

UNIVERSITY OF ILLINOIS

Annual Financial Report

June 30, 2011

(With Independent Auditors' Report Thereon)

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UNIVERSITY OF ILLINOIS

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June 30, 2011

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From the Vice President/Chief Financial Officer, Comptroller

UNIVERSITY OF ILLINOIS
Urbana-Champaign • Chicago • Springfield

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


December 16, 2011

The Annual Financial Report of the University of Illinois for the fiscal year ended June 30, 2011, documents that the financial position of the University continues to be sound.

The ongoing economic recession impacting our state and nation once again demanded the best from administrators and business staff across the University. They made wise management and budgetary decisions, guided by best practices and the goal of ensuring the financial integrity of University programs and initiatives through efficient and effective utilization of resources.

The University of Illinois' tradition of excellence in teaching, research, public service, health care and economic development has made it a distinguished leader in higher education. Our efforts focus on continuing that tradition, while increasing the stature of the University of Illinois and the return on investment it provides to the state and the nation.

Respectfully submitted,



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



KPMG LLP
303 East Wacker Drive
Chicago, IL 60601-5212

Independent Auditors' Report

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

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units (University Related Organizations) of the University of Illinois, a component unit of the State of Illinois, as of and for the year ended June 30, 2011, which collectively comprise the University of Illinois' financial statements. These financial statements are the responsibility of the University of Illinois' management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component units. The financial statements of the discretely presented component units were audited by other auditors whose reports thereon have been provided to us, and our opinion, insofar as it relates to the amounts included for the aggregate discretely presented component units, is based solely on the reports of the other auditors. The 2010 comparative information has been derived from the University of Illinois' 2010 financial statements and in our report dated December 20, 2010 we expressed an unqualified opinion 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. The financial statements of The University of Illinois Alumni Association, Wolcott, Wood, and Taylor, Inc., Prairieland Energy, Inc., Illinois Ventures, LLC, The University of Illinois Research Park, LLC, and UI Singapore Research, LLC (discretely presented component units) were not audited in accordance with *Government Auditing Standards*. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University of Illinois' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the University of Illinois as of June 30, 2011, and the respective changes in its financial position and its cash flows, where applicable, for the year then ended, in conformity with U.S. generally accepted accounting principles.



In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2011 on our consideration of the University of Illinois' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 4 through 12 is not a required part of the basic financial statements, but is supplementary information required by U.S. generally accepted accounting principles. 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.

KPMG LLP

Chicago, Illinois
December 16, 2011

UNIVERSITY OF ILLINOIS

Management's Discussion and Analysis (Unaudited)

June 30, 2011

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 (University) for the year ended June 30, 2011. The MD&A should be read in conjunction with the audited financial statements and notes appearing in this report.

The University was founded in 1867 in response to the federal Land Grant Act of 1862. The University's evolution over 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 77,000 students. The University has internationally renowned faculty that are known for being world leaders in research and currently employs approximately 5,700 faculty members on its three campuses. The University offers a diverse range of degree programs from baccalaureate to doctoral levels. Approximately 19,000 degrees are awarded annually. The operating budget for fiscal year 2011, from all fund sources, was approximately \$4.8 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.

Using the Financial Statements

The University's financial report includes three financial statements: the Balance Sheet; 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 focus on the University as a whole.

The financial statements encompass the University and its discretely presented component units: University of Illinois Foundation; University of Illinois Alumni Association; Wolcott, Wood and Taylor, Inc.; Illinois Ventures, LLC; University of Illinois Research Park, LLC; Prairieland Energy, Inc.; and UI Singapore Research, LLC. This MD&A focuses on the University, excluding the discretely presented component units. Condensed financial information is disclosed separately for each of the discretely presented component units in note 16 to the financial statements.

Financial Highlights and Key Trends

The fiscal year 2011 state appropriations (excluding capital) were approximately \$700 million. In addition to this appropriation, the four scientific surveys included within the University were separately appropriated by the state in the amount of \$17 million for fiscal years 2011 and 2010. The overall budget utilized by the University increased by approximately 4%, even though direct funding from the State of Illinois was relatively unchanged. This trend demonstrates the University's ability to rely on other diverse sources of funding to provide services to our students and support our mission.

Net assets, which represent the residual interest in the University's assets after liabilities, increased during the current year by approximately \$404 million. Even after consideration of increases in on-behalf payments from the State of Illinois, the University's change in net assets remained constant in fiscal year 2011 as compared to fiscal year 2010. This resulted from factors such as an increase in tuition revenue and positive financial operating results from the medical center and related activities located on the Chicago campus. In addition, the University had unrealized gains on its investments due to improved market conditions.

Balance Sheet

The Balance Sheet presents the financial position of the University at the end of the fiscal year and includes all assets, deferred outflows of resources, and liabilities of the University using the accrual basis of accounting. The difference between total assets and deferred outflows of resources 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, deferred outflows of resources, and liabilities are reported at cost with the exception of investments and permanently endowed real estate and farms, which are reported at fair value. Capital assets are reported at historical cost less accumulated depreciation. A summarized comparison of the University's assets, deferred outflows of resources, liabilities and net assets at June 30, 2011 and 2010 is as follows:

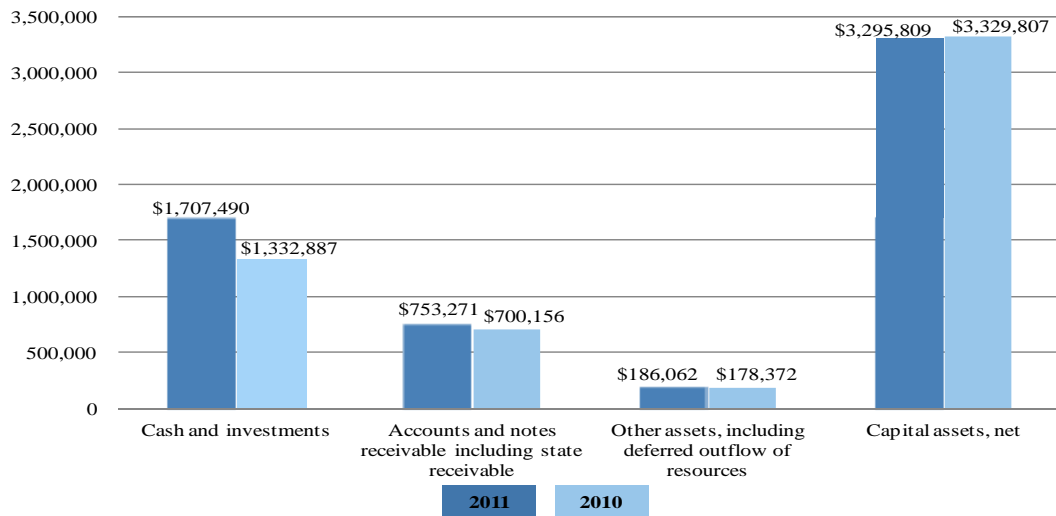
	<u>2011</u>	<u>2010</u>
	(In thousands)	
Current assets:		
Cash and investments	\$ 972,763	771,161
Accounts and notes receivable	411,866	381,511
Receivable from State of Illinois General Revenue Fund	288,669	265,624
Other current assets	150,944	142,702
Noncurrent assets:		
Investments	734,727	561,726
Notes receivable	52,736	53,021
Capital assets, net of accumulated depreciation	3,295,809	3,329,807
Other assets	15,542	13,950
Deferred outflows of resources	19,576	21,720
Total assets and deferred outflows of resources	<u>\$ 5,942,632</u>	<u>5,541,222</u>
Current liabilities:		
Accounts payable, accrued liabilities and deferred revenue	\$ 517,035	526,331
Bonds payable	37,683	94,875
Leaseholds payable and other obligations	28,430	84,031
Accrued self insurance	60,388	59,008
Other current liabilities	167,736	148,818
Noncurrent liabilities:		
Bonds payable	1,058,324	967,323
Leaseholds payable and other obligations	496,353	504,912
Accrued self insurance	184,106	147,821
Accrued compensated absences	180,198	197,178
Derivative instruments – swap liability	22,919	25,379
Total liabilities	<u>2,753,172</u>	<u>2,755,676</u>
Net assets	<u>3,189,460</u>	<u>2,785,546</u>
Total liabilities and net assets	<u>\$ 5,942,632</u>	<u>5,541,222</u>

Total assets and deferred outflows increased by \$401 million or 7.2% to \$5.9 billion during fiscal year 2011. The largest components of this change included increases of \$375 million in cash and investments and \$53 million in receivables, including, the receivable from the State of Illinois.

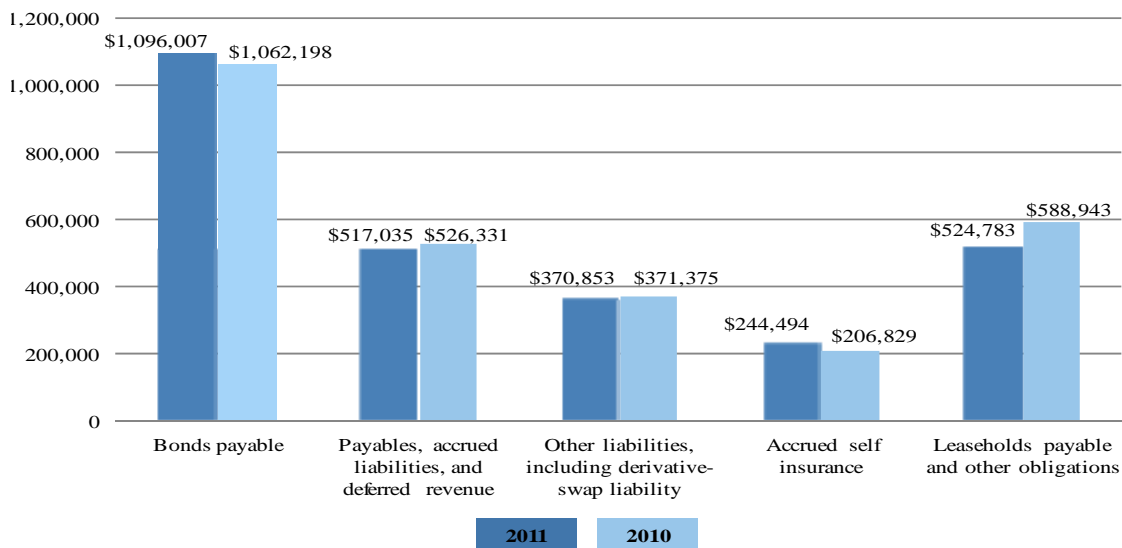
Total liabilities stayed relatively constant remaining at approximately \$2.8 billion for fiscal year 2011. The combined bond and leasehold debt decreased by \$30 million during the year, while the current portion of each decreased more significantly. In fiscal year 2010, certain liquidity facility agreements related to variable-rate bonds and certificates of participation were to expire in fiscal year 2011, which caused the balance of the related bonds and certificates of participation to be classified as current. The renewal of these agreements in fiscal year 2011, extending the terms of these facilities, resulted in a shift from current to noncurrent for significant portions of long-term debt.

The following graphs illustrate the University’s assets, deferred outflows of resources, and liabilities with the current and noncurrent categories combined:

Assets (in thousands)



Liabilities (in thousands)



Capital Assets

The University's policy requires the capitalization of equipment at \$5,000, software and other intangibles at \$100,000, buildings and improvements at \$100,000, infrastructure at \$1,000,000 and all land and collection purchases regardless of cost. The University depreciates its capital assets on a straight-line basis, using estimated useful lives ranging from three to fifty years. The following table illustrates the composition of the University's capital assets, net of accumulated depreciation, by category:

Capital Assets, Net of Accumulated Depreciation

(In thousands)

	2011		2010	
Buildings	\$ 2,294,089	69.6%	\$ 2,327,499	69.9%
Improvements and infrastructure	349,177	10.6	359,832	10.8
Construction in progress	122,123	3.7	108,655	3.3
Land	133,273	4.0	132,617	4.0
Equipment and software	259,377	7.9	266,947	8.0
Collections	137,770	4.2	134,257	4.0
	<u>\$ 3,295,809</u>	<u>100.0%</u>	<u>\$ 3,329,807</u>	<u>100.0%</u>

Capital assets, net of accumulated depreciation, decreased by \$34 million in fiscal year 2011. This decrease was primarily due to current year depreciation partially offset by current year additions. Construction in progress primarily increased due to additions of new residence halls funded by bonds issued in fiscal year 2011. Other facilities under construction included projects funded by prior year revenue bonds, certificates of participation, private gifts, internal funds and state capital appropriations.

