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UNIVERSITY OF ILLINOIS

Annual Financial Report

June 30, 2013

(With Independent Auditors' Report Thereon)

THE BOARD OF TRUSTEES

UNIVERSITY OF ILLINOIS

Annual Financial Report

June 30, 2013

Table of Contents

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, 2013

The information in this Annual Financial Report of the University of Illinois for the fiscal year ended June 30, 2013, documents that the financial position of the University remains sound.

The ongoing economic challenges impacting our state and nation continued to demand the best from administrators and business staff across the University. They made wise management and budgetary decisions with 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
Aon Center
Suite 5500
200 East Randolph Drive
Chicago, IL 60601-6436

Independent Auditors' Report

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

Report on the Financial Statements

As Special Assistant Auditors for the Auditor General of the State of Illinois, 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, 2013, and the related notes to the financial statements, which collectively comprise the University of Illinois' basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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. Those statements were audited by other auditors, whose reports have been furnished 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. 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 from 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 (all discretely presented component units) were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University of Illinois' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, based on our audit and the reports of the 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, 2013, and the respective changes in financial position, and where applicable, cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Report on Summarized Comparative Information

We have previously audited the University of Illinois' 2012 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 17, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matter

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 4 through 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2013, 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* in considering the University of Illinois' internal control over financial reporting and compliance.

KPMG LLP

Chicago, Illinois
December 20, 2013

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, 2013. The MD&A should be read in conjunction with the audited financial statements and notes appearing in this report.

The University was founded in 1867 in response to the federal Land Grant Act of 1862. The University's evolution 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 the University's missions of excellence in teaching, research, public service and economic development.

The University's campuses currently enroll approximately 77,000 students. The University has internationally renowned faculty that are known for being world leaders in research and currently employs approximately 5,800 faculty members on its three campuses. The University offers a diverse range of degree programs from baccalaureate to doctoral levels. Approximately 20,000 degrees are awarded annually. The operating budget for fiscal year 2013, from all fund sources, was approximately $5.4 billion. University 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 Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position; and the Statement of Cash Flows. The financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles, which establish standards for external financial reporting for public colleges and universities and require that financial statements focus on the University as a whole.

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

Financial Highlights and Key Trends

The fiscal year 2013 state appropriations (excluding capital) were $667 million, down from $710 million in fiscal year 2012. The overall budget utilized by the University increased by 7.6%, even though direct funding from the State of Illinois (State) declined. This trend demonstrates the University's ability to rely on other diverse sources of funding to provide services to University students and support the University mission.

Net position, which represents the residual interest in the University's assets and deferred outflows of resources after liabilities and deferred inflows of resources, increased during the current year by $466 million.

(Continued)

Statement of Net Position

The Statement of Net Position presents the financial position of the University at the end of the fiscal year and includes all assets, deferred outflows of resources, and liabilities of the University using the accrual basis of accounting. The difference between total assets and deferred outflows of resources and total liabilities, net position, is one indicator of the current financial condition of the University. The changes in net position 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. Deferred outflows of resources represent the change in fair value of the swap agreements associated with the related bonds and certificates of participation. A summarized comparison of the University's assets, deferred outflows of resources, liabilities and net position at June 30, 2013 and 2012 is as follows:

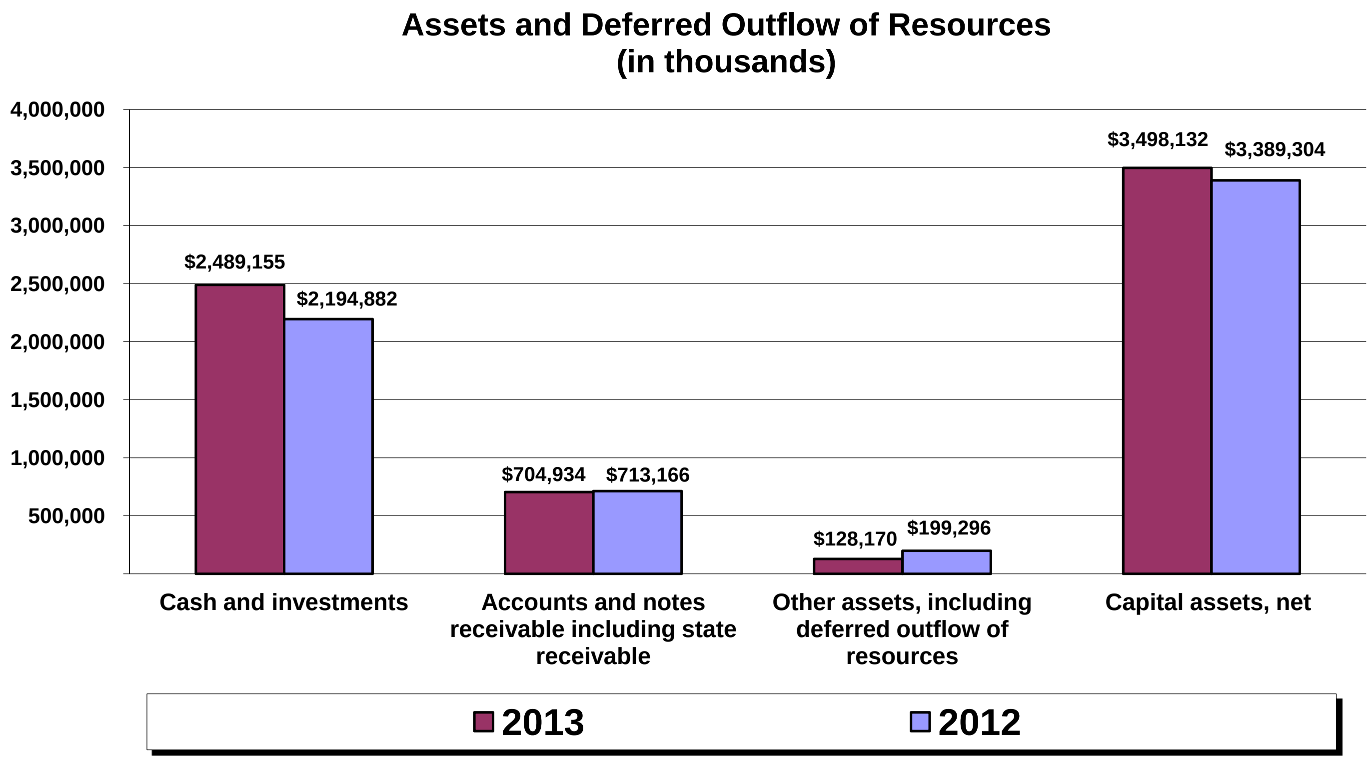
		2013	2012
		(In thousands)	
Current assets:			
Cash and investments	$	1,021,301	916,543
Accounts and notes receivable		488,080	454,659
Receivable from State of Illinois, related to appropriation		164,398	204,972
Other current assets		89,297	152,120
Noncurrent assets:			
Cash and investments		1,467,854	1,278,339
Notes receivable		52,456	53,535
Capital assets, net of accumulated depreciation		3,498,132	3,389,304
Other assets		15,354	14,148
Deferred outflows of resources		23,519	33,028
Total assets and deferred outflows of resources	$	6,820,391	6,496,648
Current liabilities:			
Accounts payable, accrued liabilities and deferred revenue	$	609,439	576,185
Bonds payable		45,551	41,066
Leaseholds payable and other obligations		39,830	145,836
Accrued self-insurance		60,751	60,933
Other current liabilities		98,298	173,399
Noncurrent liabilities:			
Bonds payable		1,057,531	1,093,724
Leaseholds payable and other obligations		417,357	353,916
Accrued self-insurance		171,571	184,777
Accrued compensated absences		175,982	178,434
Derivative instruments – swap liability		27,265	37,169
Total liabilities		2,703,575	2,845,439
Net position		4,116,816	3,651,209
Total liabilities and net position	$	6,820,391	6,496,648

Total assets and deferred outflows of resources have increased by $324 million or 5.0% to $6.8 billion during fiscal year 2013. The primary drivers of this change were increases in cash and investments associated with tuition revenues invested for future use and an increase in capital assets, partially offset by a reduction in the receivable from the State related to appropriated funds and a reduction in securities lending activities.

Total liabilities decreased $142 million, or 5.0% for fiscal year 2013. This change largely resulted from a decrease of $74 million in long-term debt and a reduction of $65 million in the securities lending program.

It should be noted that a liquidity facility agreement related to the variable-rate Certificates of Participation Series 2004 was set to expire in fiscal year 2013, resulting in the entire outstanding balance of $119.4 million being classified as current liabilities in fiscal year 2012. The liquidity facility associated with these certificates was replaced with a new agreement in 2013.

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



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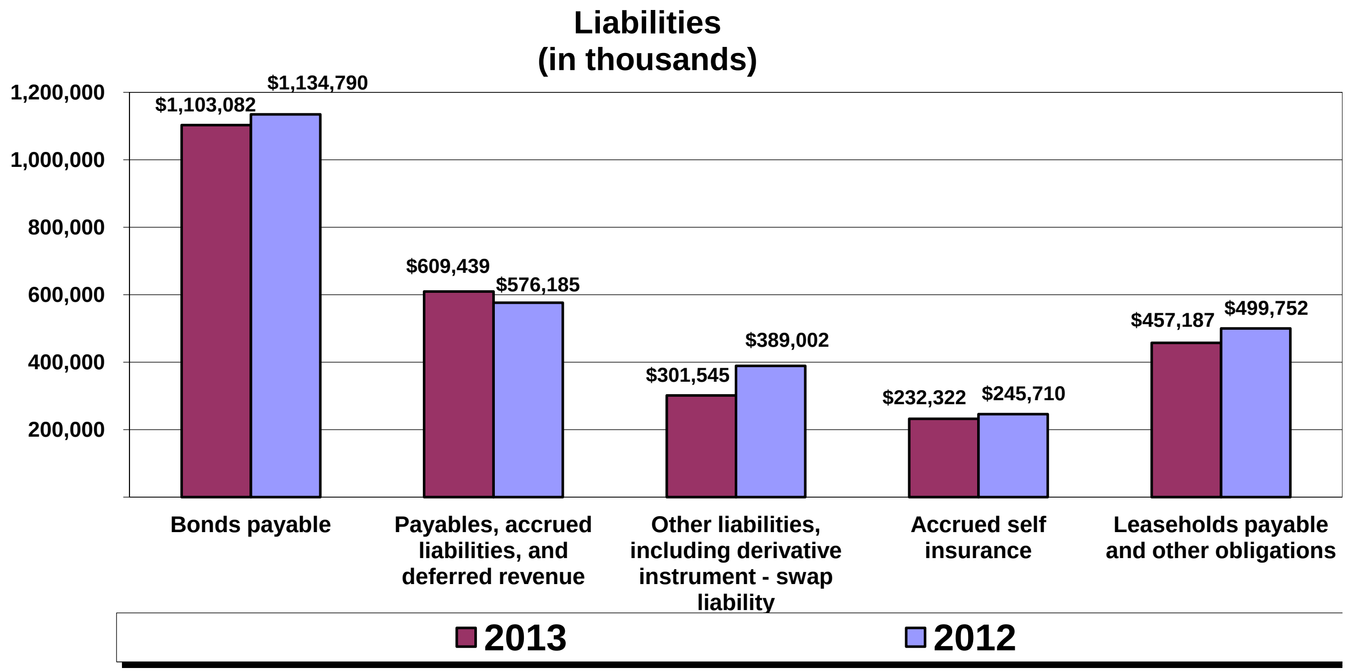


