificates of participation proceeds and recorded as capital leases, as well as other capital lease agreements funded through operations.

On June 6, 2006 the University issued Certificates of Participation (Academic Facilities Projects) Series 2006A in the amount of $81,930,000. The Series 2006A Certificates were issued to acquire, construct and install, and equip a business instructional facility on the Urbana campus and to finance various improvements to buildings on the University's three campuses.

To facilitate the advance refunding of the Certificates of Participation (Utility Infrastructure Projects) Series 2001 A & B; and, as a means to lower its borrowing costs, when compared against fixed-rate bonds at the time of issuance in March 2004, the University entered into an interest rate swap in connection with its $143,665,000 variable-rate Certificates of Participation (Utility Infrastructure Projects) Series 2004. The intention of the swap was to effectively change the University's variable interest rate on the Certificates to a synthetic fixed rate of 3.855%, which includes the Certificates' current liquidity facility fee of 0.09%. In addition, there is a 0.05% current remarketing fee.

The Certificates and related swap agreement mature on August 15, 2021, and the swap's initial notional amount of $143,665,000 matches the $143,665,000 variable-rate Certificates. The swap was entered at the same time as the Certificates were issued (March 2004). Starting in fiscal year 2006, the notional value of the swap and the principal amount of the associated Certificates began to decline. Under the swap, the University pays the counterparty a fixed payment of 3.765% and receives a variable payment computed as 100% of the Securities Industry & Financial Market Association Index (SISMA). Conversely, the Certificates' variable interest rates are expected to approximate SISMA. For FY 2007, the Certificates' average variable interest rate has been equal to SISMA. The counterparty credit rating by Standard & Poor's was A+ and by Moody's Investors Service was Aa3.

The University engaged a third-party consultant to calculate the "mark to market" or "market value" of the swap transaction. On June 30, 2007, the mark to market value of the swap was $2,348,000. Since this is a positive number, it represents an approximation of the amount of money that a swap provider may have been willing to pay the University to terminate the swap. In accordance with governmental accounting standards, this amount is not required to be included in the accompanying financial statements.

The University has the option to terminate the swap early. The University or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. The University may terminate the swap if both credit ratings of the counterparty fall below BBB+ as issued by Standard & Poor's and Baa1 as issued by Moody's Investors Service. If the swap is terminated, the variable-rate Certificates would no longer carry a synthetic fixed interest rate. Also, if at the time of termination the swap has a negative fair value, the University would be liable to the counterparty for a payment equal to the swap's fair value.

Using the actual rate of 3.74% in effect as of June 30, 2007, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, were as follows. As rates vary, variable-rate bond interest payments and net swap payments will also vary.

VARIABLE-RATE DEBT SERVICE REQUIREMENTS
(in thousands)

	Variable-Rate Certificates		Interest Rate	
	Principal	**Interest**	**Swaps, Net**	**Total**
2008	$ 995	$ 5,285	$ 35	$ 6,315
2009	1,035	5,261	20	6,316
2010	1,075	5,207	35	6,317
2011	6,570	5,065	33	11,668
2012	6,840	4,814	31	11,685
2013-2017	38,600	19,960	106	58,666
2018-2022	86,680	8,377	41	95,098
TOTAL	$ 141,795	$ 53,969	$ 301	$ 196,065

Assets held under capital leases are included in capital assets at June 30, 2007 as follows:

ASSETS HELD UNDER CAPITAL LEASE
(in thousands)

Land	$ 8,423
Buildings	73,952
Improvements	263,249
Equipment	165,348
Subtotal	510,972
Less: accumulated depreciation	115,370
TOTAL	$ 395,602

The net present value of outstanding capital leases at June 30, 2007 is:

OUTSTANDING CAPITAL LEASES
(in thousands)

Certificates of Participation:	
Series 1997 Utility Infrastructure	$ 15,335
Series 2001 UI Integrate	74,665
Series 2003 South Farms	22,285
Series 2003 UI Integrate	31,700
Series 2003 Utility Infrastructure	57,200
Series 2004 Utility Infrastructure	141,795
Series 2005 College of Medicine	19,220
Series 2006A Academic Facilities	78,570
Other capital leases	55,081
NET PRESENT VALUE	$ 495,851

