UNIVERSITY OF ILLINOIS

Annual Financial Report

June 30, 2010

(With Independent Auditors' Report Thereon)

UNIVERSITY OF ILLINOIS

Annual Financial Report

June 30, 2010

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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 20, 2010

The information in this Annual Financial Report of the University of Illinois for the fiscal year ended June 30, 2010, documents that the financial position of the University is sound.

The continued 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, 2010, 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 2009 comparative information has been derived from the University of Illinois' 2009 financial statements and in our report dated February 26, 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, 2010, 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.

KPMG

As described in note 9 to the financial statements, The University of Illinois Foundation and The University of Illinois Alumni Association, discretely presented component units, changed their method of accounting from Governmental Accounting Standards to Financial Accounting Standards, effective July 1, 2009.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2010 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 20, 2010

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, 2010. The MD&A should be read in conjunction with the audited financial statements and footnotes 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 71,000 on-campus students and thousands more take courses off campus and online. The University of Illinois has internationally renowned faculty that are known for being world leaders in research and currently employs approximately 5,800 faculty members on its three campuses. The University offers a diverse range of degree programs from baccalaureate to doctoral levels. Approximately 19,000 degrees are awarded annually. The operating budget for fiscal year 2010, from all fund sources, was approximately $4.7 billion. Our faculty, staff and students share their knowledge and expertise and the resources of the University with citizens in every corner of Illinois through more than 700 public service and outreach programs.

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 17 to the financial statements.

Financial Highlights and Key Trends

The fiscal year 2010 state appropriations were approximately $701 million. In addition to the $701 million appropriation, $46 million was received through the state representing funding from the federal government through the American Recovery and Reinvestment Act (ARRA) of 2009. 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 2010 and 2009. The overall budget utilized by the University increased by approximately 12%, even though funding through the State of Illinois increased only 2.6%. This trend demonstrates the University's ability to rely on other diverse sources of funding to provide services to our students and support our mission.

Net assets, which represent the residual interest in the University's assets after liabilities, increased during the current year by approximately $427.8 million. After consideration of increases in on-behalf payments from the State of Illinois, the University's financial operating results improved significantly in fiscal year 2010 as compared to fiscal year 2009. This improvement resulted from factors such as an increase in tuition revenue, reduced expenses due to expenditure constraints, and improved financial operating results from the medical center 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 and liabilities of the University using the accrual basis of accounting. The difference between total assets and total liabilities, net assets, is one indicator of the current financial condition of the University. The changes in net assets that occur over time indicate improvement or deterioration in the University's financial condition. Generally, assets and liabilities are reported at cost with the exception of investments 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, liabilities and net assets at June 30, 2010 and 2009 is as follows:

		2010	2009
		(In thousands)	
Current assets:			
Cash and investments	$	771,161	616,340
Accounts and notes receivable		381,511	362,571
Receivable from State of Illinois General Revenue Fund		265,624	120,902
Other current assets		142,702	168,436
Noncurrent assets:			
Investments		561,726	496,162
Notes receivable		53,021	54,834
Capital assets, net of accumulated depreciation		3,329,807	3,328,555
Other assets		13,950	19,123
Deferred outflow of resources		21,720	
Total assets and deferred outflow of resources		5,541,222	5,166,923
Current liabilities:			
Accounts payable, accrued liabilities and deferred revenue		526,331	540,625
Bonds payable		94,875	33,090
Leaseholds payable and other obligations		84,031	231,786
Accrued self insurance		59,008	54,311
Other current liabilities		148,818	174,076
Noncurrent liabilities:			
Bonds payable		967,323	1,058,172
Leaseholds payable and other obligations		504,912	389,645
Accrued self insurance		147,821	127,516
Accrued compensated absences		197,178	199,944
Derivative instruments – swap liability		25,379	
Total liabilities		2,755,676	2,809,165
Net assets		2,785,546	2,357,758
Total liabilities and net assets	$	5,541,222	5,166,923

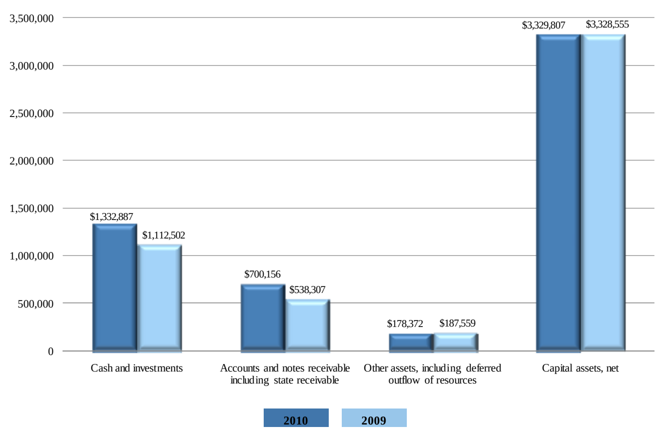
Total assets increased by $374 million or 7.2% to $5.5 billion during fiscal year 2010. The largest components of this change included increases in cash and investments of $220.4 million and in the receivable from the State of Illinois of $144.7 million.

Total liabilities decreased by $53 million or 1.9% to approximately $2.8 billion during fiscal year 2010. The primary components of this change included decreases of $32 million in leaseholds payable and other obligations, and $29 million in bonds payable. The decreases in leaseholds payable and other obligations and bonds payable were largely due to scheduled redemptions, along with $15 million received from the Capital Development Board to retire debt related to the College of Medicine facility in Rockford, Illinois.

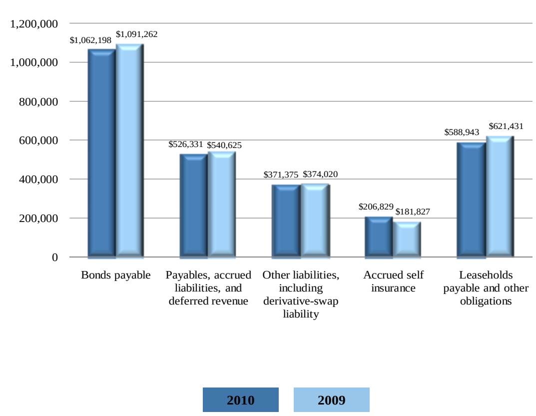
While bond and leasehold debt decreased overall, the current portion of bonds payable increased significantly and the current portion of leaseholds payable and other obligations decreased considerably. In fiscal year 2010, certain liquidity facility agreements related to variable-rate bonds were to expire in fiscal year 2011, which caused the balance of the related bonds to be classified as current. The liquidity facility agreements in fiscal year 2009, which related to variable-rate certificates of participation, expired in fiscal year 2010. The renewal of these agreements caused a shift from current to noncurrent for leaseholds payable and other obligations.

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

Assets (in thousands)



Liabilities (in thousands)



Capital Assets

Capital assets, net of accumulated depreciation, increased by $1.3 million in fiscal year 2010. 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. Facilities under construction included projects funded by revenue bonds, certificates of participation, private gifts, internal funds, and state capital appropriations. The completion of construction projects caused the shift between construction in progress and buildings. The largest projects completed in fiscal year 2010 were the initial phases of the Ikenberry Commons and the Petascale computing facility. The increases in capital assets were primarily offset by current year depreciation. 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)

	2010		2009	
Buildings	$ 2,327,499	69.9%	$ 2,226,356	66.9%
Improvements and infrastructure	359,832	10.8	376,888	11.3
Construction in progress	108,655	3.3	173,472	5.2
Land	132,617	4.0	132,694	4.0
Equipment and software	266,947	8.0	290,721	8.7
Collections	134,257	4.0	128,424	3.9
	$ 3,329,807	100.0%	$ 3,328,555	100.0%

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. The University did not issue new debt in fiscal year 2010. The reduction in the outstanding balance of bonds payable was due to scheduled redemptions. The following table details the various bonded debt outstanding at June 30, 2010 and 2009:

Bonds Payable

(In thousands)

	2010	2009
Auxiliary Facilities System	$ 940,126	960,824
Health Services Facilities System	59,193	61,305
UIC South Campus	62,879	69,133
	$ 1,062,198	1,091,262

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 $15 million appropriation from the Capital Development Board related to the College of Medicine facility located in Rockford, Illinois. The outstanding balance of the COPs as of June 30, 2010 and 2009 was $541,315,000 and $571,965,000, 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 $427.8 million during fiscal year 2010. Net assets balances are detailed below:

Net Assets

(In thousands)

		2010	2009
Net assets:			
Invested in capital assets, net of related debt	$	1,895,395	1,861,131
Restricted		503,618	431,171
Unrestricted		386,533	65,456
	$	2,785,546	2,357,758

The increase in unrestricted net assets of $321.1 million resulted from increases in tuition rates, tighter expenditure constraints, and increases in various self-supporting activities such as the hospital and auxiliary operations. The $72.4 million increase in restricted net assets included an increase in endowment assets due to unrealized gains and an increase in net assets related to the Medical Service Plans. The amount of net assets invested in capital assets, net of related debt increased by $34.3 million largely resulting from redemptions in the associated debt.

