UNIVERSITY OF ILLINOIS

Annual Financial Report

June 30, 2015

(With Independent Auditors' Report Thereon)

CliftonLarsonAllen

THE BOARD OF TRUSTEES

UNIVERSITY OF ILLINOIS

Annual Financial Report

June 30, 2015

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From the Vice President/Chief Financial Officer, Comptroller

UNIVERSITY OF ILLINOIS
Urbana-Champaign ● Chicago ● Springfield

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

December 23, 2015

The information in this Annual Financial Report of the University of Illinois for the fiscal year ended June 30, 2015, documents that the financial position of the University remains sound.

The ongoing economic challenges impacting our state 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

CliftonLarsonAllen LLP
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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of University of Illinois ("the University"), collectively a component unit of the State of Illinois, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; 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 an opinion on these financial statements based on our audits. We did not audit the financial statements of the University's aggregate discretely presented component units (the "University Related Organizations"), as described in Note 1 of the financial statements. Those statements were audited by other auditors whose reports thereon have been provided to us, and our opinion on the financial statements, insofar as it relates to the amounts included for the University Related Organizations, is based solely on the reports of the other auditors. We conducted our audits 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 entity's 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 audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of University of Illinois and its aggregate discretely presented component units as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

The June 30, 2014 financial statements of the University were audited by other auditors whose report dated December 19, 2014 expressed an unmodified opinion. Based on the report from other auditors, the summarized comparative information presented herein as of and for the year ended June 30, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Emphasis of Matter

During fiscal year ended June 30, 2015, the University adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and the related GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date — an amendment of GASB Statement No. 68.* As a result of the implementation of these standards, the University reported a restatement for the change in accounting principle. See Note 1. Our auditors' opinion was not modified with respect to the restatement.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-11 and the schedule of proportionate share of the net pension liability and schedule of contributions on page 58 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 audits 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 under separate cover our report dated December 23, 2015, on our consideration of University of Illinois's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 University of Illinois's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Peoria, Illinois
December 23, 2015

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, 2015. 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 78,500 students. The University has internationally renowned faculty that are known for being world leaders in research and currently employs approximately 6,000 faculty members on its three campuses. The University offers a diverse range of degree programs from baccalaureate to doctoral levels. Approximately 20,500 degrees are awarded annually. The operating budget for fiscal year 2015, from all fund sources, was $5.64 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 2015 state appropriations (excluding capital) were $653 million, down from $668 million in fiscal year 2014. The overall budget utilized by the University increased by 0.2%, even though direct funding from the State of Illinois (State) decreased by 2.3%. 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 $149 million.

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. As of June 30, 2015 and 2014, the University had no deferred inflows of resources. 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 losses on debt refundings, the change in fair value of the swap agreements associated with the related bonds and certificates of participation (COPs) and the fiscal year 2015 employer pension contributions. A summarized comparison of the University's assets, deferred outflows of resources, liabilities and net position at June 30, 2015 and 2014 is as follows:

		2015	2014
		(In thousands)	
Current assets:			
Cash and investments	$	1,011,815	894,859
Accounts and notes receivable		467,114	453,621
Appropriations receivable from State of Illinois		118,126	145,887
Other current assets		72,160	94,099
Noncurrent assets:			
Cash and investments		2,046,030	2,180,422
Notes receivable		54,303	54,016
Capital assets, net of accumulated depreciation		3,643,175	3,555,450
Other assets		4,095	4,726
Deferred outflows of resources		107,518	60,444
Total assets and deferred outflows of resources	$	7,524,336	7,443,524
Current liabilities:			
Accounts payable, accrued liabilities and unearned revenue	$	711,417	650,029
Bonds payable		60,097	49,256
Leaseholds payable and other obligations		36,091	42,114
Accrued self-insurance		53,766	58,567
Other current liabilities		66,210	93,019
Noncurrent liabilities:			
Bonds payable		1,317,116	1,357,048
Leaseholds payable and other obligations		323,638	414,094
Accrued self-insurance		190,193	165,177
Accrued compensated absences		183,243	177,770
Derivative instruments – swap liability		20,604	23,719
Total liabilities		2,962,375	3,030,793
Net position		4,561,961	4,412,731
Total liabilities and net position	$	7,524,336	7,443,524

Total assets and deferred outflows of resources have increased by $81 million or 1.1% to $7.5 billion during fiscal year 2015. This change included increases in deferred outflows of resources associated with employer pension contributions and an increase in capital assets, partially offset by reductions in current assets due to the discontinued participation in the securities lending program and a decrease in the appropriations receivable from the State of Illinois.

