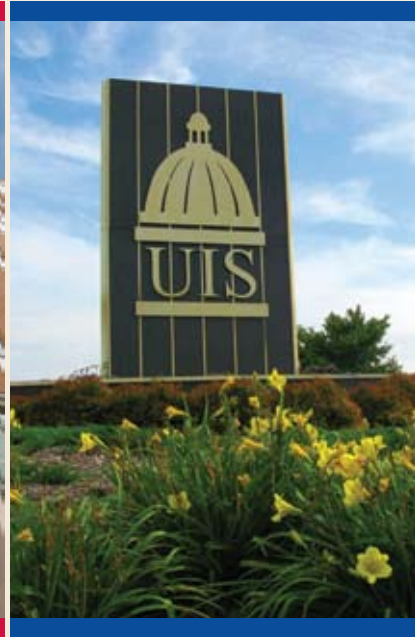


Annual Financial Report

FISCAL YEAR 2008



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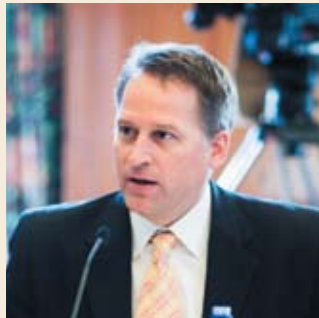
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UNIVERSITY OF ILLINOIS

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.illinois.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

UIC



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



The **Global Campus** offers the benefits of a University of Illinois education without the restriction of location and scheduled class time. Global Campus degree and certificate programs use online instruction that emphasizes group collaboration and are created in partnership with the colleges and academic departments on the three traditional campuses. Graduates earn degrees from the University of Illinois.

global.uillinois.edu

UNIVERSITY OF ILLINOIS
Global Campus





MESSAGE FROM THE PRESIDENT

On behalf of our Board of Trustees and our faculty, students and staff, I am pleased to present the 2008 University of Illinois Financial Report that gives detailed information about the University's financial position and performance for the fiscal year that ended June 30, 2008. This report demonstrates that our resources have been prudently managed and that the University's financial house is in order.

The University of Illinois receives its largest support from the state of Illinois, through its elected legislature and officials. The state's direct annual investment in the University exceeds \$700 million. More than \$400 million in state funds also pay for medical and pension benefits for the 24,000 University employees, who have an unmatched commitment to this institution and its students.

Our faculty are leading researchers and our students are among the best in the country, which is why I am always pleased that this report includes some of research and instructional success from our campuses in Urbana, Chicago, and Springfield as well as the new Global Campus. We could fill hundreds of pages with stories about interesting, cutting-edge research initiatives that have the potential to impact our world. University of Illinois students benefit from the knowledge that flows from research.

The University of Illinois is an asset of extraordinary value in creating a prosperous future for the people of Illinois. Educated people and the knowledge resulting from research create new industries, companies and jobs in our state and around the globe. At the University of Illinois, people and knowledge are our currency and we believe we are prudent and wise stewards.

I welcome your comments.

Sincerely,

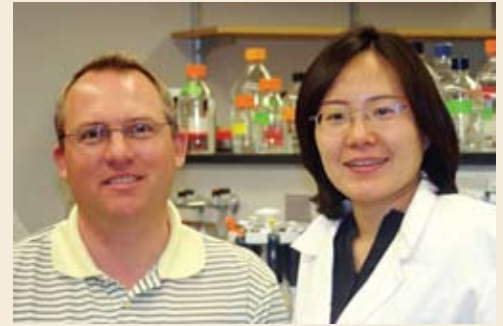
A handwritten signature in black ink that reads "B. Joseph White". The signature is written in a cursive, flowing style.

B. Joseph White
President

SHOWCASE OF RESEARCH AND INSTRUCTIONAL SUCCESSES

Reducing Inflammatory Response in the Brain

Urbana researchers Rodney Johnson and Saebyeol Jang discovered that a plant compound found in abundance in celery and green peppers—luteolin—can disrupt a key component of the inflammatory response in the brain. Inflammation plays a key role in many neurodegenerative diseases and also is implicated in the cognitive and behavioral impairments seen in aging. The findings have implications for research on aging and diseases such as Alzheimer’s and multiple sclerosis.



Approximate Optical Cloaking

Now you see it, soon you might not. In computer simulations, Urbana researcher Harley Johnson and Dong Xiao have demonstrated an approximate cloaking effect created by concentric rings of silicon photonic crystals. The mathematical proof brings scientists a step closer to a practical solution for optical cloaking. Xiao, a postdoctoral research associate, building on previous research in the microwave region of the electromagnetic spectrum, proposed coating concentric rings of silicon photonic crystals to make the light bend, letting an observer see behind an object. The current techniques are not perfect, so the researchers describe the technique as “approximate cloaking.”



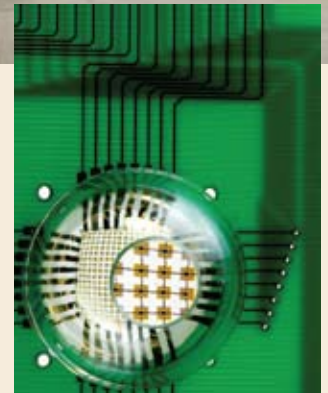
College of Medicine Named Best School for Hispanics

The College of Medicine at UIC was named one of the Best Schools for Hispanics in the September 2008 issue of Hispanic Business magazine. The college, which also made the list in 2007, qualified as a “best school” in five areas that demonstrate commitment to diversity measures toward Hispanics: Hispanic faculty, enrollment, student services, retention rate, and reputation. In Illinois, three of every five Latinos who earn an MD degree do so at UIC. Ten percent of the 2007 graduating class was Latino.



Stretchable Silicon Camera

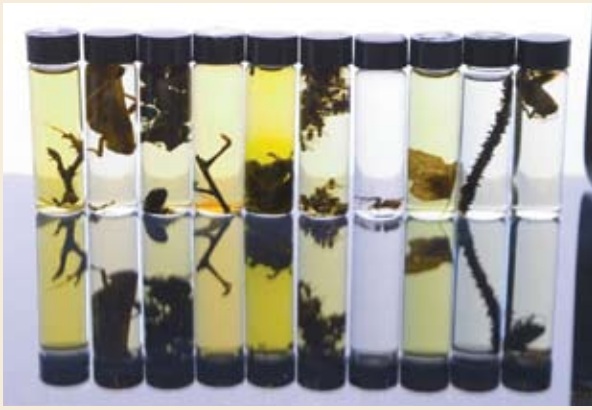
By combining stretchable optoelectronics and biologically inspired design, Urbana scientist John Rogers and his colleagues have created a imaging device with a layout based on the human eye. Researchers in the Department of Materials Science and Engineering and their collaborators at Northwestern University have developed a high-performance, hemispherical “eye” camera using an array of single-crystalline silicon detectors and electronics, configured in a stretchable, interconnected mesh. The work opens new possibilities for advanced camera design and, possibly, artificial retinas for bionic eyes.



Wal-Mart's Effect On Retailers Weaker In City

The relationship between a Wal-Mart’s arrival and nearby retailers going out of business appears to be weaker in Chicago than in small towns or suburbs, according to initial results of a study by David Merriman, a UIC professor of public administration. Surveys and data show a small but statistically significant relationship between a store’s proximity to the Wal-Mart in Chicago’s Austin neighborhood and the likelihood that the smaller store will go out of business. In the short run, Merriman says the vast majority of Austin’s small businesses continue to operate and provide goods and services that the public seeks.





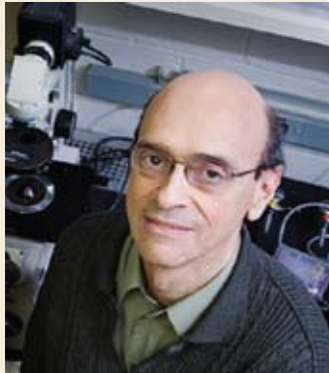
Pond Scum Could Be Key to New Cancer Therapies

Researchers at the UIC College of Pharmacy are hoping to discover new cancer therapies derived from natural sources such as pond scum and plants from tropical rainforests. Cyanobacteria, also referred to as pond scum, is found in oceans, fresh water, bare rocks, and soil and is a source of unique chemical structures. UIC researchers, led by principal investigator and assistant professor Jimmy Orjala, and their collaborators on a National Cancer Institute grant are collecting samples of cyanobacteria to evaluate active compounds that might prove to be more effective than current chemotherapeutic agents.



Medical Center Named To 'Most Wired' Hospitals List

The University of Illinois Medical Center at Chicago was named among the top 100 "Most Wired Hospitals" for the third straight year by Hospitals & Health Networks magazine. The 2008 list recognizes hospitals for using information technology to streamline business and clinical practices, reduce medical errors, and improve clinical outcomes.



New Inhibitors Discovered

Researchers in Urbana have discovered a new family of agents that inhibit the growth of estrogen-dependent breast cancer cells. The finding has opened an avenue of research into new drugs to combat the cancers. David Shapiro, professor of biochemistry, says the research suggests that the compounds he and his collaborators identified are likely to be effective in tumors that are dependent on estrogen for growth but are resistant to current therapies.



UIC Dental Students Run Clinic At Homeless Support Center

UIC dental students don't have to wait until they graduate to manage their own clinic or help the underserved. The first student-operated oral health care center in Chicago opened in August 2008 as part of Goldie's Place, an organization that helps homeless adults become self-sufficient. The students perform routine dental services such as extractions, cleanings, and fillings, and they are trained in making molds, crowns, and dentures. UIC requires all fourth-year dental students to participate in community-based service-learning experiences that provide tangible benefits to the communities.



A Kindergarten Edge?

New research from an Urbana professor of economics challenges a growing trend toward holding kids out of kindergarten until they're older, arguing that academic advantages are short-lived and come at the expense of delaying entry into the workforce and other costs. According to Professor Darren Lubotsky, the findings show older kindergartners fare better academically largely because they learn more before starting school, not because age improves aptitude. Older students post higher test scores than younger peers during the first few months of kindergarten, but their edge soon fades and nearly vanishes by eighth grade, according to the study.

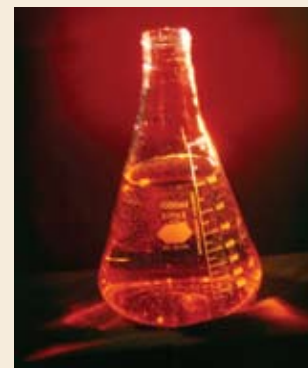
Urbana Named Wired Campus

The Urbana campus was named the top most “wired” campus in the US in a ranking published by PC Magazine and Princeton Review. The 2008 rankings looked at courses, the availability of classes and course materials online, the degree of technical support, the availability of a Wi-Fi network, and the types of computers available to students. The Urbana campus ranked highly in part because of a laptop lending program and computing classes, including ones on parallel computing and data mining. In the 2006 rankings, Urbana placed sixth.



Clinical Lab Students Score Win

The UIS Clinical Laboratory Science student team took second place at the Illinois state meeting of the American Society for Clinical Laboratory Science held in early 2008. In the Student Bowl competition, teams must answer questions about medical laboratory topics such as immunohematology, clinical chemistry, medical microbiology, and hematology. The Clinical Laboratory Science department in the College of Liberal Arts and Sciences prepares students for careers in a health or medical profession or other laboratory-related field. As a key member of the health care team, the clinical laboratory scientist works closely with pathologists and other physicians to uncover clues to disease. The UIS team placed first in the 2007 competition.



Negative Perception

Watching the news should make you more informed, but it also may be making you more likely to stereotype. Urbana communication professor Travis Dixon found that the more people watched either local or network news, the more likely they were to draw on negative stereotypes about blacks. The effect was independent of viewers’ existing racial attitudes. Dixon says that stereotypes get repeated and therefore reinforced in the mind, a process called “chronic activation.”



Collaborating on Patient Safety

In today’s complex health care environment, hospital and health care agencies increasingly need new patient safety practices. The Global Campus, the online campus of the University of Illinois, is partnering with the UIC College of Medicine to offer a comprehensive master of science degree in patient safety leadership that will equip healthcare professionals with the skills they need to become leaders in the advancement of patient safety and quality health delivery.

UIS at Top of Ranking

U.S. News & World Report’s 2009 Edition of America’s Best Colleges ranked UIS as the best public university—master’s category—in the state of Illinois and the fourth best public university in that category in the entire Midwest. The master’s category includes colleges and universities that provide a full range of undergraduate and master’s programs but only a few, if any, doctoral programs. The campus became eligible to be included in the magazine’s ranking two years after graduating its first class of freshmen.