Capital Assets

The University's policy requires the capitalization of equipment at $5,000, software and other intangibles at $100,000, buildings and improvements at $100,000, infrastructure at $1,000,000 and all land and collection purchases regardless of cost. The University depreciates its capital assets on a straight-line basis, using estimated useful lives ranging from 3 to 50 years. The following table illustrates the composition of the University's capital assets, net of accumulated depreciation, by category:

Capital Assets, Net of Accumulated Depreciation
(In thousands)

	2013		2012	
Buildings	$ 2,296,560	65.7%	$ 2,353,319	69.4%
Improvements and infrastructure	309,189	8.8	328,780	9.7
Construction in progress	207,852	5.9	168,383	5.0
Land	135,822	3.9	134,707	4.0
Equipment and software	400,882	11.5	260,401	7.7
Collections	147,827	4.2	143,714	4.2
	$ 3,498,132	100.0%	$ 3,389,304	100.0%

Capital assets, net of accumulated depreciation, increased by $109 million in fiscal year 2013. This increase was largely due to current year additions of equipment and construction in progress, partially offset by current year depreciation. Facilities under construction included projects funded by revenue bonds, federal grants, private gifts, internal funds and state capital appropriations. Facilities under construction included the Electrical Computing Engineering and Ikenberry Commons buildings. Significant additions to equipment included $113 million of expenditures from federal grants related to the Petascale Computing Facility.

Long-Term Debt

The University has historically utilized revenue bonds to finance capital projects related to the Auxiliary Facilities System (AFS), the Health Services Facilities System and the UIC South Campus project. These activities have the ability to generate resources from student fees, users and third parties to service the debt. In fiscal year 2013, the University issued AFS Revenue Bonds of $213 million to refund previously issued bonds. The following table details the various bonded debt outstanding at June 30, 2013 and 2012:

Bonds Payable
(In thousands)

		2013	2012
Auxiliary Facilities System	$	999,898	1,025,068
Health Services Facilities System		50,868	53,507
UIC South Campus		52,316	56,215
	$	1,103,082	1,134,790

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 outstanding balances of the COPs as of June 30, 2013 and 2012 were $401,663,000 and $444,129,000 respectively.

The reduction in the outstanding balance of the long-term debt was due to scheduled redemptions.

Net Position

The University's resources are classified into net position categories on the Statement of Net Position. These categories are defined as (a) Net investment in capital assets, (b) Restricted nonexpendable – net position restricted by externally imposed stipulations, (c) Restricted expendable – net position 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 position 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 position increased by $466 million during fiscal year 2013. Net position balances are detailed below:

Net Position
(In thousands)

		2013	2012
Net position:			
Net investment in capital assets	$	2,063,410	1,932,473
Restricted		725,784	677,838
Unrestricted		1,327,622	1,040,898
	$	4,116,816	3,651,209

The growth in unrestricted net position was $287 million. This resulted from increased tuition revenue, various expenditure constraints and increases related to self-supporting activities, such as hospital operations. Unexpended private gifts represented the largest component of the $48 million increase in restricted net position. The net investment in capital assets increased by $131 million, which included changes in capital assets and long-term debt as discussed in preceding sections of this MD&A.

Statement of Revenues, Expenses and Changes in Net Position

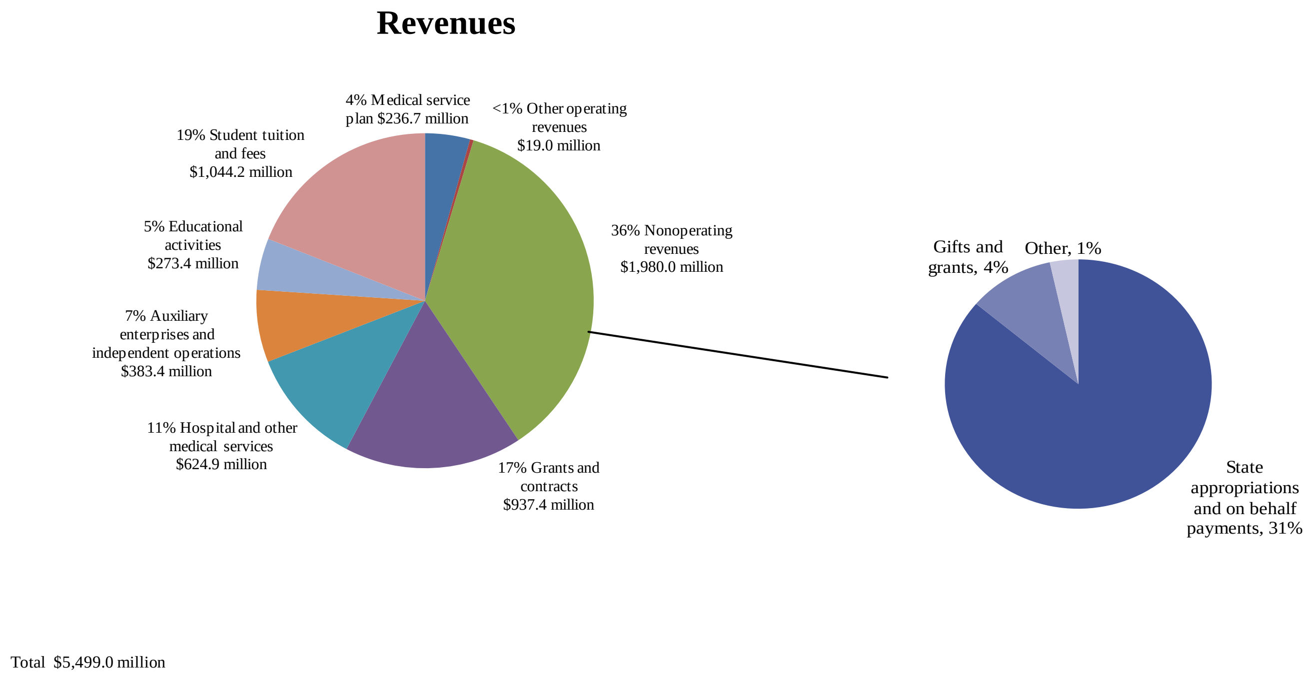
The Statement of Revenues, Expenses and Changes in Net Position presents the University's results of operations. In accordance with GASB reporting standards, revenues and expenses are classified as either operating or nonoperating. A summarized comparison of the University's Statement of Revenues, Expenses and Changes in Net Position for the years ended June 30, 2013 and 2012 is as follows:

		2013	2012
		(In thousands)	
Operating revenues:			
Student tuition and fees	$	1,044,188	987,796
Grants and contracts		937,372	937,811
Hospital and other medical activities		624,858	601,360
Auxiliary enterprises and independent operations		383,434	376,402
Educational activities		273,394	258,298
Medical service plan		236,668	236,160
Other		18,998	20,017
Total operating revenues		3,518,912	3,417,844
Operating expenses		5,164,846	4,744,967
Operating loss		(1,645,934)	(1,327,123)
Nonoperating revenues (expenses):			
State appropriations and on behalf payments		1,750,397	1,527,767
Transfer of state appropriation to the Hospital Services Fund		(45,000)	(45,000)
Private gifts		139,039	141,700
Federal grants, nonoperating		67,535	69,529
Investment income		68,005	24,656
Net increase in the fair value of investments		5,312	10,979
Other nonoperating expenses, net		(32,413)	(30,421)
Net nonoperating revenues		1,952,875	1,699,210
Capital state appropriations and capital gifts and grants		154,584	87,293
Endowment gifts		4,082	323
Increase in net position		465,607	459,703
Net position, beginning of year		3,651,209	3,189,460
Change in accounting principles			2,046
Net position, end of year	$	4,116,816	3,651,209

Revenues

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

The following graph illustrates the revenues by source (both operating and certain nonoperating), which were used to fund the University's operating activities for the year ended June 30, 2013:



Operating and nonoperating revenues experienced a net increase of $363 million in fiscal year 2013. This increase included several significant components. State appropriations and on behalf payments, which are classified as nonoperating, increased by $223 million due to revenues from payments made by the State to Central Management Services (CMS) and the State Universities Retirement System (SURS). The increase associated with on behalf payments was partially offset by a decrease in State appropriations. Tuition and fee revenue increased by $56 million during fiscal year 2013 primarily due to a tuition increase approved by the Board of Trustees. Revenues associated with investments increased by $38 million in connection with market conditions. Hospital and other medical activities revenues increased by $23 million largely due to rate increases along with reimbursements for services provided in prior fiscal years.

Expenses

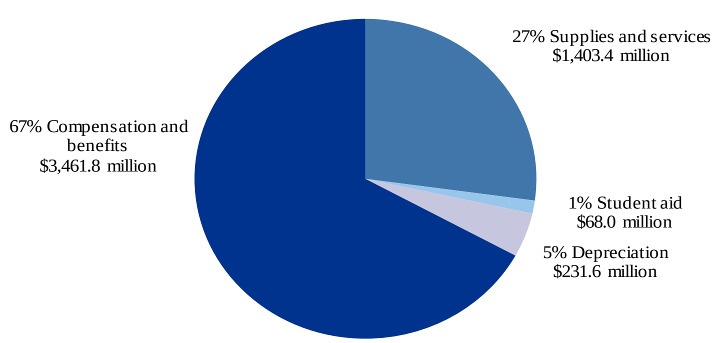
The majority of the University's expenses are exchange transactions, which GASB standards define as operating expenses. Nonoperating expenses include capital financing and other costs related to capital assets.

	2013		2012	
	(In thousands)			
Operating expenses:				
Instruction	$ 1,249,732	24.2%	$ 1,114,474	23.5%
Research	746,625	14.5	710,656	15.0
Public service	459,093	8.9	413,988	8.7
Support services	832,316	16.1	751,135	15.8
Hospital and medical activities	761,237	14.7	709,650	15.0
Auxiliary enterprises and independent operations	346,070	6.7	320,039	6.7
Scholarships and fellowships	255,930	4.9	241,008	5.1
Operation and maintenance of plant	282,287	5.5	270,947	5.7
Depreciation	231,556	4.5	213,070	4.5
Total operating expenses	$ 5,164,846	100.0%	$ 4,744,967	100.0%

The increase in operating expenses included increases in payments on behalf, which are allocated across the operating functions, and other increases associated with growth in activities and payroll expenses. Excluding the $266 million increase in on behalf payments, total operating expenses increased by $154 million, or 3.9%. The rise in operating expenses from the prior fiscal year was driven by increases in instruction and academic support functions to facilitate student and faculty achievement, public service initiatives and student scholarships and fellowships. Depreciation also contributed to the increase in operating expenses.