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. In fiscal year 2011, the University issued Auxiliary Facilities System Revenue Bonds of \$56.7 million to fund the costs of various improvements and additions to the System. The following table details the various bonded debt outstanding at June 30, 2011 and 2010:

Bonds Payable

(In thousands)

	2011	2010
Auxiliary Facilities System	\$ 977,742	940,126
Health Services Facilities System	58,431	59,193
UIC South Campus	59,834	62,879
	<u>\$ 1,096,007</u>	<u>1,062,198</u>

The University has issued certificates of participation (COPs) which are reported as leaseholds payable on the financial statements. The COPs have funded projects such as UI Integrate, utility infrastructure, College of Medicine facilities, Petascale Computing Facility and deferred maintenance on medical, academic and research facilities. The reduction in the outstanding balance of the COPs was due to scheduled redemptions and utilization of a \$60 million grant from the Illinois Department of Commerce and Economic Opportunity related to the Petascale Computing Facility located on the Urbana campus. The outstanding balances of the COPs as of June 30, 2011 and 2010 were \$464,274,000 and \$541,315,000 respectively.

Net Assets

The University's resources are classified into net asset categories on the Balance Sheet. These categories are defined as (a) Invested in capital assets, net of related debt – capital assets net of accumulated depreciation and related outstanding debt balances, (b) Restricted nonexpendable – net assets restricted by externally imposed stipulations, (c) Restricted expendable – net 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 – net assets not subject to externally imposed stipulations but may be designated for specific purposes by action of management or the Board of Trustees. The University's net assets increased by \$404 million during fiscal year 2011. Net assets balances are detailed below:

	Net Assets	
	(In thousands)	
	2011	2010
Net assets:		
Invested in capital assets, net of related debt	\$ 1,865,699	1,895,395
Restricted	636,520	503,618
Unrestricted	687,241	386,533
	<u>\$ 3,189,460</u>	<u>2,785,546</u>

The growth in unrestricted net assets of approximately \$301 million included increases resulting from higher tuition rates, tighter expenditure constraints and increases related to various self-supporting activities, such as the hospital and auxiliary operations. The largest components of the \$133 million increase in restricted net assets included increases in endowment assets due to unrealized gains and net assets related to the Medical Service Plans. The amount of net assets invested in capital assets, net of related debt, decreased by approximately \$30 million which included changes in capital assets and long-term debt as discussed in preceding sections of this MD&A.

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, 2011 and 2010 is as follows:

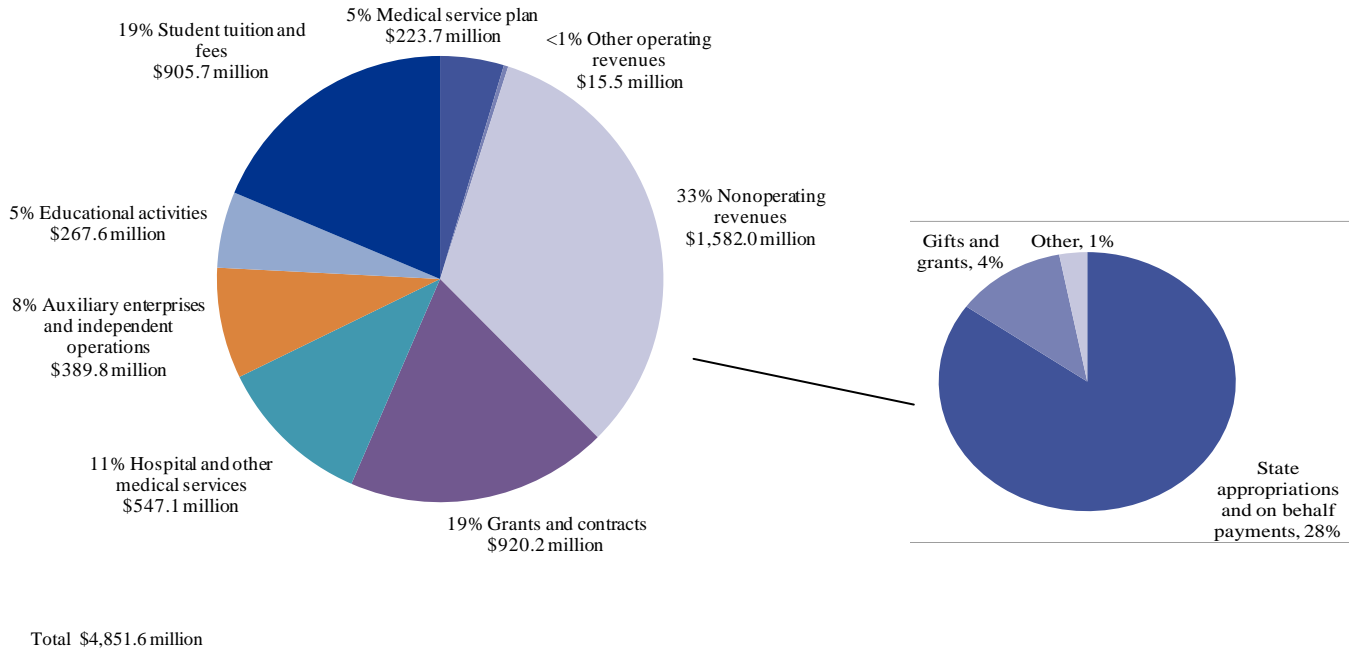
	<u>2011</u>	<u>2010</u>
	(In thousands)	
Operating revenues:		
Student tuition and fees	\$ 905,693	823,488
Grants and contracts	920,156	873,737
Hospital and other medical activities	547,168	577,866
Auxiliary enterprises and independent operations	389,817	381,475
Educational activities	267,609	251,770
Medical service plan	223,654	185,061
Other	15,456	17,772
Total operating revenues	<u>3,269,553</u>	<u>3,111,169</u>
Operating expenses	<u>4,465,371</u>	<u>4,341,575</u>
Operating loss	<u>(1,195,818)</u>	<u>(1,230,406)</u>
Nonoperating revenues (expenses):		
State appropriations and on behalf payments	1,399,995	1,352,045
Transfer of state appropriation to the Hospital Services Fund	(45,000)	(45,000)
Private gifts	133,498	144,099
Federal grants, nonoperating	67,404	103,101
Investment income	26,066	19,338
Net increase in the fair value of investments	68,810	54,980
Other nonoperating expenses, net	(77,984)	(50,661)
Net nonoperating revenues	<u>1,572,789</u>	<u>1,577,902</u>
Capital state appropriations and capital gifts and grants	26,019	82,508
Endowment gifts	924	98
Increase in net assets	403,914	430,102
Net assets, beginning of year	2,785,546	2,357,758
Change in accounting principles		(2,314)
Net assets, end of year	<u>\$ 3,189,460</u>	<u>2,785,546</u>

Revenues

The University's revenues are generated from multiple sources, which supplement 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 revenue, such as state appropriations, gifts, certain federal grants 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, 2011:

Revenues



Operating and nonoperating revenues experienced a net increase in fiscal year 2011. Tuition and fee revenue increased by \$82.2 million during fiscal year 2011 primarily due to a tuition increase approved by the Board of Trustees and special tuition differentials in various graduate and undergraduate programs. Grants and contracts, in operating revenues, increased \$46.4 million during fiscal year 2011, primarily due to an increase in funding for federal grants. Revenues from payments made by the State on behalf of the University to Central Management Services (CMS) and the State Universities Retirement System (SURS), classified as nonoperating, for fiscal year 2011 were \$683.2 million compared to \$634.7 million in fiscal year 2010, representing an increase of \$48.5 million. This increase is caused by growth in state funding for employer required contributions to SURS and CMS. Medical service plan revenues rose by \$38.6 million primarily due to additional cost reimbursements from Medicaid and other sources. These increases were partially offset by decreases in several revenue categories. Hospital and other medical activities revenues decreased by \$30.7 million largely due to a reduction in receipts of retroactive reimbursements for services provided in prior fiscal years. Nonoperating grants decreased by \$35.7 million due to American Recovery and Reinvestment Act stimulus funding received in fiscal year 2010, and not in fiscal year 2011, partially offset by a small increase in Pell grant revenue in fiscal year 2011.

Expenses

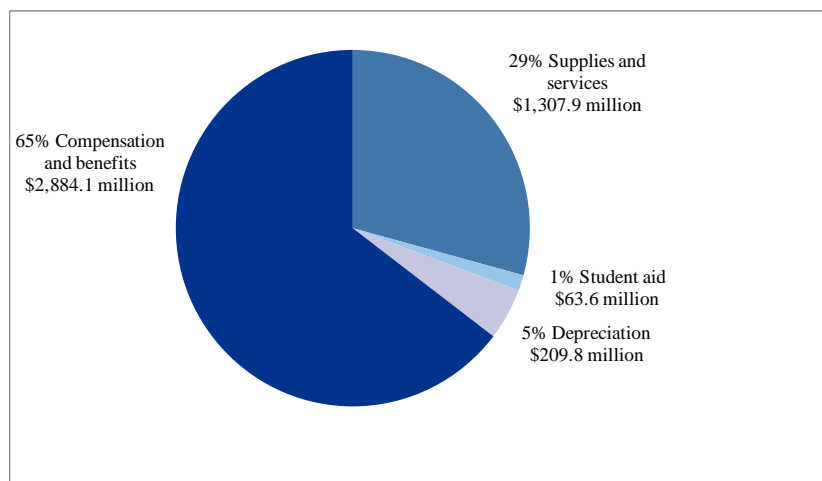
The majority of the University’s expenses are exchange transactions, which GASB standards define as operating expenses. Nonoperating expenses include capital financing and other costs related to capital assets.

	<u>2011</u>		<u>2010</u>	
	(In thousands)			
Operating expenses:				
Instruction	\$ 1,006,190	22.5%	\$ 970,339	22.3%
Research	680,651	15.2	652,229	15.0
Public service	387,461	8.7	395,343	9.1
Support services	690,674	15.5	709,483	16.4
Hospital and medical activities	633,795	14.2	597,426	13.8
Auxiliary enterprises and independent operations	330,308	7.4	322,861	7.4
Scholarships and fellowships	238,722	5.3	215,270	5.0
Operation and maintenance of plant	287,825	6.5	269,739	6.2
Depreciation	209,745	4.7	208,885	4.8
Total operating expenses	<u>\$ 4,465,371</u>	<u>100.0%</u>	<u>\$ 4,341,575</u>	<u>100.0%</u>

The increase in operating expenses included increases in payments on behalf, which are appropriately allocated across the operating functions, and other increases associated with growth in activities. After consideration of the \$48.5 million increase in on behalf payments, total operating expenses actually increased by \$75.3 million, or 2.0%. This relatively low rate of increase, as compared to the 5.1% increase in operating revenues, illustrates conservative spending policies aligned with budgetary constraints.

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:

Operating Expenses



Total \$4,465.4 million

The University's Economic Outlook

The University continues to maintain its 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 since state appropriations from the Governor and General Assembly provide essential operating support for University programs. The direct appropriation for fiscal year 2012, signed into law by the Governor, reflects a decrease of \$7.11 million (1.01%) from the original budget appropriated in fiscal year 2011. While all major sources of funding for the University were strong in fiscal year 2011, cash flow issues that existed in fiscal year 2010 continued to be an issue in fiscal year 2011, where the University ended the year with a receivable of \$289 million from the state. Similar to last year, the State has extended the state lapse period (PA097-0075) allowing the state to pay liabilities related to fiscal year 2011 until December 31, 2011. Therefore, the University anticipates full payment of the fiscal year 2011 appropriation by the end of the calendar year; however, the University expects cash flows from the state to continue to be a major concern even with the tax increase, as the economy slowly recovers. The State of Illinois also appropriates funds for payments-on-behalf of University employees to CMS, as well as SURS, to pay benefits for our employees.