Statement of Revenues, Expenses and Changes in Net Assets

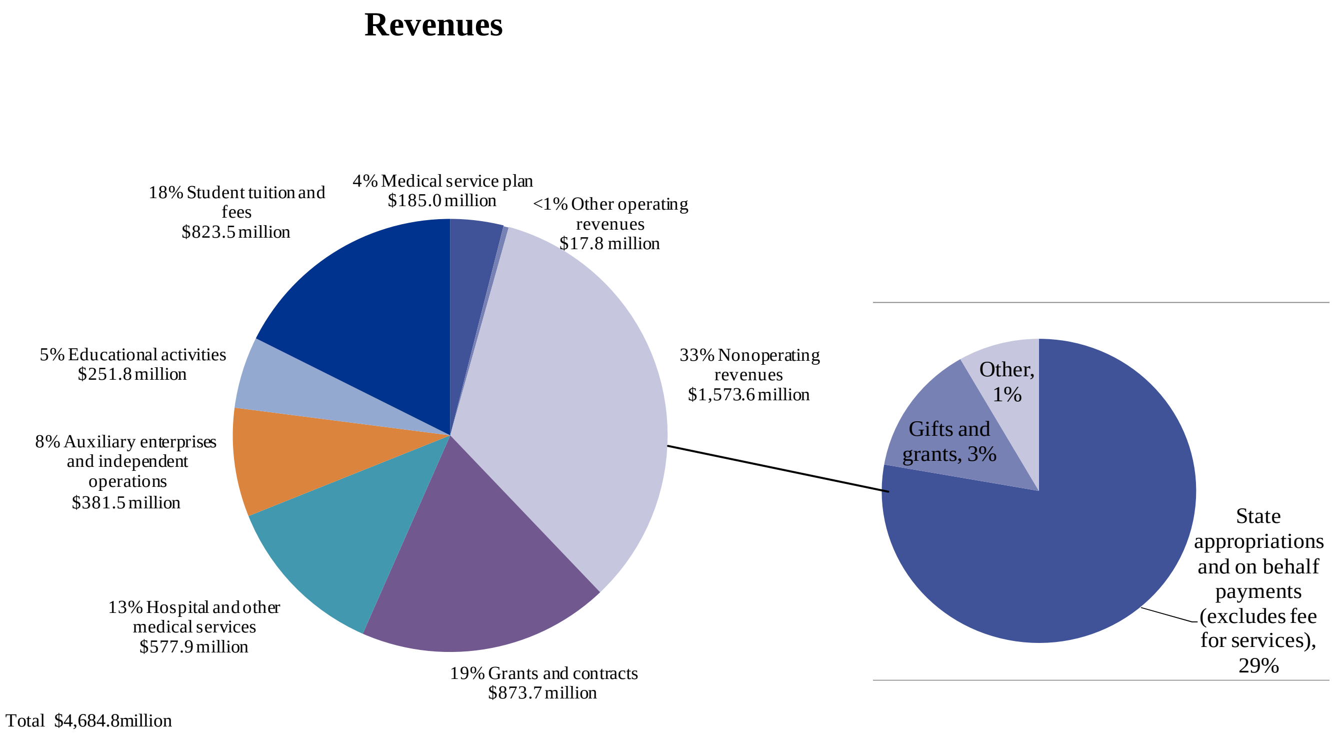
The Statement of Revenues, Expenses and Changes in Net Assets presents the University's results of operations. In accordance with GASB reporting standards, revenues and expenses are classified as either operating or nonoperating. A summarized comparison of the University's Statement of Revenues, Expenses and Changes in Net Assets for the years ended June 30, 2010 and 2009 is as follows:

		2010	2009
		(In thousands)	
Operating revenues:			
Student tuition and fees	$	823,488	743,286
Grants and contracts		873,737	789,168
Hospital and other medical activities		577,866	527,925
Auxiliary enterprises and independent operations		381,475	363,146
Educational activities		251,770	253,203
Medical service plan		185,061	189,444
Other		17,772	18,069
Total operating revenues		3,111,169	2,884,241
Operating expenses		4,341,575	4,209,187
Operating loss		(1,230,406)	(1,324,946)
Nonoperating revenues (expenses):			
State appropriations and on behalf payments		1,352,045	1,185,060
Transfer of state appropriation to the Hospital Services Fund		(45,000)	
Private gifts		144,099	141,315
Federal grants, nonoperating		103,101	39,347
Investment income		19,338	24,836
Net increase (decrease) in the fair value of investments		54,980	(54,547)
Other nonoperating expenses, net		(50,661)	(39,551)
Net nonoperating revenues		1,577,902	1,296,460
Capital state appropriations and capital gifts and grants		82,508	11,645
Endowment gifts		98	1,905
Increase (decrease) in net assets		430,102	(14,936)
Net assets, beginning of year		2,357,758	2,355,349
Change in accounting principles (note 9)		(2,314)	17,345
Net assets, end of year	$	2,785,546	2,357,758

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 such revenue 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, 2010:



Operating and nonoperating revenues increased in fiscal year 2010. On-behalf payments increased by $148.7 million between fiscal years 2009 and 2010. 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 2010 were $634.7 million compared to $486.0 million in fiscal year 2009. This increase is caused by growth in state funding for employer required contributions to SURS and CMS. Tuition and fee revenue increased by $80.2 million during fiscal year 2010 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 increased $84.6 million during fiscal year 2010 due to an increase in funding for existing grants. Hospital and other medical activities revenues rose by $49.9 million which included an increase of $94.9 million largely related to rate increases and increased outpatient volume, partially offsetting decrease of $45.0 million for a transfer to the Illinois DHFS Health Services Fund mentioned in note 1. Nonoperating grants increased by $63.8 million due to ARRA stimulus funding and an increase in Pell grant revenue from the prior year.

Expenses

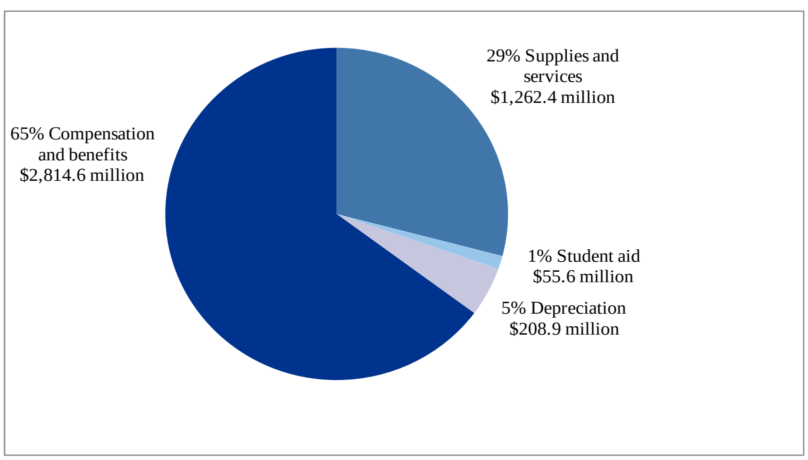
The majority of the University's expenses are exchange transactions, which GASB standards define as operating expenses. Nonoperating expenses include capital financing and other costs related to capital assets.

		2010			2009	
		(In thousands)				
Operating expenses:						
Instruction	$	970,339	22.3%	$	961,305	22.8%
Research		652,229	15.0		630,127	15.0
Public service		395,343	9.1		383,429	9.1
Support services		709,483	16.4		656,807	15.6
Hospital and medical activities		597,426	13.8		578,858	13.8
Auxiliary enterprises and independent operations		322,861	7.4		320,773	7.6
Scholarships and fellowships		215,270	5.0		200,038	4.8
Operation and maintenance of plant		269,739	6.2		274,373	6.5
Depreciation		208,885	4.8		203,477	4.8
Total operating expenses	$	4,341,575	100.0%	$	4,209,187	100.0%

The increase in operating expenses largely resulted from increases in on-behalf payments, which are appropriately allocated across the operating functions. After consideration of the $148.6 million increase in on behalf payments, total operating expenses actually decreased by $16.2 million in fiscal year 2010 compared to fiscal year 2009. Budgetary constraints, controlled spending, and expense reduction policies all contributed to this decrease.