Total liabilities decreased $68 million, or 2.3% for fiscal year 2015. This change primarily resulted from a decrease in long term debt, partially offset by an increase in accounts payable and accrued liabilities.

Capital Assets and Long-Term Debt

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)

	2015		2014	
Buildings	$ 2,434,398	66.8%	$ 2,353,141	66.2%
Improvements and infrastructure	282,951	7.8	303,772	8.5
Construction in progress	303,682	8.3	244,176	6.9
Land	135,822	3.7	135,822	3.8
Equipment and software	338,217	9.3	367,581	10.3
Collections	148,105	4.1	150,958	4.3
	$ 3,643,175	100.0%	$ 3,555,450	100.0%

Capital assets, net of accumulated depreciation, increased by $88 million in fiscal year 2015. This increase was largely due to current year additions of buildings and construction in progress, partially offset by current year depreciation. Facilities under construction are funded by revenue bonds, federal grants, private gifts, internal funds and State capital appropriations. Construction in process and buildings placed in service included the Electrical Computing and Engineering building and Ikenberry Commons, along with improvements to the University of Illinois Hospital (Hospital), State Farm Center and Natural History Building.

The University has historically utilized revenue bonds to finance capital projects related to the Auxiliary Facilities System (AFS), the Health Services Facilities System (HSFS) and the University of Illinois – Chicago (UIC) South Campus project. In fiscal year 2015, the University issued AFS Revenue Bonds of $109 million to partially refund the AFS Revenue Bonds, Series 2005A and 2009A. The following table details the various bonded debt outstanding at June 30, 2015 and 2014:

Bonds Payable
(In thousands)

	2015	2014
AFS	$ 1,210,313	1,231,105
HSFS	119,404	122,544
UIC South Campus	47,496	52,655
	$ 1,377,213	1,406,304

The University has issued COPs, which are reported as leaseholds payable on the financial statements. The outstanding COPs have funded projects such as utility infrastructure, College of Medicine facilities and deferred maintenance on medical, academic and research facilities. The reduction in the outstanding balance of the COPs was due to scheduled redemptions and advanced refundings. The outstanding balances of the COPs as of June 30, 2015 and 2014 were $282,526,000 and $372,934,000 respectively.

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 $149 million during fiscal year 2015. Net position balances are detailed below:

Net Position
(In thousands)

		2015	2014
Net position:			
Net investment in capital assets	$	2,185,442	2,091,311
Restricted		759,078	789,661
Unrestricted		1,617,441	1,531,759
	$	4,561,961	4,412,731

The growth in net position largely resulted from increases in net investment in capital assets, which included changes in capital assets and reductions in long-term debt as discussed previously. Growth also resulted from various expenditure constraints and increases in endowments and self-supporting activities.