The University chooses to report its expenses by functional classifications in the Statement of Revenues, Expenses and Changes in Net Position. For the reader's information, the expenses are displayed in their natural classifications in note 14. The following graph illustrates the $5,164.8 million of operating expenses by natural classification:

Operating Expenses



The University's Economic Outlook

The University continues to maintain its level of excellence in service to students, patients, the research community, the State and the nation. A critical element to the University's future continues to be a strong partnership with the State since state appropriations from the Governor and General Assembly provide essential operating support for University programs. The direct appropriation for fiscal year 2014, signed into law by the Governor, reflects an increase of $1.2 million (0.2%) from the original budget appropriated in fiscal year 2013. While all major sources of funding for the University were strong in fiscal year 2013, cash flow issues that began in fiscal year 2010 continued to be an issue in fiscal year 2013, where the University ended the year with a receivable of $164.4 million from the State. This receivable from the State related to the University's fiscal year 2013 appropriation was received by the end of September 2013. Although the University received full payment of the fiscal year 2013 appropriation earlier than the past two years, the University expects cash flows from the State to continue to be a major concern, even with the tax increase in January 2011, as the economy slowly recovers. The State also appropriates funds for payments-on-behalf of University employees to CMS, as well as SURS, to pay benefits for University employees.

Based on multiple factors (such as enrollment levels, student mix and tuition rates), the University projects an increase in tuition and miscellaneous departmental revenue in fiscal year 2014. The recommended $1,064.2 million fiscal year 2014 tuition and miscellaneous departmental revenue budget represents a $52.2 million (5.2%) increase from fiscal year 2013. Undergraduate students have a four-year tuition guarantee. Incremental tuition income of $39.8 million results from general tuition rate increases of $99 per semester at Urbana-Champaign, $87 per semester at Chicago and $5.25 per credit hour at Springfield for the freshman cohort, and varying increases in the graduate and professional programs. The remaining increase results from cost recovery programs, extramural, adjustments for enrollment levels, investment income on tuition revenue, nonrecurring funds carried forward from fiscal year 2013 and revenues associated with the library/IT assessment.

In fiscal year 2009, the Governor and General Assembly transferred control of the State's four scientific surveys to the University, which had previously been operated by the Illinois Department of Natural Resources. Beginning in fiscal year 2013, the funds for the State Surveys, now known as the Prairie Research Institute, were directly included in the University of Illinois appropriation, versus an annual transfer of funds to the University's Income Fund as in years past. 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.

Research is one of four components of the University's mission. Research leading to the development of new products and services is also an engine driving economic development, another component of the University's mission. The continuing strength of externally sponsored research revenues illustrates the entrepreneurial spirit of the University's research faculty and staff. Although the federal sequestration efforts impact is not fully known at this time, the University continues to increase the number of competitive grant proposals and is well positioned to increase its share of federal support. The fiscal year 2014 sponsored project budget is an estimate of grant and contract awards for direct costs and represents a 5.0% decrease from fiscal year 2013 grant and contract expenditures. This decrease is primarily related to the recognition of grant-funded capital projects in fiscal year 2013 including major nonrecurring funding for the Blue Waters project at the Urbana-Champaign campus.

The University experienced growth from a variety of funding sources during fiscal year 2013. To maintain its financial position, the University continues to develop multiple sources of revenue to support its mission of instruction, research, public service and economic development. The University's Board of Trustees, the administration, faculty and staff are committed to upholding the University's outstanding academic reputation and strong financial condition.

UNIVERSITY OF ILLINOIS

Statement of Net Position

June 30, 2013
(with comparative totals for June 30, 2012)

(In thousands)

Assets and Deferred Outflows of Resources		**University 2013**	**University 2012**	**University Related Organizations 2013**	**University Related Organizations 2012**
Current assets:					
Cash and cash equivalents	$	580,765	609,372	12,325	7,032
Cash and cash equivalents, restricted		143,883	182,490	1,896	1,581
Investments		232,935	93,418	923	1,366
Investments, restricted		63,718	31,263		
Securities lending collateral		25,545	90,732		
Accrued investment income		4,991	3,936	789	1,273
Accounts receivable, net of allowance for uncollectible		478,819	446,014	12,214	8,267
Receivable from State of Illinois, related to appropriations		164,398	204,972		
Pledges receivable, net of allowance				28,640	35,010
Notes receivable, net of allowance for uncollectible		9,261	8,645	59	66
Accrued interest on notes receivable		3,589	3,149		
Inventories		29,394	32,481	6	9
Prepaid expenses and deferred charges		23,940	20,397	1,852	2,222
Due from related organizations		1,838	1,425		
Total current assets		1,763,076	1,728,294	58,704	56,826
Noncurrent assets:					
Cash and cash equivalents, restricted		10,465	17,615	97	147
Investments		1,029,365	812,879	21,886	22,113
Investments, restricted		428,024	447,845	1,542,519	1,356,305
Pledges receivable, net of allowance				202,378	73,019
Notes receivable, net of allowance for uncollectible		52,456	53,535		
Prepaid expenses and deferred charges		10,394	9,797		
Capital assets, net of accumulated depreciation		3,498,132	3,389,304	10,995	12,007
Other assets		4,960	4,351	127	131
Total noncurrent assets		5,033,796	4,735,326	1,778,002	1,463,722
Deferred outflows of resources		23,519	33,028		
Total assets and deferred outflows of resources	$	6,820,391	6,496,648	1,836,706	1,520,548
Liabilities and Net Position					
Current liabilities:					
Accounts payable and accrued liabilities	$	301,063	284,357	19,235	15,003
Accrued payroll		149,379	145,172	494	167
Accrued compensated absences, current portion		24,277	22,618	1,276	1,402
Accrued self-insurance, current portion		60,751	60,933		
Deferred revenue and student deposits		158,997	146,656	548	900
Accrued interest payable		15,665	17,455		
Securities lending collateral		25,545	90,732		
Notes payable				3,378	4,084
Bonds payable, current portion		45,551	41,066		
Due to related organizations, current portion				1,838	1,425
Leaseholds payable and other obligations, current portion		39,830	145,836	6,461	6,310
Assets held for others		32,811	42,594	2,014	2,013
Total current liabilities		853,869	997,419	35,244	31,304
Noncurrent liabilities:					
Bonds payable		1,057,531	1,093,724		
Leaseholds payable and other obligations		417,357	353,916	48,088	47,367
Accrued compensated absences		175,982	178,434		
Accrued self-insurance		171,571	184,777		
Deferred distributions				116	55
Derivative instrument – swap liability		27,265	37,169		
Total noncurrent liabilities		1,849,706	1,848,020	48,204	47,422
Total liabilities		2,703,575	2,845,439	83,448	78,726
Net investment in capital assets		2,063,410	1,932,473	7,618	7,923
Restricted:					
Nonexpendable		89,597	78,446	888,875	766,644
Expendable		636,187	599,392	830,558	661,460
Unrestricted		1,327,622	1,040,898	26,207	5,795
Total net position		4,116,816	3,651,209	1,753,258	1,441,822
Total liabilities and net position	$	6,820,391	6,496,648	1,836,706	1,520,548

See accompanying notes to financial statements.

UNIVERSITY OF ILLINOIS

Statement of Revenues, Expenses and Changes in Net Position

Year ended June 30, 2013
(with comparative totals for the year ended June 30, 2012)

(In thousands)

	University		University Related Organizations	
	2013	2012	2013	2012
Operating revenues:				
Student tuition and fees, net	$ 1,044,188	987,796		
Federal appropriations	16,830	18,072		
Federal grants and contracts	693,959	718,621		
State of Illinois grants and contracts	92,836	81,478		
Private and other government agency grants and contracts	150,577	137,712	178,278	139,766
Educational activities	273,394	258,298		
Auxiliary enterprises, net	369,814	363,319		
Hospital and other medical activities, net	624,858	601,360		
Medical service plan	236,668	236,160		
Independent operations	13,620	13,083		
Interest and service charges on student loans	2,168	1,945		
Allocation from the University			14,124	14,845
Other sources			84,187	47,984
Total operating revenues	3,518,912	3,417,844	276,589	202,595
Operating expenses:				
Instruction	1,249,732	1,114,474		
Research	746,625	710,656		
Public service	459,093	413,988		
Academic support	421,200	377,982		
Student services	160,960	141,130		
Institutional support	250,156	232,023	104,435	73,339
Operation and maintenance of plant	282,287	270,947		
Scholarships and fellowships	255,930	241,008		
Auxiliary enterprises	333,648	307,597		
Hospital and medical activities	761,237	709,650		
Independent operations	12,422	12,442		
Depreciation	231,556	213,070	1,066	1,091
Distributions on behalf of the University			147,680	151,657
Total operating expenses	5,164,846	4,744,967	253,181	226,087
Operating (loss) income	(1,645,934)	(1,327,123)	23,408	(23,492)
Nonoperating revenues (expenses):				
State appropriations	666,731	709,683		
Transfer of state appropriations to the Illinois DHFS Hospital Services Fund	(45,000)	(45,000)		
Private gifts	139,039	141,700		
Federal grants, nonoperating	67,535	69,529		
On-behalf payments for fringe benefits	1,083,666	818,084		
Net investment income (net of investment expense of $3,540)	68,005	24,656	22,067	14,784
Net increase in the fair value of investments	5,312	10,979	143,829	7,020
Interest expense	(70,877)	(71,489)	(53)	(76)
Loss on disposal of capital assets	(4,783)	(9,653)		
Other nonoperating revenues, net	43,247	50,721	(20)	31
Net nonoperating revenues	1,952,875	1,699,210	165,823	21,759
Income before other revenues	306,941	372,087	189,231	(1,733)
Capital state appropriations	26,123	30,910		
Capital gifts and grants	128,461	56,383		
Private gifts for endowment purposes	4,082	323	122,205	40,020
Increase in net position	465,607	459,703	311,436	38,287
Net position, beginning of year	3,651,209	3,189,460	1,441,822	1,403,535
Cumulative effect of change in accounting principle		2,046		
Net position, beginning of year, as adjusted	3,651,209	3,191,506	1,441,822	1,403,535
Net position, end of year	$ 4,116,816	3,651,209	1,753,258	1,441,822

See accompanying notes to financial statements.