As of June 30, 2007, future minimum lease payments under capital leases is as follows:

FUTURE MINIMUM LEASE PAYMENTS UNDER CAPITAL LEASES (in thousands)		
2008	$	54,768
2009		53,517
2010		52,738
2011		51,963
2012		49,164
2013-2017		197,559
2018-2022		154,880
2023-2027		54,981
Total minimum lease payments		669,570
Amount representing interest		(173,719)
NET PRESENT VALUE	$	495,851

The University monitors environmental matters and records an estimated liability for identified environmental remediation costs. The estimated liability at June 30, 2007 is $4,840,000.

The University also leases various buildings and equipment under operating lease agreements. Total rental expense under these agreements was $10,826,000 for the year ended June 30, 2007. The future mininum lease payments (excluding those leases renewed on an annual basis) are as follows:

FUTURE MINIMUM OPERATING LEASE PAYMENTS (in thousands)		
2008	$	9,478
2009		6,405
2010		4,241
2011		2,394
2012		1,349
2013-2017		3,702
2018-2022		620
2023-2025		372
TOTAL	$	28,561

At June 30, 2007, the Foundation had annuities payable outstanding of $51,108,000. Annuities payable represent an actuarial computation of the present value of future payments to annuitants.

NOTE 9 - NET ASSETS

As discussed in Note 1 to the financial statements, the Entity's net assets are classified for accounting and reporting purposes into one of four net asset categories according to externally imposed restrictions. The following tables include detail of the net asset balances for the University and the UROs including major categories of restrictions and internal designations of unrestricted funds.

UNIVERSITY NET ASSETS
(in thousands)

Invested in capital assets, net of related debt	$	1,842,039
Restricted - nonexpendable		
Invested in perpetuity to produce income expendable for -		
Scholarships, fellowships and research		51,345
Restricted - expendable for -		
Scholarships, fellowships and research		233,151
Loans		78,171
Service plans		47,723
Retirement of indebtedness		20,642
Capital projects		12,964
Unrestricted -		
Designated for:		
Auxiliary		18,123
Hospital		62,364
Capital projects		68,236
Self supporting activities		18,092
Institutional support		42,574
Quasi endowments		99,908
Amount expected to be financed in future years		(197,400)
Undesignated		17,924
TOTAL	$	2,415,856

URO NET ASSETS
(in thousands)

Invested in capital assets, net of related debt	$	2,799
Restricted - nonexpendable		
Invested in perpetuity to produce income expendable for -		
Scholarships, fellowships and research		838,362
Restricted - expendable for -		
Scholarships, fellowships and research		377,944
Unrestricted		29,545
TOTAL	$	1,248,650

NOTE 10 - FUNDS HELD IN TRUST BY OTHERS

The University and Foundation are income beneficiaries of several irrevocable trusts which are held and administered by outside trustees. The University and Foundation have no control over these funds as to either investment decisions or income distributions, thus the principal is not recorded in the accompanying financial statements. The fair value of these funds at June 30, 2007 and the amount of income received from these trusts during the year then ended were as follows:

FUNDS HELD IN TRUST BY OTHERS
(in thousands)

	University	Foundation
Fair value of funds held in trust by others	$ 42,946	$ 28,431
Income received from funds held in trust by others	$ 1,149	$ 945

NOTE 11 - STATE UNIVERSITIES RETIREMENT SYSTEM

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

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 Entity employees ineligible to participate, the majority are students at the University.

SURS provides retirement, disability and death benefits. Members are eligible for normal retirement at any age after 35 years of service, at age 60 after 8 years of service or at age 62 after 5 years of service. There are also provisions for early retirement. Retirement benefits are based on certain formulas that generally are a function of years of service and the average salary based on the highest earnings of any four consecutive years. Disability benefits are paid to disabled members with two years of covered service, generally at 50% of basic compensation until the total benefits paid equal 50% of the total earnings in covered service. Death benefits are payable to survivors of an active member with one and one half years of covered service or of a former member with ten years of covered service. These benefits are payable until children attain the age of 18, to a spouse after age 50 and to a dependent parent after age 55. Benefits are equal to the retirement contributions and interest, a lump sum payment of $1,000, and a monthly annuity equal to a portion of the accrued normal retirement benefit based on specified formulas.