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 15. The following graph illustrates the expenses by natural classification:

Operating Expenses



Total $4,341.5 million

The University's Economic Outlook

The University has maintained its strong financial condition and level of excellence in service to students, patients, the research community, the State and the nation. A critical element to the University's future continues to be a strong relationship with the State of Illinois since state appropriations from the Governor and General Assembly provide essential operating support for University programs. The direct appropriation for fiscal year 2011, signed into law by the Governor, reflects a decrease of $46.9 million (6.3%) from the original budget appropriated in fiscal year 2010. In fiscal year 2010, $46 million of the appropriation was funded by federal stabilization funds provided by the ARRA of 2009. These funds were not available to the State in fiscal year 2011, and the loss of these funds is the primary cause of the decline in the University's fiscal year 2011 direct appropriation. While all major sources of funding for the University were strong in fiscal year 2010, cash flow issues became a major concern for the State in fiscal year 2010, where the University ended the year with a receivable of $266.0 million from the State. The University received full payment of the fiscal year 2010 appropriation by the end of the calendar year. The University expects cash flows from the State to continue to be a major concern 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 expects an increase in tuition and miscellaneous departmental revenue in fiscal year 2011. The recommended $833.8 million fiscal year 2011 tuition and miscellaneous departmental revenue budget represents a $102.8 million (14.1%) increase from fiscal year 2010. Undergraduate students have a four-year tuition guarantee. Incremental tuition income of $80.5 million results from tuition increases of $451.0 per semester at Urbana, $396.0 per semester at Chicago and $23.50 per credit hour at Springfield for the freshman cohort. The remaining increase results from several special programs which have differential tuition rate increases, adjustments for enrollment levels, investment income on tuition revenue, nonrecurring funds carried forward from fiscal year 2010 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 2011, the University will use support from State's General Revenue Fund to provide operating funds for the Surveys. Private gifts are an important supplement to the University's sources of funding for operating costs, a significant factor in the growth of academic units, and essential for capital acquisition and construction. On June 1, 2007, the University publicly announced the "Brilliant Futures" campaign, the largest and most ambitious campaign in the history of the University of Illinois. The University aims to raise $2.25 billion for students, faculty, research and the campus environment. As of June 30, 2010, the University has surpassed three-fourths the way to meeting this lofty goal.

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 2011 sponsored project budget is an estimate of grant and contract awards for direct costs and represents a 2.1% increase from fiscal year 2010 grant and contract expenditures.

The University experienced growth from a variety of funding sources during fiscal year 2010. To maintain its strong 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 strong financial condition.

UNIVERSITY OF ILLINOIS

Balance Sheet

June 30, 2010
(with comparative totals for 2009)

(In thousands)

Assets and Deferred Outflow of Resources	University 2010	University 2009	University Related Organizations 2010	University Related Organizations 2009
Current assets:				
Cash and cash equivalents	$ 438,557	264,142	5,837	4,917
Cash and cash equivalents, restricted	270,812	185,931	1,751	1,851
Investments	13,486	13,100	876	478
Investments, restricted	48,306	153,167		
Securities lending collateral	82,720	104,985		
Accrued investment income	2,348	3,136	1,340	1,916
Accounts receivable, net of allowance for uncollectible	373,747	355,799	21,220	5,033
Receivable from State of Illinois General Revenue Fund	265,624	120,902		
Pledges receivable, net of allowance			13,044	8,327
Notes receivable, net of allowance for uncollectible	7,764	6,772	81	86
Accrued interest on notes receivable	2,928	2,782		
Inventories	31,581	30,141	7	11
Prepaid expenses and deferred charges	22,011	26,480	2,294	2,530
Due from related organizations	1,114	912		
Other assets				4,351
Total current assets	1,560,998	1,268,249	46,450	29,500
Noncurrent assets:				
Cash and cash equivalents, restricted			368	90
Investments	324,207	284,244	21,011	126,051
Investments, restricted	237,519	211,918	1,107,895	857,213
Pledges receivable, net of allowance			78,032	24,840
Notes receivable, net of allowance for uncollectible	53,021	54,834		
Prepaid expenses and deferred charges	9,312	13,574		
Due from related organizations	968	1,231		
Capital assets, net of accumulated depreciation	3,329,807	3,328,555	13,763	13,746
Other assets	3,670	4,318	68	15,597
Total noncurrent assets	3,958,504	3,898,674	1,221,137	1,037,537
Deferred outflow of resources	21,720			
Total assets and deferred outflows of resources	$ 5,541,222	5,166,923	1,267,587	1,067,037
Liabilities				
Current liabilities:				
Accounts payable and accrued liabilities	$ 247,005	257,216	28,231	18,245
Accrued payroll	137,035	137,287	332	612
Accrued compensated absences, current portion	17,810	17,591	1,433	1,115
Accrued self insurance, current portion	59,008	54,311		
Deferred revenue and student deposits	142,291	146,122	695	934
Accrued interest payable	17,242	17,683		3
Securities lending collateral	82,720	106,229		
Notes payable			5,133	7,292
Bonds payable, current portion	94,875	33,090		
Due to related organizations, current portion			1,114	912
Leaseholds payable and other obligations, current portion	84,031	231,786	6,428	5,989
Assets held for others	31,046	32,573	2,022	2,007
Total current liabilities	913,063	1,033,888	45,388	37,109
Noncurrent liabilities:				
Bonds payable	967,323	1,058,172		
Leaseholds payable and other obligations	504,912	389,645	46,248	43,409
Due to related organizations			968	1,231
Accrued compensated absences	197,178	199,944		
Accrued self-insurance	147,821	127,516		
Deferred distributions			134	127
Derivative instrument – swap liability	25,379			
Total noncurrent liabilities	1,842,613	1,775,277	47,350	44,767
Total liabilities	2,755,676	2,809,165	92,738	81,876
Net Assets				
Invested in capital assets, net of related debt	1,895,395	1,861,131	8,631	6,454
Restricted:				
Nonexpendable	60,965	57,362	665,701	563,466
Expendable	442,653	373,809	529,854	378,811
Unrestricted	386,533	65,456	(29,337)	36,430
Total net assets	2,785,546	2,357,758	1,174,849	985,161
Total liabilities and net assets	$ 5,541,222	5,166,923	1,267,587	1,067,037

See accompanying notes to financial statements.

UNIVERSITY OF ILLINOIS

Statement of Revenues, Expenses and Changes in Net Assets

Year ended June 30, 2010
(with comparative totals for 2009)

(In thousands)

	University		University Related Organizations	
	2010	2009	2010	2009
Operating revenues:				
Student tuition and fees, net	$ 823,488	743,286		
Medical fees for services – state appropriation	1,014	45,982		
Federal appropriations	16,188	16,909		
Federal grants and contracts	641,708	572,598		
State of Illinois grants and contracts	84,065	79,499	125	125
Private and other governmental agency grants and contracts	147,964	137,071	110,585	123,012
Educational activities	251,770	253,203		
Auxiliary enterprises, net	368,515	348,134		
Hospital and other medical activities, net	576,852	481,943		
Medical service plan	185,061	189,444		
Independent operations	12,960	15,012		
Interest and service charges on student loans	1,584	1,160		
Allocation from the University			16,016	15,724
Other sources			40,322	53,504
Total operating revenues	3,111,169	2,884,241	167,048	192,365
Operating expenses:				
Instruction	970,339	961,305		
Research	652,229	630,127		
Public service	395,343	383,429		
Academic support	354,238	303,742		
Student services	126,635	123,328		
Institutional support	228,610	229,737	65,007	53,792
Operation and maintenance of plant	269,739	274,373		
Scholarships and fellowships	215,270	200,038		
Auxiliary enterprises	310,794	306,967		
Hospital and medical activities	597,426	578,858		
Independent operations	12,067	13,806		
Depreciation	208,885	203,477	1,095	786
Distributions on behalf of the University			147,125	152,197
Total operating expenses	4,341,575	4,209,187	213,227	206,775
Operating loss	(1,230,406)	(1,324,946)	(46,179)	(14,410)
Nonoperating revenues (expenses):				
State appropriations	717,300	699,038		
Transfer of state appropriations to the Illinois DHFS Hospital Services Fund	(45,000)			
Private gifts	144,099	141,315		
Federal grants, nonoperating	103,101	39,347		
On behalf payments for fringe benefits	634,745	486,022		
Net investment income (net of investment expense of $2,066)	19,338	24,836	12,863	4,342
Net increase (decrease) in the fair value of investments	54,980	(54,547)	103,159	(277,144)
Interest expense	(77,368)	(73,460)	(140)	(282)
Loss on sale/disposal of capital assets	(7,041)	(4,871)		
Other nonoperating revenues (expenses), net	33,748	38,780	64	(546)
Net nonoperating revenues (expenses)	1,577,902	1,296,460	115,946	(273,630)
Income (loss) before other revenues	347,496	(28,486)	69,767	(288,040)
Capital state appropriations	20,610	3,203		
Capital gifts and grants	61,898	8,442		
Private gifts for endowment purposes	98	1,905	31,606	41,477
Increase (decrease) in net assets	430,102	(14,936)	101,373	(246,563)
Net assets, beginning of the year, as previously reported	2,357,758	2,355,349	985,161	
Cumulative effect of change in accounting principle	(2,314)	17,345	88,315	
Net assets, beginning of year, as adjusted	2,355,444	2,372,694	1,073,476	1,231,724
Net assets, end of year	$ 2,785,546	2,357,758	1,174,849	985,161

See accompanying notes to financial statements.