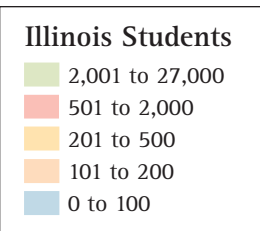
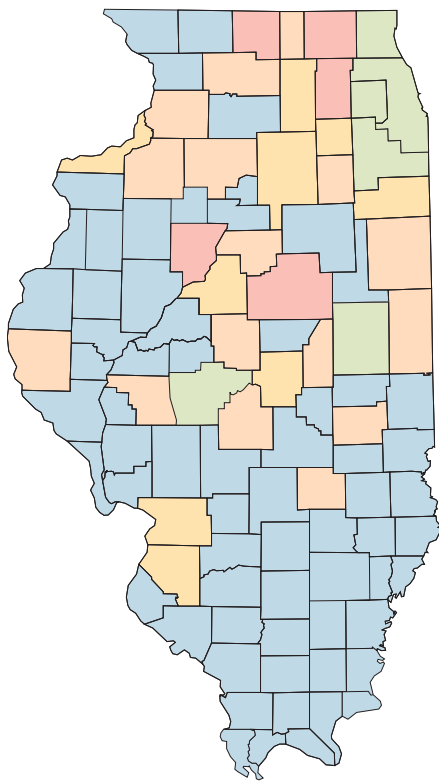
Photo Credits: Roberta Dupuis-Devlin, UIC News Bureau; Brian Stauffer, Urbana News Bureau; UIS News Bureau; John Rogers, Urbana; Rodney Johnson, Urbana

ON-CAMPUS HEADCOUNT

A State University With A Global Reach

Total University enrollment for the fall semester of 2007 was approximately 69,000. Illinois residents account for 81% of the total enrollment. The remaining 19% of the University's enrollment is divided between students from other states and U.S. territories, 8%, and international students, 11%.

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 30% 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.



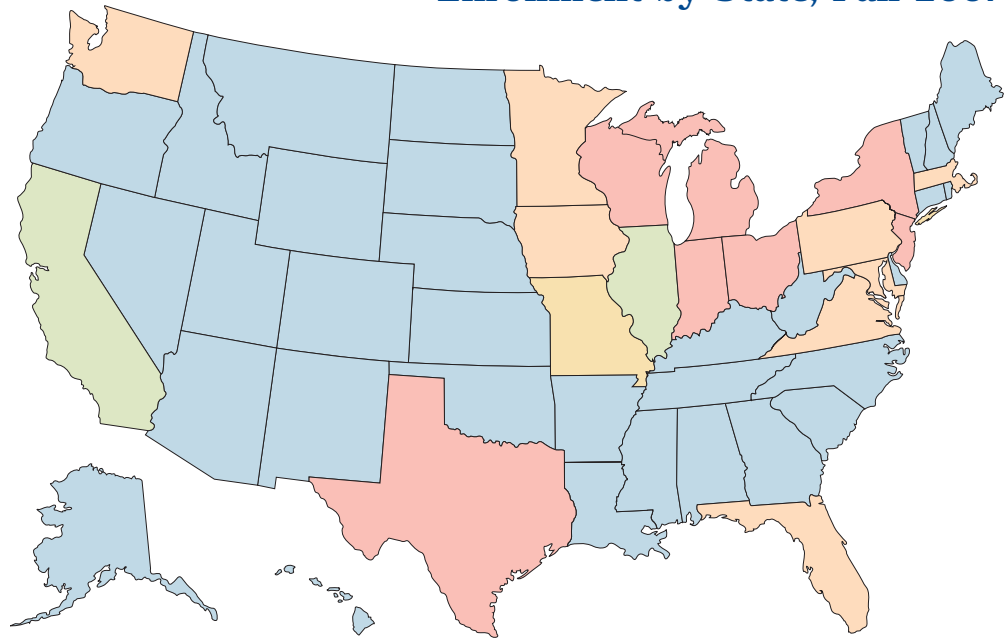
Enrollment by County, Fall 2007

Adams	171	Henderson	7	Ogle	109
Alexander	3	Henry	149	Peoria	612
Bond	23	Iroquois	111	Perry	22
Boone	117	Jackson	81	Piatt	121
Brown	13	Jasper	32	Pike	51
Bureau	101	Jefferson	30	Pope	3
Calhoun	7	Jersey	27	Pulaski	3
Carroll	26	JoDaviess	27	Putnam	23
Cass	41	Johnson	3	Randolph	30
Champaign	3,168	Kane	1,348	Richland	23
Christian	165	Kankakee	254	Rock Island	284
Clark	19	Kendall	248	St. Clair	398
Clay	15	Knox	84	Saline	21
Clinton	57	Lake	3,633	Sangamon	2,080
Coles	141	La Salle	284	Schuyler	20
Cook	26,344	Lawrence	17	Scott	18
Crawford	40	Lee	88	Shelby	38
Cumberland	15	Livingston	99	Stark	13
Dekalb	230	Logan	123	Stephenson	97
Dewitt	36	McDonough	70	Tazewell	328
Douglas	74	McHenry	1,167	Union	9
Du Page	6,694	McClellan	627	Vermilion	195
Edgar	39	Macon	357	Wabash	17
Edwards	8	Macoupin	93	Warren	35
Effingham	112	Madison	434	Washington	30
Fayette	22	Marion	37	Wayne	13
Ford	66	Marshall	46	White	13
Franklin	18	Mason	52	Whiteside	90
Fulton	61	Massac	8	Will	2,628
Gallatin	2	Menard	78	Williamson	63
Greene	40	Mercer	28	Winnebago	643
Grundy	151	Monroe	82	Woodford	110
Hamilton	5	Montgomery	99	Unknown	0
Hancock	39	Morgan	144		
Hardin	0	Moultrie	46		

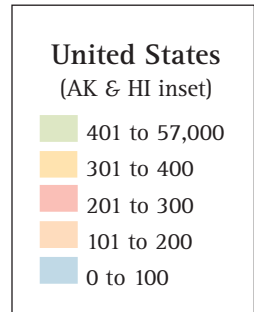
56,216

Enrollment by State, Fall 2007

Alabama	40
Alaska	16
Arizona	67
Arkansas	30
California	604
Colorado	73
Connecticut	52
Delaware	14
District of Columbia	27
Florida	199
Georgia	97
Hawaii	26
Idaho	23
Illinois	56,216
Indiana	299
Iowa	160
Kansas	81
Kentucky	71
Louisiana	42
Maine	15
Maryland	176
Massachusetts	154
Michigan	285
Minnesota	168
Mississippi	16
Missouri	335
Montana	9
Nebraska	54
Nevada	27
New Hampshire	20
New Jersey	227
New Mexico	45



New York	284	Texas	276
North Carolina	83	Utah	72
North Dakota	13	Vermont	13
Ohio	284	Virginia	142
Oklahoma	35	Washington	113
Oregon	46	West Virginia	13
Pennsylvania	152	Wisconsin	232
Rhode Island	8	Wyoming	4
South Carolina	34	Other*	383
South Dakota	15		
Tennessee	80		



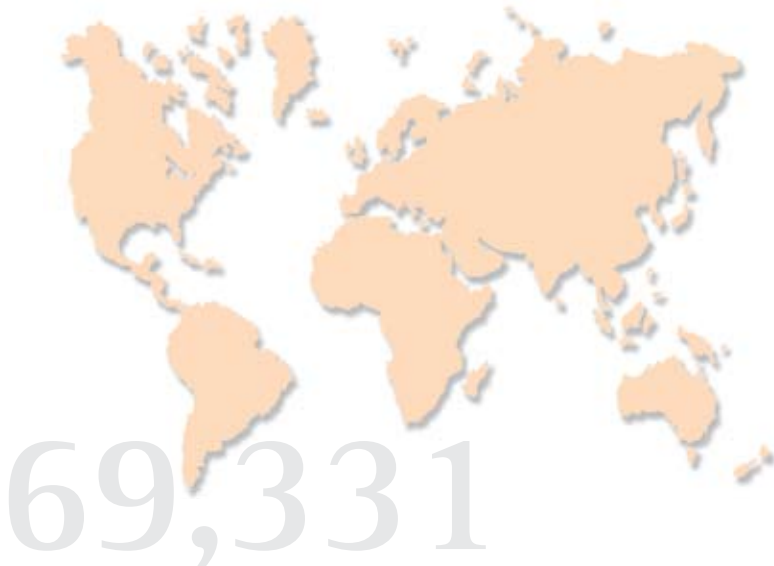
*U.S. residents with foreign addresses

Enrollment by Continent, Fall 2007**

North/Central America and W. Indies	261
U.S. and U.S. Territories*	62,004
Subtotal North/Central America	62,265
Asia (includes Middle East)	5,650
Europe	635
South America	248
Africa	128
Oceania	39
Unknown - International	366

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

**Represents headcount



STAFF AND STUDENT DATA

as of October 2007

Staff Full-Time Equivalent (all funds)

	Urbana-Champaign	Chicago	Springfield	University Administration*	Total University
Faculty	2,963	2,481	248	7	5,699
Academic Professional	3,509	3,759	203	827	8,298
Support Staff	4,534	5,273	279	416	10,502
Graduate Assistant	2,619	2,129	137	19	4,904
TOTAL	13,625	13,642	867	1,269	29,403

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

*Includes Global Campus employees

Degrees Awarded FY 2007

	Urbana-Champaign	Chicago	Springfield	Total University
Certificates	5	—	—	5
Bachelors	7,035	3,286	612	10,933
Postbaccalaureate Certificates	—	—	9	9
Masters	2,582	1,737	406	4,725
Post-Masters Certificates	19	—	16	35
Doctorate	698	317	2	1,017
First-Professional	320	545	—	865
First-Professional-Certificates	—	34	—	34
TOTAL	10,659	5,919	1,045	17,623

Student Full-Time Equivalent Enrollment

Fall 2007 On-Campus Enrollment

	Urbana-Champaign	Chicago*	Springfield	Total University
Undergraduate	31,310	14,881	1,657	47,848
Graduate & Professional	11,504	9,687	730	21,921
TOTAL	42,814	24,568	2,387	69,769

*Includes 982 residents.

Note: Fte calculated based on IBHE definition

MESSAGE FROM THE CHIEF FINANCIAL OFFICER



The information in this Annual Financial Report of the University of Illinois for the fiscal year ended June 30, 2008, documents that the financial position of the University is sound. This reflects the commitment throughout the institution—in university administration and on our campuses—to follow best practices in business to ensure the integrity of our programs and initiatives.

The University of Illinois, following the guidance provided in our strategic plans, competes successfully in a dynamic and competitive funding environment.

The university is academically decentralized and financially centralized. Our sound financial base and our outstanding faculty, staff and students keep the University of Illinois at the forefront of higher education.

Excellence and access are the motivators for all that we do in university administration and on our campuses in Urbana-Champaign, Chicago and Springfield. I am confident that the tradition of high quality in teaching, research, public service, and economic development, combined with innovative initiatives, will continue to drive the University of Illinois to an even greater level of recognition as an educational leader.

A handwritten signature in black ink that reads "Walter Knorr". The signature is written in a cursive, flowing style.

Walter Knorr
December 30, 2008

INDEPENDENT AUDITOR'S REPORT



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, 2008, 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 2007 financial statements and, in our report dated February 8, 2008 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, 2008, 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 December 30, 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.

A handwritten signature in cursive script that reads "Clifton Gunderson LLP".

Clifton Gunderson LLP

December 30, 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, 2008.

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, 2008 with comparative information for the year ended June 30, 2007. 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 – Urbana-Champaign, Chicago, and Springfield 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 5,800 faculty members on its three campuses. The University offers a diverse range of degree programs from baccalaureate to post-doctoral levels. Approximately 18,000 degrees are awarded annually. The operating budget for fiscal year 2008, from all fund sources, was approximately \$3.9 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 brilliant 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 34,500. 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 enrolled its first cohort of students in January 2008 with a plan to expand enrollments dramatically over a five year period.

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.

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 public liberal arts university where classes are small and professors know their students. The resulting close relationships they build are consistently cited by graduates as the university's greatest strength. Students select from 42 undergraduate and graduate degree programs and one doctoral program in public administration. The university also offers 16 degree programs fully online. UIS emphasizes public affairs, citizen engagement and effecting societal change. Students have access to extraordinary internships and research projects with government and state agencies. The UIS campus features a new Recreation and Athletic Center and state-of-the-art townhouses and residence halls for a growing number of students.

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 2008 budget for direct state appropriations, as approved by the Governor, was approximately \$726 million, which represented an 1.8% increase from the approved fiscal year 2007 budget. The overall budget utilized by the University increased by 6.1%. 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, decreased during the current year by approximately \$60.5 million. After consideration of increases in state appropriations and on-behalf payments from the State of Illinois, the University's operating results were largely consistent in fiscal year 2008 compared to fiscal year 2007. The most significant component of the decrease, which related to nonoperating revenues and expenses, was associated with net unrealized losses on investments due to market declines late in fiscal year 2008. As of June 30, 2008, the University's total assets were \$5.1 billion compared to total assets of \$4.9 billion as of June 30, 2007.