UNIVERSITY OF ILLINOIS

Statement of Cash Flows

Year ended June 30, 2013
(with comparative totals for the year ended June 30, 2012)

(In thousands)

	University 2013	University 2012
Cash flows from operating activities:		
Student tuition and fees	$ 1,052,141	983,949
Federal appropriations	16,463	17,625
Federal, state, and local grants and contracts	807,638	754,233
Other governmental agencies and private grants and contracts	154,770	143,829
Sales and services of educational activities	263,987	253,552
Auxiliary activities and independent operations	383,805	382,860
Hospital and other medical activities	577,145	592,608
Medical service plan	239,267	251,607
Payments to employees and for benefits	(2,384,474)	(2,271,990)
Payments to suppliers	(1,402,871)	(1,316,977)
Payments for scholarships and fellowships	(67,548)	(65,213)
Student loans issued	(9,331)	(9,869)
Student loans collected	9,242	8,623
Student loan interest and fees collected	1,728	1,725
Net cash used in operating activities	(358,038)	(273,438)
Cash flows from noncapital financing activities:		
State appropriations	662,306	748,379
Gifts transferred from University of Illinois Foundation	139,039	141,700
Direct lending receipts	480,941	502,286
Direct lending payments	(481,541)	(501,534)
Federal grants and contracts, nonoperating	67,535	69,529
Private gifts for endowment purposes	4,082	323
(Advances to) repayments from related organizations, net	(413)	189
Other receipts	45,185	38,435
Other disbursements	(1,927)	(5,152)
Net cash provided by noncapital financing activities	915,207	994,155
Cash flows from capital and related financing activities:		
Proceeds from issuance of capital debt	248,900	169,424
Capital gifts and grants	126,306	52,451
Purchase of capital assets	(303,075)	(255,625)
Principal payments on bonds, capital leases, and other obligations	(335,760)	(161,764)
Interest payments on bonds, capital leases, and other obligations	(68,783)	(70,106)
Payment of bond and installment payment contract issuance costs	(2,745)	(1,702)
Net cash used in capital and related financing activities	(335,157)	(267,322)
Cash flows from investing activities:		
Interest and dividends on investments, net	27,021	18,401
Proceeds from sales and maturities of investments	2,380,014	1,433,924
Purchase of investments	(2,703,411)	(1,954,904)
Net cash used in investing activities	(296,376)	(502,579)
Net decrease in cash and cash equivalents	(74,364)	(49,184)
Cash and cash equivalents, beginning of year	809,477	858,661
Cash and cash equivalents, end of year	$ 735,113	809,477

(Continued)

UNIVERSITY OF ILLINOIS

Statement of Cash Flows

Year ended June 30, 2013
(with comparative totals for the year ended June 30, 2012)

(In thousands)

		University 2013	University 2012
Reconciliation of operating loss to net cash used in operating activities:			
Operating loss	$	(1,645,934)	(1,327,123)
Adjustments to reconcile operating loss to net cash used in operating activities:			
On-behalf payments for fringe benefits expense		1,083,666	818,084
Depreciation expense		231,556	213,070
Changes in assets and liabilities:			
Accounts receivable, net		(33,868)	(32,824)
Notes receivable, net		463	(714)
Accrued interest on notes receivable		(440)	(220)
Inventories		3,087	(1,294)
Prepaid expenses and deferred charges		(309)	659
Accounts payable and accrued liabilities		11,157	43,980
Accrued payroll		4,207	6,044
Deferred revenue and student deposits		12,341	(426)
Accrued compensated absences		(793)	(236)
Accrued self-insurance		(13,388)	1,216
Assets held for others		(9,783)	6,346
Net cash used in operating activities	$	(358,038)	(273,438)
Noncash investing, capital, and financing activities:			
On-behalf payments for fringe benefits	$	1,083,666	818,084
State appropriation		45,000	45,000
Transfers to Illinois DHFS Hospital Services Fund		(45,000)	(45,000)
Net increase in fair value of investments		5,312	10,979
Gifts in kind – capital assets		2,819	2,340
Increase of capital asset obligations in accounts payable		5,549	9,552
Capital asset acquisitions by Capital Development Board		26,123	30,910
Capital asset acquisitions via leaseholds payable		3,908	4,913
Net interest capitalized		3,722	6,210
Other capital asset adjustments		(29)	6,668
Loss on disposal of capital assets		(4,783)	(9,653)
Capital appreciation on bonds payable		8,959	9,476

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, founded in 1867 and a component unit of the State of Illinois (State), 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 healthcare facilities, and Springfield. The governing body of the University is The Board of Trustees of the University of Illinois (Board).

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

The University Related Organizations (UROs) column in the financial statements includes the financial data of the University's discretely presented component units. The University of Illinois Foundation (Foundation), the University of Illinois Alumni Association (Alumni Association), Wolcott, Wood and Taylor, Inc. (WWT), Prairieland Energy, Inc. (Prairieland), Illinois Ventures, LLC (Illinois Ventures), The University of Illinois Research Park, LLC (Research Park) and UI Singapore Research, LLC (Singapore Research) are included in the University's reporting entity because of the significance of their operational or financial relationship with the University. These component units are discretely presented in a separate column and are legally separate from the University.

The Foundation was formed for the purpose of providing fund-raising and other assistance to the University in order to attract private gifts to support the University's instructional, research and public service activities. In this capacity, the Foundation solicits, receives, holds and administers gifts for the benefit of the University. Complete financial statements for the Foundation may be obtained by writing the Senior Vice President for Administration, 400 Harker Hall, 1305 W. Green Street, Urbana, Illinois 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, Illinois 61801.

WWT was formed to provide practice management support services and operate as a billing/collection entity for healthcare activities under the laws of the State. Complete financial information may be obtained by writing the President and CEO, 200 W. Adams, Suite 225, Chicago, Illinois 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, Illinois 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, Illinois 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, Illinois 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, Illinois 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 for financial reporting purposes. The financial balances and activities included in these financial statements are, therefore, also included in the State's comprehensive annual financial report.

Significant Accounting Policies

(a) Financial Statement Presentation and Basis of Accounting

University

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

Under the accrual basis, revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grant and contract revenues, which are received or receivable from external sources, are recognized as revenues to the extent of related expenses or satisfaction of eligibility requirements. Advances are classified as deferred revenue. Appropriations made from the State for the benefit of the University are recognized as nonoperating revenues when eligibility requirements are satisfied.

The financial statements include certain prior year comparative information, which has been derived from the University's 2012 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, 2012.

UROs

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

The Foundation and Alumni Association follow FASB standards for financial statement presentation. Consequently, reclassifications have been made to convert their financial statements to the GASB format for inclusion in the UROs column of the financial statements and disclosure in note 16.

(b) Cash and Cash Equivalents

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

(c) Inventories

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

(d) Investments

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

Changes in fair value during the reporting period are reported as a net increase (decrease) in the fair value of investments. Net investment income includes interest, dividends, and realized gains and losses.

(e) Endowments

For donor-restricted endowments, the Uniform Prudent Management of Institutional Funds Act (UPMIFA), as adopted in Illinois, permits the respective Boards of 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 4.0% of the two-quarter lagged, seven-year moving average market value of fund units. At June 30, 2013, net appreciation of $58,769,000 was available to be spent, of which $46,439,000 was restricted to specific purposes.

URO – Foundation

Interpretation of Relevant Law: The board of directors of the Foundation interprets 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 stipulations 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 $63,152,000 for fiscal year ended June 30, 2013.

(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 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 – 20
Intangibles:			
Software	5 – 10		

(g) ***Deferred Outflows of Resources***

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

(h) ***Compensated Absences***

Accrued compensated absences for University personnel are charged as an operating expense, using the vesting method, based on earned but unused vacation and sick leave days including the University's share of Social Security and Medicare taxes. At June 30, 2013, the University estimates that $100,601,000 of the accrued compensated absences liability will be paid out of State appropriations to the University in subsequent years, rather than from unrestricted net position available at June 30, 2013. The amount associated with future State appropriations was calculated based upon the unused vacation and sick leave days and pay rates for the applicable employees.

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

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

(j) ***Net Position***

The Entity's resources are classified into net position categories and reported in the Statement of Net Position. These categories are defined as (a) Net investment in capital assets – capital assets net of accumulated depreciation and related outstanding debt balances attributable to the acquisition, construction, or improvement of those assets; (b) Restricted nonexpendable – net position restricted by externally imposed stipulations; (c) Restricted expendable – net position 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 position not subject to externally imposed stipulations but may be designated for specific purposes by action of management or the Board. The Entity first applies resources in restricted net position when an expense or outlay is incurred for purposes for which resources in both restricted and unrestricted net positions are available.

(k) ***Classification of Revenues***

The Statement of Revenues, Expenses and Changes in Net Position classifies the Entity's fiscal year activity as operating and nonoperating. Operating revenues generally result from exchange transactions such as payments received for providing goods and services, including tuition and fees, net of scholarships and fellowships, certain grants and contracts, sales and services of educational activities, hospital, medical service plans, and auxiliary enterprises revenues. Certain revenue sources that the Entity relies on to provide funding for operations including State appropriations, gifts, on-behalf payments for fringe benefits and investment income are defined by GASB Statement No. 35 as nonoperating revenues. In addition, transactions related to capital and financing activities are components of nonoperating revenues.

In fiscal year 2013, $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 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 (DHFS) and this fund is not part of or a related organization of the University.

(l) Tuition, Scholarships and Fellowships

Scholarships and fellowships of $250,138,000 and $7,487,000 are netted against student tuition and fees and auxiliary enterprises revenues, respectively. Stipends and other payments made directly to students are reported as scholarship and fellowship expense. Net tuition and fees, except for summer session, are recognized as revenues as they are assessed. The portion of summer session tuition and fees applicable to the following fiscal year is deferred.

(m) Patient Services Revenue – Hospital

With respect to the Hospital, net patient service revenue is reported at the estimated net realizable amounts due from patients, third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge reimbursed costs, discounted charges and per diem payments. Approximately 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, 2013. Payments under these programs are based on established program rates or cost 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, 2013, the contractual allowances totaled $1,197,714,000.

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

The net cost of charity care provided in fiscal year 2013 was $21,206,000, an increase of 19% from the prior year. The net cost of charity care is determined by the total charity care cost less any patient related revenue due to the sliding scale payments or other patient specific resources. Most of the patient specific resources came from the Center for Medicare & Medicaid Services 1011 program reimbursement.

(n) Classification of Expenses

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

(o) ***Employment Contracts***

Employment contracts for certain academic personnel provide for twelve monthly salary payments, although the contracted services are rendered during a nine-month period. The liability for those employees who have completed their contracted services, but have not yet received final payment, was $56,777,000 at June 30, 2013 and is recorded in the accompanying financial statements as accrued payroll. This amount will be paid from amounts specifically included in State appropriations to the University for fiscal year 2014 rather than from the unrestricted net position available at June 30, 2013.