UNIVERSITY OF ILLINOIS

Statement of Cash Flows

Year ended June 30, 2010
(with comparative totals for 2009)

(In thousands)

		University	
		2010	**2009**
Cash flows from operating activities:			
Student tuition and fees	$	827,757	748,799
Medical fees for service – state appropriations		7,377	39,620
Federal appropriations		15,391	17,394
Federal, state, and local grants and contracts		706,547	666,873
Other governmental agencies and private grants, and contracts		140,825	144,536
Sales and services of educational and other departmental activities		265,560	243,634
Auxiliary activities and independent operations		375,214	364,027
Hospital and other medical activities		565,283	476,846
Medical service plan		187,632	182,884
Payments to employees and benefits		(2,184,217)	(2,176,203)
Payments to suppliers		(1,230,609)	(1,290,631)
Payments for scholarships and fellowships		(55,256)	(46,844)
Student loans issued		(7,624)	(6,129)
Student loans collected		8,111	7,088
Student loan interest and fees collected		1,438	1,309
Net cash used in operating activities		(376,571)	(626,797)
Cash flows from noncapital financing activities:			
State appropriations		531,215	585,854
State appropriations transferred to Illinois DHFS Hospital Services Fund		(10,000)	
Gifts transferred from University of Illinois Foundation		144,099	141,315
Direct lending receipts		2,091,498	1,640,717
Direct lending payments		(2,091,498)	(1,640,717)
Federal grants and contracts, nonoperating		103,101	39,347
Private gifts for endowment purposes		98	1,905
Repayments from related organizations		61	414
Other receipts		31,377	26,212
Other disbursements		(420)	(278)
Net cash provided by noncapital financing activities		799,531	794,769
Cash flows from capital and related financing activities:			
Proceeds from issuance of capital debt			254,141
Capital state appropriations		2,579	547
Capital gifts and grants		61,193	5,231
Purchase of capital assets		(196,071)	(292,016)
Principal payments on bonds and capital leases		(75,060)	(332,836)
Interest payments on bonds and capital leases		(69,079)	(70,819)
Payment of bond issuance costs			(2,086)
Net cash used in capital and related financing activities		(276,438)	(437,838)
Cash flows from investing activities:			
Interest and dividends on investments, net		16,086	34,718
Proceeds from sales and maturities of investments		1,507,311	999,143
Purchase of investments		(1,410,623)	(931,236)
Net cash provided by investing activities		112,774	102,625
Net increase (decrease) in cash and cash equivalents		259,296	(167,241)
Cash and cash equivalents, beginning of year		450,073	617,314
Cash and cash equivalents, end of year	$	709,369	450,073

(Continued)

UNIVERSITY OF ILLINOIS

Statement of Cash Flows

Year ended June 30, 2010
(with comparative totals for 2009)

(In thousands)

		University 2010	2009
Reconciliation of operating loss to net cash used in operating activities:			
Operating loss	$	(1,230,406)	(1,324,946)
Adjustments to reconcile operating loss to net cash used in operating activities:			
On behalf payments for fringe benefits expense		634,745	486,022
Depreciation expense		208,885	203,477
Changes in assets and liabilities:			
Accounts receivable, net		(20,533)	17,682
State of Illinois receivable		6,363	(6,363)
Notes receivable, net		821	1,189
Accrued interest on notes receivable		(146)	149
Inventories		(1,440)	(1,346)
Prepaid expenses and deferred charges		1,029	(3,832)
Accounts payable and accrued liabilities		7,266	925
Accrued payroll		(252)	4,834
Deferred revenue and student deposits		(3,831)	(10,400)
Accrued compensated absences		(2,547)	4,226
Accrued self insurance		25,002	4,659
Assets held for others		(1,527)	(3,073)
Net cash used in operating activities	$	(376,571)	(626,797)
Noncash investing, capital, and financing activities:			
On behalf payments for fringe benefits	$	634,745	486,022
Net increase (decrease) in fair value of investments		54,980	(54,547)
Gifts in kind – capital assets		540	3,210
Decrease of capital asset obligations in accounts payable		(13,518)	(19,473)
Capital asset acquisitions by Capital Development Board		18,031	2,656
Capital asset acquisitions via leaseholds payable		3,653	3,587
Net interest capitalized		5,234	5,234
Capital assets transferred from other institutions			7,529
Other capital asset adjustments		7,167	1,989
Loss on sale/disposal of capital assets		7,041	4,871
Capital appreciation on bonds payable		10,390	10,415

See accompanying notes to financial statements.

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

The University Related Organizations (UROs) column in the financial statements includes the financial data of the University's discretely presented component units. The University of Illinois Foundation (Foundation), the University of Illinois Alumni Association (Alumni Association), 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.

(Continued)

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, 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 2009 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, 2009.

Certain items in the June 30, 2009 comparative information have been reclassified to correspond to the June 30, 2010 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 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 17. See also note 9 for accounting changes.

(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.

(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, three-year moving average market value of fund units. At June 30, 2010, net appreciation of $35,654,000 is available to be spent, of which $29,575,000 is 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 $62,393,000 for fiscal year ended June 30, 2010.

(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:

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

(g) 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, 2010, the University estimates that $116,430,000 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, 2010. 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.

(h) 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.

(i) 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 (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 of Trustees. 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.

(j) 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, 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 as nonoperating revenues. In addition, transactions related to capital and financing activities are components of nonoperating revenues.

In fiscal year 2010, $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. It is not part of or a related organization of the University.

(k) Tuition, Scholarships, and Fellowships

Scholarships and fellowships of $207,776,000 and $6,718,000 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.

(l) Patient Services Revenue

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 94% 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, 2010. 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, 2010, the contractual allowances totaled $874,311,000.

Retroactive reimbursements included in net patient revenues in fiscal year 2010 for services provided in fiscal year 2009 and 2008 were approximately $31,602,000. The reimbursements received from the State Medicaid Program related to retroactive increases in disproportionate share reimbursement, additional reimbursements for select patient populations including newborn days and implants, as well as increased per diem rates for Medicaid inpatients and increased rates for Medicaid outpatients.

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 2010 was approximately $16,512,000, an increase of 37% over 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.

(m) 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 capital financing costs and costs related to investment activity.

(n) 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 $55,031,000 at June 30, 2010 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 2011 rather than from the unrestricted net assets available at June 30, 2010.

(o) 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 $291,255,000 for the year ended June 30, 2010. 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 $343,490,000 for year ended June 30, 2010. On-behalf payments are reflected as nonoperating revenues. The corresponding on-behalf expense is reflected as an operating expense and is allocated by function.

(p) Use of Estimates

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

(q) New Accounting Pronouncements

The University adopted the provisions of GASB 53, *Accounting and Financial Reporting for Derivative Instruments*, which was effective July 1, 2009. This statement required that the University measure its derivative instruments at fair value in its financial statements. Changes in fair value are recognized in the reporting period to which they relate. The changes in fair value of effective hedging derivative instruments do not affect investment revenue but are reported as deferrals. On the other hand, the changes in fair value of investment derivative instruments (which include ineffective hedging derivative instruments) are reported as part of investment revenue in the current reporting period. The University did not have any significant investment derivative instruments in fiscal year 2010, but the University did have interest rate swap agreements that were effective hedging derivative instruments in fiscal year 2010. Information regarding these swap agreements are disclosed in notes 7, 8, and 9.

Effective for the year ending June 30, 2010, the University adopted GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which established accounting and financial reporting for intangible assets. This statement had no impact on the University's financial statements.