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, 2008 and 2007 is as follows:

(in thousands)		
	2008	2007
Current assets:		
Cash and investments	\$ 766,462	\$ 700,357
Accounts and notes receivable	377,303	369,534
Other current assets	64,024	59,628
Noncurrent assets:		
Investments	601,805	575,244
Notes receivable	55,305	50,349
Capital assets, net of accumulated depreciation	3,240,155	3,109,396
Other assets	38,139	40,837
Total assets	\$ 5,143,193	\$ 4,905,345
Current liabilities:		
Accounts payable, accrued liabilities and deferred revenue	\$ 560,778	\$ 484,321
Bonds payable	126,807	31,243
Leaseholds payable and other obligations	25,942	34,285
Accrued self insurance	48,591	39,761
Other current liabilities	69,942	66,482
Noncurrent liabilities:		
Bonds payable	1,005,489	1,060,804
Leaseholds payable and other obligations	625,458	463,755
Accrued self insurance	128,577	116,417
Accrued compensated absences	196,260	192,421
Total liabilities	\$ 2,787,844	\$ 2,489,489
Net assets	\$ 2,355,349	\$ 2,415,856

Total assets increased by \$238 million or 4.9% to \$5.1 billion during fiscal year 2008. The largest components of this change are due to increases in capital assets of \$130.8 million, cash and investments of \$92.7 million, and notes and accounts receivable of \$12.7 million. Capital assets increased due to utilization of bond proceeds for various construction projects throughout the University's three campuses. The increase in total University cash and investments was largely due to a net increase in unspent proceeds from the issuance of long-term debt in the last half of fiscal 2008. The increase in accounts and notes receivable was attributable to increases in receivables from sponsoring agencies, student tuition, medical service plan, and educational activities during the fiscal year.

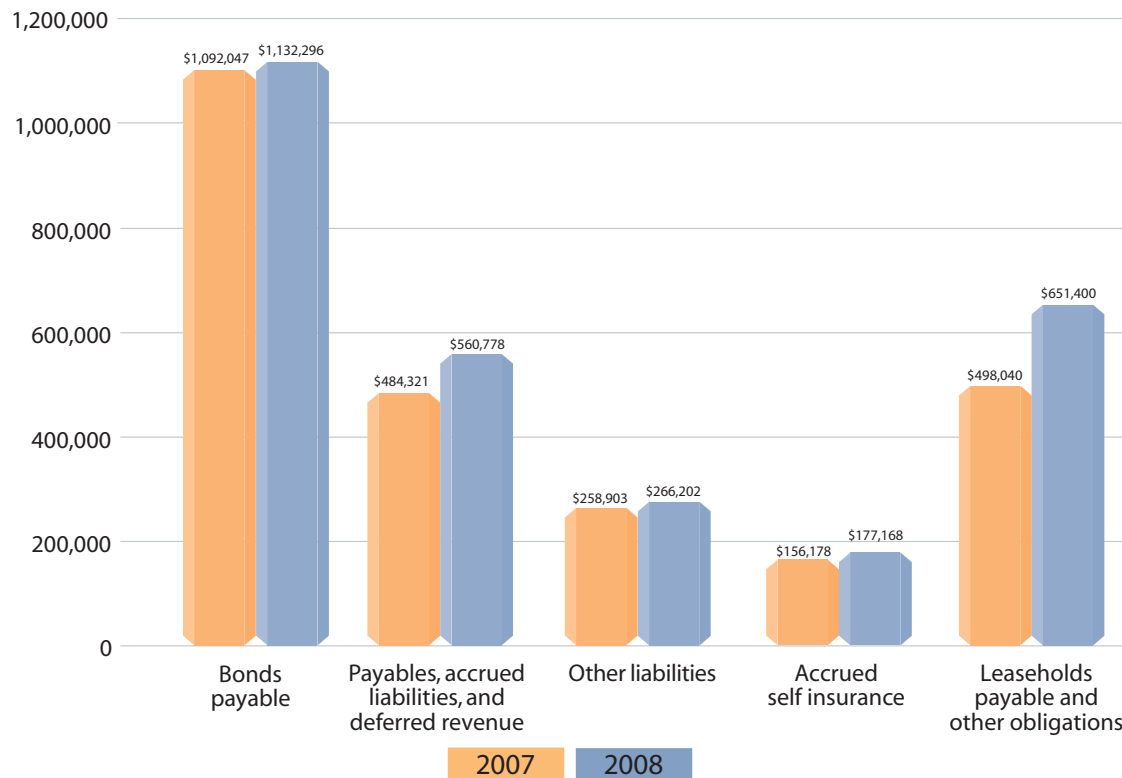
Total liabilities increased by approximately \$298 million or 12% to approximately \$2.8 billion during fiscal year 2008. Included in this change were net increases of \$153.4 million in leaseholds payable and other obligations and \$40.2 million in bonds payable. These net increases largely resulted from the issuance of certificates of participation and bonds to provide funds for various construction projects and refund existing debt. There was also an increase in accounts payable, accrued liabilities, and deferred revenue of \$76.5 million, of which significant components of this increase included academic unit-related payables, medical center-related third party settlements, and construction-related payables. Accrued self-insurance increased by \$21.0 million primarily due to increases in medical and dental professional liabilities. The residual changes included increases in accrued compensated absences and accrued payroll.

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

ASSETS (in thousands)



LIABILITIES (in thousands)



Capital Assets

Capital assets, net, which includes the University's land, buildings, improvements, infrastructure, and equipment including capitalized software and collections, increased by \$130.8 million to \$3.2 billion at June 30, 2008. 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 included projects funded by revenue bonds, certificates of participation, private gifts, internal funds, and state capital appropriations. Revenue bonds were used to fund Memorial Stadium renovations, recreation facility upgrades, resident hall improvements, and other new construction at each of the three campuses. The certificates of participation included funding for the Business Instructional Facility, Psychology Building improvements, and the Petascale computing facility. No new State capital appropriation funding was received for fiscal year 2008, but funds reappropriated from prior years were utilized as planned for various projects. 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)				
	2008		2007	
Buildings	\$ 1,983,712	61.2%	\$ 1,858,991	59.7%
Improvements and infrastructure	369,283	11.4%	384,920	12.4%
Construction in progress	333,711	10.3%	289,517	9.3%
Land	126,300	3.9%	126,301	4.1%
Equipment and software	301,895	9.3%	328,381	10.6%
Collections	125,254	3.9%	121,286	3.9%
	<u>\$ 3,240,155</u>	<u>100.0%</u>	<u>\$ 3,109,396</u>	<u>100.0%</u>

Long-Term Debt

The University has historically utilized revenue bonds to finance capital projects related to the Auxiliary Facilities System, the Health Services Facilities System, and 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 2008, the University issued Auxiliary Facilities System Revenue Bonds of \$20.8 million to fund various additions and improvements to the System. The University also issued variable rate demand Hospital Services Facilities System bonds in connection with a refunding of previously existing bond debt. Related proceeds of approximately \$41 million, received in June 2008, were used to refund the prior debt in early fiscal year 2009. The following chart details the various bonded debt outstanding at June 30, 2008 and 2007:

BONDS PAYABLE (in thousands)		
	2008	2007
Auxiliary Facilities System	\$ 960,839	\$ 957,093
Health Services Facilities System	99,659	60,911
UIC South Campus	71,538	73,534
Other Issues	260	509
	<u>\$ 1,132,296</u>	<u>\$ 1,092,047</u>

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 various construction projects at the campuses and to refund outstanding COPS. During fiscal year 2008, the University issued new COPS totaling \$231.2 million. These new COPS will fund construction of a petascale computing facility, and an addition at the University's health profession site at Rockford, as well as various improvements and deferred maintenance at each of the three campuses. Proceeds from the new COPS were also used to refund outstanding COPS. The COPS are reported as leaseholds payable. The following chart details the various outstanding issues as of June 30, 2008 and 2007:

CERTIFICATES OF PARTICIPATION OUTSTANDING (in thousands)		
	2008	2007
Utility infrastructure projects	\$ 184,546	\$ 205,103
UI Integrate project	98,129	110,759
South Farms relocation project	21,775	22,824
UIC College of Medicine building	18,510	19,220
Academic facilities maintenance	77,505	80,213
Deferred maintenance, facilities, and utilities infrastructure	76,652	
College of Medicine facility at Rockford	31,340	
Petascale computing facility	81,500	
	<u>\$ 589,957</u>	<u>\$ 438,119</u>

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 decreased by \$60.5 million during fiscal year 2008. Net assets balances are detailed below:

NET ASSETS (in thousands)		
	2008	2007
Net Assets:		
Invested in capital assets, net of related debt	\$ 1,822,522	\$ 1,830,995
Restricted:		
Nonexpendable	46,743	51,345
Expendable	396,220	392,651
Unrestricted:		
Designated	86,077	122,941
Undesignated	3,787	17,924
	<u>\$ 2,355,349</u>	<u>\$ 2,415,856</u>

Unrestricted net assets decreased by \$51 million from the prior year primarily due to unrealized losses on investments, offset by increases from various activities. Net assets invested in capital assets, net of related debt, decreased by \$8 million primarily as a result of depreciation charges and changes in bonds and capital leases outstanding, partially offset by the addition of capital assets during the year. The restricted category of net assets had a minimal change during the current fiscal year.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

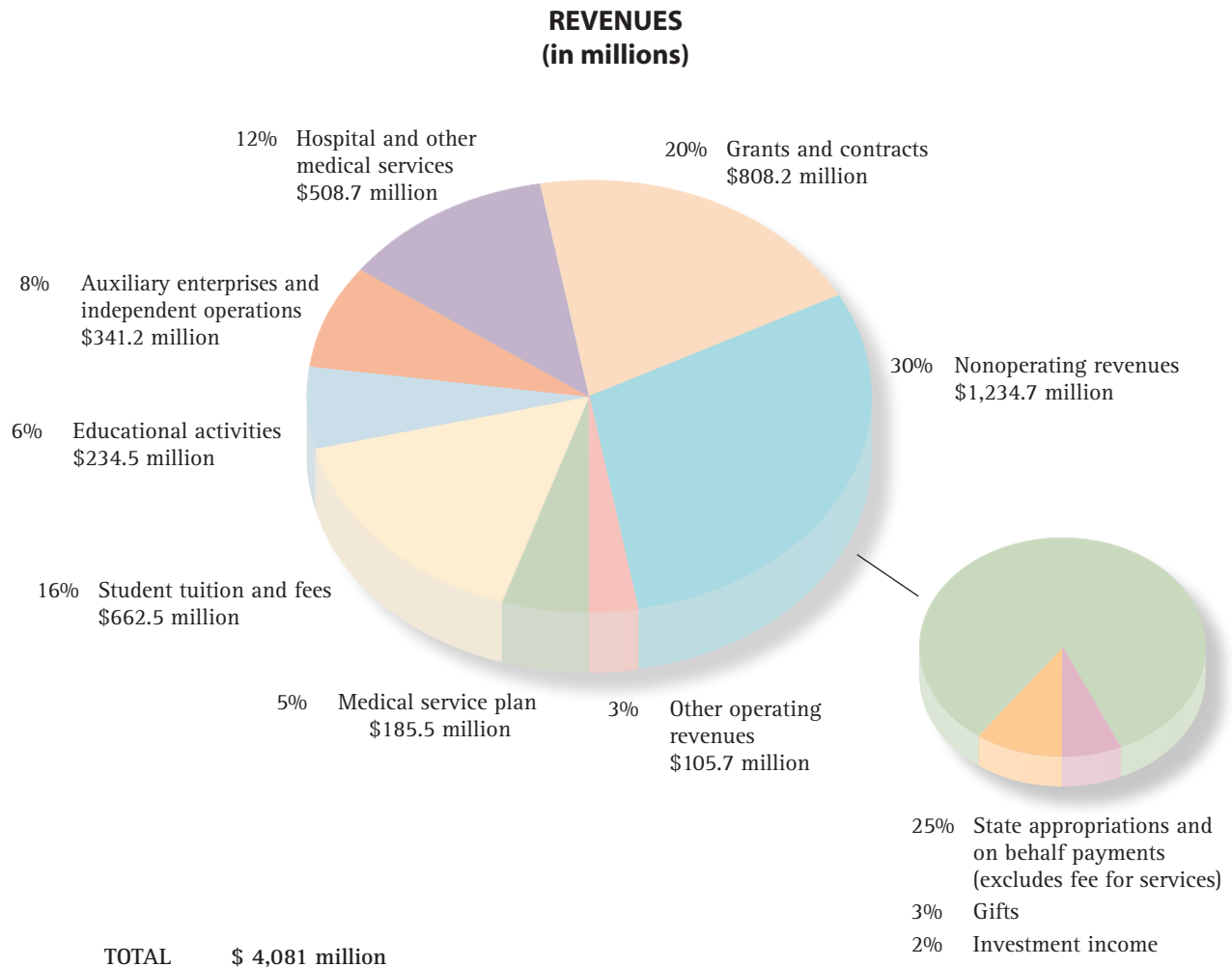
The Statement of Revenues, Expenses, and Changes in Net Assets presents the University's results of operations. In accordance with GASB reporting standards, revenues and expenses are classified as either operating or nonoperating. A summarized comparison of the University's Statement of Revenues, Expenses and Changes in Net Assets for the years ended June 30, 2008 and 2007 is as follows:

(in thousands)		
	2008	2007
Operating revenues:		
Student tuition and fees	\$ 662,464	\$ 617,812
Grants and contracts	808,226	783,573
Hospital and other medical activities	508,732	470,418
Auxiliary enterprises and independent operations	341,233	314,714
Educational activities	234,549	206,316
Medical service plan	185,499	144,303
Other	105,613	90,893
Total operating revenues	2,846,316	2,628,029
Operating expenses	4,038,418	3,744,787
Operating loss	(1,192,102)	(1,116,758)
Nonoperating revenues (expenses):		
State appropriations and on behalf payments	1,038,140	970,799
Private gifts	129,948	127,907
Investment income	66,682	63,733
Net increase (decrease) in the fair value of investments	(60,508)	36,429
Other net nonoperating expenses	(51,314)	(58,012)
Net nonoperating revenues	1,122,948	1,140,856
Capital state appropriations and capital gifts and grants	8,393	20,828
Endowment gifts	254	945
Increase (decrease) in net assets	(60,507)	45,871
Net assets, beginning of year	2,415,856	2,369,985
Net assets, end of year	\$ 2,355,349	\$ 2,415,856

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, 2008:



Student tuition and state appropriations are primary sources of funding for the University's academic programs. State appropriation revenue increased by approximately \$14 million between fiscal years 2007 and 2008. Tuition and fee revenue increased by \$44.7 million during fiscal year 2008. The increase in tuition is primarily due to a tuition increase approved by the Board of Trustees for fiscal year 2008 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 FY08 were \$441 million compared to \$377 million in FY07. This increase is caused by growth in state funding for employer required contributions to SURS and CMS.

The Medical Service Plan revenues increased by \$41.2 million during fiscal year 2008 primarily due to an increase in surgical volumes combined with an expansion of diagnostic services. Hospital revenues increased by \$39 million during fiscal year 2008. This increase is largely due to increases in volume and billing rates, as well as normal inflationary increases. Revenue from educational activities increased by \$28.2 million compared to fiscal year 2007. This change included revenue increases relating to Division of Intercollegiate Athletics programs of \$11.6 million and UIC medical educational activities of \$6.3 million, with the remaining increase largely resulting from expansion of programs and inflationary increases.

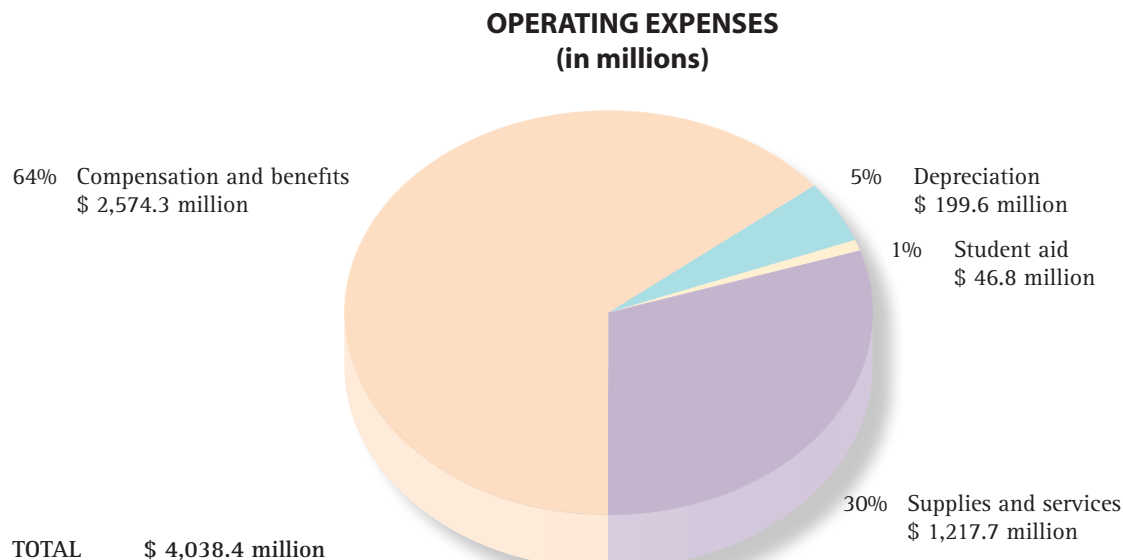
Expenses

The majority of the University's expenses are exchange transactions which GASB standards define as operating expenses. Nonoperating expenses include capital financing and other costs related to capital assets, and the net decrease in the fair value of investments occurring in fiscal year 2008.

OPERATING EXPENSES (in thousands)				
	2008		2007	
Instruction	\$ 758,676	18.8%	\$ 703,540	18.8%
Research	568,946	14.1%	561,876	15.0%
Public service	342,840	8.5%	326,348	8.7%
Support services	526,886	13.0%	492,107	13.2%
Hospital and medical activities	470,345	11.7%	431,762	11.5%
Auxiliary enterprises and independent operations	271,371	6.7%	244,774	6.5%
Scholarships and fellowships	199,197	4.9%	198,016	5.3%
Operation and maintenance of plant	259,068	6.4%	218,028	5.8%
Depreciation	199,609	5.0%	191,679	5.1%
On behalf payments for fringe benefits	441,480	10.9%	376,657	10.1%
	<u>\$ 4,038,418</u>	<u>100.0%</u>	<u>\$ 3,744,787</u>	<u>100.0%</u>

Operating expenses per the Statement of Revenues, Expenses and Changes in Net Assets increased by approximately \$294 million during fiscal year 2008. Expenses related to the University's mission of instruction, research and public service increased by 4.9%, or \$78.7 million, primarily due to expanded programs and inflationary increases. Expenses related to support services increased by 7.1%, or \$34.8 million included increases in Division of Intercollegiate Athletics related expenses, expansion of programs, and normal inflationary increases. Expenses for auxiliary enterprises and operations and maintenance increased by \$67.7 million, or 15%, which largely related to noncapitalizable construction and maintenance projects, utilities-related costs, and inflationary increases. Hospital and medical activities expenses increased by \$38.6 million, or 8.9%, which was associated with normal inflationary increases and corresponding revenue increases during fiscal year 2008. Depreciation expense increased \$7.9 million due to the completion of new buildings and improvements, and purchases of equipment. The remaining increase in operating expenses was largely attributable to increased payments by the State on behalf of the University for fringe benefits, as previously discussed.

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 classifications in Note 14. The following graph illustrates the expenses by natural classification:



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, 2008 and 2007 is as follows:

	(in thousands)	
	2008	2007
Cash flows from operating activities:		
Total sources	\$ 2,767,195	\$ 2,566,159
Total uses	(3,321,227)	(3,153,800)
Net cash flows used by operating activities	(554,032)	(587,641)
Cash flows from noncapital financing activities:		
State appropriations	680,725	665,104
Gifts transferred from the Foundation	129,948	127,907
Other sources, net	26,590	14,161
Net cash flows provided by noncapital financing activities	837,263	807,172
Cash flows from capital and related financing activities:		
Proceeds from debt issues	339,872	330,171
State capital appropriations	339	659
Payments of principal and interest on bonds and capital leases	(233,200)	(172,929)
Payment of bond issuance costs	(1,867)	(2,667)
Purchase of capital assets	(303,067)	(297,769)
Other sources, net	858	2,872
Net cash flows used by capital and related financing activities	(197,065)	(139,663)
Cash flows from investing activities:		
Interest and dividends received	55,483	56,759
Proceeds from sales and maturities of investments net of cash paid for investment purchases	(171,351)	123,324
Net cash flows (used) provided by investing activities	(115,868)	180,083
Net increase (decrease) in cash and cash equivalents	(29,702)	259,951
Cash and cash equivalents, beginning of year	647,016	387,065
Cash and cash equivalents, end of year	\$ 617,314	\$ 647,016

The University's cash and cash equivalents decreased by \$29.7 million during fiscal year 2008. The largest components of this decrease resulted from expenditures of debt proceeds for various capital projects and expenditures for debt service on outstanding long-term debt, combined with net cash and cash equivalents used by investing and operating activities. These decreases were partially offset by net increases in cash flows and noncapital financing activities, as depicted above.

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 2009, signed into law by the Governor, reflects an increase of approximately \$21.1 million (2.9%) from the fiscal year 2008 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 2009 budget for payments-on-behalf increases by \$76.6 million from the prior year's budget. Together both direct appropriations and payments on behalf represent an increase of an estimated \$97.7 million, to \$1.26 billion in State support for operations in FY 2009.

The University projects an increase in tuition and miscellaneous departmental revenue. The recommended \$655.4 million fiscal year 2009 tuition and miscellaneous departmental revenue budget represents a \$56.2 million (9.4%) increase from fiscal year 2008. 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. In addition, there are several special programs which have differential tuition rate increases along with adjustments for enrollment levels, investment income on tuition revenue and revenues associated with the library/IT assessment.

The Governor and General Assembly transferred control of the four state scientific surveys, previously operated as divisions of the Illinois Department of Natural Resources, to the University of Illinois. For fiscal year 2009, \$15.8 million will be transferred from the State's General Fund into the University's Income Fund to provide operating support for the Surveys. It is anticipated that funding for the surveys operations will become part of the University's direct appropriation from the state's General Revenue fund in fiscal year 2010. In addition, the University was transferred approximately \$1.0 million dollars from special appropriated funds for the surveys.

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. As of June 30, 2008, the University is over half -way to meeting this lofty goal. Private gifts for current year operations are budgeted to increase by 4.2% during fiscal year 2009.

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 2009 sponsored project budget is an estimate of grant and contract awards for direct costs and represents a 3.4 % increase from fiscal year 2008.

The University experienced growth from a variety of funding sources during fiscal year 2008. 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, 2008
with Comparative Totals for 2007 (in thousands)

	University		University Related Organizations	
	2008	2007	2008	2007
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 327,503	\$ 281,621	\$ 2,003	\$ 3,724
Cash and cash equivalents, restricted	289,811	365,395	2,859	2,346
Investments	7,450	4,490	54	
Investments, restricted	141,698	48,851		
Accrued investment income	5,039	5,091	1,921	2,033
Accounts receivable, net of allowance for uncollectible	368,459	356,959	12,002	33,905
Receivable from State of Illinois General Revenue Fund	1,355	1,577		
Pledges receivable, net of allowance			6,580	4,591
Notes receivable, net of allowance for uncollectible	7,489	10,998	93	
Accrued interest on notes receivable	2,931	2,895		
Inventories	28,795	27,542	13	4
Prepaid expenses and deferred charges	25,934	21,046	398	373
Due from related organizations	1,325	3,054		
Other assets			4,366	4,183
Total Current Assets	1,207,789	1,129,519	30,289	51,159
Noncurrent Assets:				
Cash and cash equivalents, restricted			445	1,447
Investments	340,524	339,340	148,157	152,774
Investments, restricted	261,281	235,904	1,062,546	1,095,925
Pledges receivable, net of allowance			20,681	20,656
Notes receivable, net of allowance for uncollectible	55,305	50,349		
Real estate and farm properties	13,766	14,060	27,504	24,406
Prepaid expenses	10,364	10,349		
Due from related organizations	1,232	3,577		
Irrevocable trust held by other trustees			8,591	8,617
Capital assets, net of accumulated depreciation	3,240,155	3,109,396	9,553	9,201
Other assets	12,777	12,851	15,596	15,289
Total Noncurrent Assets	3,935,404	3,775,826	1,293,073	1,328,315
TOTAL ASSETS	\$ 5,143,193	\$ 4,905,345	\$ 1,323,362	\$ 1,379,474
LIABILITIES AND NET ASSETS				
Current Liabilities:				
Accounts payable and accrued liabilities	\$ 271,804	\$ 216,777	\$ 35,570	\$ 57,584
Accrued payroll	132,453	119,267	479	564
Accrued compensated absences, current portion	17,048	16,761	1,254	984
Accrued self insurance, current portion	48,591	39,761		
Deferred revenue and student deposits	156,521	148,277	60	41
Accrued interest payable	17,248	17,191		
Notes payable			7,214	6,402
Annuities payable			6,904	6,700
Bonds payable, current portion	126,807	31,243		
Due to related organizations, current portion			1,325	3,054
Leaseholds payable and other obligations, current portion	25,942	34,285		
Assets held for others	35,646	32,530	1	89
Total Current Liabilities	832,060	656,092	52,807	75,418
Noncurrent Liabilities:				
Bonds payable	1,005,489	1,060,804		
Leaseholds payable and other obligations	625,458	463,755		
Due to related organizations			1,232	3,577
Accrued compensated absences	196,260	192,421		
Accrued self-insurance	128,577	116,417		
Annuities payable			46,987	44,408
Remainder interest due to others			6,491	7,360
Deferred distributions			55	61
Total Noncurrent Liabilities	1,955,784	1,833,397	54,765	55,406
Total Liabilities	2,787,844	2,489,489	107,572	130,824
NET ASSETS				
Invested in capital assets, net of related debt	1,822,522	1,830,995	2,339	2,799
Restricted:				
Nonexpendable	46,743	51,345	807,506	838,362
Expendable	396,220	392,651	375,852	377,944
Unrestricted	89,864	140,865	30,093	29,545
Total Net Assets	2,355,349	2,415,856	1,215,790	1,248,650
TOTAL LIABILITIES AND NET ASSETS	\$ 5,143,193	\$ 4,905,345	\$ 1,323,362	\$ 1,379,474

See accompanying notes to financial statements.