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

In accordance with GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, the University reported payments made to the State Universities Retirement System on behalf of the Entity for contributions to retirement programs for Entity employees of $588,267,000 for the year ended June 30, 2013. Substantially all employees participate in group health insurance plans administered by the State. 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 $495,399,000 for year ended June 30, 2013. On-behalf payments are reflected as nonoperating revenues. The corresponding on-behalf expense is reflected as an operating expense and is allocated by function.

(q) ***Use of Estimates***

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

(r) ***New Accounting Pronouncements***

The University adopted the provisions of GASB Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34,* which was effective July 1, 2012. GASB Statement No. 61 modifies existing requirements for the assessment of potential component units in determining what should be included in the financial reporting entity along with financial reporting entity display and disclosure requirements. Implementation of GASB Statement No. 61 did not impact the University's financial statements.

The University adopted the provisions of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* which was effective July 1, 2012. The objective of GASB Statement No. 62 is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: (1) Financial Accounting Standards Board (FASB) Statements and Interpretations, (2) Accounting Principles Board Opinions, and (3) Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. Implementation of GASB Statement No. 62 did not impact the University's financial statements.

The University adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which was effective July 1, 2012. GASB Statement No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Certain transactions that result in the consumption or acquisition of resources in one period that are applicable to future periods are identified as *deferred outflows of resources* and *deferred inflows of resources*, respectively, and are distinguished from assets and liabilities. The difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources is identified as *net position*. The University's Statement of Net Position reports all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. The University's Statement of Revenues, Expenses, and Changes in Net Position reports all revenues and expenses, increases or decreases in net position, and beginning and ending net position. The new pronouncement required a change in the format of the University's financial statements, but did not have any quantitative impact.

(2) Cash, Cash Equivalents and Investments

The carrying amount of the University's cash totaled $(10,554,000) at June 30, 2013. The June 30, 2013 total bank account balances for the University aggregated $11,182,000 and was covered by federal depository insurance or by collateral held by an agent in the Entity's name.

Certificates of deposit held by the University totaled $21,400,000 at June 30, 2013 and was covered by federal depository insurance.

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, 2013, the University had repurchase agreements of $316,000 and the market value of securities underlying these repurchase agreements was $335,000 at June 30, 2013.

Illinois statutes govern the investment policies of the University. 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 and the State of Illinois Public Funds Investment Act when investing its funds. 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
- Asset-backed securities
- Corporate bonds, stocks and equities
- Commercial paper
- Repurchase agreements
- Limited partnerships
- Mutual funds

Additionally, the University has real estate and farm properties held as investments by permanent and term endowments reported at fair value of $74,372,000. 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 $8,559,000, which are carried at cost, or when donated, at the fair value at the date of donation. All other investments are carried at their fair value, as determined by quoted market prices when available, and otherwise by generally accepted valuation principles.

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

The following details the carrying value of the University's cash, cash equivalents and investments as of June 30, 2013:

University Cash, Cash Equivalents and Investments
(In thousands)

U.S. Treasury bonds and bills	$	291,725
U.S. government agencies		184,938
Commercial paper		12,922
Corporate bonds		495,442
Bond mutual funds		83,031
Nongovernment mortgage-backed securities		65,844
Other asset-backed securities		171,336
Non-U.S. government bonds		41,950
Money market funds		739,588
Illinois public treasurer's investment pool		5,263
Subtotal before cash deposits, equities and other investments		2,092,039
U.S. equities		34,426
International equities		5
Equity mutual funds		233,960
Limited partnerships		34,632
Repurchase agreements		316
Certificates of deposit		21,400
Real estate and farm properties		82,931
Cash deposits		(10,554)
Total	$	2,489,155

(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 one-year to three-year Government Bond Index, the Barclays Capital one-year to three-year Government Credit Bond Index and the Barclays Capital Intermediate Aggregate Bond Index. The University's manager guidelines provide that the average weighted duration of the portfolio, including option positions, not vary from that of their respective performance benchmarks by more than +/-20%.

The University's debt securities and maturities at June 30, 2013 are illustrated below:

University Investment Maturities

(In thousands)

	Total	Less than 1 year	1 – 5 years	6 – 10 years	Greater than 10 years
U.S. Treasury bonds and bills	$ 291,725	61,027	193,425	37,252	21
U.S. government agencies	184,938	12,500	40,133	36,929	95,376
Commercial paper	12,922	12,922			
Corporate bonds	495,442	183,295	290,298	21,056	793
Bond mutual funds	83,031		795	82,236	
Nongovernment mortgage-backed securities	65,844		2,152	1,390	62,302
Other asset-backed securities	171,336	384	143,176	16,018	11,758
Non-U.S. government bonds	41,950	8,753	25,464	2,586	5,147
Money market funds	739,588	739,588			
Illinois public treasurer's investment pool	5,263	5,263			
Total	$ 2,092,039	1,023,732	695,443	197,467	175,397

At June 30, 2013, the University's operating funds pool portfolio had an effective duration of 1.4 years.

(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 that 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, 2013, the University had debt securities and quality ratings as illustrated below:

University Investments Quality Ratings

(In thousands)

	Total	AAA	AA	A	BBB	BB	Less than BB or not rated
U.S. Treasury bonds and bills	$ 291,725		291,725				
U.S. government agencies	184,938	422	184,516				
Commercial paper	12,922		5,999	6,923			
Corporate bonds	495,442	12,366	119,763	259,681	100,367	582	2,683
Bond mutual funds	83,031		42,832	40,199			
Nongovernment mortgage-backed securities	65,844	37,110	5,425	4,742	1,942	1,636	14,989
Other asset-backed securities	171,336	151,581	15,540	49		885	3,281
Non-U.S. government bonds	41,950	15,590	19,393	5,722	884		361
Money market funds	739,588	737,544	2,044				
Illinois public treasurer's investment pool	5,263	5,263					
Total	$ 2,092,039	959,876	687,237	317,316	103,193	3,103	21,314

(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, 2013, 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, 2013, 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 University invests in non-U.S. developed and emerging markets through commingled funds invested in non-U.S. equities, global equities, private equity and absolute return strategies. These funds are reported in U.S. dollars, both price changes of the underlying securities in local markets and changes to the value of local currencies relative to the U.S. dollar are embedded in investment returns.

(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, 2013, the short-term investment pool has a weighted average maturity of 88 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 $25,545,000 at June 30, 2013, and is recorded as an asset and corresponding liability on the University's Statement of Net Position. As of June 30, 2013, $24,978,000 of the investments reported on the University's Statement of Net Position was on loan, secured by collateral with a fair value of $25,545,000. At June 30, 2013, 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, within the University's statements, for the Foundation investments differ from GASB requirements.

FASB standards have established a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The fair value hierarchy is as follows:

Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the Foundation has the ability to access as of the measurement date. Level 1 inputs would also include investments valued at prices in active markets that the Foundation has access to where transactions occur with sufficient frequency and volume to provide reliable pricing information.

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 2 investments also include alternative investments, measured using the practical expedient, that do not have any significant redemption restrictions, lock up periods, gates or other characteristics that would cause liquidation and report date net asset value (NAV) to be significantly different, if redemption were requested at report date.

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. The Foundation reports the fair value of certain Level 3 investments using the practical expedient. The practical expedient allows for the use of NAV, either as reported by the investee fund or as adjusted by the Foundation based on various factors, to be used to determine fair value, under certain conditions. The fair value of the investment is based on a combination of audited financial statements of the investees and monthly or quarterly statements received from the investees. These investments could have significant redemption and other restrictions that would limit the Foundation's ability to redeem out of the fund at report date NAV.

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 include highly liquid government bonds, 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 and other valuation methodologies. Level 2 securities would include mortgage-backed agency securities, certain corporate securities, mutual funds of Level 1 securities where values are based on net asset value provided by the investment manager, emerging market funds where the value is based on the net asset value provided by the investment manager and other certain securities. 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, reference data and net asset value provided by the investment manager.

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 and may include equity and/or debt securities issued by private entities and certain corporate bonds. The Foundation's private equity, hedge and real estate investment funds do not have a readily determinable fair value. These funds are valued using the practical expedient.

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

There have been no changes in valuation techniques used for any assets measured at fair value during the year ended June 30, 2013.

The following table summarizes assets measured at fair value on a recurring basis as of June 30, 2013, 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, 2013

(In thousands)

	Fair value	Level 1	Level 2	Level 3
Assets:				
U.S. Treasury bonds and bills	$ 5,435		5,435	
International government bonds	1,126		33	1,093
U.S. government agencies	19,392		19,392	
International government agencies	599		599	
Municipal bonds	568		568	
Corporate bonds and notes	14,362		14,362	
Commercial mortgage-backed securities	1,052		1,052	
Asset-backed securities	3,063		2,926	137
Nongovernment backed collateralized mortgage obligation (CMOS)	2,784		2,625	159
Other fixed income	2,503		2,503	
Common stock, domestic:				
Consumer goods	56,208	56,208		
Energy	10,358	10,358		
Financial services	24,106	23,100	1,006	
Healthcare	27,078	27,078		
Industrials	18,141	18,141		
Information technology	31,313	31,313		
Materials	11,448	11,448		
Telecommunications	418	418		
Utilities	1,166	1,166		
Common stock, foreign:				
Consumer goods	27,943	27,943		
Energy	4,127	4,127		
Financial services	11,673	11,673		
Health care	12,696	12,696		
Industrials	14,561	14,561		
Information technology	1,271	1,271		
Materials	2,661	2,661		
Miscellaneous	13,540			13,540
Hedged/alternative investments	410,358			410,358
Private equity	102,759			102,759
Real estate trusts and partnerships	71,336			71,336
Subtotal forward	$ 904,045	254,162	50,501	599,382

URO – Foundation Fair Value Measurements as of June 30, 2013 (Continued)

(In thousands)

	Fair value	Level 1	Level 2	Level 3
Subtotal forward	$ 904,045	254,162	50,501	599,382
Bond mutual funds:				
U.S. government	28,087	849	27,238	
Mortgages	24,947	659	24,288	
Corporate bonds and notes	12,908	397	12,511	
High yield	2,874	83	2,791	
Municipals	4,360	111	4,249	
Internationals	9,827	309	9,518	
Equity mutual funds:				
Small cap	630	454	176	
Mid cap	12,808	12,808		
Large cap	139,909	38,135	101,774	
International	109,728	8,981	100,747	
Money market mutual funds	159,963	159,963		
Other	2,953			2,953
Farms	58,254		58,254	
Beneficial interest in trusts	32,082			32,082
Trusts held by others	20,042			20,042
Cash surrender value of life insurance	5,732			5,732
Other assets	7,517		7,517	
Total investments	$ 1,536,666	476,911	399,564	660,191

The investments above exclude $5,853,000 of real estate, which is carried at cost.