(2) Cash, Cash Equivalents and Investments

The carrying amount of the University's cash totaled $23,734,000 at June 30, 2010.

The total bank account balances at June 30, 2010, of the University aggregated $36,956,000, of which $27,405,000 was not covered by federal depository insurance or by collateral held by an agent in the University's name. The uncollateralized amount as of June 30, 2010 is addressed further in note 18.

Certificates of Deposit held by the University totaled $400,000 at June 30, 2010 and were 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, 2010, the University had repurchase agreements of $526,000 and the market value of securities underlying these repurchase agreements was $549,000 at June 30, 2010.

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 $42,204,000. 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 $7,227,000 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. Investment income and the change in fair value of investments is recognized in the fund which owned such investments, except for income derived from investments of the University Endowment Fund which is recognized in the fund to which the income is restricted.

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 and operating 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, 2010:

University Cash, Cash Equivalents and Investments

(In thousands)

U.S. Treasury put	$	4,345
U.S. Treasury bonds and bills		92,926
U.S. government agencies		107,827
Commercial paper		18,191
Corporate bonds		102,739
Bond mutual funds		54,850
Non government mortgage-backed securities		33,645
Non U.S. government bonds		1,602
Money market funds		662,485
Illinois public treasurer's investment pool		19,226
Subtotal before cash deposits, equities and other investments		1,097,836
U.S. equities		17,659
International equities		27,830
International equities traded in United States Dollars		3,631
U.S. equity mutual funds		97,652
Limited partnerships		13,133
Repurchase agreements		526
Certificates of deposit		400
Preferred stock		1,055
Real estate and farm properties		49,431
Cash deposits		23,734
Total	$	1,332,887

(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 investments and maturities at June 30, 2010 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 put	$ 4,345				4,345
U.S. Treasury bonds and bills	92,926	22,900	54,309	14,645	1,072
U.S. government agencies	107,827	19,520	45,891	4,654	37,762
Commercial paper	18,191	18,191			
Corporate bonds	102,739	4,157	51,212	24,933	22,437
Bond mutual funds	54,850	26	2,779	52,045	
Nongovernment mortgage-backed securities	33,645	22		1,187	32,436
Non U.S. government bonds	1,602		1,325	277	
Money market funds	662,485	662,485			
Illinois public treasurer's investment pool	19,226	19,226			
Total	$ 1,097,836	746,527	155,516	97,741	98,052

At June 30, 2010, 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, 2010, 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 put	$ 4,345						4,345
U.S. Treasury bonds and bills	92,926	92,926					
U.S. government agencies	107,827	106,790		594			443
Commercial paper	18,191	18,191					
Corporate bonds	102,739	17,058	9,623	35,856	24,960	3,190	12,052
Bond mutual funds	54,850	3,824	847	50,179			
Nongovernment mortgage-backed securities	33,645	10,239	776	2,186	5,249	1,880	13,315
Non U.S. government bonds	1,602	704		898			
Money market funds	662,485	661,565					920
Illinois public treasurer's investment pool	19,226	19,226					
Total	$ 1,097,836	930,523	11,246	89,713	30,209	5,070	31,075

(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, 2010, 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, 2010, 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, 2010 are categorized by currency below:

University Investments Foreign Currency Exposure

(In thousands)

		Total	Cash equivalents	Equity investments
European Euro	$	12,837	310	12,527
British Pound		6,202	95	6,107
Swiss Franc		2,674	3	2,671
Japanese Yen		2,328		2,328
Hong Kong Dollar		1,254	13	1,241
Singapore Dollar		969		969
South Korean Won		650		650
Norwegian Krone		580		580
Swedish Krona		558		558
Canadian Dollar		174	116	58
All other currency		143	2	141
Total	$	28,369	539	27,830

(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, 2010, the short-term investment pool has a weighted average maturity of one hundred fifteen 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 $82,720,000 at June 30, 2010, and is recorded as an asset and corresponding liability on the University's Balance Sheet. As of June 30, 2010, approximately $80,747,000 of the investments reported on the University's Balance Sheet were on loan, secured by collateral with a fair value of approximately $82,871,000. At June 30, 2010, 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 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.

(Continued)

The following table summarizes assets measured at fair value on a recurring basis as of June 30, 2010, 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, 2010

(In thousands)

	Fair value	Level 1	Level 2	Level 3
Assets:				
U.S. treasury bonds and bills	$ 12,672		12,672	
International government bonds	133		133	
U.S. government agencies	11,378		11,142	236
International government agencies	504		504	
Municipal bonds	983		541	442
Corporate bonds and notes	26,242	10	24,113	2,119
Commercial mortgage-backed securities	1,386		1,386	
Guaranteed fixed income	143		143	
Asset-backed securities	2,795		2,630	165
Nongovernment backed collateralized mortgage obligation	7,283		6,810	473
Other fixed income	1,235		1,208	27
Preferred stock, domestic financial services	7	7		
Common stock, domestic	145,049	144,040	1,009	
Common stock, foreign	85,997	68,356		17,641
Real estate trusts and partnerships	374,281			374,281
Bond mutual funds	95,553		95,553	
Equity mutual funds	189,523	44,114	145,409	
Money market mutual funds	60,089	60,089		
Other	2,678			2,678
Farms	34,989		34,989	
Beneficial interest in trusts	26,976			26,976
Trusts held by others	7,040			7,040
Cash surrender value of life insurance	5,016		5,016	
Other assets	6,273		6,273	
Total investments at fair value	$ 1,098,225	316,616	349,531	432,078

The investments above exclude $9,670,000 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, 2010

(In thousands)

	Balance, beginning	Purchases	Sales (distributions)	Total gains or losses*	Net transfers in/out of level 3	Balance, ending
U.S. government agencies	$	236				236
Municipal bonds		442				442
Corporate bonds/notes	4,069	558	(540)	702	(2,005)	2,784
International common stock	15,773	238	(2,761)	4,391		17,641
Real estate trusts and partnerships	301,934	21,458	(4,852)	55,741		374,281
Other investments	2,534		(104)	248		2,678
Beneficial interest in trusts	25,572			1,404		26,976
Trusts held by others	6,854			186		7,040
Balance, ending	$ 356,736	22,932	(8,257)	62,672	(2,005)	432,078

*(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.

(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, 2010.

The composition of accounts receivable and notes and pledges receivable at June 30, 2010 is summarized as follows:

University Accounts Receivable, Net of Allowance

(In thousands)

	Gross receivables	Allowance for uncollectible	Net receivables
Receivables from sponsoring agencies	$ 164,053	(1,738)	162,315
Hospital and other medical activities	327,345	(235,345)	92,000
Student tuition and fees	32,984	(12,174)	20,810
Auxiliaries	15,156	(4,561)	10,595
Medical service plan	74,931	(30,223)	44,708
Educational activities	25,993	(3,846)	22,147
Other	25,849	(4,677)	21,172
Total	$ 666,311	(292,564)	373,747

Notes and Pledges Receivable

(In thousands)

Student notes – University:		
Student notes outstanding	$	63,585
Allowance for uncollectible loans		(2,800)
Total student notes, net	$	60,785
Gift pledges receivable, URO – Foundation:	$	98,795
Less:		
Allowance for doubtful pledges		(5,328)
Present value discount		(2,467)
Total gift pledges outstanding, net	$	91,000

(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 $5,234,000 was capitalized during the year ended June 30, 2010.

Capital assets activity during the year ended June 30, 2010 is summarized as follows:

University Capital Assets

(In thousands)

		Beginning balance	Additions	Retirements	Transfers	Ending balance
Nondepreciable capital assets:						
Land	$	132,694	889	(966)		132,617
Construction in progress		173,472	125,086		(189,903)	108,655
Inexhaustible collections		15,989	3,814			19,803
Total nondepreciable capital assets		322,155	129,789	(966)	(189,903)	261,075
Depreciable capital assets:						
Buildings		3,297,964			183,874	3,481,838
Improvements and infrastructure		657,017			6,029	663,046
Equipment		987,021	61,064	(51,674)		996,411
Software		162,053	1,409			163,462
Exhaustible collections		474,854	24,916	(845)		498,925
Total depreciable capital assets		5,578,909	87,389	(52,519)	189,903	5,803,682
Less accumulated depreciation						
Buildings		1,071,608	82,731			1,154,339
Improvements and infrastructure		280,129	23,085			303,214
Equipment		767,092	64,407	(46,444)		785,055
Software		91,261	16,610			107,871
Exhaustible collections		362,419	22,052			384,471
Total accumulated depreciation		2,572,509	208,885	(46,444)	—	2,734,950
Total net depreciable capital assets		3,006,400	(121,496)	(6,075)	189,903	3,068,732
Total	$	3,328,555	8,293	(7,041)	—	3,329,807

(Continued)

(5) Accrued Self-Insurance and Loss Contingency

The University's accrued self-insurance liability of $206,829,000 at June 30, 2010 covers hospital patient liability; hospital and medical professional liability; estimated general and contract liability; and workers' compensation liability related to employees paid from local funds. The accrued self-insurance liability was discounted at a rate of 5.0% at June 30, 2010. 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 $20,065,000 at June 30, 2010 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, 2010.