Statement of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2008 with Comparative Totals for 2007 (in thousands)

	University		University Related Organizations	
	2008	2007	2008	2007
OPERATING REVENUES:				
Student tuition and fees, net	\$ 662,464	\$ 617,812	\$	\$
Medical fees for services - state appropriation	45,523	46,207		
Federal appropriations	20,276	18,183		
Federal grants and contracts	587,189	585,981		
State of Illinois grants and contracts	94,651	82,382		
Private gifts, grants, and contracts	126,386	115,210	124,553	111,520
Educational activities	234,549	206,316		
Auxiliary enterprises, net	330,309	304,094		
Hospital and other medical activities, net	463,209	424,211		
Medical service plan	185,499	144,303		
Independent operations	10,924	10,620		
Interest and service charges on student loans	1,494	1,100		
On behalf - hospital and other medical activities	83,843	71,610		
Allocation from the University			12,273	12,324
Other sources			38,888	34,502
TOTAL OPERATING REVENUES	2,846,316	2,628,029	175,714	158,346
OPERATING EXPENSES:				
Instruction	758,676	703,540		
Research	568,946	561,876		
Public service	342,840	326,348		
Academic support	249,000	236,561		
Student services	99,314	88,374		
Institutional support	178,572	167,172	43,598	41,381
Operation and maintenance of plant	259,068	218,028		
Scholarships and fellowships	199,197	198,016		
Auxiliary enterprises	261,408	234,751		
Hospital and medical activities	470,345	431,762		
Independent operations	9,963	10,023		
Depreciation	199,609	191,679	491	510
On behalf payments for fringe benefits	441,480	376,657		
Distributions on behalf of the University			136,866	128,731
TOTAL OPERATING EXPENSES	4,038,418	3,744,787	180,955	170,622
Operating loss	(1,192,102)	(1,116,758)	(5,241)	(12,276)
NONOPERATING REVENUES (EXPENSES):				
State appropriations	680,503	665,752		
Private gifts	129,948	127,907		
On behalf payments for fringe benefits	357,637	305,047	1,591	1,540
Net investment income (net of investment expense of \$2,181 in 2008)	66,682	63,733	6,489	10,336
Net increase (decrease) in the fair value of investments	(60,508)	36,429	(72,562)	162,440
Interest on capital asset related debt	(68,091)	(71,768)	(448)	(541)
Loss on sale/disposal of capital assets	(3,552)	(1,834)		
Other nonoperating revenues, net	20,329	15,590	203	38
Net nonoperating revenues (expenses)	1,122,948	1,140,856	(64,727)	173,813
Income (loss) before other revenues, expenses, gains, or losses	(69,154)	24,098	(69,968)	161,537
Capital state appropriations	5,981	12,287		
Capital gifts and grants	2,412	8,541		
Private gifts for endowment purposes	254	945	37,108	28,353
INCREASE (DECREASE) IN NET ASSETS	(60,507)	45,871	(32,860)	189,890
NET ASSETS, BEGINNING OF YEAR	2,415,856	2,369,985	1,248,650	1,058,760
NET ASSETS, END OF YEAR	\$ 2,355,349	\$ 2,415,856	\$ 1,215,790	\$ 1,248,650

See accompanying notes to financial statements.

Statement of Cash Flows

Year Ended June 30, 2008 with Comparative Totals for 2007 (in thousands)

	University		University Related Organizations	
	2008	2007	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:				
Student tuition and fees	\$ 668,651	\$ 618,289	\$	\$
Medical fees for service - state appropriations	45,523	46,207		
Federal, state, and local grants and contracts	697,470	686,489		
Private gifts, grants, and contracts	123,471	111,556	3,775	2,799
Sales and services of educational and other departmental activities	230,619	207,283		
Contributions and gifts			108,441	98,304
Service fee revenue			22,181	19,561
Auxiliary activities and independent operations	342,343	313,872		
Hospital and other medical activities	472,136	420,791		
Medical service plan	177,844	149,117		
Distributions on behalf of the University			(125,203)	(119,352)
Allocation from the University			8,223	8,376
Payments to employees and benefits	(2,112,381)	(2,036,192)	(20,954)	(18,866)
Payments to suppliers	(1,152,862)	(1,058,408)	(13,443)	(13,064)
Payments for scholarships and fellowships	(45,851)	(40,991)		
Payments to annuitants			(7,138)	(7,853)
Student loans issued	(10,133)	(18,209)		
Student loans collected	7,722	11,297		
Student loan interest and fees collected	1,416	1,258		
Other operating revenue			13,107	11,715
NET CASH USED BY OPERATING ACTIVITIES	(554,032)	(587,641)	(11,011)	(18,380)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
State appropriations	680,725	665,104		
Gifts transferred from University of Illinois Foundation	129,948	127,907		
Private gifts for endowment purposes	254	14	37,108	28,353
Advances and repayments to related organizations, net	4,073	3,041	(3,762)	(2,915)
Other, net	22,263	11,106	(103)	(191)
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	837,263	807,172	33,243	25,247
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Proceeds from issuance of capital debt	339,872	330,171		
Capital state appropriations	339	659		
Capital gifts and grants	858	2,872		
Purchase of capital assets	(303,067)	(297,769)	(278)	(764)
Principal payments on bonds and capital leases	(163,640)	(115,840)		
Interest payments on bonds and capital leases	(69,560)	(57,089)	(300)	(325)
Payment on notes payable			(471)	(255)
Payments of bond issuance costs	(1,867)	(2,667)		
Other, net			482	(309)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(197,065)	(139,663)	(567)	(1,653)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest and dividends on investments, net	55,483	56,759	9,638	13,218
Proceeds from sales and maturities of investments	3,855,986	1,091,517	1,270,275	1,247,304
Purchase of investments	(4,027,337)	(968,193)	(1,303,788)	(1,264,713)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(115,868)	180,083	(23,875)	(4,191)
Net increase (decrease) in cash and cash equivalents	(29,702)	259,951	(2,210)	1,023
Cash and Cash Equivalents, Beginning of Year	647,016	387,065	7,517	6,494
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 617,314	\$ 647,016	\$ 5,307	\$ 7,517

Statement of Cash Flows

Year Ended June 30, 2008 with Comparative Totals for 2007 (in thousands) - (continued)

	University		University Related Organizations	
	2008	2007	2008	2007
Reconciliation of operating loss to net cash used by operating activities:				
Operating loss	\$ (1,192,102)	\$ (1,116,758)	\$ (5,241)	\$ (12,276)
Adjustments to reconcile operating loss to net cash used by operating activities:				
On behalf payments for reimbursement of hospital and medical activities	(83,843)	(71,610)		
On behalf payments for fringe benefits expense	441,480	376,657	1,591	1,540
Depreciation expense	199,609	191,679	491	510
Changes in assets and liabilities:				
Accounts receivable, net	(11,208)	(8,674)	(404)	(214)
Notes receivable, net	(1,448)	(5,198)	(93)	
Accrued interest on notes receivable	(36)	116		
Inventories	(1,253)	(2,310)	(9)	(1)
Prepaid expenses and deferred charges	(3,533)	(3,038)	(25)	(4)
Pledges receivable			(2,000)	(2,000)
Other assets			(5,967)	(5,814)
Accounts payable	48,639	21,101	531	387
Accrued payroll	13,186	3,659	(85)	61
Deferred revenue and student deposits	8,245	7,001	19	(720)
Accrued compensated absences	4,126	1,874	269	62
Accrued self insurance	20,990	13,964		
Assets held for others	3,116	3,896	(88)	89
Net cash used by operating activities	\$ (554,032)	\$ (587,641)	\$ (11,011)	\$ (18,380)
Noncash investing, capital, and financing activities:				
On behalf payments for fringe benefits	\$ 357,637	\$ 305,047	\$ 1,591	\$ 1,574
Gifts in kind	957	5,669	22,599	12,291
Capital assets in accounts payable	70,647	64,258		50
Capital asset acquisitions by CDB	6,238	11,628		
Capital asset acquisitions via leaseholds payable	7,856	2,644		
Capital appreciation on bonds payable	10,597	10,763		
Net interest capitalized	7,423	676		
Other capital asset adjustments	1,990	763		
Loss on sale/disposal of capital assets	3,552	1,834		

See accompanying notes to financial statements.

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, Chicago, which includes the University of Illinois Hospital (Hospital) and other health care facilities, and Springfield. 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 Senior Vice President for Administration, 400 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 Chief Financial Officer, 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 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 2007 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, 2007.

Certain items in the June 30, 2007 financial statements have been reclassified to correspond to the June 30, 2008 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 \$160,201,000 and \$2,123,000 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 \$144,642,000 for the year ended June 30, 2008. 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 \$296,838,000 for 2008. 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 96% 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, 2008. 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, 2008, the contractual allowances totalled \$888,714,000.

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 \$53,295,000 at June 30, 2008 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 2009 rather than from the unrestricted net assets available at June 30, 2008.

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, 2008, the University estimates that \$119,876,000 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, 2008.

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 \$(9,647,000) and \$5,282,000 at June 30, 2008, respectively.

The total bank account balances at June 30, 2008, of the University and the UROs, aggregated \$11,557,000, and \$5,034,000, respectively, of which \$11,557,000, and \$4,337,000, 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 URO's totalled \$ 400,000 and \$54,000 at June 30, 2008 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. Allowable investments under these policies include:

- Obligations of the U.S. Treasury, other federal agencies, and instrumentalities
- Interest-bearing savings accounts and time deposits of any bank as defined by the Illinois Banking Act
- 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, 2008, the University and the UROs had repurchase agreements of \$140,398,000 and \$25,000, respectively and the market value of securities underlying these repurchase agreements was \$155,865,000 and \$25,000, respectively, at June 30, 2008.

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, three-year moving average market value of fund units. At June 30, 2008 net appreciation of \$16,812,000 is available to be spent, of which \$14,126,000 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, 2008:

**UNIVERSITY CASH EQUIVALENTS
AND INVESTMENTS**
(in thousands)

Certificates of Deposit	\$	400
U.S. Treasury Put		4,345
U.S. Treasury Bonds and Bills		122,965
U.S. Government Agencies		207,900
Commercial Paper		72,577
Corporate Bonds		104,097
Bond Mutual Funds		61,776
Non Government Mortgage Backed Securities		65,005
Non U.S. Government Bonds		3,511
Repurchase Agreements		140,398
Money Market Funds		413,820
Illinois Public Treasurer's Investment Pool		2,628
Subtotal before equities and other investments		1,199,422
US Equities		20,046
International Equities		37,186
U.S. Equity Mutual Funds		110,578
Limited Partnerships		9,801
Preferred Stock		880
Real Estate		1
TOTAL	\$	<u>1,377,914</u>

**URO CASH EQUIVALENTS
AND INVESTMENTS**
(in thousands)

U.S. and Other Government Securities	\$	40,200
International Government Securities		228
Municipal Bonds		223
Corporate Bonds and Notes		57,037
Mutual Funds - Bonds		94,168
Mutual Funds - Municipal Bonds		2,154
Mutual Funds - Blended Bonds		4,613
Mutual Funds - Money Market		42,417
Certificates of Deposit		54
Repurchase Agreements		25
Subtotal before equities and other investments		241,119
U.S. Equities		235,000
International Equities		171,837
Preferred Stock		484
Mutual Funds - Stocks		181,523
Real Estate Trust and Partnerships		377,496
Other		3,323
TOTAL	\$	<u>1,210,782</u>

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, 2008 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	122,965	53,945	55,536	13,051	433
U.S. Government Agencies	207,900	82,017	62,555	7,587	55,741
Commercial Paper	72,577	72,577			
Corporate Bonds	104,097	6,646	47,002	25,353	25,096
Bond Mutual Funds	61,776		669	61,107	
Non Government Mortgage Backed Securities	65,005		2,134	4,064	58,807
Non U.S. Government Bonds	3,511		3,511		
Repurchase Agreements	140,398	140,398			
Money Market Funds	413,820	413,820			
Illinois Public Treasurer's Investment Pool	2,628	2,628			
TOTAL	\$ 1,199,422	\$ 772,431	\$ 171,407	\$ 111,162	\$ 144,422

At June 30, 2008, the University's operating funds pool portfolio had an effective duration of 1.6 years.