Based on known enrollment levels and tuition rates, the University projects an increase in tuition and miscellaneous departmental revenue in fiscal year 2012. The recommended \$939.1 million fiscal year 2012 tuition and miscellaneous departmental revenue budget represents a \$96.5 million (11.5%) increase from fiscal year 2011. Undergraduate students have a four-year tuition guarantee. Incremental tuition income of \$93.0 million results from tuition increases of \$359 per semester at Urbana, \$315 per semester at Chicago and \$18.75 per credit hour at Springfield for the freshman cohort, and varying increases in the graduate and professional programs. The remaining increase results from cost recovery programs, extramural, new special programs that have differential tuition rate increases, adjustments for enrollment levels, investment income on tuition revenue, nonrecurring funds carried forward from fiscal year 2011 and revenues associated with the library/IT assessment.

In fiscal year 2009, 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 2012, there were no funds included in the budget for the State Surveys. Funding for fiscal year 2012 from the State's General Revenue Fund to provide operating support for the surveys has been approved by the Illinois Legislature and is awaiting approval from the Governor. It is anticipated that such funds will again transfer from the State's General Revenue Fund into the University's Income Fund in fiscal year 2012 to provide operating support 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. As of June 30, 2011, the University had met 97.78% of its goal to raise \$2.25 billion for students, faculty, research and the campus environment. On June 9, 2011, the University publicly announced "Access Illinois: The Presidential Scholarship Initiative" with a goal of raising \$100 million to help students and their families. The three year campaign will promote student access and will help ensure that deserving students are not shut out due to cost.

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 illustrates the public and private sectors' confidence in the University's research faculty. The fiscal year 2012 sponsored project budget is an estimate of grant and contract awards for direct costs and represents a 5.6% increase from fiscal year 2011 grant and contract expenditures.

The University experienced growth from a variety of funding sources during fiscal year 2011. To maintain its financial position, the University continues to develop 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 financial condition.

UNIVERSITY OF ILLINOIS

Balance Sheet

June 30, 2011

(with comparative totals for June 30, 2010)

(In thousands)

Assets and Deferred Outflow of Resources	University		University Related Organizations	
	2011	2010	2011	2010
Current assets:				
Cash and cash equivalents	\$ 633,283	438,557	7,354	5,837
Cash and cash equivalents, restricted	225,378	270,812	1,853	1,751
Investments	49,706	13,486	230	876
Investments, restricted	64,396	48,306		
Securities lending collateral	92,895	82,720		
Accrued investment income	2,297	2,348	1,265	1,340
Accounts receivable, net of allowance for uncollectible	403,136	373,747	16,028	21,220
Receivable from State of Illinois General Revenue Fund	288,669	265,624		
Pledges receivable, net of allowance			13,023	13,044
Notes receivable, net of allowance for uncollectible	8,730	7,764	73	81
Accrued interest on notes receivable	2,929	2,928		
Inventories	31,187	31,581	7	7
Prepaid expenses and deferred charges	20,723	22,011	2,118	2,294
Due from related organizations	913	1,114		
Total current assets	1,824,242	1,560,998	41,951	46,450
Noncurrent assets:				
Cash and cash equivalents, restricted			607	368
Investments	430,811	324,207	25,410	21,011
Investments, restricted	303,916	237,519	1,349,639	1,107,895
Pledges receivable, net of allowance			71,007	78,032
Notes receivable, net of allowance for uncollectible	52,736	53,021		
Prepaid expenses and deferred charges	9,750	9,312		
Due from related organizations	701	968		
Capital assets, net of accumulated depreciation	3,295,809	3,329,807	13,308	13,763
Other assets	5,091	3,670	132	68
Total noncurrent assets	4,098,814	3,958,504	1,460,103	1,221,137
Deferred outflow of resources	19,576	21,720		
Total assets and deferred outflows of resources	\$ 5,942,632	5,541,222	1,502,054	1,267,587
Liabilities				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 230,825	247,005	33,242	28,231
Accrued payroll	139,128	137,035	311	332
Accrued compensated absences, current portion	21,090	17,810	1,782	1,433
Accrued self insurance, current portion	60,388	59,008		
Deferred revenue and student deposits	147,082	142,291	50	695
Accrued interest payable	17,503	17,242		
Securities lending collateral	92,895	82,720		
Notes payable			4,932	5,133
Bonds payable, current portion	37,683	94,875		
Due to related organizations, current portion			913	1,114
Leaseholds payable and other obligations, current portion	28,430	84,031	6,503	6,428
Assets held for others	36,248	31,046	2,013	2,022
Total current liabilities	811,272	913,063	49,746	45,388
Noncurrent liabilities:				
Bonds payable	1,058,324	967,323		
Leaseholds payable and other obligations	496,353	504,912	47,943	46,248
Due to related organizations			701	968
Accrued compensated absences	180,198	197,178		
Accrued self-insurance	184,106	147,821		
Deferred distributions			129	134
Derivative instrument – swap liability	22,919	25,379		
Total noncurrent liabilities	1,941,900	1,842,613	48,773	47,350
Total liabilities	2,753,172	2,755,676	98,519	92,738
Net Assets				
Invested in capital assets, net of related debt	1,865,699	1,895,395	8,376	8,631
Restricted:				
Nonexpendable	75,065	60,965	726,649	665,701
Expendable	561,455	442,653	642,646	529,854
Unrestricted	687,241	386,533	25,864	(29,337)
Total net assets	3,189,460	2,785,546	1,403,535	1,174,849
Total liabilities and net assets	\$ 5,942,632	5,541,222	1,502,054	1,267,587

See accompanying notes to financial statements.

UNIVERSITY OF ILLINOIS

Statement of Revenues, Expenses and Changes in Net Assets

Year ended June 30, 2011

(with comparative totals for year ended June 30, 2010)

(In thousands)

	University		University Related Organizations	
	2011	2010	2011	2010
Operating revenues:				
Student tuition and fees, net	\$ 905,693	823,488		
Medical fees for services – state appropriation		1,014		
Federal appropriations	13,919	16,188		
Federal grants and contracts	689,392	641,708		
State of Illinois grants and contracts	83,625	84,065	175	125
Private and other governmental agency grants and contracts	147,139	147,964	100,186	110,585
Educational activities	267,609	251,770		
Auxiliary enterprises, net	374,644	368,515		
Hospital and other medical activities, net	547,168	576,852		
Medical service plan	223,654	185,061		
Independent operations	15,173	12,960		
Interest and service charges on student loans	1,537	1,584		
Allocation from the University			14,548	16,016
Other sources			44,943	40,322
Total operating revenues	<u>3,269,553</u>	<u>3,111,169</u>	<u>159,852</u>	<u>167,048</u>
Operating expenses:				
Instruction	1,006,190	970,339		
Research	680,651	652,229		
Public service	387,461	395,343		
Academic support	349,095	354,238		
Student services	131,827	126,635		
Institutional support	209,752	228,610	66,042	65,007
Operation and maintenance of plant	287,825	269,739		
Scholarships and fellowships	238,722	215,270		
Auxiliary enterprises	316,442	310,794		
Hospital and medical activities	633,795	597,426		
Independent operations	13,866	12,067		
Depreciation	209,745	208,885	1,161	1,095
Distributions on behalf of the University			147,404	147,125
Total operating expenses	<u>4,465,371</u>	<u>4,341,575</u>	<u>214,607</u>	<u>213,227</u>
Operating loss	<u>(1,195,818)</u>	<u>(1,230,406)</u>	<u>(54,755)</u>	<u>(46,179)</u>
Nonoperating revenues (expenses):				
State appropriations	716,794	717,300		
Transfer of state appropriations to the Illinois DHFS				
Hospital Services Fund	(45,000)	(45,000)		
Private gifts	133,498	144,099		
Federal grants, nonoperating	67,404	103,101		
On behalf payments for fringe benefits	683,201	634,745		
Net investment income (net of investment expense of \$2,189)	26,066	19,338	14,999	12,863
Net increase in the fair value of investments	68,810	54,980	207,445	103,159
Interest expense	(76,672)	(77,368)	(95)	(140)
Loss on sale/disposal/impairment of capital assets	(35,675)	(7,041)	—	—
Other nonoperating revenues, net	34,363	33,748	144	64
Net nonoperating revenues	<u>1,572,789</u>	<u>1,577,902</u>	<u>222,493</u>	<u>115,946</u>
Income before other revenues	<u>376,971</u>	<u>347,496</u>	<u>167,738</u>	<u>69,767</u>
Capital state appropriations	21,274	20,610		
Capital gifts and grants	4,745	61,898		
Private gifts for endowment purposes	924	98	60,948	31,606
Increase in net assets	<u>403,914</u>	<u>430,102</u>	<u>228,686</u>	<u>101,373</u>
Net assets, beginning of the year	2,785,546	2,357,758	1,174,849	985,161
Cumulative effect of change in accounting principle		(2,314)		88,315
Net assets, beginning of year, as adjusted	<u>2,785,546</u>	<u>2,355,444</u>	<u>1,174,849</u>	<u>1,073,476</u>
Net assets, end of year	\$ <u>3,189,460</u>	<u>2,785,546</u>	<u>1,403,535</u>	<u>1,174,849</u>

See accompanying notes to financial statements.

UNIVERSITY OF ILLINOIS

Statement of Cash Flows

Year ended June 30, 2011

(with comparative totals for year ended June 30, 2010)

(In thousands)

	University	
	2011	2010
Cash flows from operating activities:		
Student tuition and fees	\$ 906,919	827,757
Medical fees for service – state appropriations		7,377
Federal appropriations	14,503	15,391
Federal, state, and local grants and contracts	762,831	706,547
Other governmental agencies and private grants, and contracts	144,562	140,825
Sales and services of educational activities	272,031	265,560
Auxiliary activities and independent operations	390,939	375,214
Hospital and other medical activities	552,598	565,283
Medical service plan	201,317	187,632
Payments to employees and benefits	(2,207,330)	(2,184,217)
Payments to suppliers	(1,277,270)	(1,230,609)
Payments for scholarships and fellowships	(63,499)	(55,256)
Student loans issued	(9,454)	(7,624)
Student loans collected	8,670	8,111
Student loan interest and fees collected	1,536	1,438
Net cash used in operating activities	<u>(301,647)</u>	<u>(376,571)</u>
Cash flows from noncapital financing activities:		
State appropriations	648,749	531,215
State appropriations transferred to Illinois DHFS Hospital Services Fund		(10,000)
Gifts transferred from University of Illinois Foundation	133,498	144,099
Direct lending receipts	477,604	450,781
Direct lending payments	(479,025)	(450,179)
Proceeds from issuance of energy services agreement installment payable	18,355	
Principal and issuance costs paid on energy services agreement installment payable	(654)	
Federal grants and contracts, nonoperating	67,404	103,101
Private gifts for endowment purposes	924	98
Repayments from related organizations	468	61
Other receipts	33,689	30,775
Other disbursements	(187)	(420)
Net cash provided by noncapital financing activities	<u>900,825</u>	<u>799,531</u>
Cash flows from capital and related financing activities:		
Proceeds from issuance of capital debt	59,334	
Capital state appropriations	1,394	2,579
Capital gifts and grants	2,552	61,193
Purchase of capital assets	(194,871)	(196,071)
Principal payments on bonds and capital leases	(118,135)	(75,060)
Interest payments on bonds and capital leases	(69,184)	(69,079)
Payment of bond issuance costs	(591)	
Net cash used in capital and related financing activities	<u>(319,501)</u>	<u>(276,438)</u>
Cash flows from investing activities:		
Interest and dividends on investments, net	19,446	16,086
Proceeds from sales and maturities of investments	1,712,106	1,507,311
Purchase of investments	(1,861,937)	(1,410,623)
Net cash (used in) provided by investing activities	<u>(130,385)</u>	<u>112,774</u>
Net increase in cash and cash equivalents	149,292	259,296
Cash and cash equivalents, beginning of year	<u>709,369</u>	<u>450,073</u>
Cash and cash equivalents, end of year	<u>\$ 858,661</u>	<u>709,369</u>

UNIVERSITY OF ILLINOIS
Statement of Cash Flows
Year ended June 30, 2011
(with comparative totals for year ended June 30, 2010)
(In thousands)

	University	
	2011	2010
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (1,195,818)	(1,230,406)
Adjustments to reconcile operating loss to net cash used in operating activities:		
On behalf payments for fringe benefits expense	683,201	634,745
Depreciation expense	209,745	208,885
Changes in assets and liabilities:		
Accounts receivable, net	(29,492)	(20,533)
State of Illinois receivable associated with hospital operations		6,363
Notes receivable, net	(681)	821
Accrued interest on notes receivable	(1)	(146)
Inventories	394	(1,440)
Prepaid expenses and deferred charges	726	1,029
Accounts payable and accrued liabilities	(5,772)	7,266
Accrued payroll	2,093	(252)
Deferred revenue and student deposits	4,791	(3,831)
Accrued compensated absences	(13,700)	(2,547)
Accrued self insurance	37,665	25,002
Assets held for others	5,202	(1,527)
Net cash used in operating activities	<u>\$ (301,647)</u>	<u>(376,571)</u>
Noncash investing, capital, and financing activities:		
On behalf payments for fringe benefits	\$ 683,201	634,745
State appropriation	45,000	35,000
Transfers to Illinois DHFS Hospital Services Fund	(45,000)	(35,000)
Net increase in fair value of investments	68,810	54,980
Gifts in kind – capital assets	2,044	540
Decrease of capital asset obligations in accounts payable	(10,408)	(13,518)
Capital asset acquisitions by Capital Development Board	19,880	18,031
Capital asset acquisitions via leaseholds payable	1,128	3,653
Net interest capitalized	2,216	5,234
Other capital asset adjustments	1,691	7,167
Loss on sale/disposal/impairment of capital assets	35,675	7,041
Capital appreciation on bonds payable	9,955	10,390

See accompanying notes to financial statements.