Statement of Revenues, Expenses and Changes in Net Position

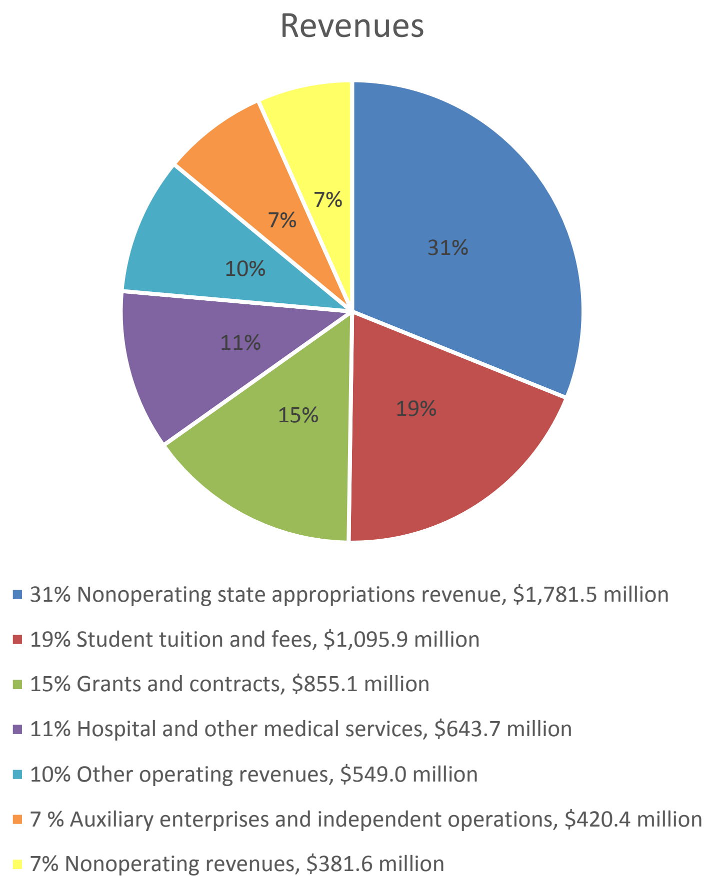
The Statement of Revenues, Expenses and Changes in Net Position presents the University's results of operations. In accordance with GASB reporting standards, revenues and expenses are classified as either operating or nonoperating. A summarized comparison of the University's Statement of Revenues, Expenses and Changes in Net Position for the years ended June 30, 2015 and 2014 is as follows:

		2015	2014
		(In thousands)	
Operating revenues:			
Student tuition and fees	$	1,095,905	1,040,399
Grants and contracts		855,096	882,467
Hospital and other medical activities		643,661	626,094
Auxiliary enterprises and independent operations		420,429	392,696
Educational activities		334,082	294,353
Medical service plan		198,495	226,781
Other		16,442	16,782
Total operating revenues		3,564,110	3,479,572
Operating expenses		5,560,527	5,287,635
Operating loss		(1,996,417)	(1,808,063)
Nonoperating revenues (expenses):			
State appropriations and on behalf payments		1,825,482	1,743,285
Transfer of state appropriation to the Hospital Services Fund		(43,988)	(45,000)
Private gifts		177,195	174,875
Grants, nonoperating		134,910	136,245
Investment income		69,462	37,458
Net (decrease) increase in the fair value of investments		(39,044)	61,467
Other nonoperating expenses, net		(24,295)	(18,321)
Net nonoperating revenues		2,099,722	2,090,009
Capital state appropriations and capital gifts and grants		11,724	24,815
Endowment gifts		1	348
Increase in net position		115,030	307,109
Net position, beginning of year		4,412,731	4,105,622
Change in accounting principles		34,200	
Net position, end of year	$	4,561,961	4,412,731

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 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, 2015:



Operating and nonoperating revenues experienced a net increase of $201 million in fiscal year 2015. This increase included several significant components. Tuition and fee revenue increased by $56 million as a result of increases approved by the Board of Trustees in certain graduate and professional programs, increases for new students in connection with the four-year undergraduate tuition rate guarantee and growth in enrollment. Nonoperating state appropriations and on behalf payments revenue increased by a net $83 million and other nonoperating revenues increased by $33 million. The increase in other nonoperating revenues was primarily due to an increase in investment income.