Accrued self-insurance includes $159,066,000 at June 30, 2010 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, 2010. 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)

		2010	2009
Balance, beginning of year	$	181,827	177,168
Claims incurred and changes in estimates		62,582	77,348
Claim payments and other deductions		(37,580)	(72,689)
Balance, end of year		206,829	181,827
Less current portion		(59,008)	(54,311)
Balance, end of year – noncurrent portion	$	147,821	127,516

The University has contracted with several commercial carriers to provide varying levels and upper limits of excess indemnity coverage. These coverages have been considered in determining the required accrued self-insurance liability. There were no settlements 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	$	217,535
Additions		14,310
Deductions		(16,857)
Balance, end of year		214,988
Less current portion		(17,810)
Balance, end of year – noncurrent portion	$	197,178

(7) Bonds Payable

Bonds Payable

(In thousands)

	Maturity dates	Beginning balance	Additions	Deductions	Ending balance	Current portion
Auxiliary Facilities System:						
Current Interest Bonds	2010 – 2038	$ 793,365		(14,235)	779,130	34,435
Capital Appreciation Bonds	2010 – 2030	235,060		(16,270)	218,790	16,270
Health Services Facilities System	2010 – 2027	60,615		(800)	59,815	42,015
UIC South Campus	2010 – 2023	72,880		(2,895)	69,985	3,660
		1,161,920	—	(34,200)	1,127,720	96,380
Unaccreted appreciation		(88,954)	10,390		(78,564)	(849)
		1,072,966	10,390	(34,200)	1,049,156	95,531
Unamortized debt premium		34,336		(1,342)	32,994	1,340
Unamortized loss on refunding		(19,705)	(4,931)	1,231	(23,405)	(5,449)
Financing payable under swap		3,665		(212)	3,453	3,453
Total		$ 1,091,262	5,459	(34,523)	1,062,198	94,875

Capital appreciation bonds of $218,790,000 outstanding at June 30, 2010 do not require current interest payments and have a net unappreciated value of $140,226,000. 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, 1996, 1999B, 2001A, 2001B, 2001C, 2003A, 2005A, 2006, 2008, and 2009A 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 $134,180,000 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, 2010	Remarketing agent	Remarketing fee	Liquidity facility: Bank	Liquidity facility: Expiration	Liquidity facility: Insurer	Liquidity fee
UIC South Campus, Series 2008	0.25%	JPMorgan Securities	0.075%	JPMorgan Chase LOC	7/16/2011	JPMorgan Chase LOC	0.55%
AFS, Series 2008	0.22	Loop Capital	0.075	JPMorgan Chase	6/18/2011	None	0.30
HSFS, Series 1997B	0.30	JPMorgan Securities	0.070	HELABA LOC	12/31/2015	HELABA LOC	0.70
HSFS, Series 2008	0.22	Goldman	0.070	JPMorgan Chase LOC	6/24/2011	JPMorgan Chase LOC	0.60

The Bond Series, AFS 2008 and HSFS 2008, are supported by liquidity facilities provided by JP Morgan Chase and JP Morgan Chase LOC, respectively. Since these facilities will expire in June of 2011, the University will initiate the process of obtaining replacement liquidity facilities in the third quarter of fiscal year 2011. Due to the aforementioned liquidity facility expirations, the outstanding balances of the related bond series are reported as current liabilities at June 30, 2010.

(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, 2010, 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, 2010 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*	$ (1,701,887)	Oct-2026	Loop***	A+/Aa3
UIC SC 2008	27,395,000	Feb 2006**	4.086	68% of LIBOR*	(4,470,000)	Jan-2022	Morgan Stanley	A/A2
UIC SC 2008	26,850,000	Feb 2006**	4.092	68% of LIBOR*	(4,384,000)	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.
*** Loop replaced Lehman Brothers Commercial Bank (LBCB) as the swap counterparty during fiscal year 2009.
**** LIBOR - London Interbank Offered Rate./SIFMA - Securities Industry & Financial Market Association Index

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 – During fiscal year 2010, 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 or SIFMA 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, 2010. 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	$ 1,599,405	2038	8.24%
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	61,874	2027	0.81%
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	91,168	2023	2.50%
		Total future revenues pledged	$ 1,752,447		

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

[2]Total future principal and interest payments on debt

Future debt service requirements for all bonds outstanding at June 30, 2010 are as follows:

Debt Service Requirements

	Principal	Interest
	(In thousands)	
2011	$ 96,380	43,880
2012	36,750	41,334
2013	38,210	40,235
2014	40,050	39,093
2015	41,610	37,953
2016 – 2020	234,280	171,022
2021 – 2025	217,860	130,925
2026 – 2030	217,440	85,030
2031 – 2035	180,015	33,881
2036 – 2038	25,125	1,374
Total	$ 1,127,720	624,727

Using the actual rates of 0.25% (UIC South Campus, Series 2008) and 0.22% (Health Services Facilities System, Series 2008), in effect as of June 30, 2010, 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	
		Principal	Interest	swaps, net	Total
2011	$	245	135	2,079	2,459
2012		570	134	2,065	2,769
2013		2,225	131	2,019	4,375
2014		4,425	124	1,902	6,451
2015		4,610	113	1,729	6,452
2016 – 2020		28,165	369	5,673	34,207
2021 – 2022		14,005	40	609	14,654
Total	$	54,245	1,046	16,076	71,367

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

(In thousands)

		Variable-rate bonds		Interest rate	
		Principal	Interest	swaps, net	Total
2011	$	41,215	97	1,445	42,757
Total	$	41,215	97	1,445	42,757

Certain bonds of the University (AFS Series 1991 and 1996) have debt service reserve requirements. The Maximum Annual Net Debt Service for those bonds, as defined, is $15,138,000.

(c) Advanced Refunded Bonds

The University has defeased bonds through advanced funding in prior years, and accordingly, they are not reflected in the accompanying financial statements. The amount of bonds that have been defeased as of June 30, 2010 consists of the following:

Advanced Refunded Bonds

Series		Outstanding at June 30, 2010
		(In thousands)
AFS, Series 2001B	$	55,315
Total	$	55,315

(8) Leaseholds and Other Obligations

Leaseholds payable and other obligations activity for the year ended June 30, 2010 consist of the following:

Leaseholds and Other Obligations

(In thousands)

		Beginning balance	**Additions**	**Deductions**	**Ending balance**	**Current portion**
University:						
Certificates of participation	$	570,520		(34,470)	536,050	76,900
Unamortized debt premium		14,714		(1,520)	13,194	1,440
Unamortized deferred loss on refunding		(13,269)		5,340	(7,929)	(1,298)
		571,965	—	(30,650)	541,315	77,042
Other capital leases		48,994	445	(6,403)	43,036	5,890
Environmental remediation liability		472	4,200	(80)	4,592	1,099
Total University	$	621,431	4,645	(37,133)	588,943	84,031
URO – Foundation:						
Annuities payable	$	44,507	7,938	(5,989)	46,456	6,428
Other liabilities		4,891	1,329		6,220	
Total URO – Foundation	$	49,398	9,267	(5,989)	52,676	6,428

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 $198,690,000 of variable rate demand Certificates of Participation (COP). These COPs mature serially through October 2027. 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 several remarketing agents. 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 several such agreements, with the fees ranging from the Adjusted Principal (formula based on COPs outstanding 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 certificates have been calculated using the current interest rate, based upon short-term tax-exempt rates for Series 2009B, and 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 issues	Interest rate at June 30, 2010	Remarketing agent	Remarketing fee	Liquidity facility Bank	Liquidity facility Expiration	Liquidity facility Insurer	Liquidity fee
COP Series 2004	0.28%	Morgan Stanley	0.10%	Bank of America	3/30/2013	None	0.85%
COP Series 2009B	0.25	JPMorgan Securities	0.10	JPMorgan Chase	6/11/2013	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, 2010, 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, 2010 are listed below.