UNIVERSITY OF ILLINOIS

Notes to Financial Statements

June 30, 2011

(1) Organization and Summary of Significant Accounting Policies

Organization

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 U.S. generally accepted accounting principles, 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), Wolcott, Wood and Taylor, Inc. (WWT), Prairieland Energy, Inc. (Prairieland), Illinois Ventures, LLC (Illinois Ventures), The University of Illinois Research Park, LLC (Research Park) and UI Singapore Research, LLC (Singapore Research) 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 and are 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, a for profit, wholly owned corporation, was formed for the purpose of providing support for the University through delivery of comprehensive economical utility services to the University and other organizations. Complete financial information may be obtained by writing the Controller, 106 Town Center, Suite 304, Champaign, IL 61820.

Illinois Ventures, a for-profit, wholly owned corporation, exists to facilitate the development of new companies commercializing technology originated or developed by faculty, staff and/or students of the University and other organizations. 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. Complete financial information may be obtained by writing the CEO and Managing Director, 2001 South First Street, Suite 201, Champaign, IL 61820.

Research Park, a for-profit, wholly owned corporation, was formed to aid and assist the University and other organizations 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. Complete financial information may be obtained by writing The University of Illinois Research Park, LLC, 60 Hazelwood Drive, Champaign, IL 61820.

Singapore Research, a for-profit, wholly owned corporation, was formed to organize, develop, hold and operate, through a Singapore entity, a research center in Singapore to encourage and facilitate research, development and commercialization of the intellectual assets of the University. Complete financial information may be obtained by writing the Treasurer, UI Singapore Research, LLC, 349 Henry Administration Building, 506 South Wright Street, Urbana, IL 61801.

The Foundation, Alumni Association, WWT, Prairieland, Illinois Ventures, Research Park and Singapore Research 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.

Significant Accounting Policies

(a) Financial Statement Presentation and Basis of Accounting

University

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

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

The financial statements include certain prior year comparative information, which has been derived from the University's 2010 financial statements. Such information does not include all of the information required to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the University's financial statements for the year ended June 30, 2010.

Certain items in the June 30, 2010 comparative information have been reclassified to correspond to the June 30, 2011 financial statement presentation.

UROs

The financial statements of WWT, Prairieland, Illinois Ventures, Research Park and Singapore Research are prepared using the same presentation and basis of accounting as the University, as described above.

Beginning in fiscal year 2010, the Foundation and Alumni Association follow Financial Accounting Standards Board (FASB) standards for financial statement presentation. Consequently, reclassifications have been made to convert their financial statements to the GASB format for inclusion in the UROs column of the financial statements and disclosure in note 16.

(b) *Cash and Cash Equivalents*

The Statements 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.

(c) *Inventories*

Inventories are stated at the lower of cost or market. Cost is determined principally by the average cost method, or the first-in, first-out method depending on the type of inventory.

(d) *Investments*

Investments are recorded at fair value. Fair value is determined by quoted market prices for the University's investments. The fair values of the real estate and farm properties held as investments by permanent and term endowments are determined by a periodic appraisal of the property by a certified real estate appraiser. Fair value for investments in limited partnerships and certain mutual funds is determined using net asset values as provided by external investment managers. The University also has real estate and farm properties held as investments by quasi-endowments, which are carried at cost, or when donated, at the fair value at the date of donation.

Changes in fair value during the reporting period are reported as a net increase (decrease) in the fair value of investments.

(e) **Endowments**

For donor restricted endowments, the Uniform Prudent Management of Institutional Funds Act (UPMIFA), as adopted in Illinois, permits the respective Boards for both the University and the Foundation to appropriate an amount of realized and unrealized endowment appreciation as they determine to be prudent. The University's policy is to retain the realized and unrealized appreciation within the endowment after spending rule distributions.

University

The University utilizes the total return concept in allocating endowment income. The focus is to preserve the real value or purchasing power of endowment pool assets and the annual support the assets provide. 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 4.00% of the two-quarter lagged, six-year moving average market value of fund units. At June 30, 2011, net appreciation of \$27,262,000 was available to be spent, of which \$20,918,000 was restricted to specific purposes.

URO – Foundation

Interpretation of Relevant Law: The Board of Directors of the Foundation interprets the Illinois UPMIFA to require consideration of the following factors, if relevant, in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the endowment fund
- The purposes of the institution and the endowment fund
- General economic conditions
- The possible effect of inflation or deflation
- The expected total return from income and the appreciation of investments
- Other resources of the institution
- The investment policy of the institution

In accordance with the Foundation's interpretation of UPMIFA, absent explicit donor stipulation to the contrary, the Foundation shall classify as permanently restricted net assets (restricted – nonexpendable) the original value of the gifts donated to the permanent endowment, but such classification does not limit the expenditures from the endowment fund only to income, interest, dividends, or rents, issues or profits. The portion of the fund's value spendable annually for the donor-designated purpose is to be determined, from time to time, by the Foundation's Board of Directors, acting in good faith, with the care that an ordinarily prudent person in a like position would exercise under similar circumstances, considering the above relevant factors. The Foundation's Board approved spending was \$64,591,000 for fiscal year ended June 30, 2011.

(f) **Capital Assets**

Capital assets are recorded at cost or, if donated, at 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 (noted below) of the assets. The University's policy requires the capitalization of all land and collection purchases regardless of cost, equipment over \$5,000, software, easements, buildings and improvements over \$100,000 and infrastructure over \$1,000,000. The University 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 previously 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. Estimated useful lives for capital assets are as follows:

	<u>Useful life (in years)</u>		<u>Useful life (in years)</u>
Buildings:		Improvements other than buildings:	
Shell	50	Site improvements	20
Service systems	25	Infrastructure	25
Fixed equipment	15		
Remodeling	25	Moveable equipment	3 – 15
Intangibles:			
Software	5 – 10		

(g) *Deferred Outflow of Resources*

Under hedge accounting, the University has determined that the interest rate swap agreements on bonds payable and certificates of participation, as hedging derivative instruments, are an effective hedge, and accordingly, changes in the fair values of the interest rate swaps, since being associated with the related outstanding bonds or certificates, are reported as deferred outflow of resources on the accompanying balance sheet. Additionally, interest rate swaps reassigned to new debt, after a refunding of debt that the swap was previously hedging, normally have an other than zero fair value upon the reassociation. For swaps with a fair value of other than zero upon reassociation with a hedgeable item, the fair value is amortized as an adjustment to interest expense in a systematic manner.

(h) *Compensated Absences*

Accrued compensated absences for University personnel are charged as an operating expense, using the vesting method, based on earned but unused vacation and sick leave days including the University's share of social security and Medicare taxes. At June 30, 2011, the University estimates that \$105,490,000 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, 2011. The amount associated with future General Revenue Fund appropriations was calculated based upon the unused vacation and sick leave days and pay rates for the applicable employees.

(i) *Premiums, Issuance Costs and Deferred Loss on Refundings*

Premiums, issuance costs and losses on refundings for bonds and certificates of participation are deferred and amortized over the life of the debt issue using the straight-line method.

(j) *Net Assets*

The Entity's resources are classified into net asset categories and reported in the Balance Sheet. These categories are defined as (a) invested in capital assets, net of related debt – capital assets net of accumulated depreciation and related outstanding debt balances attributable to the acquisition, construction, or improvement of those capital assets, (b) Restricted nonexpendable – net assets

restricted by externally imposed stipulations, (c) Restricted expendable – net 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 – net assets not subject to externally imposed stipulations but may be designated for specific purposes by action of management or the Board. 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.

(k) *Classification of Revenues*

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, medical service plans, and auxiliary enterprises revenues. Certain revenue sources that the Entity relies on to provide funding for operations including State appropriations, gifts, on-behalf payments for fringe benefits and investment income are defined by GASB Statement No. 35, *Basic Financial Statements – and Management Discussion and Analysis – for Public Colleges and Universities*, as nonoperating revenues. In addition, transactions related to capital and financing activities are components of nonoperating revenues.

In fiscal year 2011, \$45,000,000 of State appropriations were transferred to the University of Illinois Hospital Services Fund, which is a special fund established in the State of Illinois Treasury pursuant to the State Finance Act, 30 ILCS 105/6z-30. This fund is owned and operated by the Illinois Department of Healthcare and Family Services (IDHFS) and this fund is not part of or a related organization of the University.

(l) *Tuition, Scholarships and Fellowships*

Scholarships and fellowships of \$221,921,000 and \$7,051,000 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.

(m) *Patient Services Revenue – Hospital*

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. Payment arrangements include prospectively determined rates per discharge reimbursed costs, discounted charges and per diem payments. 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, 2011. Payments under these programs are based on established program rates or cost, 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, 2011, the contractual allowances totaled \$1,019,690,000.

The University provides care without charge or at amounts at less than its established rates to patients who meet the criteria of its charity care policy. Because the University does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Consideration for eligibility of charity care is based on the application of the University's charity care policy and includes patient qualification criteria, financial resource criteria and service criteria. The University does not include the unreimbursed cost of providing care to Medicaid and Medicare patients as charity care.

The net cost of charity care provided in 2011 was approximately \$16,154,000, a decrease of 2% from the prior year. The net cost of charity care is determined by the total charity care cost less any patient related revenue due to the sliding scale payments or other patient specific resources. Most of the patient specific resources came from the Center for Medicare & Medicaid Services 1011 program reimbursement.

(n) *Classification of Expenses*

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

(o) *Employment Contracts*

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 \$53,262,000 at June 30, 2011 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 2012 rather than from the unrestricted net assets available at June 30, 2011.

(p) *On-Behalf Payments for Fringe Benefits*

In accordance with GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, the 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 \$321,272,000 for the year ended June 30, 2011. 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 and include postemployment benefits. 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 were approximately \$361,929,000 for year ended June 30, 2011. On-behalf payments are reflected as nonoperating revenues. The corresponding on-behalf expense is reflected as an operating expense and is allocated by function.

(q) *Use of Estimates*

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

(2) Cash, Cash Equivalents and Investments

The carrying amount of the University's cash totaled \$87,406,000 at June 30, 2011. The June 30, 2011 total bank account balances for the University aggregated \$111,732,000 and was covered by federal depository insurance.

Certificates of deposit held by the University totaled \$5,800,000 at June 30, 2011 of which \$4,900,000 were not covered by federal depository insurance or collateral held by an agent in the University's name.

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, 2011, the University had repurchase agreements of \$488,000 and the market value of securities underlying these repurchase agreements was \$516,000 at June 30, 2011.

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, stocks and equities
- Commercial paper
- Repurchase agreements
- Mutual funds

Additionally, the University has real estate and farm properties held as investments by permanent and term endowments reported at fair value of \$58,288,000. The fair value of the real estate and farm properties is determined by a periodic appraisal of the property by a certified real estate appraiser. Changes in fair value during the reporting period are reported as investment income. The University also has real estate and farm properties held as investments by quasi-endowments reported at \$7,866,000, which 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.