URO INVESTMENT MATURITIES
(in thousands)

	Total	Less than 1	1 - 5	6 - 10	Greater than 10
U.S. and Other Government Securities	\$ 40,200	\$	\$ 3,079	\$ 223	\$ 36,898
International Government Securities	228		105		123
Municipal Bonds	223			223	
Corporate Bonds and Notes	57,037		2,496	1,795	52,746
Mutual Funds - Bonds	94,168	9,204	39,295	45,623	46
Mutual Funds - Municipal Bonds	2,154	159	672	907	416
Mutual Funds - Blended Bonds	4,613		3,764	849	
Mutual Funds - Money Markets	42,417	42,417			
Repurchase Agreements & Certificates of Deposit	79	79			
TOTAL	\$ 241,119	\$ 51,859	\$ 49,411	\$ 49,620	\$ 90,229

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, 2008 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	122,965	122,965					
U.S. Government Agencies	207,900	207,900					
Commercial Paper	72,577	72,577					
Corporate Bonds	104,097	21,899	15,054	26,404	30,038	2,995	7,707
Bond Mutual Funds	61,776	1,822	59,285	669			
Non Government Mortgage Backed Securities	65,005	62,099	702	643	178	182	1,201
Non U.S. Government Bonds	3,511	2,322	388	439	362		
Repurchase Agreements	140,398						140,398
Money Market Funds	413,820	411,171					2,649
Illinois Public Treasurer's Investment Pool	2,628	2,628					
TOTAL	\$ 1,199,422	\$ 905,383	\$ 75,429	\$ 28,155	\$ 30,578	\$ 3,177	\$ 156,700

URO INVESTMENTS QUALITY RATINGS
(in thousands)

	Total	AAA/Aaa	AA/Aa	A/BA	BBB/Baa	BB/Ba	Less than BB or Not Rated
U.S. and Other Government Securities	\$ 40,200	\$ 40,200	\$	\$	\$	\$	\$
International Government Securities	228			105	123		
Municipal Bonds	223	111	80				32
Corporate Bonds and Notes	57,037	21,321	5,911	3,399	7,472	3,704	15,230
Mutual Funds - Bonds	94,168	60,393	14,778	9,113	2,728	4,596	2,560
Mutual Funds - Municipal Bonds	2,154	788	1,019	249	92		6
Mutual Funds - Blended Bonds	4,613	210	3,999	280	121		3
Mutual Funds - Money Market	42,417	42,417					
Repurchase Agreements and Certificates of Deposit	79						79
TOTAL	\$ 241,119	\$ 165,440	\$ 25,787	\$ 13,146	\$ 10,536	\$ 8,300	\$ 17,910

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, 2008, 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, 2008, not more than 5% of the University's and the URO'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, 2008 are categorized by currency below:

UNIVERSITY INVESTMENTS FOREIGN CURRENCY EXPOSURE
(in thousands)

	Total	Cash Equivalents	Equity Investments
European Euro	\$ 13,737	\$ 318	\$ 13,419
British Pound	9,217	245	8,972
Swiss Franc	2,697	3	2,694
Japanese Yen	1,581		1,581
Hong Kong Dollar	1,548		1,548
Norwegian Krone	858		858
Singapore Dollar	715		715
Australian Dollar	664		664
South Korean Won	614		614
All other currency	6,155	34	6,121
TOTAL	\$ 37,786	\$ 600	\$ 37,186

URO INVESTMENTS FOREIGN CURRENCY EXPOSURE
(in thousands)

	Total	Cash Equivalents	Equity Investments	International Mutual Funds	Real Estate Trusts and Partnerships
European Euro	\$ 52,571	\$ 709	\$ 36,599	\$ 7,384	\$ 7,879
British Pound	51,022	480	46,827	3,715	
Swiss Franc	16,812	578	14,869	1,365	
Japanese Yen	29,184	165	25,009	2,180	1,830
Hong Kong Dollar	6,803	32	5,268	1,217	286
Norwegian Krone	5,614	751	4,715	148	
Canadian Dollar	10,685	34	10,269	382	
Australian Dollar	6,631	114	6,070	447	
Swedish Krona	7,467	38	6,837	592	
All other currency	46,948	12,732	15,374	9,504	9,338
TOTAL	\$ 233,737	\$ 15,633	\$ 171,837	\$ 26,934	\$ 19,333

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, 2008, 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, 2008, approximately \$129,527,000 of the investments reported on the University's Statement of Net Assets were on loan, secured by collateral with a fair value of approximately \$132,774,000.

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 \$283,369,000 at June 30, 2008. Notes receivable are reported net of allowances of \$2,877,000 at June 30, 2008.

The composition of accounts receivable and notes and pledges receivable at June 30, 2008 is summarized as follows:

ACCOUNTS RECEIVABLE, NET OF ALLOWANCE (in thousands)	
Receivables from sponsoring agencies	\$ 174,931
Hospital and other medical activities	75,335
Student tuition and fees, net of allowances	23,392
Auxiliaries, net of discounts and allowances	10,364
Medical service plan	40,844
Educational activities	18,383
Other	25,210
TOTAL	\$ 368,459

NOTES AND PLEDGES RECEIVABLE (in thousands)	
Student notes - University:	
Student notes outstanding	\$ 65,671
Allowance for uncollectible loans	(2,877)
Total student notes, net	<u>\$ 62,794</u>
Gift pledges outstanding - UROs:	
Operations	\$ 15,913
Capital	22,544
Total gift pledges outstanding	38,457
Less:	
Allowance and unamortized discount to present value	(11,196)
Total pledges receivable, net	<u>\$ 27,261</u>

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 \$7,423,000 was capitalized during the year ended June 30, 2008.

Capital assets activity for the University and the UROs for the year ended June 30, 2008 is summarized as follows:

CAPITAL ASSETS FOR THE UNIVERSITY (in thousands)					
	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Nondepreciable Capital Assets:					
Land	\$ 126,301	\$	\$ (1)	\$	\$ 126,300
Construction in progress	289,517	244,401		(200,207)	333,711
Inexhaustible collections	14,813	661			15,474
Total nondepreciable capital assets	430,631	245,062	(1)	(200,207)	475,485
Depreciable Capital Assets:					
Buildings	2,783,377		(470)	193,964	2,976,871
Improvements and infrastructure	620,665		(48)	6,243	626,860
Equipment and software	1,103,554	65,267	(45,567)		1,123,254
Exhaustible collections	427,367	23,640			451,007
Total depreciable capital assets	4,934,963	88,907	(46,085)	200,207	5,177,992
Less: accumulated depreciation					
Buildings	924,386	69,209	(436)		993,159
Improvements and infrastructure	235,745	21,832			257,577
Equipment and software	775,173	88,235	(42,049)		821,359
Exhaustible collections	320,894	20,333			341,227
Total accumulated depreciation	2,256,198	199,609	(42,485)		2,413,322
Total net depreciable capital assets	2,678,765	(110,702)	(3,600)	200,207	2,764,670
TOTAL	\$ 3,109,396	\$ 134,360	\$ (3,601)	\$	\$ 3,240,155

URO CAPITAL ASSETS (in thousands)					
	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Nondepreciable Capital Assets:					
Land	\$ 639	\$	\$ (458)	\$	\$ 181
Farmland	2,497	1,283			3,780
Total nondepreciable capital assets	3,136	1,283	(458)		3,961
Depreciable Capital Assets:					
Buildings	4,663		(260)		4,403
Leasehold improvements	92				92
Equipment and software	4,220	283	(87)		4,416
Total depreciable capital assets	8,975	283	(347)		8,911
Less: accumulated depreciation					
Buildings	105	42			147
Leasehold improvements	83				83
Equipment and software	2,722	449	(82)		3,089
Total accumulated depreciation	2,910	491	(82)		3,319
Total net depreciable capital assets	6,065	(208)	(265)		5,592
TOTAL	\$ 9,201	\$ 1,075	\$ (723)	\$	\$ 9,553

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

The University's accrued self-insurance liability of \$177,168,000 at June 30, 2008 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, 2008. 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 \$16,757,000 at June 30, 2008 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, 2008.

Accrued self-insurance includes \$124,287,000 at June 30, 2008 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, 2008. 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)

Balance, beginning of year	\$ 156,178
Claims incurred and changes in estimates	65,165
Claim payments and other deductions	<u>(44,175)</u>
Balance, end of year	177,168
Less: current portion	<u>(48,591)</u>
Balance, end of year - noncurrent portion	<u>\$ 128,577</u>

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	\$ 209,182
Additions/(Deductions)	<u>4,126</u>
Balance, end of year	213,308
Less: current portion	<u>(17,048)</u>
Balance, end of year - noncurrent portion	<u>\$ 196,260</u>

NOTE 7 - BONDS AND NOTES PAYABLE

On June 18, 2008 the University issued Variable Rate Demand Auxiliary Facilities System Revenue Bonds, Series 2008 in the amount of \$20,800,000. Proceeds from the Bonds will be used to fund various improvements to the Auxiliary Facilities System and to pay costs incidental to the issuance of the Bonds.

On July 19, 2007 the University issued \$40,875,000 Variable Rate Demand Health Services Facilities System Revenue Bonds, Series 2007. Proceeds from the bonds funded the redemption of the Variable Rate Demand Health Services Facilities System Revenue Bonds, Series 1997A and paid cost incidental to the issuance of the bonds. This resulted in projected savings of \$6,858,800 over the life of the issue at present value of approximately \$6,062,800. The difference between the reacquisition price and net carrying amount of the old debt, loss on refunding, was \$2,664,300. 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.

On June 26, 2008 the University issued \$41,215,000 Variable Rate Demand Health Services Facilities System Revenue Bonds, Series 2008. Proceeds from the bonds funded the redemption of the Variable Rate Demand Health Services Facilities System Revenue Bonds, Series 2007 on July 28, 2008 and paid costs incidental to the issuance of the Bonds. The difference between the reacquisition price and net carrying amount of the old debt, loss on refunding will be \$3,134,000. The 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	\$ 781,220	\$ 20,800	\$ 12,120	\$ 789,900	\$ 13,920
Capital Appreciation Bonds	2008-2030	265,040		15,005	250,035	14,975
WILLARD AIRPORT	2008-2009	510		250	260	260
HEALTH SERVICES FACILITIES SYSTEM	2008-2027	61,475	82,090	41,375	102,190	41,575
UIC SOUTH CAMPUS	2008-2023	77,300		2,255	75,045	56,410
		<u>\$ 1,185,545</u>	<u>\$ 102,890</u>	<u>\$ 71,005</u>	1,217,430	127,140
Unaccreted appreciation					(99,369)	(461)
					<u>1,118,061</u>	<u>126,679</u>
Unamortized debt premium					33,388	1,261
Unamortized loss on refunding					(19,153)	(1,133)
TOTAL					<u>\$ 1,132,296</u>	<u>\$ 126,807</u>

Capital appreciation bonds of \$250,035,000 outstanding at June 30, 2008 do not require current interest payments and have a net unappreciated value of \$150,666,000. The University records the annual increase in the principal amount of these bonds as interest expense and accretion on bonds payable.

None of the University's bonds described above constitute obligations of the State of Illinois. Costs associated with the issuance of the Series 1991, 1993, 1996, 1999A, 1999B, 2000, 2001A, 2001B, 2001C, 2003A, 2005A, 2005B, 2006, and 2008 Auxiliary Facilities System Bonds; Series 1997 Willard Airport Bonds; Series 1997B, 2007, and 2008 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 UIC South Campus Series 2006A Bonds, the Auxiliary Facilities System Series 2005B and 2008 Bonds, and the Health Services Facilities System Series 1997B, 2007, and 2008 Bonds are variable rate bonds which bear interest at a defined weekly rate determined by the remarketing agents and are paid monthly. The required future interest payments for these variable rate bonds have been calculated using the current interest rate, based upon short term tax exempt rates, as illustrated on the table below. Other outstanding bond issues bear interest at fixed rates ranging from 3.00% to 7.96%.