Plan members are required to contribute 8.0% of their annual covered salary and substantially all employer contributions are made by the State of Illinois on behalf of the individual employers at an actuarially determined rate. The current rate is 10.61% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the Illinois General Assembly. The University's contributions to SURS for the years ended June 30, 2007, 2006, and 2005 were $138,499,000, $101,570,000 and $145,752,000 respectively, equal to the required contributions for each year. The URO's contributions to SURS for the years ended June 30, 2007, 2006, and 2005 were $719,000, $573,000 and $520,000 respectively.

Entity employees hired prior to April 1, 1986 are exempt from contributions required under the Federal Insurance Contribution Act. Employees hired after March 31, 1986 are required to contribute 1.45% of their gross salary for Medicare. The Entity is required to match this contribution.

Employees may also elect to participate in certain tax-sheltered retirement plans. These voluntary plans permit employees to designate a part of their earnings into tax-sheltered investments and thus defer federal and state income taxes on their contributions and the accumulated earnings under the plans. Participation and the level of employee contributions are voluntary. The employer is not required to make contributions to these plans.

NOTE 12 - POSTEMPLOYMENT BENEFITS

In addition to providing pension benefits, the State provides certain health, dental and life insurance benefits to annuitants who are former State employees. This includes annuitants of the Entity. Substantially all State employees, including the employees of the Entity, may become eligible for postemployment benefits if they eventually become annuitants. Health and dental benefits include basic benefits for annuitants under the State's self-insurance plan and insurance contracts currently in force. Life insurance benefits for annuitants under age 60 are equal to their annual salary at the time of retirement; life insurance benefits for annuitants age 60 and older are limited to $5,000 per annuitant.

Currently, the State does not segregate payments made to annuitants from those made to current employees for health, dental and life insurance benefits. These costs are funded by the State except for certain non-appropriated funds funded by the University.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

At June 30, 2007 the University had commitments on various construction projects and contracts for repairs and renovation of facilities of approximately $158,357,000.

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

The University also receives monies under third-party payor arrangements for payment of medical services rendered at its hospital and clinics. Some of these arrangements allow for settlement adjustments based on costs and other factors. The University believes that any adjustments would not have a material effect on the University's financial position.

The University is a defendant in a number of legal actions primarily related to medical malpractice. These legal actions have been considered in estimating the University's accrued self-insurance liability. The total of amounts claimed under these legal actions, including potential settlements and amounts relating to losses incurred but not reported, could exceed the amount of the self-insurance liability. In the opinion of the University's administrative officers, the University's self-insurance liability and limited excess indemnity insurance coverage from commercial carriers are adequate to cover the ultimate liability of these legal actions, in all material respects.

The University's hospital and clinics are involved in regulatory audits arising in the normal course of business. On June 8, 2007, a notice was received from the Office of Inspector General on behalf of the Illinois Department of Healthcare and Family Services indicating that the University received an overpayment of $14.8 million on behalf of Medicaid patients. University management is in the process of contesting this overpayment and estimates its probable liability regarding this overpayment is approximately $4.8 million, of which $3.3 million and $1.5 million could be paid by the Hospital and the UIC College of Pharmacy, respectively. This liability of $4.8 million has been reflected in the University's financial position and results from operations as of June 30, 2007.

NOTE 14 - OPERATING EXPENSES BY NATURAL CLASSIFICATION

Operating expenses by natural classification for the year ended June 30, 2007 for the University and the UROs are summarized as follows:

UNIVERSITY OPERATING EXPENSES BY NATURAL CLASSIFICATION
(in thousands)

	Compensation and benefits	Supplies and services	Student aid	Depreciation	Total
Instruction	$ 583,428	$ 116,907	$ 3,205	$	$ 703,540
Research	367,139	192,947	1,790		561,876
Public service	190,541	133,967	1,840		326,348
Academic support	150,023	80,805	5,733		236,561
Student services	56,855	29,683	1,836		88,374
Institutional support	131,035	36,129	8		167,172
Operations and maintenance of plant	68,244	148,214	1,570		218,028
Scholarships and fellowships	177,625	1,365	19,026		198,016
Auxiliary enterprises	80,045	147,011	7,695		234,751
Hospital and medical activities	239,250	192,509	3		431,762
Independent operations	1,437	8,586			10,023
Depreciation				191,679	191,679
On behalf payments for fringe benefits	376,657				376,657
TOTAL	$ 2,422,279	$ 1,088,123	$ 42,706	$ 191,679	$ 3,744,787