Interest Rate Swaps

COP issue	Outstanding notional amount	Effective date	Fixed rate paid	Variable rate received	Fair value	Swap termination date	Counterparty	Counterparty credit rating (S&P/Moody's)
COP 2004	$ 138,690,000	March 2004	3.765%	100% of SIFMA	$ (14,823,000)	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 – During fiscal year 2010, 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 2010, the Certificates' average variable interest rate was 0.2% below the 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, 2010. 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 0.28% in effect as of June 30, 2010, 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.

Utility Infrastructure Certificates of Participation, Series 2004
Variable-Rate Debt Service Requirements

(In thousands)

		Variable-rate certificates		Interest rate	
		Principal	**Interest**	**swaps, net**	**Total**
2011	$	6,570	379	4,719	11,668
2012		6,840	360	4,485	11,685
2013		7,120	341	4,242	11,703
2014		7,410	321	3,989	11,720
2015		7,710	299	3,725	11,734
2016 – 2020		66,290	1,054	13,116	80,460
2021 – 2022		36,750	104	1,293	38,147
Total	$	138,690	2,858	35,569	177,117

(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, 2010 consists of the following:

Advanced Refunded Certificates

(In thousands)

Series		Outstanding at June 30, 2010
2001A Utility	$	74,080
2001B Utility		56,900
2001 UI – Integrate		35,985
Total	$	166,965

(c) Capital Leases (includes Certificates of Participation)

Assets held under capital leases are included in capital assets at June 30, 2010 as follows:

Assets Held Under Capital Lease

(In thousands)

Land	$	8,423
Buildings		139,269
Improvements		262,951
Equipment		167,787
Subtotal		578,430
Less accumulated depreciation		198,887
Total	$	379,543

The net present value of outstanding capital leases at June 30, 2010 is as follows:

Outstanding Capital Leases

(In thousands)

Certificates of participation:		
Series 2003 South Farms	$	19,155
Series 2003 UI Integrate		31,700
Series 2003 Utility Infrastructure		42,815
Series 2004 Utility Infrastructure		138,690
Series 2005 College of Medicine		17,010
Series 2006A Academic Facilities		70,345
Series 2007A		72,460
Series 2007B		45,645
Series 2009A		38,230
Series 2009B		60,000
Other capital leases		43,036
Net present value	$	579,086

Due to planned principal payments in fiscal year 2011 to pay off the Series 2009B in full, the $60,000,000, disclosed in the net present value table above, is reported as current liability at June 30, 2010. See note 18 for further details.

As of June 30, 2010, future minimum lease payments under capital leases are as follows:

**Future Minimum Lease Payments
Under Capital Leases**

(In thousands)

2011	$	106,191
2012		44,910
2013		49,829
2014		56,552
2015		55,146
2016 – 2020		245,128
2021 – 2025		161,787
2026 – 2030		61,916
2031 – 2035		4,742
Total minimum lease payments		786,201
Amount representing interest		(207,115)
Net present value	$	579,086

(d) Other Obligations

The University monitors environmental matters and records an estimated liability for identified environmental remediation costs. The estimated liability at June 30, 2010 is $4,592,000.

At June 30, 2010, the URO - Foundation had annuities payable outstanding of $46,456,000. 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 $12,754,000 for the year ended June 30, 2010. The future minimum lease payments (excluding those leases renewed on an annual basis) are as follows:

Future Minimum Operating Lease Payments

(In thousands)

2011	$	10,435
2012		7,609
2013		6,128
2014		5,361
2015		4,297
2016 – 2020		7,222
2021 – 2025		78
2026 – 2028		8
Total	$	41,138

(9) Accounting Changes

(a) Implementation of New Accounting Pronouncement – University

Effective July 1, 2009, the Entity adopted the provisions of GASB 53, *Accounting and Reporting for Derivative Instruments.* The University had four interest rate swap agreements that were effective hedging derivative instruments in fiscal year 2010. The change in fair values of these agreements, since association with the related outstanding bonds or certificate, is reported as a deferred outflow of resources on the financial statements with an offsetting derivative instrument – swap liability. The disclosures in notes 7 and 8 provide a summary of the University's derivative instrument activity and the information necessary to assess the University's objectives for derivative instruments, their significant terms, and the risks associated with the derivative instruments.

In implementing this pronouncement, the University recorded an effect of a change in accounting principle to the beginning of year net assets by ($2,314,000). This reduction of net assets represented a netting of two retroactive adjustments. A retroactive adjustment of $1,351,000 represents the recognition of an additional deferred loss on refunding when an interest swap agreement was disassociated with the Variable Rate Demand Health Services Facilities System Revenue Bonds, Series 2007, due to its refunding. Also, a retroactive adjustment of ($3,665,000) of net assets representing recognition of a deferred loss due to a termination event occurring with the novation of an interest swap agreement from Lehman Brothers Holding Inc. to the current counterparty, Loop Financial Products, in fiscal year 2009.

Beginning of Year Net Asset Adjustment
(In thousands)

Net assets, beginning of the year, as previously reported	$	2,357,758
Cumulative effect of change in accounting principle		(2,314)
Net assets, beginning of the year, as adjusted	$	2,355,444

(b) Change in Accounting Standards – UROs – Foundation and Alumni Association

During fiscal year 2010, the Foundation and Alumni Association determined that it met the criteria to report its statements of financial position, activities and cash flows on the basis of financial accounting standards as prescribed by FASB. As a result, the July 1, 2009 net assets were converted to FASB standards as generally accepted in the U.S. This conversion included the following adjustments to net assets:

Beginning of Year Net Asset Adjustment
(In thousands)

		URO – Foundation	URO – Alumni
Net assets, beginning of the year, as previously reported	$	959,698	12,306
Adjustment related to change to FASB standards:			
Pledge receivables		65,000	
Beneficial interests in trusts		25,572	
Other adjustments		(2,257)	
Subtotal		88,315	
Net assets, beginning of the year, as restated	$	1,048,013	12,306

(10) Net Assets

As discussed in Note 1 to the financial statements, 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	$	1,895,395
Restricted – nonexpendable:		
Invested in perpetuity to produce income expendable for – scholarships, fellowships and research		60,965
Restricted – expendable for:		
Scholarships, fellowships and research		249,492
Loans		77,020
Service plans		89,394
Retirement of indebtedness		20,480
Capital projects		6,267
Unrestricted:		
Designated		386,533
Undesignated		—
Total	$	2,785,546

URO – Foundation Net Assets

(In thousands)

Invested in capital assets, net of related debt	$	5,714
Restricted – nonexpendable:		
Invested in perpetuity to produce income expendable for – Scholarships, fellowships and research		665,701
Restricted – expendable for:		
Scholarships, fellowships and research		529,854
Unrestricted		(54,003)
Total	$	1,147,266

(11) Funds Held in Trust by Others

The University and Foundation are income beneficiaries of several irrevocable trusts which are held and administered by outside trustees. The University and Foundation have no control over these funds as to either investment decisions or income distributions, thus the principal is not recorded in the accompanying financial statements. The fair value of these funds at June 30, 2010 and the amount of income received from these trusts during the year then ended were as follows:

Funds Held in Trust by Others

(In thousands)

		University	URO – Foundation
Fair value of funds held in trust by others	$	34,245	34,016
Income received from funds held in trust by others		1,119	994

(12) 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.

SURS provides retirement, disability and death benefits. Members are eligible for normal retirement at any age after 35 years of service, at age 60 after 8 years of service or at age 62 after 5 years of service. There are also provisions for early retirement. Retirement benefits are based on certain formulas that generally are a function of years of service and the average salary based on the highest earnings of any 4 consecutive years. Disability benefits are paid to disabled members with 2 years of covered service, generally at 50% of basic compensation until the total benefits paid equal 50% of the total earnings in covered service. Death benefits are payable to survivors of an active member with one and one half years of covered service or of a former member with 10 years of covered service. These benefits are payable until children attain the age of 18, to a spouse after age 50 and to a dependent parent after age 55. Benefits are equal to the retirement contributions and interest, a lump sum payment of $1,000, and a monthly annuity equal to a portion of the accrued normal retirement benefit based on specified formulas.

Plan members are required to contribute 8.0% of their annual covered salary and substantially all employer contributions are made by the State of Illinois on behalf of the individual employers at an actuarially determined rate. The current rate is 21.27% 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, 2010, 2009, and 2008 were $319,047,000,

(Continued)

$219,441,000 and $174,318,000, respectively, equal to the required contributions for each year. The UROs contributions to SURS for the years ended June 30, 2010, 2009, and 2008 were $921,000, $958,000 and $948,000, 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.