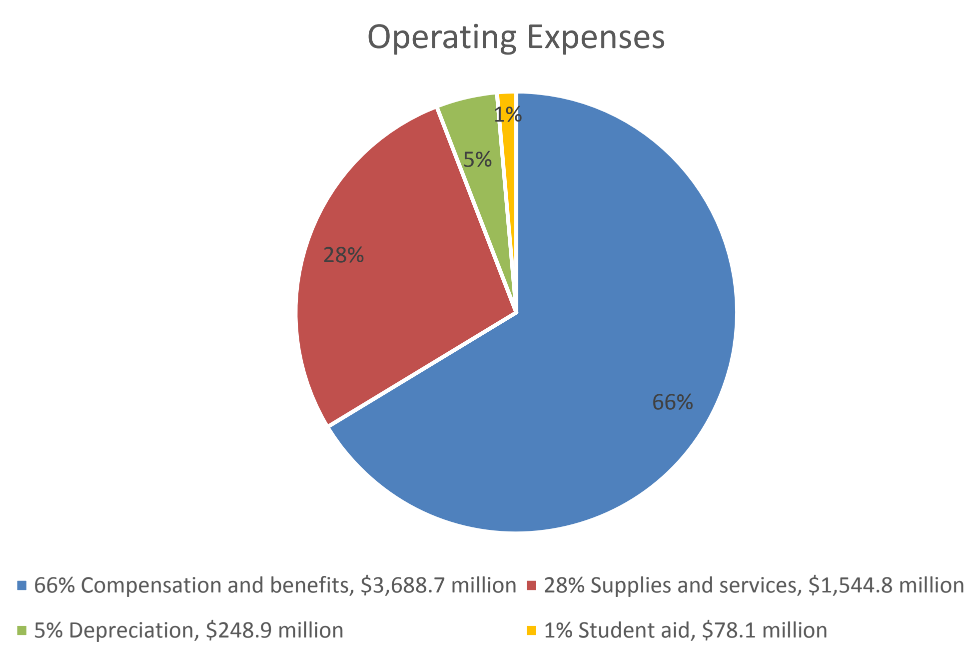
Expenses

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.

	2015		2014	
	(In thousands)			
Operating expenses:				
Instruction	$ 1,300,281	23.4%	$ 1,259,862	23.8%
Research	744,043	13.4	724,924	13.7
Public service	512,953	9.2	471,414	8.9
Support services	974,752	17.5	870,886	16.5
Hospital and medical activities	793,777	14.3	771,520	14.6
Auxiliary enterprises and independent operations	383,821	6.9	354,350	6.7
Scholarships and fellowships	278,001	5.0	270,036	5.1
Operation and maintenance of plant	324,010	5.8	315,393	6.0
Depreciation	248,889	4.5	249,250	4.7
Total operating expenses	$ 5,560,527	100.0%	$ 5,287,635	100.0%

The increase in operating expenses was $273 million, or 5.2%. Significant components of the rise in operating expenses from the prior fiscal year included increases in instruction and support functions to facilitate student and faculty achievement, along with increases in self-supporting activities such as auxiliary enterprises and hospital and medical activities.

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 $5,560.5 million of operating expenses by natural classification:



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. As of December 23, 2015, the state budget for fiscal 2016 has not been enacted, and as a result, the direct appropriation for higher education, including the University, has not been enacted. Fiscal 2016 budget recommendations from the Governor and General Assembly for the University range from flat funding to a reduced level of funding. The presidents of all public universities in Illinois have been communicating with the Governor and General Assembly emphasizing the importance of resolving the State's budget impasse, with a sustained and predictable level of support that ensures student achievement. Until there is a legislative resolution to the state budget impasse, the University continues to monitor cash flows and has deferred and reduced spending to meet current operational needs.

The State supports the University in many ways including funding employee pensions and health insurance benefits. These are two of the major fiscal issues for the State, and effect the ability of the State to fund other priorities, including direct funding to public universities. The State appropriates funds for on-behalf payments for these benefits as related to University employees.

Tuition is being held level between fiscal years 2015 and 2016. However, based on multiple factors (such as enrollment levels and student mix) the University projects an increase in the tuition revenue budget of approximately $61.3 million. Undergraduate students have a four-year tuition guarantee. The incremental tuition revenue for fiscal 2016 results from changes in enrollment patterns, new students paying higher tuition rates than the recent graduating class and varying increases in graduate and professional programs.

Research is one of four components of the University's mission. The University system consistently ranks among the top universities in research and development expenditures in the country. 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 University continues to advance the economic development mission by supporting research and innovation activities that elevate ideas into sustainable businesses and global solutions.