URO OPERATING EXPENSES BY NATURAL CLASSIFICATION
(in thousands)

	Distribution on behalf of the University	Institutional support	Depreciation	Total
Salaries and benefits	$	$ 18,654	$	$ 18,654
Distributions on behalf of the University	128,731			128,731
Marketing and communications		6,539		6,539
Travel		1,005		1,005
Equipment		540		540
Meeting, conferences and special events		1,456		1,456
Supplies and other		13,188		13,188
Depreciation			509	509
TOTAL	$ 128,731	$ 41,382	$ 509	$ 170,622

NOTE 15 - SEGMENT INFORMATION

The following financial information represents identifiable activities for which one or more revenue bonds is outstanding. The Auxiliary Facilities System is comprised of University owned housing units, student unions, recreation and athletic facilities, and similar auxiliary service units including parking. The Health Services Facilities System is comprised of the University of Illinois Hospital and associated clinical facilities providing patient care. The Willard Airport Facility is comprised of land, hangars, a terminal building, parking lots, runways, and related apron areas.

(in thousands)

	AUXILIARY FACILITIES SYSTEM	HEALTH SERVICES FACILITIES SYSTEM	WILLARD AIRPORT FACILITY	TOTAL
Condensed Statement of Net Assets				
ASSETS:				
Current assets	$ 384,325	$ 155,680	$ 2,250	$ 542,255
Noncurrent assets				
Capital assets, net of accumulated depreciation	735,298	170,685	33,441	939,424
Other noncurrent assets	20,906	2,948	4	23,858
TOTAL ASSETS	$ 1,140,529	$ 329,313	$ 35,695	$ 1,505,537
LIABILITIES:				
Current liabilities	$ 93,857	$ 72,427	$ 1,387	$ 167,671
Noncurrent liabilities				
Long term debt	938,211	73,679	260	1,012,150
Other liabilities	5,195	20,472		25,667
TOTAL LIABILITIES	1,037,263	166,578	1,647	1,205,488
NET ASSETS:				
Invested in capital assets, net of related debt	8,084	96,293	32,650	137,027
Restricted				
Expendable	16,295	2,350	507	19,152
Unrestricted	78,887	64,092	891	143,870
TOTAL NET ASSETS	103,266	162,735	34,048	300,049
TOTAL LIABILITIES AND NET ASSETS	$ 1,140,529	$ 329,313	$ 35,695	$ 1,505,537
Condensed Statement of Revenues, Expenses and Changes in Net Assets				
Operating revenues	$ 246,018	$ 533,911	$ 2,484	$ 802,806
Operating expenses	203,591	507,109	2,747	733,840
Depreciation expense	16,583	20,066	1,807	38,456
Operating income (loss)	25,844	6,736	(2,070)	30,510
Nonoperating revenues (expenses)	(14,127)	(3,611)	592	(17,146)
Capital and endowment additions			3,979	3,979
Increase in net assets	11,717	3,125	2,501	17,343
Net assets, beginning of year	91,549	159,610	31,547	282,706
NET ASSETS, END OF YEAR	$ 103,266	$ 162,735	$ 34,048	$ 300,049
Condensed Statement of Cash Flows				
Net cash flows provided (used) by operating activities	$ 57,417	$ 33,189	$ (250)	$ 90,356
Net cash flows (used) provided by noncapital financing activities	(1,822)	238	869	(715)
Net cash flows provided (used) by capital and related financing activities	58,705	(20,579)	(427)	37,699
Net cash flows provided by investing activities	91,300	2,080	67	93,447
Net increase in cash and cash equivalents	205,600	14,928	259	220,787
Cash and cash equivalents, beginning of year	144,442	46,804	1,899	193,145
Cash and cash equivalents, end of year	$ 350,042	$ 61,732	$ 2,158	$ 413,932