VARIABLE RATES BONDS
SHORT TERM TAX EXEMPT RATES AT JUNE 30, 2008
(in thousands)

Bond Issue	Interest Rate at June 30, 2008
UIC South Campus, Series 2006A	5.00%
Auxiliary Facilities System, Series 2005B	1.52%
Auxiliary Facilities System, Series 2008	1.50%
Health Services Facilities System, Series 1997B	1.60%
Health Services Facilities System, Series 2007	7.00%
Health Services Facilities System, Series 2008	1.60%

Health Services Facilities System Variable Rate Debt and Interest Rate Swap Agreement

On April 2, 2007 the University entered into a variable-to-fixed interest rate swap agreement. 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 makes monthly payments to the counterparty equal to 3.534% times the notional amount and receives monthly payments from the counterparty equal to 68% of one-month LIBOR, commencing October 1, 2007. In the third and fourth quarters of Fiscal Year 2008, there was an unfavorable increase in the basis between the interest paid on the Series 2007 bonds and the variable payment received from the swap counterparty. This was primarily due to reduced demand for the bonds resulting from financial troubles encountered by the bond insurer, Ambac.

The University engaged a third-party consultant to calculate the “mark to market” or “market value” of the swap transaction. On June 30, 2008, the mark to market value of the swap was (\$1,471,476). Since this is a negative number, it represents an approximation of the amount of money that the University would be required to pay the 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 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 A2. 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 interest rate swap agreement with Lehman Brothers Commercial Bank transferred to the Series 2008 bonds on July 28, 2008.

UIC South Campus Variable Rate Debt and Interest Rate Swap Agreement

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. In the third and fourth quarters of Fiscal Year 2008, there was an unfavorable increase in the basis between the interest paid on the Series 2006A bonds and the variable payment received from the swap counterparties. This was primarily due to reduced demand for the bonds due to the financial troubles encountered by the bond insurer, Financial Guaranty Insurance Company (FGIC).

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. On February 19, 2008, the variable payment

that the University receives changed from its cost-of-funds to Securities Industry & Financial Market Association Index (SIFMA) plus 0.05% through February 3, 2010. On June 30, 2008, SIFMA plus 0.05% increased to 1.60%. This change occurred because the monoline bond insurance company FGIC was downgraded below AA. 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, 2008, the combined mark to market value of the two swaps was (\$4,065,712). Since this is a negative number it represents an approximation of the amount of money that the University may have to pay the swap provider, JP Morgan, 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.

Pledged Revenues and Debt Service Requirements

The University has pledged specific revenues, net of specified operating expenses, to repay the principal and interest of revenue bonds. The following is a schedule of the pledged revenues and related debt:

PLEGGED REVENUES (in thousands)					
Bond Issue(s)	Purpose	Source of Revenue Pledged	Future Revenues Pledged ²	Term of Commitment	Debt Service To Pledged Revenues (Current Year)
Auxiliary Facilities System (AFS)	Refundings, various improvements and additions to the System	Net AFS revenue, student tuition and fees	\$ 1,645,240	2036	9.63%
Willard Airport	Refunding of Series 1987	Net Willard Airport revenue	273	2009	100.0%
Health Services Facilities System (HSFS)	Additions to System and Refunding	Net HSFS, Medical Service Plan revenue net of bad debt expense, College of Medicine net tuition revenue	122,900	2027	1.14%
UIC South Campus	South Campus Development Project ¹ and Refunding	Defined Tax Increment Financing District (TIF) revenue, student tuition and fees, and sales of certain land in the UIC South Campus project	82,037	2023	2.94%
Total Future Revenues Pledged			\$ 1,850,450		

¹An integrated academic, residential, recreational, and commercial development south of UIC's main campus

²Total future principal and interest payments on debt (in thousands)

Future debt service requirements for all bonds outstanding at June 30, 2008 are as follows:

DEBT SERVICE REQUIREMENTS (in thousands)		
	Principal	Interest
2009	\$ 127,140	\$ 40,915
2010	33,250	39,421
2011	34,850	38,540
2012	37,370	37,568
2013	38,155	36,455
2014-2018	204,400	166,264
2019-2023	231,660	134,793
2024-2028	210,440	90,059
2029-2033	205,040	42,078
2034-2038	95,125	6,927
TOTAL	\$ 1,217,430	\$ 633,020

Using the actual rates of 5.0% and 7.0%, respectively in effect as of June 30, 2008, 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 Swaps, Net	Total
	Principal	Interest		
2009	\$ 53,700	\$ 336	\$	\$ 54,036
TOTAL	\$ 53,700	\$ 336	\$	\$ 54,036

HEALTH SERVICES FACILITIES SYSTEM REVENUE BONDS, SERIES 2007
VARIABLE-RATE DEBT SERVICE REQUIREMENTS
(in thousands)

	Variable-Rate Certificates		Interest Rate Swaps, Net	Total
	Principal	Interest		
2009	\$ 40,875	\$ 448	\$	\$ 41,323
TOTAL	\$ 40,875	\$ 448	\$	\$ 41,323

Certain bonds of the University have debt service reserve requirements. The Maximum Annual Net Debt Service for those bonds, as defined, is \$15,388,900.

Advanced Refunded Bonds

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, 2008 consists of the following:

ADVANCE REFUNDED BONDS (in thousands)	
Series	Outstanding at June 30, 2008
1978-M	\$ 6,245
1999	49,365
1999A	85,300
2000	10,785
2001B	55,315
TOTAL	\$ 207,010

The Foundation has a demand note outstanding with interest at 2.98% and principal outstanding of \$7,214,000. The change in the balance for fiscal year 2008 is as follows:

URO NOTES PAYABLE (in thousands)	
Balance, beginning of year	\$ 6,402
Proceeds	1,283
Payments	(471)
Balance, end of year	\$ 7,214

NOTE 8 - LEASEHOLDS AND OTHER OBLIGATIONS

Leaseholds payable and other obligations activity for the year ended June 30, 2008 consist of the following:

LEASEHOLDS AND OTHER OBLIGATIONS (in thousands)					
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
University:					
Certificates of Participation	\$ 440,770	\$ 231,210	\$ (83,290)	\$ 588,690	\$ 18,560
Unamortized debt premium	11,713	5,971	(1,612)	16,072	1,737
Unamortized deferred loss on refunding	(14,364)	(2,027)	1,586	(14,805)	(1,950)
	438,119	235,154	(83,316)	589,957	18,347
Other capital leases	55,081	8,164	(7,243)	56,002	7,499
Environmental remediation liability	4,840	608	(7)	5,441	96
Total University	\$ 498,040	\$ 243,926	\$ (90,566)	\$ 651,400	\$ 25,942
UROs:					
Annuities payable	\$ 51,108	\$ 2,783	\$	\$ 53,891	\$ 6,904
Other liabilities	7,360		(869)	6,491	
Total UROs	\$ 58,468	\$ 2,783	\$ (869)	\$ 60,382	\$ 6,904

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 January 4, 2008, the University issued Certificates of Participation Series 2007A, 2007B, 2007C, and 2007D. The 2007A Certificates were issued to acquire, construct, equip, and install certain facilities of the University of Illinois, as well as to refund the Series 1997 Certificates. The 2007B Certificates were issued to partially refund outstanding Certificates of Participation, Series 2001. The 2007C Certificates were issued to finance a portion of the cost of the College of Medicine Rockford National Center for Rural Health Professionals Facility. The taxable 2007D Certificates were issued to finance a portion of the cost of a Petascale Computing Facility, and related infrastructure costs. A portion of the proceeds from each of the Series 2007 Certificates was used to pay costs incidental to issuing the certificates. The refundings resulted in a projected cost of \$20,203,000 over the life of the issue at a present value loss of \$1,228,000. The difference between the reacquisition price and the net carrying amount of the old debt, loss on refunding, was \$2,208,000. 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.

Series 2007C and 2007D are variable rate certificates which bear interest at a defined weekly rate and are paid monthly. The required future interest payments for these variable rate certificates have been calculated using the current interest rate, based upon short term rates of 1.45% and 2.58% respectively, over the life of the certificates.

Certificates of Participation Variable Rate Debt and Interest Rate Swap Agreement

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 agreement 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 SIFMA. Conversely, the certificates' variable interest rates are expected to approximate SIFMA. For fiscal year 2008, the certificates' average variable interest rate was approximately .06% below the SIFMA. 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, 2008, the mark to market value of the swap was (\$4,070,918). Since this is a negative number, it represents an approximation of the amount of money that the University may 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 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 1.45% in effect as of June 30, 2008, debt service requirements of the Series 2004 variable-rate certificates and net swap payments, assuming current interest rates remain the same for their term, were as follows. As rates vary, variable-rate interest payments and net swap payments will also vary.

**UTILITY INFRASTRUCTURE CERTIFICATES OF PARTICIPATION, SERIES 2004
VARIABLE-RATE DEBT SERVICE REQUIREMENTS
(in thousands)**

	Variable-Rate Certificates		Interest Rate	Total
	Principal	Interest	Swaps, Net	
2009	\$ 1,035	\$ 2,040	\$ 3,242	\$ 6,317
2010	1,075	2,019	3,223	6,317
2011	6,570	1,964	3,134	11,668
2012	6,840	1,867	2,979	11,686
2013	7,120	1,770	2,813	11,703
2014-2018	47,470	7,110	11,335	65,915
2019-2023	70,690	2,106	3,349	76,145
TOTAL	\$ 140,800	\$ 18,876	\$ 30,075	\$ 189,751

Assets held under capital leases are included in capital assets at June 30, 2008 as follows:

**ASSETS HELD UNDER CAPITAL LEASE
(in thousands)**

Land	\$ 8,423
Buildings	111,975
Improvements	263,250
Equipment	170,173
Subtotal	553,821
Less: accumulated depreciation	144,310
TOTAL	\$ 409,511

The net present value of outstanding capital leases at June 30, 2008 is:

**OUTSTANDING CAPITAL LEASES
(in thousands)**

Certificates of Participation:	
Series 2001 UI Integrate	\$ 16,625
Series 2003 South Farms	21,270
Series 2003 UI Integrate	31,700
Series 2003 Utility Infrastructure	52,625
Series 2004 Utility Infrastructure	140,800
Series 2005 College of Medicine	18,510
Series 2006A Academic Facilities	75,950
Series 2007A	72,725
Series 2007B	45,645
Series 2007C	31,340
Series 2007D	81,500
Other capital leases	56,002
NET PRESENT VALUE	\$ 644,692

As of June 30, 2008, future minimum lease payments under capital leases is as follows:

FUTURE MINIMUM LEASE PAYMENTS UNDER CAPITAL LEASES (in thousands)	
2009	\$ 52,284
2010	50,726
2011	46,726
2012	46,756
2013	51,735
2014-2018	270,113
2019-2023	231,608
2024-2028	153,727
2029-2033	9,270
Total minimum lease payments	<u>912,945</u>
Amount representing interest	<u>(268,253)</u>
NET PRESENT VALUE	<u>\$ 644,692</u>

Advanced Refunded Certificates of Participation

The University has defeased certificates through advanced funding in prior years and, accordingly, they are not reflected in the accompanying statements. The amount of certificates which have been defeased as of June 30, 2008 consists of the following:

ADVANCE REFUNDED CERTIFICATES (in thousands)	
Series	Outstanding at June 30, 2008
1977 Utility	\$ 10,510
1996 Utility	51,485
2001A Utility	74,080
2001B Utility	56,900
2001 UI - Integrate	45,810
TOTAL	<u>\$ 238,785</u>

The University monitors environmental matters and records an estimated liability for identified environmental remediation costs. The estimated liability at June 30, 2008 is \$5,441,000.