The University experienced growth from a variety of funding sources during fiscal year 2015. 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, 2015
(with comparative totals for June 30, 2014)

(In thousands)

	University		University Related Organizations	
Assets and Deferred Outflows of Resources	**2015**	**2014**	**2015**	**2014**
Current assets:				
Cash and cash equivalents	$ 535,956	536,691	11,946	6,838
Cash and cash equivalents, restricted	125,936	122,529	670	650
Investments	290,188	194,438	289	639
Investments, restricted	59,735	41,201		
Securities lending collateral		25,544		
Accrued investment income	5,870	5,787	904	1,804
Accounts receivable, net of allowance for uncollectible	457,447	444,479	20,773	18,014
Appropriations receivable from State of Illinois	118,126	145,887		
Pledges receivable, net of allowance			33,405	29,849
Notes receivable, net of allowance for uncollectible	9,667	9,142		75
Accrued interest on notes receivable	4,468	4,025		
Inventories	29,203	29,965	7	7
Prepaid expenses	27,866	25,830	1,549	1,021
Due from related organizations	4,753	2,948		
Total current assets	1,669,215	1,588,466	69,543	58,897
Noncurrent assets:				
Cash and cash equivalents, restricted	6,480	21,871	57	575
Investments	1,418,554	1,397,395	20,827	23,414
Investments, restricted	620,996	761,156	1,775,352	1,750,374
Pledges receivable, net of allowance			160,601	156,162
Notes receivable, net of allowance for uncollectible	54,303	54,016		
Capital assets, net of accumulated depreciation	3,643,175	3,555,450	13,364	12,551
Other assets	4,095	4,726	127	126
Total noncurrent assets	5,747,603	5,794,614	1,970,328	1,943,202
Deferred outflows of resources	107,518	60,444		
Total assets and deferred outflows of resources	$ 7,524,336	7,443,524	2,039,871	2,002,099
Liabilities and Net Position				
Current liabilities:				
Accounts payable and accrued liabilities	$ 364,164	323,016	9,488	17,464
Accrued payroll	169,803	160,334	242	162
Accrued compensated absences, current portion	19,141	21,404	1,171	1,213
Accrued self-insurance, current portion	53,766	58,567		
Unearned revenue and student deposits	177,450	166,679	208	206
Accrued interest payable	17,284	18,930		
Securities lending collateral		25,544		
Notes payable			3,257	2,057
Bonds payable, current portion	60,097	49,256		
Due to related organizations, current portion			4,753	2,948
Leaseholds payable and other obligations, current portion	36,091	42,114	7,103	6,931
Assets held for others	29,785	27,141	2,014	2,014
Total current liabilities	927,581	892,985	28,236	32,995
Noncurrent liabilities:				
Bonds payable	1,317,116	1,357,048		
Leaseholds payable and other obligations	323,638	414,094	50,676	50,707
Accrued compensated absences	183,243	177,770		
Accrued self-insurance	190,193	165,177		
Unearned distributions			124	124
Derivative instrument – swap liability	20,604	23,719		
Total noncurrent liabilities	2,034,794	2,137,808	50,800	50,831
Total liabilities	2,962,375	3,030,793	79,036	83,826
Net investment in capital assets	2,185,442	2,091,311	10,107	10,494
Restricted:				
Nonexpendable	108,287	110,960	958,007	914,043
Expendable	650,791	678,701	957,178	955,273
Unrestricted	1,617,441	1,531,759	35,543	38,463
Total net position	4,561,961	4,412,731	1,960,835	1,918,273
Total liabilities and net position	$ 7,524,336	7,443,524	2,039,871	2,002,099

See accompanying notes to financial statements.

UNIVERSITY OF ILLINOIS

Statement of Revenues, Expenses and Changes in Net Position

Year ended June 30, 2015
(with comparative totals for the year ended June 30, 2014)

(In thousands)