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

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 UPMIFA when investing its endowment funds. The State of Illinois Public Funds Investment Act provides the context and framework for other investments. The following details the carrying value of the University's cash, cash equivalents and investments as of June 30, 2011:

University Cash, Cash Equivalents and Investments

(In thousands)

U.S. Treasury bonds and bills	\$ 148,734
U.S. government agencies	146,057
Commercial paper	14,094
Corporate bonds	159,802
Bond mutual funds	56,867
Non government mortgage-backed securities	41,764
Non U.S. government bonds	11,046
Money market funds	754,858
Illinois public treasurer's investment pool	4,711
	1,337,933
Subtotal before cash deposits, equities and other investments	1,337,933
U.S. equities	26,714
International equities	36,227
International equities traded in U.S. dollars	6,210
U.S. equity mutual funds	123,424
Limited partnerships	17,134
Repurchase agreements	488
Certificates of deposit	5,800
Real estate and farm properties	66,154
Cash deposits	87,406
	1,707,490
Total	\$ 1,707,490

(a) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, the University employs multiple investment managers, of which each has specific maturity assignments related to the operating funds. The funds are structured with different layers of liquidity. Funds expected to be used within one year are invested in money market instruments. Core operating funds are invested in longer maturity investments. Core operating funds investment manager's performance benchmarks are the Barclays Capital 1-3 year Government Credit Bond Index and the Barclays Capital 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%.

The University's debt securities and maturities at June 30, 2011 are illustrated below:

University Investment Maturities					
(In thousands)					
	Total	Less than 1 year	1 – 5 years	6 – 10 years	Greater than 10 years
U.S. Treasury bonds and bills	\$ 148,734	46,052	77,489	20,641	4,552
U.S. government agencies	146,057	32,544	70,600	3,756	39,157
Commercial paper	14,094	14,094			
Corporate bonds	159,802	10,848	107,807	20,648	20,499
Bond mutual funds	56,867		754	56,113	
Nongovernment mortgage- backed securities	41,764			623	41,141
Non U.S. government bonds	11,046	500	9,087	1,459	
Money market funds	754,858	754,858			
Illinois public treasurer's investment pool	4,711	4,711			
Total	<u>\$ 1,337,933</u>	<u>863,607</u>	<u>265,737</u>	<u>103,240</u>	<u>105,349</u>

At June 30, 2011, the University's operating funds pool portfolio had an effective duration of 1 year.

(b) Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The University's investment policy requires that 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. Per the University's investment policy, the average credit quality of the operating funds will not fall below Standard & Poor's AA – or equivalent.

At June 30, 2011, the University had debt securities and quality ratings as shown in the charts below:

University Investments Quality Ratings							
(In thousands)							
	Total	AAA	AA	A	BBB	BB	Less than BB or not rated
U.S. Treasury bonds and bills	\$ 148,734	148,734					
U.S. government agencies	146,057	146,057					
Commercial paper	14,094	14,094					
Corporate bonds	159,802	40,834	33,040	55,141	22,472	2,628	5,687
Bond mutual funds	56,867	2,872	53,241	754			
Nongovernment mortgage- backed securities	41,764	21,262	482	2,153	5,290	1,807	10,770
Non U.S. government bonds	11,046	3,527	3,171	972	555		2,821
Money market funds	754,858	754,858					
Illinois public treasurer's investment pool	4,711	4,711					
Total	<u>\$ 1,337,933</u>	<u>1,136,949</u>	<u>89,934</u>	<u>59,020</u>	<u>28,317</u>	<u>4,435</u>	<u>19,278</u>

(c) ***Custodial Credit Risk***

Custodial credit risk is the risk that in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Exposure to custodial credit risk relates to investment securities that are held by someone other than the University and are not registered in the University's name. The University investment policy does not limit the value of investments that may be held by an outside party. At June 30, 2011, the University's investments and deposits had no custodial credit risk exposure.

(d) ***Concentration of Credit Risk***

Concentration of credit risk is the risk of loss attributed to the magnitude of the University's investment in a single issuer. The University's investment policy provides that the total operating funds portfolio will be broadly diversified across securities in a manner that is consistent with fiduciary standards of diversification. This diversification is achieved by employing multiple investment managers and imposing maximum position limits for each manager. Within the University's investment policy, the 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, 2011, not more than 5% of the University's total investments were invested in securities of any one issuer, excluding securities issued or guaranteed by the U.S. government, mutual funds and external investment pools or other pooled investments.

(e) ***Foreign Currency Risk***

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The University's operating fund investments generally are not exposed to foreign currency risk. The University does not have an overarching policy related to foreign currency risk; however, under 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 cash equivalents and investments exposed to foreign currency risk as of June 30, 2011 are categorized by currency below:

University Investments Foreign Currency Exposure			
(In thousands)			
	Total	Cash equivalents	Equity investments
European Euro	\$ 15,303	12	15,291
British Pound	6,760		6,760
Japanese Yen	3,877		3,877
Swiss Franc	3,274		3,274
Hong Kong Dollar	2,612	13	2,599
Norwegian Krone	1,404		1,404
Singapore Dollar	1,124		1,124
South Korean Won	835		835
Swedish Krona	719		719
Canadian Dollar	508	164	344
Total	\$ 36,416	189	36,227

(f) *Securities Lending*

To enhance the return on investments, the Board 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. Noncash collateral cannot be pledged or sold by the University unless the borrower defaults. Cash collateral is invested by the custodian bank in a short-term investment pool. As of June 30, 2011, the short-term investment pool has a weighted average maturity of one hundred two days. The University receives interest and dividends during the loan period as well as a fee from the custodian. Marking to market is performed every business day and the borrower is required to deliver additional collateral when necessary so that the total collateral held by the custodian will equal at least the fair value plus accrued interest of the borrowed securities. All security loans can be terminated on demand by either the University or the borrowers. The University's pro rata share of cash received as securities lending collateral was approximately \$92,895,000 at June 30, 2011, and is recorded as an asset and corresponding liability on the University's Balance Sheet. As of June 30, 2011, approximately \$92,005,000 of the investments reported on the University's Balance Sheet were on loan, secured by collateral with a fair value of approximately \$93,942,000. At June 30, 2011, 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.

(g) *URO – Foundation Investments*

As the investments of the University's Foundation are considered material to the University's financial statements taken as a whole, the following disclosures are made:

The Foundation financial statements follow FASB standards; therefore, the required disclosures differ from GASB requirements.

The Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification defines fair value, establishes a framework for measuring fair value and requires disclosure of fair value measurements. Effective July 1, 2009, the Foundation adopted the portion of the Topic which requires disclosure of nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value on a nonrecurring basis. The fair value hierarchy set forth in the Topic is as follows:

Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

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

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

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

Investments: Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would primarily include exchange-traded equities and mutual funds.

If quoted market prices are not available, then the fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flow. Level 2 securities would include mortgage-backed agency securities, certain corporate securities and certain mutual funds. These securities are valued primarily through a multidimensional relational model including standard inputs such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, offers and reference data.

In certain cases where there is limited activity or less transparency around inputs to the valuation including alternative investments, securities are classified within Level 3 of the valuation hierarchy. The Foundation’s private equity, hedge and real estate investment funds do not have a readily determinable fair value. As such, they are classified as Level 3 investments. As these funds provide the Foundation with a net asset value per share, and it has been calculated in accordance with the investment companies guide, the Foundation has valued these investments at the net asset value per share plus or minus any adjustments for any net asset values not available as of year-end. Farms are valued using appraisals.

Beneficial interest in trusts and trusts held by others: The values of the beneficial interest in trusts are derived from the underlying investments of the trusts. The value of those investments is determined in the same manner as investments described above. The Foundation owns an interest in trust and not the underlying investments. The estimated future value of that interest in the trust based on Foundation management’s estimate of the trusts’ expected performance is then present valued back to the date of the financial statements based on life expectancy factors published by the Internal Revenue Service.

The following table summarizes assets measured at fair value on a recurring basis as of June 30, 2011, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

URO – Foundation Fair Value Measurements as of June 30, 2011

(In thousands)				
	<u>Fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:				
U.S. Treasury bonds and bills	\$ 11,125		11,125	
International government bonds	135		135	
U.S. government agencies	27,091		26,824	267
International government agencies	571		571	
Municipal bonds	1,272		875	397
Corporate bonds and notes	20,920		20,608	312
Commercial mortgage-backed securities	1,482		1,482	
Guaranteed fixed income	142		142	
Asset-backed securities	3,325		3,016	309
Nongovernment backed collateralized mortgage obligation	4,147		3,683	464
Other fixed income	1,190		1,190	
Preferred stock, domestic financial services	6	6		
Common stock, domestic:				
Consumer goods	45,799	45,799		
Energy	18,964	18,964		
Financial services	12,688	11,682	1,006	
Healthcare	19,281	19,281		
Industrials	19,969	19,969		
Information technology	29,974	29,974		
Materials	7,371	7,371		
Telecommunications	687	687		
Utilities	1,509	1,509		
Common stock, foreign:				
Consumer goods	17,324	17,324		
Energy	6,961	6,961		
Financial services	11,569	11,569		
Health care	6,519	6,519		
Industrials	11,350	11,350		
Information technology	4,221	4,221		
Materials	4,170	4,170		
Miscellaneous	15,388			15,388
Subtotal forward	\$ 305,150	217,356	70,657	17,137

URO – Foundation Fair Value Measurements as of June 30, 2011 (Continued)

(In thousands)

	<u>Fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Subtotal forward	\$ 305,150	217,356	70,657	17,137
Real estate trusts and partnerships	542,414			542,414
Bond mutual funds:				
U.S. government	9,098	1,029	8,069	
Mortgages	31,688	3,602	28,086	
Corporate bonds and notes	31,566	3,601	27,965	
High Yield	42		42	
Municipals	1,993		1,993	
Internationals	18,975	2,315	16,660	
Equity mutual funds:				
Small cap	653	647	6	
Mid cap	10,553	10,553		
Large cap	117,911	39,552	78,359	
International	97,710	14,049	83,661	
Money market mutual funds	76,612	76,612		
Other	3,026			3,026
Farms	39,999		39,999	
Beneficial interest in trusts	28,969			28,969
Trusts held by others	11,850			11,850
Cash surrender value of life insurance	5,299		5,299	
Other assets	5,902		5,902	
Total investments	\$ <u>1,339,410</u>	<u>369,316</u>	<u>366,698</u>	<u>603,396</u>

The investments above exclude \$10,229,000 of real estate, which is carried at lower of cost or fair value.

The following table presents additional information about investments measured at fair value on a recurring basis for which the URO – Foundation has utilized Level 3 inputs to determine fair value:

URO – Foundation Significant Unobservable Inputs (Level 3) as of June 30, 2011

	(In thousands)					
	<u>Balance, beginning</u>	<u>Purchases</u>	<u>Sales (distributions)</u>	<u>Total gains or losses*</u>	<u>Net transfers in/out of level 3</u>	<u>Balance, ending</u>
U.S. government agencies: \$	236	271	(7)	(4)	(229)	267
Municipal bonds	442		(50)	5		397
Corporate bonds/notes	2,784	257	(1,893)	76	(139)	1,085
International common stock	17,641	212	(5,958)	3,493		15,388
Real estate trusts and partnerships	374,280	111,179	(12,064)	69,019		542,414
Other investments	2,679		(112)	459		3,026
Beneficial interest in trusts	26,976			1,993		28,969
Trusts held by others	7,040			4,810		11,850
Balance, ending	<u>\$ 432,078</u>	<u>111,919</u>	<u>(20,084)</u>	<u>79,851</u>	<u>(368)</u>	<u>603,396</u>

*(realized/unrealized) included in change in net assets

Gains and losses on Level 3 investments included in change in net assets for the period above are reported as realized and unrealized gains (losses) on investments.

The following table sets forth additional disclosure of the Foundation's investments whose fair value is estimated using net asset value (NAV) per share (or its equivalent) as of June 30, 2011.

URO – Foundation Investments, Fair Value Estimated Using NAV (or its equivalent)

	(In thousands)			
	<u>Fair value</u>	<u>Unfunded commitment</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
Real estate trusts and partnerships (a)	\$ 542,414	36,878	Daily Annually	30-90 Days
Large Cap equity fund (b)	78,359		Daily	Trade Date Plus 1-3 Days
International equity fund (c)	83,661		Daily 10 days	Trade Date Plus 1 day-30 Days
	<u>\$ 704,434</u>	<u>36,878</u>		

(a) The partnership in this category consists of funds that invest in the following types of investments in the USA and outside the USA: venture capital partnerships, buyout partnerships, mezzanine/subordinated debt partnerships, restructuring/distressed debt partnerships and special situation partnerships. These investments cannot be redeemed during the life of the partnership, which can be up to 12 years; however, they can be transferred to another eligible investor. Distributions will be received as the underlying investments of the funds are liquidated over time. The fair value of this investment has been estimated using the net asset value provided by the fund manager and an adjustment determined by management for the time period between the date of the last available net asset value from the investment manager and June 30, 2011.