NOTE 16 - UNIVERSITY RELATED ORGANIZATIONS

The Entity's financial statements include the activity of the University Related Organizations which represent the discretely presented component units. Below are condensed financial statements by organization:

(in thousands)	FOUNDATION	ALUMNI ASSOCIATION	WWT	TOTAL
Condensed Statement of Net Assets				
Assets:				
Current assets	$ 47,757	$ 1,248	$ 2,154	$ 51,159
Noncurrent assets				
Capital assets, net of accumulated depreciation	8,022	750	429	9,201
Other noncurrent assets	1,302,398	16,716		1,319,114
Total assets	$ 1,358,177	$ 18,714	$ 2,583	$ 1,379,474
Liabilities:				
Current liabilities	$ 71,404	$ 1,759	$ 2,255	$ 75,418
Noncurrent liabilities				
Long term debt		2,630	947	3,577
Other noncurrent liabilities	51,820	9		51,829
Total liabilities	123,224	4,398	3,202	130,824
Net assets:				
Invested in capital assets, net of related debt	1,620	750	429	2,799
Restricted				
Nonexpendable	838,362			838,362
Expendable	377,944			377,944
Unrestricted	17,027	13,566	(1,048)	29,545
Total net assets	1,234,953	14,316	(619)	1,248,650
Total liabilities and net assets	$ 1,358,177	$ 18,714	$ 2,583	$ 1,379,474
Condensed Statement of Revenues, Expenses and Changes in Net Assets				
Operating revenues	$ 140,436	$ 9,611	$ 8,299	$ 158,346
Operating expenses	154,536	9,631	5,946	170,113
Depreciation expense	244	60	205	509
Operating income (loss)	(14,344)	(80)	2,148	(12,276)
Nonoperating revenues (expenses)	170,413	3,501	(101)	173,813
Contributions to endowments	28,353			28,353
Increase in net assets	184,422	3,421	2,047	189,890
Net assets, beginning of year	1,050,531	10,895	(2,666)	1,058,760
Net assets, end of year	$ 1,234,953	$ 14,316	$ (619)	$ 1,248,650
Condensed Statement of Cash Flows				
Net cash flows (used) provided by operating activities	$ (20,656)	$ (131)	$ 2,407	$ (18,380)
Net cash flows provided (used) by noncapital financing activities	28,353		(1,963)	26,390
Net cash flows used by capital and related financing activities	(831)	(1,621)	(344)	(2,796)
Net cash flows (used) provided by investing activities	(4,857)	576	90	(4,191)
Net increase (decrease) in cash and cash equivalents	2,009	(1,176)	190	1,023
Cash and cash equivalents, beginning of year	2,904	1,867	1,723	6,494
Cash and cash equivalents, end of year	$ 4,913	$ 691	$ 1,913	$ 7,517

NOTE 17 - SUBSEQUENT EVENTS

On July 12, 2007, the University sold Variable Rate Demand Health Services Facilities System Revenue Refunding Bonds Series 2007 in the amount of $40,875.000. The closing date for these bonds was July 19, 2007. The proceeds of the Series 2007 Bonds will be used, together with certain other available monies, to defease the Health Services Facilities System Series 1997A Bonds and to pay all costs incidental to the issuance of the Series 2007 bonds.

On January 4, 2008, the University issued Certificates of Participations Series 2007A, 2007B, 2007C, and Taxable 2007D for the amounts of $72,725,000, $45,625,000, $31,340,000, and $81,500,000, respectively. The proceeds from the Series 2007A Certificates will be used to fund various improvements at all three University campuses and additions at the Urbana-Champaign campus, to refund the Series 1997 Certificates, and to pay all costs incidental to the issuance of the bonds. The proceeds from the Series 2007B Certificates will be used to refund a portion of the Series 2001 Certificates and to pay all costs incidental to the issuance of the bonds. The proceeds from the Series 2007C Certificates will be used to fund an addition at the University's health profession site in Rockford, Illinois. The proceeds from the Taxable Series 2007D Certificates will be used to fund a portion of the costs for the construction of a petascale computing facility.

This information is an integral part of the accompanying financial statement.

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