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, 2013

(In thousands)

	Beginning balance	Purchases	Sales (distributions)	Total gains or losses*	Net transfers in/out of Level 3	Ending balance
U.S. government agencies	$ 90		(8)	(27)	(55)	—
International government bonds	783	804	(450)	(44)		1,093
Miscellaneous common stock	13,221	266		53		13,540
Hedged/alternative assets	365,988			44,370		410,358
Private equity	103,634	6,677	(18,413)	10,861		102,759
Real estate trusts and partnerships	74,952	412	(8,443)	4,415		71,336
Other investments	2,750		(90)	293		2,953
Beneficial interest in trusts	30,289			1,793		32,082
Trusts held by others	15,483			4,559		20,042
Cash surrender value of life insurance	5,363			369		5,732
Asset backed securities	130			7		137
Nongovernment backed CMOS	—		(19)	19	159	159
Balance, ending	$ 612,683	8,159	(27,423)	66,668	104	660,191

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

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

The following table sets forth additional disclosure of the Foundation's investments whose fair value is estimated using net asset value (NAV) per share (or its equivalent) as of June 30, 2013:

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

(In thousands)

	Fair value	Unfunded commitment	Redemption frequency	Redemption notice period
Hedged/alternative investments (A)	$ 410,358		(A)	(A)
Private equity (B)	102,759	15,986	(B)	(B)
Real estate trusts and partnerships (B)	71,336	2,787	(B)	(B)
Large cap equity fund (C)	101,774		Daily	Trade Date Plus 1 – 3 Days
International equity fund (D)	100,747		Daily/10 days	Trade Date Plus 1 day – 30 Days
	$ 786,974	18,773		

(A) The partnerships in this category consist of funds that invest in multiple limited partnerships with various investment strategies and long and short positions in equity securities of companies within the USA and outside of the USA. These funds can be redeemed daily, monthly, quarterly or annually depending on the partnership agreement within redemption notice periods of none to 90 days. The fund values of these investments have been estimated using the NAV per share of the investments provided by the fund manager.

(B) The partnerships in this category consist of funds that invest in the following types of investments in the USA and outside of the USA: venture capital partnerships, buyout partnerships, mezzanine/subordinated debt partnerships, restructuring/distressed debt partnerships and special situation partnerships, and real estate. These investments cannot be redeemed during the life of the partnership, which can be up to 12 years; however, they can be transferred to another eligible investor. Distributions will be received as the underlying investments of the funds are liquidated over time. The fair value of this investment has been estimated using the NAV provided by the fund manager and an adjustment determined by management for the time period between the date of the last available net asset value from the investment manager and June 30, 2013.

(C) These funds invest in marketable equities that are all exchange traded in the USA and that are categorized as large cap. These funds can be redeemed at the month-end net asset value per share based on the fair value of the underlying assets. The fair values of these investments have been estimated using the NAV per share of the investments provided by the fund manager.

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

All URO – Foundation investments are considered noncurrent assets.

(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, 2013.

The composition of accounts receivable and notes and pledges receivable at June 30, 2013 is summarized as follows:

University Accounts Receivable, Net of Allowance
(In thousands)

		Gross receivables	Allowance for uncollectible	Net receivables
Receivables from sponsoring agencies	$	201,212	(2,406)	198,806
Hospital and other medical activities		449,999	(306,964)	143,035
Student tuition and fees		34,307	(10,114)	24,193
Auxiliaries		14,466	(5,578)	8,888
Medical service plan		80,763	(29,913)	50,850
Educational activities		39,425	(5,673)	33,752
Other		25,689	(6,394)	19,295
Total	$	845,861	(367,042)	478,819

Notes and Pledges Receivable
(In thousands)

Student notes receivable – University:		
Student notes outstanding	$	64,673
Allowance for uncollectible loans		(2,956)
Total student notes receivable, net	$	61,717
Gift pledges receivable, URO – Foundation:	$	248,727
Less:		
Allowance for doubtful pledges		(14,115)
Present value discount		(3,612)
Total gift pledges outstanding, net	$	231,000

(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 $3,722,000 was capitalized during the year ended June 30, 2013.

Capital assets activity during the year ended June 30, 2013 is summarized as follows:

University Capital Assets
(In thousands)

		Beginning balance	Additions	Retirements	Transfers	Ending balance
Nondepreciable capital assets:						
Land	$	134,707	1,306	(191)		135,822
Construction in progress		168,383	257,955		(218,486)	207,852
Inexhaustible collections		21,320	490	(1)		21,809
Total nondepreciable capital assets		324,410	259,751	(192)	(218,486)	365,483
Depreciable capital assets:						
Buildings		3,674,976	295	(4,246)	35,267	3,706,292
Improvements and infrastructure		678,452			3,458	681,910
Equipment		1,026,305	60,211	(53,521)	176,702	1,209,697
Software		169,253			3,059	172,312
Exhaustible collections		551,884	25,864	(1,854)		575,894
Total depreciable capital assets		6,100,870	86,370	(59,621)	218,486	6,346,105
Less accumulated depreciation:						
Buildings		1,321,657	90,951	(2,876)		1,409,732
Improvements and infrastructure		349,672	23,049			372,721
Equipment		794,720	80,893	(51,200)		824,413
Software		140,437	16,277			156,714
Exhaustible collections		429,490	20,386			449,876
Total accumulated depreciation		3,035,976	231,556	(54,076)	—	3,213,456
Total net depreciable capital assets		3,064,894	(145,186)	(5,545)	218,486	3,132,649
Total	$	3,389,304	114,565	(5,737)	—	3,498,132

(5) Accrued Self-Insurance and Loss Contingency

The University’s accrued self-insurance liability of $232,322,000 at June 30, 2013 covers hospital patient liability; hospital and medical professional liability; estimated general and contract liability; and workers’ compensation liability related to employees paid from local funds. The accrued self-insurance liability was discounted at rates of 2% to 5% at June 30, 2013. 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 $23,470,000 at June 30, 2013 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 position as of June 30, 2013.

The accrued self-insurance liability includes $174,592,000 at June 30, 2013 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, 2013. Changes in these estimates will be reflected in the Statement of Revenues, Expenses and Changes in Net Position in the period when additional information is available.

Changes in Accrued Self-Insurance
(In thousands)

		2013	2012
Balance, beginning of year	$	245,710	244,494
Claims incurred and changes in estimates		27,827	60,338
Claim payments and other deductions		(41,215)	(59,122)
Balance, end of year		232,322	245,710
Less current portion		(60,751)	(60,933)
Balance, end of year – noncurrent portion	$	171,571	184,777

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

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

(6) Accrued Compensated Absences

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

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

Changes in Compensated Absences Balance
(In thousands)

Balance, beginning of year	$	201,052
Additions		20,845
Deductions		(21,638)
Balance, end of year		200,259
Less current portion		(24,277)
Balance, end of year – noncurrent portion	$	175,982

(7) Bonds Payable

On May 15, 2013, the University issued $212,540,000 of AFS Revenue Bonds, Series 2013A. Proceeds of these bonds were used to provide for the partial refunding of the outstanding principal of three different Series of AFS Revenue Bonds, Series 2003A, Series 2005A, and Series 2006. Proceeds were also used to fund all costs incidental to the issuance of the Series 2013A Bonds. The refunding resulted in a projected savings of $22,921,000 over the life of the issue at a present value of $17,972,000. The difference between the reacquisition price and the net carrying amount of the old debt, (gain) loss on refunding for each Series, was $(282,000), $2,737,000 and $18,870,000, respectively. This (gain) loss is deferred and amortized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter.

Bonds Payable
(In thousands)

	Maturity dates	Beginning balance	Additions	Deductions	Ending balance	Current portion
Auxiliary Facilities System:						
Current interest bonds	2014 – 2041	$ 874,145	212,540	(236,600)	850,085	21,905
Capital appreciation bonds	2014 – 2030	186,250		(16,270)	169,980	16,270
Health Services Facilities System	2014 – 2027	57,080		(2,890)	54,190	3,005
UIC South Campus	2014 – 2023	62,090		(4,515)	57,575	4,950
		1,179,565	212,540	(260,275)	1,131,830	46,130
Unaccreted appreciation		(59,133)	8,959		(50,174)	(849)
		1,120,432	221,499	(260,275)	1,081,656	45,281
Unamortized debt premium		34,819	36,360	(11,567)	59,612	3,059
Unamortized loss on refunding		(20,461)	(21,325)	3,600	(38,186)	(2,789)
Total		$ 1,134,790	236,534	(268,242)	1,103,082	45,551

Capital appreciation bonds of $169,980,000 outstanding at June 30, 2013 do not require current interest payments and have a net unappreciated value of $119,806,000. 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. Costs associated with the issuance of the Series 1991, 1999A, 1999B, 2001A, 2001B, 2003A, 2005A, 2006, 2008, 2009A, 2010A, 2011A, 2011B, 2011C and 2013A AFS Bonds; Series 1997B and 2008 Health Services Facilities System Bonds; and Series 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 $124,320,000 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 due date of the initial payment per the reimbursement agreements varies depending upon the variable rate bond issue. Certain reimbursement agreements require an initial payment due date 366 days after the event which caused the liquidity facility to be utilized.

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 table below. Other outstanding bond issues bear interest at fixed rates ranging from 2.00% to 7.56%.

Variable Rate Bonds

Bond issues	Interest rate at June 30, 2013	Remarketing agent	Remarketing fee	Liquidity facility			Liquidity fee
				Bank	Expiration	Insured by	
UIC South Campus, Series 2008	0.07%	JPMorgan Securities	0.075%	JPMorgan Chase	6/24/2015	Letter of Credit	0.525%
AFS, Series 2008	0.06	Loop Capital	0.075	JPMorgan Chase	5/19/2016	None	0.525
HSFS, Series 1997B	0.07	JPMorgan Securities	0.070	JPMorgan Chase	4/1/2014	Letter of Credit	0.55
HSFS, Series 2008	0.06	Goldman Sachs	0.070	JPMorgan Chase	6/3/2014	Letter of Credit	0.55

(a) Interest Rate Swap Agreements on Bonds Payable

The University has entered into three separate pay-fixed/receive-variable interest rate swap agreements. The objective of these swaps was to effectively change the University's variable interest rate on the bonds to a synthetic fixed rate. The notional amount of the interest rate swaps is equal to the par amount of the related bonds, except for HSFS Series 2008, of which $315,000 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, 2013, 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, 2013 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	$ 37,675,000	Nov 2008*	3.534%	68% of LIBOR**	$ (4,967,000)	Oct-2026	Loop	A+/A2
UIC SC 2008	25,830,000	Feb 2006*	4.086	68% of LIBOR**	(3,646,000)	Jan-2022	Morgan Stanley	A-/Baa1
UIC SC 2008	25,375,000	Feb 2006*	4.092	68% of LIBOR**	(3,575,000)	Jan-2022	JPMorgan Chase	A+/Aa3

* Swap agreement was transferred from original issue to refunded bond issues.
** LIBOR – London Interbank Offered Rate