(b) These funds invest in marketable equities that are all exchange traded in the United States of America (USA) and that are categorized as the title of each respective fund suggests (small cap, mid

cap, large cap). These funds can be redeemed at the month-end net asset value per share based on the fair value of the underlying assets. The fair values of these investments have been estimated using the net asset value per share of the investments provided by the fund manager.

(c) These funds invest in international equities that are all exchange traded in countries outside of the USA. These funds can be redeemed at the month end net asset value per share based on the fair value of the underlying assets. The fair values of these investments have been estimated using the net asset value per share of the investment provided by the fund manager.

(3) Accounts, Notes and Pledges Receivable

The University provides allowances for uncollectible accounts and notes receivable based upon management's best estimate considering type, age, collection history of receivables and any other factors as considered appropriate. Accounts and notes receivable are reported net of allowances at June 30, 2011.

The composition of accounts receivable and notes and pledges receivable at June 30, 2011 is summarized as follows:

University Accounts Receivable, Net of Allowance

(In thousands)			
	Gross receivables	Allowance for uncollectible	Net receivables
Receivables from sponsoring agencies	\$ 179,050	(2,013)	177,037
Hospital and other medical activities	341,283	(254,712)	86,571
Student tuition and fees	32,321	(9,787)	22,534
Auxiliaries	14,650	(4,448)	10,202
Medical service plan	88,496	(21,537)	66,959
Educational activities	25,065	(3,361)	21,704
Other	23,372	(5,243)	18,129
Total	\$ 704,237	(301,101)	403,136

Notes and Pledges Receivable

(In thousands)	
Student notes – University:	
Student notes outstanding	\$ 63,969
Allowance for uncollectible loans	(2,503)
Total student notes, net	\$ 61,466
Gift pledges receivable, URO – Foundation:	
Less:	
Allowance for doubtful pledges	(5,031)
Present value discount	(2,076)
Total gift pledges outstanding, net	\$ 84,000

(4) 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 \$2,216,000 was capitalized during the year ended June 30, 2011.

Capital assets activity during the year ended June 30, 2011 is summarized as follows:

University Capital Assets					
(In thousands)					
	Beginning balance	Additions	Retirements	Transfers	Ending balance
Nondepreciable capital assets:					
Land	\$ 132,617	656			133,273
Construction in progress	108,655	108,730	(30,000)	(65,262)	122,123
Inexhaustible collections	19,803	631			20,434
Total nondepreciable capital assets	<u>261,075</u>	<u>110,017</u>	<u>(30,000)</u>	<u>(65,262)</u>	<u>275,830</u>
Depreciable capital assets:					
Buildings	3,481,838		(3,080)	52,697	3,531,455
Improvements and infrastructure	663,046			12,565	675,611
Equipment	996,411	74,029	(55,569)		1,014,871
Software	163,462	713			164,175
Exhaustible collections	498,925	26,663	(1,406)		524,182
Total depreciable capital assets	<u>5,803,682</u>	<u>101,405</u>	<u>(60,055)</u>	<u>65,262</u>	<u>5,910,294</u>
Less accumulated depreciation:					
Buildings	1,154,339	85,691	(2,664)		1,237,366
Improvements and infrastructure	303,214	23,220			326,434
Equipment	785,055	62,120	(51,716)		795,459
Software	107,871	16,339			124,210
Exhaustible collections	384,471	22,375			406,846
Total accumulated depreciation	<u>2,734,950</u>	<u>209,745</u>	<u>(54,380)</u>	<u>—</u>	<u>2,890,315</u>
Total net depreciable capital assets	<u>3,068,732</u>	<u>(108,340)</u>	<u>(5,675)</u>	<u>65,262</u>	<u>3,019,979</u>
Total	<u>\$ 3,329,807</u>	<u>1,677</u>	<u>(35,675)</u>	<u>—</u>	<u>3,295,809</u>

(5) Accrued Self-Insurance and Loss Contingency

The University's accrued self-insurance liability of \$244,494,000 at June 30, 2011 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 rates of 3% to 5% at June 30, 2011. Amounts increasing the accrued self-insurance liability are charged as expenses based upon estimates made by actuaries and the University's risk management division. An additional workers' compensation self-insurance liability of \$22,677,000 at June 30, 2011 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, 2011.

Accrued self-insurance liability includes \$157,026,000 at June 30, 2011 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, 2011. 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.

Changes in Accrued Self-Insurance

(In thousands)

	<u>2011</u>	<u>2010</u>
Balance, beginning of year	\$ 206,829	181,827
Claims incurred and changes in estimates	75,536	62,582
Claim payments and other deductions	<u>(37,871)</u>	<u>(37,580)</u>
Balance, end of year	244,494	206,829
Less current portion	<u>(60,388)</u>	<u>(59,008)</u>
Balance, end of year – noncurrent portion	<u>\$ 184,106</u>	<u>147,821</u>

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 material settlements that exceeded insurance coverage during the last three years.

The University purchases excess indemnity coverage for certain areas such as commercial general liability, Board legal liability, and hospital and medical liability.

(6) **Accrued Compensated Absences**

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.

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

Changes in Compensated Absences Balance

(In thousands)

Balance, beginning of year	\$	214,988
Additions		14,363
Deductions		<u>(28,063)</u>
Balance, end of year		201,288
Less current portion		<u>(21,090)</u>
Balance, end of year – noncurrent portion	\$	<u><u>180,198</u></u>

(7) **Bonds Payable**

On July 21, 2010, the University issued Auxiliary Facilities System Revenue Bonds, Series 2010A, in the amount of \$56,675,000. The proceeds from the Series 2010A Bonds will be used to fund the costs of various improvements and additions to the System and fund all costs incidental to the issuance of the Series 2010A Bonds.

Bonds Payable

(In thousands)

	<u>Maturity dates</u>	<u>Beginning balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Auxiliary Facilities System:						
Current Interest Bonds	2012 – 2038	\$ 779,130	56,675	(14,695)	821,110	15,955
Capital Appreciation Bonds	2012 – 2030	218,790		(16,270)	202,520	16,270
Health Services Facilities System	2012 – 2027	59,815		(800)	59,015	1,935
UIC South Campus	2012 – 2023	69,985		(3,660)	66,325	4,235
		<u>1,127,720</u>	<u>56,675</u>	<u>(35,425)</u>	<u>1,148,970</u>	<u>38,395</u>
Unaccrued appreciation		<u>(78,564)</u>	<u>9,955</u>		<u>(68,609)</u>	<u>(849)</u>
		<u>1,049,156</u>	<u>66,630</u>	<u>(35,425)</u>	<u>1,080,361</u>	<u>37,546</u>
Unamortized debt premium		32,994	2,659	(1,468)	34,185	1,475
Unamortized loss on refunding		(23,405)		1,626	(21,779)	(1,550)
Financing payable under swap		3,453		(213)	3,240	212
Total		<u>\$ 1,062,198</u>	<u>69,289</u>	<u>(35,480)</u>	<u>1,096,007</u>	<u>37,683</u>

Capital appreciation bonds of \$202,520,000 outstanding at June 30, 2011 do not require current interest payments and have a net unappreciated value of \$133,911,000. 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, 1999A, 1999B, 2001A, 2001B, 2001C, 2003A, 2005A, 2006, 2008, 2009A and 2010A Auxiliary Facilities System Bonds; Series 1997B and 2008 Health Services Facilities System Bonds; and Series 2000, 2003 and 2008 UIC South Campus Bonds have been recorded as deferred charges and are being amortized over the life of the related bond issue.

Included in bonds payable is \$132,755,000 of variable rate demand bonds. These bonds mature serially through April 2038. These bonds have variable interest rates that are adjusted periodically (i.e., daily, weekly, or monthly), generally with interest paid at the beginning of each month. The bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest on seven days notice and delivery to the University's several remarketing agents. The University pays the remarketing agent fees on the outstanding bond balance. If the remarketing agent is unable to resell any bonds that are "put" to the agent, the University has a standby bond purchase agreement with a liquidity facility entity. The University has several such agreements, with the fees on the Bond Purchase Commitment (formula based on outstanding bonds plus pro forma interest). The University, in the event a liquidity facility is utilized, has reimbursement agreements with different financial entities. Generally, the payback period is five to seven years, at an interest rate initially set at slightly above prime or the federal funds rate. The required future interest payments for these variable rate bonds have been calculated using the current interest rate, based upon short-term tax-exempt rates, or the synthetic fixed rate, as illustrated in the tables below. Other outstanding bond issues bear interest at fixed rates ranging from 3.00% to 7.96%.

Variable Rate Bonds							
Bond issues	Interest rate at June 30, 2011	Remarketing agent	Remarketing fee	Liquidity facility			Liquidity fee
				Bank	Expiration	Insurer	
UIC South Campus, Series 2008	0.09%	JPMorgan Securities	0.075%	JPMorgan Chase LOC	6/24/2015	JPMorgan Chase LOC	0.525%
AFS, Series 2008	0.09	Loop Capital	0.075	JPMorgan Chase	5/19/2016	None	0.525
HSFS, Series 1997B	0.09	JPMorgan Securities	0.070	JPMorgan Chase LOC	4/1/2014	JPMorgan Chase LOC	0.55
HSFS, Series 2008	0.10	Goldman	0.070	JPMorgan Chase LOC	6/3/2014	JPMorgan Chase LOC	0.55

(a) Interest Rate Swap Agreements on Bonds Payable

The University has entered into three separate pay-fixed; receive variable interest rate swap agreements. The objective of these swaps was to effectively change the University's variable interest rate on the Bonds to a synthetic fixed rate. The notional amount of the interest rate swaps is equal to the par amount of the related bonds, except for HSFS Series 2008, of which \$340,000 is not covered by the swap agreement. In addition, the swaps were entered at the same time as the Bonds were issued and terminate with maturity of the Bonds. No cash was paid or received when the original swap agreements were entered into.

Credit Risk – As of June 30, 2011, the University was not exposed to credit risk because the swaps had a negative fair value. If interest rates change and the fair value of the swap became positive, the University would be exposed to credit risk in the amount of the derivative’s fair value. The terms, fair values and credit ratings of the outstanding swaps as of June 30, 2011 are listed below:

Interest Rate Swaps								
Bond issues	Outstanding notional amount	Effective date	Fixed rate paid	Variable rate received***	Fair value	Swap termination date	Counterparty	Counterparty credit rating (S&P/Moody’s)
HSFS 2008	\$ 40,875,000	Nov 2008**	3.534%	68% of LIBOR*	\$ (1,048,000)	Oct-2026	Loop	A+/Aa3
UIC SC 2008	27,258,000	Feb 2006**	4.086	68% of LIBOR*	(3,941,000)	Jan-2022	Morgan Stanley	A/A2
UIC SC 2008	26,743,000	Feb 2006**	4.092	68% of LIBOR*	(3,868,000)	Jan-2022	JPMorgan Chase	AA-/Aa1

* SIFMA + 0.05% rate received from February 19, 2008 through February 3, 2010. Received cost of funds prior to February 19, 2008 and received 68% of LIBOR after February 3, 2010.

** Swap agreement was transferred from original issue to refunded bond issues.

*** LIBOR – London Interbank Offered Rate

The University engaged a third-party consultant to calculate the “mark to market” or “market value” of the swap transactions. Since these are negative numbers, they represent an approximation of the amount of money that the University may have to pay a swap provider to terminate the swap. The counterparty may have to post collateral in the University’s favor in certain conditions, and the University would never be required to post collateral in the counterparty’s favor.

Interest Rate Risk – Since inception of the swaps, declining interest rates exposed the University to interest rate risk, which adversely affected the fair values of the swap agreements.

Termination Risk – The University has the option to terminate any of the swaps early. The University or the counterparties may terminate a swap if the other party fails to perform under the terms of the contract. The University may terminate a 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 a swap is terminated, the variable-rate Bonds would no longer carry a synthetic fixed interest rate. In addition, if at the time of termination, a swap has a negative fair value, the University would be liable to the counterparties for a payment equal to the swap’s fair value.