(13) 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 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 2010, the annual cost of health, dental, and vision benefits before the State's contribution was $6,744 ($3,528 if Medicare eligible) if the annuitant chose benefits provided by a health maintenance organization (HMO) and $9,684 ($3,750 if Medicare eligible) if the annuitant chose other benefits. Additional contributions by annuitants for dependents ranging from $1,056 to $2,814 ($996 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 2010 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 $984 to $2,712 ($924 to $2,436 if Medicare eligible) are also required depending on the benefits selected and whether there is one or multiple dependents.

(14) Commitments and Contingencies

At June 30, 2010 the University had commitments on various construction projects and contracts for repairs and renovation of facilities of approximately $68,196,000.

The University has secured natural gas at a fixed price for fiscal years 2010 – 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, 2010, the University's commitment related to these contracts is $67,317,000.

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 (HFS) 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 HFS subsequent to the original notice. During fiscal year 2010, the University submitted additional documentation and evidence of its positions. The University is waiting for a response from HFS. The estimated liability including a provision for subsequent audits has been reflected in the University's balance sheet and results from operations.

(15) Operating Expenses by Natural Classification

Operating expenses by natural classification for the year ended June 30, 2010 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	$ 853,714	112,160	4,465		970,339
Research	421,189	228,883	2,157		652,229
Public service	238,361	154,145	2,837		395,343
Academic support	245,371	103,692	5,175		354,238
Student services	88,618	35,657	2,360		126,635
Institutional support	195,291	33,292	27		228,610
Operations and maintenance of plant	69,021	194,603	6,115		269,739
Scholarships and fellowships	195,879	1,226	18,165		215,270
Auxiliary enterprises	126,817	169,691	14,286		310,794
Hospital and medical activities	378,878	218,546	2		597,426
Independent operations	1,500	10,567			12,067
Depreciation				208,885	208,885
Total	$ 2,814,639	1,262,462	55,589	208,885	4,341,575

URO – Foundation Operating Expenses by Natural Classification

(In thousands)

	Distributions on behalf of the University	Institutional support	Depreciation	Total
Fund-raising	$	11,013		11,013
Distributions on behalf of the University	147,125			147,125
General and administrative		11,180		11,180
Actuarial adjustments		5,754		5,754
Depreciation			576	576
Total	$ 147,125	27,947	576	175,648

(16) Segment Information

The following financial information represents identifiable activities 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, 2010

(In thousands)

		Auxiliary Facilities System	Health Services Facilities System	Total
Assets and deferred outflows of resources:				
Current assets	$	157,490	249,605	407,095
Noncurrent assets:				
Capital assets, net of accumulated depreciation		946,022	151,578	1,097,600
Other noncurrent assets		19,892	3,795	23,687
Deferred outflow of resources			1,702	1,702
Total assets and deferred outflows of resources	$	1,123,404	406,680	1,530,084
Liabilities:				
Current liabilities	$	93,150	129,698	222,848
Noncurrent liabilities:				
Long-term debt		901,471	22,793	924,264
Other liabilities		5,874	24,114	29,988
Total liabilities		1,000,495	176,605	1,177,100
Net assets:				
Invested in capital assets, net of related debt		9,907	83,327	93,234
Restricted:				
Expendable		19,647	3,727	23,374
Unrestricted		93,355	143,021	236,376
Total net assets		122,909	230,075	352,984
Total liabilities and net assets	$	1,123,404	406,680	1,530,084

Condensed Statement of Revenues, Expenses and Changes in Net Assets

Year ended June 30, 2010

(In thousands)

		Auxiliary Facilities System	Health Services Facilities System	Total
Operating revenues	$	306,289	562,848	869,137
Operating expenses		243,351	602,444	845,795
Depreciation expense		28,673	20,053	48,726
Operating income (loss)		34,265	(59,649)	(25,384)
Nonoperating revenues (expenses), net		(16,513)	120,558	104,045
Increase in net assets		17,752	60,909	78,661
Net assets, beginning of year, as adjusted		105,157	169,166	274,323
Net assets, end of year	$	122,909	230,075	352,984

Condensed Statement of Cash Flows

Year ended June 30, 2010

(In thousands)

Net cash flows provided by operating activities	$	91,462	83,286	174,748
Net cash flows (used in) provided by noncapital financing activities		(272)	752	480
Net cash flows used in capital and related financing activities		(115,152)	(16,205)	(131,357)
Net cash flows provided by investing activities		10,116	2,091	12,207
Net (decrease) increase in cash and cash equivalents		(13,846)	69,924	56,078
Cash and cash equivalents, beginning of year		148,539	86,127	234,666
Cash and cash equivalents, end of year	$	134,693	156,051	290,744

(17) 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, 2010

(In thousands)

		Foundation	Alumni Association	WWT	Illinois Ventures
Assets:					
Current assets	$	34,179	2,011	406	2,381
Noncurrent assets:					
Capital assets, net of accumulated depreciation		10,846	679	582	36
Other noncurrent assets		1,186,331	13,048		7,995
Total assets	$	1,231,356	15,738	988	10,412
Liabilities:					
Current liabilities	$	37,717	587	736	431
Noncurrent liabilities:					
Other noncurrent liabilities		46,373	977		
Total liabilities		84,090	1,564	736	431
Net assets:					
Invested in capital assets, net of related debt		5,714	679	582	36
Restricted:					
Nonexpendable		665,701			
Expendable		529,854			
Unrestricted		(54,003)	13,495	(330)	9,945
Total net assets		1,147,266	14,174	252	9,981
Total liabilities and net assets	$	1,231,356	15,738	988	10,412

Condensed Statements of Revenues, Expenses and Changes in Net Assets

Year ended June 30, 2010

(In thousands)

		Foundation	Alumni Association	WWT	Illinois Ventures
Operating revenues	$	127,926	8,398	8,879	3,616
Operating expenses		175,072	8,302	8,513	2,796
Depreciation expense		576	71	240	21
Operating income (loss)		(47,722)	25	126	799
Nonoperating revenues (expenses)		115,369	1,843	(33)	(1,264)
Contributions to endowments		31,606			
Increase (decrease) in net assets		99,253	1,868	93	(465)
Net assets, beginning of year, as restated		1,048,013	12,306	159	10,446
Net assets, end of year	$	1,147,266	14,174	252	9,981

(Continued)

Condensed Balance Sheets

June 30, 2010

(In thousands)

		Research Park	Prairieland	Singapore Research	Total
Assets:					
Current assets	$	328	5,872	1,273	46,450
Noncurrent assets:					
Capital assets, net of accumulated depreciation		972	75	573	13,763
Other noncurrent assets					1,207,374
Total assets	$	1,300	5,947	1,846	1,267,587
Liabilities:					
Current liabilities	$		4,644	1,273	45,388
Noncurrent liabilities:					
Other noncurrent liabilities					47,350
Total liabilities		—	4,644	1,273	92,738
Net assets:					
Invested in capital assets, net of related debt		972	75	573	8,631
Restricted:					
Nonexpendable					665,701
Expendable					529,854
Unrestricted		328	1,228		(29,337)
Total net assets		1,300	1,303	573	1,174,849
Total liabilities and net assets	$	1,300	5,947	1,846	1,267,587

Condensed Statements of Revenues, Expenses and Changes in Net Assets

Year ended June 30, 2010

(In thousands)

		Research Park	Prairieland	Singapore Research	Total
Operating revenues	$	456	14,793	2,980	167,048
Operating expenses		217	14,351	2,881	212,132
Depreciation expense		34	14	139	1,095
Operating income (loss)		205	428	(40)	(46,179)
Nonoperating revenues (expenses)				31	115,946
Contributions to endowments					31,606
Increase (decrease) in net assets		205	428	(9)	101,373
Net assets, beginning of year, as restated		1,095	875	582	1,073,476
Net assets, end of year	$	1,300	1,303	573	1,174,849

(Continued)

(18) Subsequent Events

On July 1, 2010, the $27,405,000 of the University's bank account balances at June 30, 2010, that was not covered by federal depository insurance or by collateral held by an agent in the University's name (see Note 2), was transferred to a money market fund, which fully collateralized this amount.

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 (i) pay a part of the costs of various improvements and additions to the System, (ii) pay capitalized interest on the Series 2010A Bonds and (iii) pay costs of issuing the Series 2010A Bonds.

The University paid $30,000,000 of principal on August 4, 2010 and $30,000,000 of principal on September 1, 2010 on its Certificates of participation, Series 2009, which settled the outstanding liability of this issuance.

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 and the cost of issuance in the amount of $18.4 million. The financing is for 15 years at an interest rate of 3.24%.