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

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

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

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

Other Risks – Since the swap agreements extend to the maturity of the related bond, the University is not exposed to rollover risk. In addition, the University is not exposed to foreign currency risk or to market access risk as of June 30, 2013. 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]** (In thousands)	**Term of commitment**	**Debt service to pledged revenues (current year)**
Auxiliary Facilities System	Refunding, various improvements and additions to the System	Net AFS revenue, student tuition and fees	$ 1,569,754	2041	7.17%
Health Services Facilities System	Additions to System and refunding	Net HSFS revenue, Medical Service Plan revenue net of bad debt expense, College of Medicine net tuition revenue	64,167	2027	1.45
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	69,981	2023	2.10
		Total future revenues pledged	$ 1,703,902		

[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, 2013 are as follows:

Debt Service Requirements

		Principal	Interest
		(In thousands)	
2014	$	46,130	43,363
2015		46,870	43,323
2016		48,565	42,113
2017		50,600	40,743
2018		52,520	39,324
2019 – 2023		290,650	170,275
2024 – 2028		243,535	114,331
2029 – 2033		222,605	61,889
2034 – 2038		117,585	15,347
2039 – 2041		12,770	1,364
Total	$	1,131,830	572,072

Using the actual rates of 0.07% (UIC South Campus, Series 2008) and 0.06% (Health Services Facilities System, Series 2008), in effect as of June 30, 2013, 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
2014	$	4,425	36	1,990	6,451
2015		4,610	33	1,809	6,452
2016		4,810	30	1,620	6,460
2017		5,370	26	1,419	6,815
2018		5,610	22	1,199	6,831
2019 – 2022		26,380	47	2,328	28,755
Total	$	51,205	194	10,365	61,764

Health Services Facilities System Revenue Bonds, Series 2008
Variable-Rate Debt Service Requirements
(In thousands)

	Variable-rate bonds Principal	Variable-rate bonds Interest	Interest rate swaps, net	Total
2014	$ 2,105	23	1,260	3,388
2015	2,220	22	1,184	3,426
2016	2,240	20	1,108	3,368
2017	2,365	19	1,028	3,412
2018	2,485	17	943	3,445
2019 - 2023	13,620	64	3,354	17,038
2024 - 2027	12,955	20	831	13,806
Total	$ 37,990	185	9,708	47,883

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

(c) Advanced Refunded Bonds Payable

The University has defeased bonds through advanced funding in the current year, and accordingly, they are not reflected in the accompanying financial statements. The amount of bonds that have been defeased as of June 30, 2013 consists of the following:

Advanced Refunded Bonds
(In thousands)

Series	Outstanding at June 30, 2013
Auxiliary Facilities System, Series 2005A	$ 54,950
Auxiliary Facilities System, Series 2006	160,460
Total	$ 215,410

(Continued)

(8) Leaseholds Payable and Other Obligations

Leaseholds payable and other obligations for the year ended June 30, 2013 activity consists of the following:

Leaseholds Payable and Other Obligations
(In thousands)

		Beginning balance	Additions	Deductions	Ending balance	Current portion
University:						
Certificates of participation	$	439,795		(41,380)	398,415	32,690
Unamortized debt premium		10,313		(1,736)	8,577	1,368
Unamortized deferred loss on refunding		(5,979)		650	(5,329)	(651)
		444,129	—	(42,466)	401,663	33,407
Other capital leases		37,232	7,376	(5,207)	39,401	5,308
Energy services agreement installment payment contract		16,780		(1,010)	15,770	1,042
Environmental remediation liability		1,611	17	(1,275)	353	73
Total University	$	499,752	7,393	(49,958)	457,187	39,830
URO – Foundation:						
Annuities payable	$	46,102	7,533	(6,310)	47,325	6,461
Other liabilities		7,575		(351)	7,224	
Total URO – Foundation	$	53,677	7,533	(6,661)	54,549	6,461

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 $118,160,000 of variable-rate demand Certificates of Participation (COP). These COPs mature serially through August 2021. These COPs have variable interest rates that are adjusted periodically (i.e., daily, weekly, or monthly), generally with interest paid at the beginning of each month. The COPs are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest on seven days' notice and delivery to the University's remarketing agent. The University pays the remarketing agent fees on the outstanding COPs balance. If the remarketing agent is unable to resell any COPs that are "put" to the agent, the University has a standby certificate purchase agreement with a liquidity facility entity. The University has an agreement, with the fees based on the Adjusted Principal (formula based on COPs outstanding plus pro forma interest). The University, in the event a liquidity facility is utilized, has a reimbursement agreement with a financial entity. Generally, the payback period is five to seven years, at an interest rate initially set at slightly above prime or the federal funds rate. The required future interest payments for these variable-rate certificates have been calculated using the synthetic fixed rate for Series 2004, as illustrated in the table below. Other outstanding certificates bear interest at fixed rates ranging from 3.50% to 5.25%.

Variable Rate Certificates of Participation

COP issue	Interest rate at June 30, 2013	Remarketing agent	Remarketing fee	Liquidity facility: Bank	Liquidity facility: Expiration	Liquidity facility: Insured by	Liquidity fee
COP Series 2004	0.07%	Morgan Stanley	0.10%	Bank of New York Mellon	8/31/2015	None	0.45%

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

To facilitate the advance refunding of the COP (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 COP (Utility Infrastructure Projects) Series 2004.

The objective of the swap was to effectively change the University's variable interest rate on the COP to a synthetic fixed rate. The notional amount of the interest rate swap is equal to the par amount of the related COP. The swap agreement was entered at the same time as the COP 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, 2013, 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, 2013 are listed below:

Interest Rate Swap

COP issue	Outstanding notional amount	Effective date	Fixed rate paid	Variable rate received	Fair value	Swap termination date	Counterparty	Counterparty credit rating (S&P/Moody's)
COP 2004	$ 118,160,000	March 2004	3.765%	100% of SIFMA	$ (15,077,000)	August 2021	Morgan Stanley	A-/Baa1

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

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

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

Basis Risk – Starting in fiscal year 2006, the notional value of the swap and the principal amount of the associated COP began to decline. Conversely, the COP’s variable interest rates are expected to approximate 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 COP, 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, 2013. However, if the University decides to issue refunding COPs and credit is more costly at that time, it could be exposed to market access risk.

Using the actual rate of 0.07% in effect as of June 30, 2013, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, were as follows. As rates vary, variable-rate certificate interest payments and net swap payments will also vary.

Utility Infrastructure Certificates of Participation, Series 2004
Variable-Rate Debt Service Requirements
(In thousands)

		Variable-rate certificates		Interest rate	
		Principal	**Interest**	**swaps, net**	**Total**
2014	$	7,410	83	4,227	11,720
2015		7,710	77	3,947	11,734
2016		8,015	72	3,656	11,743
2017		8,345	67	3,354	11,766
2018		15,990	61	2,902	18,953
2019-2022		70,690	126	5,329	76,145
Total	$	118,160	486	23,415	142,061

(b) Capital Leases (includes Certificates of Participation)

Assets held under capital leases are included in capital assets at June 30, 2013 as follows:

Assets Held Under Capital Lease

(In thousands)

Land	$	8,423
Buildings		159,270
Improvements		263,386
Equipment		152,653
Subtotal		583,732
Less accumulated depreciation		273,926
Total	$	309,806

The net present value of outstanding capital leases at June 30, 2013 is as follows:

Outstanding Capital Leases

(In thousands)

Certificates of participation:		
Series 2003 UI Integrate	$	26,215
Series 2003 Utility Infrastructure		26,190
Series 2004 Utility Infrastructure		118,160
Series 2005 College of Medicine		14,505
Series 2006A Academic Facilities		60,900
Series 2007A		72,015
Series 2007B		45,645
Series 2009A		34,785
Other capital leases		39,401
Net present value	$	437,816

As of June 30, 2013, future minimum lease payments under capital leases are as follows:

Future Minimum Lease Payments
Under Capital Leases
(In thousands)

2014	$	57,216
2015		54,822
2016		49,288
2017		48,464
2018		47,912
2019 – 2023		199,562
2024 – 2028		107,528
2029 – 2033		9,269
Total minimum lease payments		574,061
Amount representing interest		(136,245)
Net present value	$	437,816

(c) Other Obligations

As part of an energy services agreement, the University has entered into installment payment contracts to finance energy conservation measures. As of June 30, 2013, future minimum lease payments under installment payment contracts are as follows:

Future Minimum Lease Payments
Under Installment Payment Contract
(In thousands)

2014	$	1,544
2015		1,544
2016		1,544
2017		1,544
2018		1,545
2019 – 2023		7,722
2024 – 2026		3,861
Total minimum lease payments		19,304
Amount representing interest		(3,534)
Net present value	$	15,770

The University monitors environmental matters and records an estimated liability for identified environmental remediation costs. The estimated liability at June 30, 2013 is $353,000.

At June 30, 2013, the URO – Foundation had annuities payable outstanding of $47,325,000. Annuities payable represent an actuarial computation of the present value of future payments to annuitants.

(d) Operating Leases

The University also leases various buildings and equipment under operating lease agreements. Total rental expense under these agreements was $12,557,000 for the year ended June 30, 2013. The future minimum lease payments (excluding those leases renewed on an annual basis) are as follows:

Future Minimum Operating Lease Payments

(In thousands)

2014	$	10,740
2015		7,958
2016		4,601
2017		3,219
2018		1,959
2019 – 2022		1,270
Total	$	29,747

(9) Net Position

As discussed in note 1, the University's net position is classified for accounting and reporting purposes into one of four net position categories according to externally imposed restrictions. The following tables include detail of the net position balances for the University and the Foundation including major categories of restrictions and internal designations of unrestricted funds.

University Net Position

(In thousands)

Net investment in capital assets	$	2,063,410
Restricted – nonexpendable:		
Invested in perpetuity to produce income expendable for – scholarships, fellowships and research		89,597
Restricted – expendable for:		
Scholarships, fellowships and research		355,819
Loans		79,808
Service plans		136,300
Retirement of indebtedness		44,611
Capital projects		19,649
Unrestricted:		
Designated		1,327,622
Undesignated		
Total	$	4,116,816

URO – Foundation Net Position (In thousands)		
Net investment in capital assets	$	5,002
Restricted – nonexpendable:		
Invested in perpetuity to produce income expendable for academic programs, scholarships, fellowships and research		888,875
Restricted – expendable for:		
Academic programs, scholarships, fellowships and research		830,558
Unrestricted		(426)
Total	$	1,724,009

(10) Funds Held in Trust by Others

The University and Foundation are income beneficiaries of several irrevocable trusts which are held and administered by outside trustees. The University and Foundation have no control over these funds as to either investment decisions or income distributions. In accordance with GASB standards, the principal is not recorded in the accompanying financial statements for the University. The Foundation has recorded the principal as investments in the accompanying financial statements in accordance with FASB standards. The fair value of these funds at June 30, 2013 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	$	45,381	52,124
Income received from funds held in trust by others		1,467	1,186

(11) State Universities Retirement System

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

Eligible employees must participate upon initial employment. Employees are ineligible to participate if (a) employed after having attained age 68; (b) employed less than 50% of full time; or (c) employed less than full time and attending classes with an employer. Of those Entity employees ineligible to participate, the majority are students at the University.