Basis Risk – The swaps expose the University to basis risk should the relationship between LIBOR and the variable weekly rate determined by remarketing agents change, changing the synthetic rate on the bonds. If a change occurs that results in the difference in rates widening, the expected cost savings may not be realized.

Other Risks – Since the swap agreements extend to the maturity of the related bond, the University is not exposed to rollover risk. In addition, the University is not exposed to foreign currency risk or to market access risk as of June 30, 2011. However, if the University decides to issue refunding bonds and credit is more costly at that time, it could be exposed to market access risk.

(b) **Pledged Revenues and Debt Service Requirements**

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

Pledged Revenues					
Bond issues	Purpose	Source of revenue pledged	Future revenues pledged ²	Term of commitment	Debt service to pledged revenues (current year)
			(In thousands)		
Auxiliary Facilities System	Refundings, various improvements and additions to the System	Net AFS revenue, student tuition and fees	\$ 1,619,640	2038	7.77%
Health Services Facilities System	Additions to System and refunding	Net HSFS, Medical Service Plan revenue net of bad debt expense, College of Medicine net tuition revenue	71,822	2027	0.89
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	<u>84,298</u>	2023	2.37
			Total future revenues pledged		
			<u>\$ 1,775,760</u>		

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

²Total future principal and interest payments on debt

Future debt service requirements for all bonds outstanding at June 30, 2011 are as follows:

Debt Service Requirements		
	Principal	Interest
(In thousands)		
2012	\$ 38,395	45,487
2013	41,770	44,323
2014	43,680	43,067
2015	45,420	41,808
2016	47,145	40,560
2017 – 2021	270,880	180,694
2022 – 2026	255,365	130,148
2027 – 2031	231,365	76,114
2032 – 2036	170,260	24,384
2037 – 2038	<u>4,690</u>	<u>205</u>
Total	<u>\$ 1,148,970</u>	<u>626,790</u>

Using the actual rates of 0.09% (UIC South Campus, Series 2008) and 0.10% (Health Services Facilities System, Series 2008), in effect as of June 30, 2011, 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 Revenue Refunding Bonds, Series 2008
Variable-Rate Debt Service Requirements**

(In thousands)				
	Variable-rate bonds		Interest rate swaps, net	Total
	Principal	Interest		
2012	\$ 570	48	2,151	2,769
2013	2,225	47	2,103	4,375
2014	4,425	45	1,981	6,451
2015	4,610	41	1,801	6,452
2016	4,810	36	1,614	6,460
2017 – 2021	30,200	107	4,753	35,060
2022	7,160	4	178	7,342
Total	\$ 54,000	328	14,581	68,909

**Health Services Facilities System Revenue Bonds, Series 2008
Variable-Rate Debt Service Requirements**

(In thousands)				
	Variable-rate bonds		Interest rate swaps, net	Total
	Principal	Interest		
2012	\$ 1,135	40	1,378	2,553
2013	2,090	39	1,318	3,447
2014	2,105	37	1,246	3,388
2015	2,220	34	1,172	3,426
2016	2,240	32	1,096	3,368
2017-2021	12,725	124	4,225	17,074
2022-2026	15,325	54	1,834	17,213
2027	3,375	1	38	3,414
Total	\$ 41,215	361	12,307	53,883

Certain bonds of the University (AFS Series 1991) have debt service reserve requirements. The Maximum Annual Net Debt Service for those bonds, as defined, is \$14,927,000.

(8) Leaseholds Payable and Other Obligations

On December 16, 2010, the University closed on an Energy Services Agreement (ESA) for the installation of Energy Conservation Measures (ECMs) to the Veterinary Medicine facilities at the Urbana campus. The ESA included an Installment Payment Contract to finance the ECMs in the amount of \$18,355,000. The repayment terms are semi-annually for 15 years at an interest rate of 3.24%.

Leaseholds payable and other obligations activity for the year ended June 30, 2011 consist of the following:

Leaseholds Payable and Other Obligations					
(In thousands)					
	Beginning balance	Additions	Deductions	Ending balance	Current portion
University:					
Certificates of participation	\$ 536,050		(76,900)	459,150	19,355
Unamortized debt premium	13,194		(1,440)	11,754	1,440
Unamortized deferred loss on refunding	(7,929)		1,299	(6,630)	(650)
	541,315	—	(77,041)	464,274	20,145
Other capital leases	43,036	1,128	(6,021)	38,143	3,465
ESA installment payment contract		18,355	(599)	17,756	977
Environmental remediation liability	4,592	18		4,610	3,843
Total University	<u>\$ 588,943</u>	<u>19,501</u>	<u>(83,661)</u>	<u>524,783</u>	<u>28,430</u>
URO – Foundation:					
Annuities payable	\$ 46,456	6,608	(6,428)	46,636	6,503
Other liabilities	6,220	1,590		7,810	
Total URO – Foundation	<u>\$ 52,676</u>	<u>8,198</u>	<u>(6,428)</u>	<u>54,446</u>	<u>6,503</u>

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.

Included in leaseholds payable is \$132,120,000 of variable rate demand Certificates of Participation (COP). These COPs mature serially through August 2021. These COPs have variable interest rates that are adjusted periodically (i.e. daily, weekly, or monthly), generally with interest paid at the beginning of each month. The COPs are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest on seven days notice and delivery to the University's remarketing agent. The University pays the remarketing agent fees on the outstanding COPs balance. If the remarketing agent is unable to resell any COPs that are "put" to the agent, the University has a standby certificate purchase agreement with a liquidity facility entity. The University has an agreement, with the fees based on the Adjusted Principal (formula based on COPs outstanding plus pro forma interest). The University, in the event a liquidity facility is utilized, has a reimbursement agreement with a financial entity. Generally, the payback period is five to seven years, at an interest rate initially set at slightly above prime or the federal funds rate. The required future interest payments for these variable rate certificates have been calculated using the synthetic fixed rate for Series 2004, as illustrated in the tables below. Other outstanding certificates bear interest at fixed rates ranging from 3.00% to 5.25%.

Variable Rate Certificates of Participation							
COP issue	Interest rate at June 30, 2011	Remarketing agent	Remarketing fee	Liquidity facility			Liquidity fee
				Bank	Expiration	Insurer	
COP Series 2004	0.08%	Morgan Stanley	0.10%	Bank of America	3/30/2013	None	0.85%

(a) **Interest Rate Swap Agreement on Certificates of Participation**

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, the University entered into an interest rate swap in connection with its Certificates of Participation (Utility Infrastructure Projects) Series 2004.

The objective of the swap was to effectively change the University's variable interest rate on the Certificates to a synthetic fixed rate. The notional amount of the interest rate swap is equal to the par amount of the related Certificates of Participation. The swap agreement was entered at the same time as the Certificates were issued and terminate with maturity. No cash was paid or received when the original swap agreements were entered into.

Credit Risk – As of June 30, 2011, the University was not exposed to credit risk because the swaps had a negative fair value. If interest rates change and the fair value of the swap became positive, the University would be exposed to credit risk in the amount of the derivative's fair value. The terms, fair value and credit rating of the outstanding swap as of June 30, 2011 are listed below:

Interest Rate Swap							
COP issue	Outstanding notional amount	Effective date	Fixed rate paid	Variable rate received	Fair value	Swap termination date	Counterparty credit rating (S&P/Moody's)
COP 2004	\$ 132,120,000	March 2004	3.765%	100% of SIFMA \$ (14,062,000)		August 2021	Morgan Stanley A/A2

The University engaged a third-party consultant to calculate the "mark to market" or "market value" of the swap transactions. Since these are negative numbers, they represent an approximation of the amount of money that the University may have to pay a swap provider to terminate the swap. The counterparty may have to post collateral in the University's favor in certain conditions, and the University would never be required to post collateral in the counterparty's favor.

Interest Rate Risk – Since inception of the swap, declining interest rates exposed the University to interest rate risk, which adversely affected the fair values of the swap agreements.

Termination Risk – 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. In addition, 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.

Basis Risk – Starting in fiscal year 2006, the notional value of the swap and the principal amount of the associated Certificates began to decline. Conversely, the Certificates’ variable interest rates are expected to approximate SIFMA. For fiscal year 2011, the Certificates’ average variable interest rate was the same as SIFMA. As noted above, the swap exposes the University to basis risk should the relationship between SIFMA and the variable weekly rate determined by remarketing agents converge, changing the synthetic rate on the bonds. If a change occurs that results in the rates widening, the expected cost savings may not be realized.

Other Risks – Since the swap agreements extend to the maturity of the related certificates, the University is not exposed to rollover risk. In addition, the University is not exposed to foreign currency risk or to market access risk as of June 30, 2011. However, if the University decides to issue refunding certificates and credit is more costly at that time, it could be exposed to market access risk.

Using the actual rate of 0.08% in effect as of June 30, 2011, 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 certificate 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 swaps, net	Total
	Principal	Interest		
2012	\$ 6,840	103	4,743	11,686
2013	7,120	97	4,485	11,702
2014	7,410	92	4,218	11,720
2015	7,710	86	3,939	11,735
2016	8,015	79	3,650	11,744
2017 – 2021	76,285	244	11,241	87,770
2022	18,740	7	345	19,092
Total	\$ 132,120	708	32,621	165,449

(b) **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 financial statements. The amount of certificates that have been defeased as of June 30, 2011 consists of the following:

Advanced Refunded Certificates	
(In thousands)	
Series	Outstanding at June 30, 2011
2001A Utility	\$ 71,360
2001B Utility	54,135
Total	<u>\$ 125,495</u>

(c) **Capital Leases (includes Certificates of Participation)**

Assets held under capital leases are included in capital assets at June 30, 2011 as follows:

Assets Held Under Capital Lease	
(In thousands)	
Land	\$ 8,423
Buildings	149,318
Improvements	263,546
Equipment	154,066
Subtotal	<u>575,353</u>
Less accumulated depreciation	<u>220,240</u>
Total	<u>\$ 355,113</u>

The net present value of outstanding capital leases at June 30, 2011 is as follows:

Outstanding Capital Leases	
(In thousands)	
Certificates of participation:	
Series 2003 South Farms	\$ 18,045
Series 2003 UI Integrate	31,700
Series 2003 Utility Infrastructure	37,530
Series 2004 Utility Infrastructure	132,120
Series 2005 College of Medicine	16,210
Series 2006A Academic Facilities	67,350
Series 2007A	72,320
Series 2007B	45,645
Series 2009A	38,230
Other capital leases	<u>38,143</u>
Net present value	<u>\$ 497,293</u>

As of June 30, 2011, future minimum lease payments under capital leases are as follows:

Future Minimum Lease Payments Under Capital Leases	
(In thousands)	
2012	\$ 45,219
2013	50,132
2014	56,822
2015	55,208
2016	49,522
2017 – 2021	244,370
2022 – 2026	136,564
2027 – 2031	40,764
2032 – 2033	2,477
Total minimum lease payments	<u>681,078</u>
Amount representing interest	<u>(183,785)</u>
Net present value	<u>\$ 497,293</u>

(d) Other Obligations

As mentioned above, as part of an ESA, the University has entered into installment payment contracts to finance ECMs. As of June 30, 2011, future minimum lease payments under installment payment contracts are as follows:

Future Minimum Lease Payments Under Installment Payment Contract	
(In thousands)	
2012	\$ 1,544
2013	1,544
2014	1,544
2015	1,544
2016	1,544
2017 – 2021	7,722
2022 – 2026	6,950
Total minimum lease payments	<u>22,392</u>
Amount representing interest	<u>(4,636)</u>
Net present value	<u>\$ 17,756</u>

The University monitors environmental matters and records an estimated liability for identified environmental remediation costs. The estimated liability at June 30, 2011 is \$4,610,000.

At June 30, 2011, the URO – Foundation had annuities payable outstanding of \$46,636,000. Annuities payable represent an actuarial computation of the present value of future payments to annuitants.

(e) **Operating Leases**

The University also leases various buildings and equipment under operating lease agreements. Total rental expense under these agreements was \$12,557,000 for the year ended June 30, 2011. The future minimum lease payments (excluding those leases renewed on an annual basis) are as follows:

Future Minimum Operating Lease Payments	
(In thousands)	
2012	\$ 10,104
2013	7,203
2014	6,367
2015	4,928
2016	3,050
2017 – 2021	4,714
Total	\$ <u>36,366</u>

(9) **Net Assets**

As discussed in note 1, the University'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 Foundation including major categories of restrictions and internal designations of unrestricted funds.