The University also leases various buildings and equipment under operating lease agreements. Total rental expense under these agreements was \$11,046,000 for the year ended June 30, 2008. The future minimum lease payments (excluding those leases renewed on an annual basis) are as follows:

FUTURE MINIMUM OPERATING LEASE PAYMENTS (in thousands)	
2009	\$ 7,773
2010	5,105
2011	3,479
2012	2,203
2013	1,721
2014-2018	5,265
2019-2023	128
2024-2026	47
TOTAL	<u>\$ 25,721</u>

At June 30, 2008, the Foundation had annuities payable outstanding of \$53,891,000. 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	\$ 1,822,522
Restricted - nonexpendable	
Invested in perpetuity to produce income expendable for -	
Scholarships, fellowships and research	46,743
Restricted - expendable for -	
Scholarships, fellowships and research	232,410
Loans	77,089
Service plans	61,431
Retirement of indebtedness	23,028
Capital projects	2,262
Unrestricted -	
Designated for:	
Auxiliary	23,360
Hospital	68,908
Capital projects	56,114
Self supporting activities	10,030
Institutional support	28,538
Quasi endowments	101,435
Amount expected to be financed in future years	(202,308)
Undesignated	3,787
TOTAL	\$ 2,355,349

URO NET ASSETS (in thousands)	
Invested in capital assets, net of related debt	\$ 2,339
Restricted - nonexpendable	
Invested in perpetuity to produce income expendable for -	
Scholarships, fellowships and research	807,506
Restricted - expendable for -	
Scholarships, fellowships and research	375,852
Unrestricted	30,093
TOTAL	\$ 1,215,790

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, 2008 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	\$ 40,383	\$ 26,287
Income received from funds held in trust by others	\$ 1,283	\$ 1,577

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 12.88% 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, 2008, 2007, and 2006 were \$174,318,000, \$138,499,000 and \$101,570,000 respectively, equal to the required contributions for each year. The URO's contributions to SURS for the years ended June 30, 2008, 2007, and 2006 were \$800,000, \$719,000 and \$573,000, 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

The State provides health, dental, vision, and life insurance benefits for retirees and their dependents in a program administered by the Department of Healthcare and Family Services along with the Department of Central Management Services. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State sponsored pension plans. Health, dental, and vision benefits include basic benefits for annuitants and dependents under the State's self-insurance plan and insurance contracts currently in force. Annuitants may be required to contribute towards health, dental, and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants who retired prior to January 1, 1998, and who are vested in the State Employee's Retirement System do not contribute towards health, dental, and vision benefits. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced five percent for each year of credited service with the State allowing those annuitants with twenty or more years of credited service to not have to contribute towards health, dental, and vision benefits. Annuitants also receive life insurance coverage equal to the annual salary of the last day of employment until age 60, at which time the benefit becomes \$5,000.

The State pays the Entity's portion of employer costs for the benefits provided. The total cost of the State's portion of health, dental, vision, and life insurance benefits of all members, including post-employment health, dental, vision, and life insurance benefits, is recognized as an expenditure by the State in the Illinois Comprehensive Annual Financial Report. The State finances the costs on a pay-as-you-go basis. The total costs incurred for health, dental, vision, and life insurance benefits are not separated by department or component unit for annuitants and their dependents nor active employees and their dependents.

A summary of post-employment benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the financial statements of the Department of Healthcare and Family Services. A copy of the financial statements of the Department of Healthcare and Family Services may be obtained by writing to the Department of Healthcare and Family Services, 201 South Grand Ave., Springfield, Illinois, 62763-3838.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

At June 30, 2008 the University had commitments on various construction projects and contracts for repairs and renovation of facilities of approximately \$135,775,000.

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 (HFS) indicating that the University received an overpayment of \$14.8 million on behalf of Medicaid patients. During fiscal year 2008, the University submitted additional documentation and evidence of its positions. HFS conducted a reaudit and on June 18, 2008 issued a revised notice of audit findings reducing the overpayment from \$14.8 million to \$8.6 million. University management is in the process of contesting this overpayment and estimates its probable liability regarding this overpayment is approximately \$8.0 million. This liability has been reflected in the University's financial position and results from operations. Please refer to Note 17 for subsequent events regarding this liability.

NOTE 14 - OPERATING EXPENSES BY NATURAL CLASSIFICATION

Operating expenses by natural classification for the year ended June 30, 2008 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	\$ 613,575	\$ 141,145	\$ 3,956	\$	\$ 758,676
Research	371,610	195,403	1,933		568,946
Public service	198,349	142,316	2,175		342,840
Academic support	156,020	87,291	5,689		249,000
Student services	61,306	37,110	898		99,314
Institutional support	130,539	47,834	199		178,572
Operations and maintenance of plant	74,175	181,098	3,795		259,068
Scholarships and fellowships	178,744	1,659	18,794		199,197
Auxiliary enterprises	87,878	164,157	9,373		261,408
Hospital and medical activities	259,075	211,270			470,345
Independent operations	1,540	8,423			9,963
Depreciation				199,609	199,609
On behalf payments for fringe benefits	441,480				441,480
TOTAL	\$ 2,574,291	\$ 1,217,706	\$ 46,812	\$ 199,609	\$ 4,038,418

URO OPERATING EXPENSES BY NATURAL CLASSIFICATION (in thousands)

	Distribution on behalf of the University	Institutional support	Depreciation	Total
Salaries and benefits	\$	\$ 21,065	\$	\$ 21,065
Distributions on behalf of the University	136,866			136,866
Marketing and communications		7,084		7,084
Travel		1,159		1,159
Equipment		531		531
Meeting, conferences and special events		1,196		1,196
Supplies and other		12,563		12,563
Depreciation			491	491
TOTAL	\$ 136,866	\$ 43,598	\$ 491	\$ 180,955

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	\$ 244,687	\$ 217,757	\$ 1,643	\$ 464,087
Noncurrent assets				
Capital assets, net of accumulated depreciation	883,986	161,507	32,666	1,078,159
Other noncurrent assets	23,090	2,684		25,774
TOTAL ASSETS	\$ 1,151,763	\$ 381,948	\$ 34,309	\$ 1,568,020
LIABILITIES:				
Current liabilities	\$ 97,547	\$ 124,690	\$ 421	\$ 222,658
Noncurrent liabilities				
Long term debt	940,734	71,529	134	1,012,397
Other liabilities	5,597	21,949	740	28,286
TOTAL LIABILITIES	1,043,878	218,168	1,295	1,263,341
NET ASSETS:				
Invested in capital assets, net of related debt	9,580	90,433	32,248	132,261
Restricted				
Expendable	21,744	2,286	528	24,558
Unrestricted	76,561	71,061	238	147,860
TOTAL NET ASSETS	107,885	163,780	33,014	304,679
TOTAL LIABILITIES AND NET ASSETS	\$ 1,151,763	\$ 381,948	\$ 34,309	\$ 1,568,020
Condensed Statement of Revenues, Expenses and Changes in Net Assets				
Operating revenues	\$ 266,216	\$ 578,475	\$ 2,668	\$ 847,359
Operating expenses	229,038	551,011	2,879	782,928
Depreciation expense	20,056	21,258	1,955	43,269
Operating income (loss)	17,122	6,206	(2,166)	21,162
Nonoperating revenues (expenses)	(12,503)	(5,161)	585	(17,079)
Capital and endowment additions			547	547
Increase (decrease) in net assets	4,619	1,045	(1,034)	4,630
Net assets, beginning of year	103,266	162,735	34,048	300,049
NET ASSETS, END OF YEAR	\$ 107,885	\$ 163,780	\$ 33,014	\$ 304,679
Condensed Statement of Cash Flows				
Net cash flows provided (used) by operating activities	\$ 56,731	\$ 51,528	\$ (69)	\$ 108,190
Net cash flows (used) provided by noncapital financing activities	(833)	38,556	635	38,358
Net cash flows used by capital and related financing activities	(205,125)	(16,999)	(1,250)	(223,374)
Net cash flows provided (used) by investing activities	4,144	(2,615)	54	1,583
Net (decrease) increase in cash and cash equivalents	(145,083)	70,470	(630)	(75,243)
Cash and cash equivalents, beginning of year	350,042	61,732	2,158	413,932
Cash and cash equivalents, end of year	\$ 204,959	\$ 132,202	\$ 1,528	\$ 338,689

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	\$ 27,569	\$ 2,185	\$ 535	\$ 30,289
Noncurrent assets				
Capital assets, net of accumulated depreciation	8,551	723	279	9,553
Other noncurrent assets	1,268,479	15,041		1,283,520
TOTAL ASSETS	\$ 1,304,599	\$ 17,949	\$ 814	\$ 1,323,362
LIABILITIES:				
Current liabilities	\$ 49,873	\$ 2,043	\$ 891	\$ 52,807
Noncurrent liabilities				
Long term debt				
Other noncurrent liabilities	53,524	1,241		54,765
TOTAL LIABILITIES	103,397	3,284	891	107,572
NET ASSETS:				
Invested in capital assets, net of related debt	1,337	723	279	2,339
Restricted				
Nonexpendable	807,506			807,506
Expendable	375,852			375,852
Unrestricted	16,507	13,942	(356)	30,093
TOTAL NET ASSETS	1,201,202	14,665	(77)	1,215,790
TOTAL LIABILITIES AND NET ASSETS	\$ 1,304,599	\$ 17,949	\$ 814	\$ 1,323,362
Condensed Statement of Revenues, Expenses and Changes in Net Assets				
Operating revenues	\$ 156,139	\$ 10,934	\$ 8,641	\$ 175,714
Operating expenses	162,260	10,292	7,912	180,464
Depreciation expense	218	73	200	491
Operating income (loss)	(6,339)	569	529	(5,241)
Nonoperating revenues (expenses)	(64,520)	(220)	13	(64,727)
Contributions to endowments	37,108			37,108
Increase (decrease) in net assets	(33,751)	349	542	(32,860)
Net assets (deficits), beginning of year	1,234,953	14,316	(619)	1,248,650
NET ASSETS (DEFICITS), END OF YEAR	\$ 1,201,202	\$ 14,665	\$ (77)	\$ 1,215,790
Condensed Statement of Cash Flows				
Net cash flows (used) provided by operating activities	\$ (13,489)	\$ 1,428	\$ 1,050	\$ (11,011)
Net cash flows provided (used) by noncapital financing activities	37,108	(975)	(2,890)	33,243
Net cash flows used by capital and related financing activities	(235)	(281)	(51)	(567)
Net cash flows (used) provided by investing activities	(24,482)	599	8	(23,875)
Net increase (decrease) in cash and cash equivalents	(1,098)	771	(1,883)	(2,210)
Cash and cash equivalents, beginning of year	4,913	691	1,913	7,517
Cash and cash equivalents, end of year	\$ 3,815	\$ 1,462	\$ 30	\$ 5,307

NOTE 17 - SUBSEQUENT EVENTS

On July 16, 2008, the University issued Variable Rate Demand UIC South Campus Development Project Revenue Refunding Bonds, Series 2008, in the amount of \$54,245,000. The proceeds from these Series 2008 bonds will be used to refund and redeem all of the \$53,700,000 aggregate outstanding principal amount of the Variable Rate UIC South Campus Series 2006A Bonds and to pay costs incidental to the issuance of the Series 2008 Bonds.

On July 28, 2008, the University refunded Variable Rate Demand Health Services Facilities System Revenue Refunding Bonds Series 2007 in the amount of \$40,875,000. The proceeds from Series 2008 bonds were used to retire the Series 2007 debt. Please refer to Note 7 for details regarding this debt refunding.

Lehman Brothers Commercial Bank is the counterparty for the variable-to-fixed interest rate swap agreement which was transferred to the Health Services Facilities System (HSFS) Series 2008 on July 28, 2008. Lehman Brothers Holdings, Inc. filed for Chapter 11 bankruptcy protection on September 15th, 2008. Lehman Brothers Commercial Bank is a subsidiary of Lehman Brothers Holdings, Inc. Lehman Brothers Commercial Bank did not file for bankruptcy. Lehman Brothers Commercial Bank was downgraded to B3 by Moody's on September 15, 2008 and to D by Standard & Poor's on September 16, 2008. This downgrade gave the University the option to terminate the HSFS Series 2008 interest swap agreement. The mark to market value of the swap on September 17, 2008 was (\$2,915,000). This is approximately the amount that the University would have to pay to terminate the interest rate swap.

The University has outstanding bonds and certificates of participation that have variable interest rates. These interest rates are tied to various indexes which reset on a weekly basis. Subsequent to year-end, the interest rates on these variable rate bonds and certificates of participation fluctuated upward due to volatile market conditions. After September 2008, except for Certificates of Participation Series 2007 C and D, these fluctuations in interest rates have trended downward to rates similar to those disclosed at June 30, 2008. The interest that was paid, after year-end and prior to issuance of this report, due to these fluctuations did not have a material impact on the overall financial position of the University.

On August 22, 2008, the University received a letter from the Office of Inspector General relating to the audit by the Illinois Department of Healthcare and Family Services mentioned in Note 13. The letter stated the overpayment owed by the University was reduced to approximately \$5 million dollars.

During fiscal year 2008, financial markets as a whole have incurred declines in values. Subsequent to fiscal year end, the University's investment portfolio has also incurred a decline in the values reported in the accompanying financial statements. However, because the values of individual investments fluctuate with market conditions, the amount of investment losses that the University will recognize in its future financial statements, if any, cannot be determined.

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

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