Plan members are required to contribute 8.0% of their annual covered salary and substantially all employer contributions are made by the State on behalf of the individual employers at an actuarially determined rate. The current rate is 35.20% 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, 2013, 2012 and 2011 were $622,664,000, $439,316,000 and $350,480,000, respectively, equal to the required contributions for each year.

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

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

(12) Postemployment Benefits

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

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

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

Annuitants may be required to contribute toward 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. For fiscal year 2013, the annual cost of health, dental, and vision benefits before the State's contribution was $8,397 ($4,485 if Medicare eligible) if the annuitant chose benefits provided by a health maintenance organization (HMO) and $11,913 ($4,322 if Medicare eligible) if the annuitant chose other benefits. Additional contributions by annuitants for dependents ranging from $960 to $2,814 ($900 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 2013 are shown as follows:

Annual Employee Health, Dental, and Vision Contribution Requirements

		Benefits provided through	
		HMO	**Others**
Employee annual salary:			
$30,200 and below	$	696	996
$30,201 – $45,600		756	1,056
$45,601 – $60,700		786	1,086
$60,701 – $75,900		816	1,116
$75,901 and above		846	1,146

Additional contributions by employees for dependents ranging from $960 to $2,814 ($900 to $2,538 if Medicare eligible) are also required depending on the benefits selected and whether there is one or multiple dependents.

(13) Commitments and Contingencies

At June 30, 2013, the University had commitments on various construction projects and contracts for repairs and renovation of facilities of $140,815,000.

The University purchases the majority of natural gas and electricity from Prairieland and guarantees payment by Prairieland to its energy suppliers. Unconditional guaranty agreements are in place with Prairieland's energy suppliers for an aggregate amount not to exceed $45,000,000.

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

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

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

The University’s hospital and clinics are involved in regulatory audits arising in the normal course of business. On June 8, 2007, a notice was received from the Office of Inspector General (OIG) on behalf of the Illinois Department of Healthcare and Family Services (IDHFS) indicating that the University received an overpayment of $14,800,000 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 $5,000,000 based on additional documentation received from IDHFS subsequent to the original notice. During fiscal year 2010, the University submitted additional documentation and evidence of its positions. As of September 29, 2011, the OIG, on behalf of the IDHFS, contacted the University to request its settlement offer to resolve the audit. The University intends to pursue settlement discussion with OIG and IDHFS with a view toward resolution of the matter. The estimated liability including a provision for subsequent audits has been reflected in the University’s statement of net position and results from operations as accounts payable for $9,700,000.

(14) Operating Expenses by Natural Classification

Operating expenses by natural classification for the year ended June 30, 2013 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	$	1,113,456	129,165	7,111		1,249,732
Research		473,955	269,868	2,802		746,625
Public service		279,829	177,290	1,974		459,093
Academic support		300,204	115,430	5,566		421,200
Student services		119,869	39,241	1,850		160,960
Institutional support		239,264	10,866	26		250,156
Operations and maintenance of plant		60,006	215,662	6,619		282,287
Scholarships and fellowships		228,846	1,251	25,833		255,930
Auxiliary enterprises		155,196	162,130	16,322		333,648
Hospital and medical activities		489,360	271,877			761,237
Independent operations		1,785	10,637			12,422
Depreciation					231,556	231,556
Total	$	3,461,770	1,403,417	68,103	231,556	5,164,846

URO – Foundation Operating Expenses by Natural Classification
(In thousands)

		Distributions on behalf of the University	Institutional support	Depreciation	Total
Fund-raising	$		11,902		11,902
Distributions on behalf of the University		144,058			144,058
General and administrative			13,221		13,221
Actuarial adjustments			226		226
Depreciation				529	529
Total	$	144,058	25,349	529	169,936

(15) Segment Information

The following financial information represents identifiable activities within the University financial statements for which one or more revenue bonds are outstanding. The Auxiliary Facilities System comprises University owned housing units, student unions, recreation and athletic facilities, and similar auxiliary service units, including parking. The Health Services Facilities System comprises the University of Illinois Hospital and associated clinical facilities providing patient care.

Condensed Statements of Net Position

June 30, 2013

(In thousands)

		Auxiliary Facilities System	Health Services Facilities System	Total
Assets and deferred outflows of resources:				
Current assets	$	189,541	290,066	479,607
Noncurrent assets:				
Capital assets, net of accumulated depreciation		985,780	168,238	1,154,018
Other noncurrent assets		52,025	9,155	61,180
Deferred outflow of resources			3,929	3,929
Total assets and deferred outflows of resources	$	1,227,346	471,388	1,698,734
Liabilities:				
Current liabilities	$	85,275	103,585	188,860
Noncurrent liabilities:				
Long-term debt		969,017	53,560	1,022,577
Other liabilities		5,226	26,259	31,485
Total liabilities		1,059,518	183,404	1,242,922
Net position:				
Net investment in capital assets		10,499	111,699	122,198
Restricted:				
Expendable		23,925	8,872	32,797
Unrestricted		133,404	167,413	300,817
Total net position		167,828	287,984	455,812
Total liabilities and net position	$	1,227,346	471,388	1,698,734

Condensed Statement of Revenues, Expenses and Changes in Net Position

Year ended June 30, 2013

(In thousands)

		Auxiliary Facilities System	Health Services Facilities System	Total
Operating revenues	$	326,054	609,297	935,351
Operating expenses		281,905	768,455	1,050,360
Depreciation expense		31,228	18,978	50,206
Operating income (loss)		12,921	(178,136)	(165,215)
Nonoperating (expenses) revenues, net		(1,028)	206,898	205,870
Increase in net position		11,893	28,762	40,655
Net position, beginning of year		155,935	259,222	415,157
Net position, end of year	$	167,828	287,984	455,812

Condensed Statement of Cash Flows

Year ended June 30, 2013

(In thousands)

Net cash flows provided by operating activities	$	92,886	8,029	100,915
Net cash flows (used in) provided by noncapital financing activities		(45)	668	623
Net cash flows used in capital and related financing activities		(113,316)	(25,674)	(138,990)
Net cash flows provided by investing activities		47,117	2,614	49,731
Net increase (decrease) in cash and cash equivalents		26,642	(14,363)	12,279
Cash and cash equivalents, beginning of year		161,860	160,279	322,139
Cash and cash equivalents, end of year	$	188,502	145,916	334,418

(Continued)

(16) University Related Organizations

The Entity's financial statements include the activities of the University Related Organizations, which are presented as discretely presented component units in the accompanying financial statements. Below are condensed financial statements by organization:

Condensed Statements of Net Position

June 30, 2013

(In thousands)

		Foundation	Alumni Association	WWT	Illinois Ventures
Assets:					
Current assets	$	42,470	2,128	294	1,570
Noncurrent assets:					
Capital assets, net of accumulated depreciation		8,380	602	138	5
Other noncurrent assets		1,745,051	15,647		6,309
Total assets	$	1,795,901	18,377	432	7,884
Liabilities:					
Current liabilities	$	23,697	613	496	500
Due to related organizations					
Noncurrent liabilities:					
Other noncurrent liabilities		48,195	9		
Total liabilities		71,892	622	496	500
Net position:					
Net investment in capital assets		5,002	602	138	5
Restricted:					
Nonexpendable		888,875			
Expendable		830,558			
Unrestricted		(426)	17,153	(202)	7,379
Total net position		1,724,009	17,755	(64)	7,384
Total liabilities and net position	$	1,795,901	18,377	432	7,884

Condensed Statements of Revenues, Expenses and Changes in Net Position

Year ended June 30, 2013

(In thousands)

		Foundation	Alumni Association	WWT	Illinois Ventures
Operating revenues	$	194,231	6,637	10,050	2,618
Operating expenses		169,407	7,679	10,012	2,514
Depreciation expense		529	34	143	8
Operating income (loss)		24,295	(1,076)	(105)	96
Nonoperating revenues (expenses)		164,876	2,299	(1)	(1,332)
Contributions to endowments		122,205			
Increase (decrease) in net position		311,376	1,223	(106)	(1,236)
Net position, beginning of year		1,412,633	16,532	42	8,620
Net position, end of year	$	1,724,009	17,755	(64)	7,384

Condensed Statements of Net Position

June 30, 2013

(In thousands)

		Research Park	Prairieland	Singapore Research	Total
Assets:					
Current assets	$	750	8,259	3,233	58,704
Noncurrent assets:					
Capital assets, net of accumulated depreciation		1,549	47	274	10,995
Other noncurrent assets					1,767,007
Total assets	$	2,299	8,306	3,507	1,836,706
Liabilities:					
Current liabilities	$	271	6,443	1,386	33,406
Due to related organizations				1,838	1,838
Noncurrent liabilities:					
Other noncurrent liabilities					48,204
Total liabilities		271	6,443	3,224	83,448
Net position:					
Net investment in capital assets		1,549	47	275	7,618
Restricted:					
Nonexpendable					888,875
Expendable					830,558
Unrestricted		479	1,816	8	26,207
Total net position		2,028	1,863	283	1,753,258
Total liabilities and net position	$	2,299	8,306	3,507	1,836,706

Condensed Statements of Revenues, Expenses and Changes in Net Position

Year ended June 30, 2013

(In thousands)

		Research Park	Prairieland	Singapore Research	Total
Operating revenues	$	618	51,399	11,036	276,589
Operating expenses		346	51,207	10,950	252,115
Depreciation expense		66	12	274	1,066
Operating income (loss)		206	180	(188)	23,408
Nonoperating revenues (expenses)			1	(20)	165,823
Contributions to endowments					122,205
Increase (decrease) in net position		206	181	(208)	311,436
Net position, beginning of year		1,822	1,682	491	1,441,822
Net position, end of year	$	2,028	1,863	283	1,753,258

(Continued)

(17) Subsequent Events

In September 2013, the University issued Health Services Facilities System Revenue Bonds, Series 2013, in the amount of $70,785,000. The proceeds of the Series 2013 Bonds will be used to (i) finance a portion of the costs for the acquisition, construction, and equipping of improvements to the System and (ii) pay certain expenses incurred in connection with the issuance and sale of the Series 2013 Bonds.

In September 2013, the University closed on an Energy Services Agreement for the installation of Energy Conservation Measures (ECMs) to various facilities at the Chicago campus. Concurrently with this agreement, the University entered into an Installment Payment Contract to finance the ECMs in the amount of $32,600,000. The repayment terms, commencing in April 2014, are semiannual for 15 years at an interest rate of 2.77%.