University Net Assets	
(In thousands)	
Invested in capital assets, net of related debt	\$ 1,865,699
Restricted – nonexpendable:	
Invested in perpetuity to produce income expendable for – scholarships, fellowships and research	75,065
Restricted – expendable for:	
Scholarships, fellowships and research	308,731
Loans	78,438
Service plans	130,367
Retirement of indebtedness	27,955
Capital projects	15,964
Unrestricted:	
Designated	687,241
Undesignated	
Total	\$ <u>3,189,460</u>

URO – Foundation Net Assets

(In thousands)

Invested in capital assets, net of related debt	\$	5,609
Restricted – nonexpendable:		
Invested in perpetuity to produce income expendable for – Academic Programs, scholarships, fellowships and research		726,649
Restricted – expendable for:		
Academic programs, scholarships, fellowships and research		642,646
Unrestricted		<u>(2,324)</u>
Total	\$	<u><u>1,372,580</u></u>

(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. In accordance with GASB standards, the principal is not recorded in the accompanying financial statements for the University. The Foundation has recorded the principal in the accompanying financial statements in accordance with FASB standards. The fair value of these funds at June 30, 2011 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)

	<u>University</u>	<u>URO – Foundation</u>
Fair value of funds held in trust by others	\$ 40,474	40,819
Income received from funds held in trust by others	953	1,012

(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 web site 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.

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 24.21% 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, 2011, 2010 and 2009 were \$350,480,000, \$319,047,000 and \$219,441,000, respectively, equal to the required contributions for each year. The UROs contributions to SURS for the years ended June 30, 2011, 2010 and 2009 were \$943,000, \$921,000 and \$958,000, 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.

(12) Postemployment Benefits

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

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

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

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 or a university, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed healthcare plan. Annuitants who retired prior to January 1, 1998, and who are vested in one of the State's sponsored pension plans, 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 20 or more years of credited service to not have to contribute towards health, dental, and vision benefits. For fiscal year 2011, the annual cost of health, dental, and vision benefits before the State's contribution was \$7,538 (\$3,949 if Medicare eligible) if the annuitant chose benefits provided by a health maintenance organization (HMO) and \$10,697 (\$4,483 if Medicare eligible) if the annuitant chose other benefits. Additional contributions by annuitants for dependents ranging from \$1,068 to \$2,814 (\$1,020 to \$2,538 if Medicare eligible) are also required depending on the benefits selected and whether there is one or multiple dependents.

For current employees, contributions are dependent upon annual salary and whether or not the employee chooses to receive benefits through an HMO. Current employee contribution amounts to the plan for fiscal year 2011 are shown as follows:

Annual Employee Health, Dental, and Vision Contribution Requirements

	Benefits provided through	
	HMO	Others
Employee annual salary:		
\$29,500 and below	\$ 696	996
\$29,501 – \$44,600	756	1,056
\$44,601 – \$59,300	786	1,086
\$59,301 – \$74,300	816	1,116
\$74,301 and above	846	1,146

Additional contributions by employees for dependents ranging from \$996 to \$2,712 (\$948 to \$2,436 if Medicare eligible) are also required depending on the benefits selected and whether there is one or multiple dependents.

(13) Commitments and Contingencies

At June 30, 2011, the University had commitments on various construction projects and contracts for repairs and renovation of facilities of approximately \$98,930,000.

The University has secured natural gas at a fixed price for fiscal year 2012 by executing forward fixed-price purchase contracts with Nicor Enerchange. The University accounts for these contracts as normal purchase contracts because it is probable that the University will take delivery of the natural gas. At June 30, 2011, the University's commitment related to these contracts is \$33,909,000.

The University receives moneys 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 moneys 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 (OIG) on behalf of the Illinois Department of Healthcare and Family Services (IDHFS) indicating that the University received an overpayment of \$14.8 million on behalf of Medicaid patients covering the period May 2004 through April 2006. University management is in the process of contesting this overpayment and estimates the University's probable liability related to this overpayment is \$5 million based on additional documentation received from IDHFS subsequent to the original notice. During fiscal year 2010, the University submitted additional documentation and evidence of its positions. As of September 29, 2011, the OIG on behalf of the IDHFS contacted the University to request its settlement offer to resolve the audit. The University intends to pursue settlement discussion with OIG and IDHFS with a view toward resolution of the matter. The estimated liability including a provision for subsequent audits has been reflected in the University's balance sheet and results from operations as accounts payable for approximately \$9.7 million.

(14) Operating Expenses by Natural Classification

Operating expenses by natural classification for the year ended June 30, 2011 for the University and the URO – Foundation are summarized as follows:

University Operating Expenses by Natural Classification					
(In thousands)					
	Compensation and benefits	Supplies and services	Student aid	Depreciation	Total
Instruction	\$ 870,801	130,837	4,552		1,006,190
Research	446,278	231,830	2,543		680,651
Public service	239,540	146,485	1,436		387,461
Academic support	255,172	88,573	5,350		349,095
Student services	93,577	35,356	2,894		131,827
Institutional support	182,293	27,427	32		209,752
Operations and maintenance of plant	54,530	227,022	6,273		287,825
Scholarships and fellowships	212,167	1,724	24,831		238,722
Auxiliary enterprises	129,389	171,362	15,691		316,442
Hospital and medical activities	398,917	234,878			633,795
Independent operations	1,464	12,402			13,866
Depreciation				209,745	209,745
Total	<u>\$ 2,884,128</u>	<u>1,307,896</u>	<u>63,602</u>	<u>209,745</u>	<u>4,465,371</u>

URO – Foundation Operating Expenses by Natural Classification

(In thousands)

	<u>Distributions on behalf of the University</u>	<u>Institutional support</u>	<u>Depreciation</u>	<u>Total</u>
Fund-raising	\$	10,754		10,754
Distributions on behalf of the University	147,404			147,404
General and administrative		11,678		11,678
Depreciation			549	549
Total	\$ 147,404	22,432	549	170,385

(15) Segment Information

The following financial information represents identifiable activities within the University financial statements for which one or more revenue bonds are 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.

Condensed Balance Sheets

June 30, 2011

(In thousands)

	Auxiliary Facilities System	Health Services Facilities System	Total
Assets and deferred outflows of resources:			
Current assets	\$ 183,643	259,453	443,096
Noncurrent assets:			
Capital assets, net of accumulated depreciation	947,892	149,667	1,097,559
Other noncurrent assets	34,645	5,686	40,331
Deferred outflow of resources		1,048	1,048
Total assets and deferred outflows of resources	\$ 1,166,180	415,854	1,582,034
Liabilities:			
Current liabilities	\$ 71,353	90,080	161,433
Noncurrent liabilities:			
Long-term debt	952,982	59,933	1,012,915
Other liabilities	5,254	23,103	28,357
Total liabilities	1,029,589	173,116	1,202,705
Net assets:			
Invested in capital assets, net of related debt	4,264	86,243	90,507
Restricted:			
Expendable	20,450	5,356	25,806
Unrestricted	111,877	151,139	263,016
Total net assets	136,591	242,738	379,329
Total liabilities and net assets	\$ 1,166,180	415,854	1,582,034

Condensed Statement of Revenues, Expenses and Changes in Net Assets

Year ended June 30, 2011

(In thousands)

	Auxiliary Facilities System	Health Services Facilities System	Total
Operating revenues	\$ 311,175	533,881	845,056
Operating expenses	247,605	636,206	883,811
Depreciation expense	29,861	18,711	48,572
Operating income (loss)	33,709	(121,036)	(87,327)
Nonoperating revenues (expenses), net	(20,027)	133,699	113,672
Increase in net assets	13,682	12,663	26,345
Net assets, beginning of year	122,909	230,075	352,984
Net assets, end of year	\$ 136,591	242,738	379,329

Condensed Statement of Cash Flows

Year ended June 30, 2011

(In thousands)

Net cash flows provided by operating activities	\$ 91,866	36,654	128,520
Net cash flows (used in) provided by noncapital financing activities	(202)	146	(56)
Net cash flows used in capital and related financing activities	(51,754)	(23,938)	(75,692)
Net cash flows (used in) provided by investing activities	(43,150)	3,934	(39,216)
Net (decrease) increase in cash and cash equivalents	(3,240)	16,796	13,556
Cash and cash equivalents, beginning of year	134,693	156,051	290,744
Cash and cash equivalents, end of year	\$ 131,453	172,847	304,300

(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:

Condensed Balance Sheets**June 30, 2011**

(In thousands)

	Foundation	Alumni Association	WWT	Illinois Ventures
Assets:				
Current assets	\$ 30,265	2,385	543	753
Noncurrent assets:				
Capital assets, net of accumulated depreciation	10,541	613	389	25
Other noncurrent assets	1,421,315	15,706		9,774
Total assets	<u>\$ 1,462,121</u>	<u>18,704</u>	<u>932</u>	<u>10,552</u>
Liabilities:				
Current liabilities	\$ 41,477	464	639	694
Due to related organizations		250		
Noncurrent liabilities:				
Due to related organizations		701		
Other noncurrent liabilities	48,064	8		
Total liabilities	<u>89,541</u>	<u>1,423</u>	<u>639</u>	<u>694</u>
Net assets:				
Invested in capital assets, net of related debt	5,609	613	389	25
Restricted:				
Nonexpendable	726,649			
Expendable	642,646			
Unrestricted	(2,324)	16,668	(96)	9,833
Total net assets	<u>1,372,580</u>	<u>17,281</u>	<u>293</u>	<u>9,858</u>
Total liabilities and net assets	<u>\$ 1,462,121</u>	<u>18,704</u>	<u>932</u>	<u>10,552</u>

Condensed Statements of Revenues, Expenses and Changes in Net Assets**Year ended June 30, 2011**

(In thousands)

Operating revenues	\$ 114,920	7,736	8,492	3,077
Operating expenses	169,768	7,837	8,144	2,576
Depreciation expense	549	66	266	17
Operating income (loss)	(55,397)	(167)	82	484
Nonoperating revenues (expenses)	219,763	3,274	(41)	(607)
Contributions to endowments	60,948			
Increase (decrease) in net assets	225,314	3,107	41	(123)
Net assets, beginning of year	1,147,266	14,174	252	9,981
Net assets, end of year	<u>\$ 1,372,580</u>	<u>17,281</u>	<u>293</u>	<u>9,858</u>

Condensed Balance Sheets

June 30, 2011

(In thousands)

	Research Park	Prairie land	Singapore Research	Total
Assets:				
Current assets	\$ 574	5,303	2,128	41,951
Noncurrent assets:				
Capital assets, net of accumulated depreciation	1,050	66	624	13,308
Other noncurrent assets				1,446,795
Total assets	\$ 1,624	5,369	2,752	1,502,054
Liabilities:				
Current liabilities	\$ 125	3,969	1,465	48,833
Due to related organizations			663	913
Noncurrent liabilities:				
Due to related organizations				701
Other noncurrent liabilities				48,072
Total liabilities	125	3,969	2,128	98,519
Net assets:				
Invested in capital assets, net of related debt	1,050	66	624	8,376
Restricted:				
Nonexpendable				726,649
Expendable				642,646
Unrestricted	449	1,334		25,864
Total net assets	1,499	1,400	624	1,403,535
Total liabilities and net assets	\$ 1,624	5,369	2,752	1,502,054

Condensed Statements of Revenues, Expenses and Changes in Net Assets

Year ended June 30, 2011

(In thousands)

Operating revenues	\$ 561	17,635	7,431	159,852
Operating expenses	324	17,525	7,272	213,446
Depreciation expense	38	14	211	1,161
Operating income (loss)	199	96	(52)	(54,755)
Nonoperating revenues (expenses)				
Contributions to endowments		1	103	222,493
				60,948
Increase (decrease) in net assets	199	97	51	228,686
Net assets, beginning of year	1,300	1,303	573	1,174,849
Net assets, end of year	\$ 1,499	1,400	624	1,403,535

(17) Subsequent Events

On July 7, 2011, the University issued Auxiliary Facilities System Revenue Bonds, Series 2011A and Series 2011B, in the amount of \$81,970,000 and \$10,875,000, respectively. The proceeds from the Series 2011A and the Series 2011B Bonds will be used to (i) pay a part of the costs of various improvements and additions to the System, (ii) currently refund certain outstanding obligations of the Board, (iii) pay certain capitalized interest on the Series 2011A Bonds and (iv) pay costs of issuing the Series 2011 Bonds.