	University		University Related Organizations	
	2015	2014	2015	2014
Operating revenues:				
Student tuition and fees, net	$ 1,095,905	1,040,399		
Federal appropriations	14,297	14,645		
Federal grants and contracts	627,236	654,637		
State of Illinois grants and contracts	83,798	86,306		
Private and other government agency grants and contracts	144,062	141,524	167,330	131,243
Educational activities	334,082	294,353		
Auxiliary enterprises, net	407,530	378,992		
Hospital and other medical activities, net	643,661	626,094		
Medical service plan	198,495	226,781		
Independent operations	12,899	13,704		
Interest and service charges on student loans	2,145	2,137		
Allocation from the University			18,211	15,025
Other sources			82,750	90,005
Total operating revenues	3,564,110	3,479,572	268,291	236,273
Operating expenses:				
Instruction	1,300,281	1,259,862		
Research	744,043	724,924		
Public service	512,953	471,414		
Academic support	507,303	451,948		
Student services	184,572	163,064		
Institutional support	282,877	255,874	119,392	120,419
Operation and maintenance of plant	324,010	315,393		
Scholarships and fellowships	278,001	270,036		
Auxiliary enterprises	371,639	341,780		
Hospital and medical activities	793,777	771,520		
Independent operations	12,182	12,570		
Depreciation	248,889	249,250	966	909
Distributions on behalf of the University			193,936	190,269
Total operating expenses	5,560,527	5,287,635	314,294	311,597
Operating loss	(1,996,417)	(1,808,063)	(46,003)	(75,324)
Nonoperating revenues (expenses):				
State appropriations	653,128	668,372		
Transfer of state appropriations to the Illinois DHFS Hospital Services Fund	(43,988)	(45,000)		
Private gifts	177,195	174,875		
Grants, nonoperating	134,910	136,245		
On-behalf payments for fringe benefits	1,172,354	1,074,913		
Net investment income (net of investment expense of $4,782)	69,462	37,458	14,108	17,727
Net (decrease) increase in the fair value of investments	(39,044)	61,467	31,242	197,381
Interest expense	(63,790)	(70,575)	(49)	(46)
Loss on disposal of capital assets	(10,802)	(7,093)		
Other nonoperating revenues (expenses), net	50,297	59,347	(95)	109
Net nonoperating revenues	2,099,722	2,090,009	45,206	215,171
Income (loss) before other revenues	103,305	281,946	(797)	139,847
Capital state appropriations	8,942	10,865		
Capital gifts and grants	2,782	13,950		
Private gifts for endowment purposes	1	348	43,946	25,168
Increase in net position	115,030	307,109	43,149	165,015
Net position, beginning of year	4,412,731	4,105,622	1,918,273	1,753,258
Cumulative effect of change in accounting principle	34,200		(587)	
Net position, beginning of year, as adjusted [note 1 (s)]	4,446,931	4,105,622	1,917,686	1,753,258
Net position, end of year	$ 4,561,961	4,412,731	1,960,835	1,918,273

See accompanying notes to financial statements.

UNIVERSITY OF ILLINOIS

Statement of Cash Flows

Year ended June 30, 2015
(with comparative totals for the year ended June 30, 2014)

(In thousands)

		University 2015	University 2014
Cash flows from operating activities:			
Student tuition and fees	$	1,098,784	1,042,974
Federal appropriations		14,466	15,172
Federal, state, and local grants and contracts		715,300	759,390
Other governmental agencies and private grants and contracts		150,250	153,426
Sales and services of educational activities		323,230	300,009
Auxiliary activities and independent operations		421,267	393,917
Hospital and other medical activities		633,630	641,125
Medical service plan		210,734	217,499
Payments to employees and for benefits		(2,500,315)	(2,462,236)
Payments to suppliers		(1,502,649)	(1,449,045)
Payments for scholarships and fellowships		(77,438)	(74,436)
Student loans issued		(11,077)	(11,293)
Student loans collected		9,550	9,049
Student loan interest and fees collected		1,703	1,701
Net cash used in operating activities		(512,565)	(462,748)
Cash flows from noncapital financing activities:			
State appropriations		636,901	641,883
Gifts transferred from University of Illinois Foundation		177,195	174,875
Direct lending receipts		464,651	472,204
Direct lending payments		(464,027)	(471,900)
Grants, nonoperating		134,910	136,245
Private gifts for endowment purposes		1	348
Advances to related organizations, net		(1,805)	(1,111)
Other receipts		59,565	54,729
Other disbursements		(771)	(1,051)
Net cash provided by noncapital financing activities		1,006,620	1,006,222
Cash flows from capital and related financing activities:			
Proceeds from issuance of capital debt		191,068	305,919
Capital gifts and grants		848	11,553
Purchase of capital assets		(311,486)	(266,756)
Proceeds from issuance of Energy Services Agreements installment payable			32,600
Principal payments on bonds, capital leases, and other obligations		(341,227)	(85,978)
Interest payments on bonds, capital leases, and other obligations		(69,609)	(66,908)
Payment of capital debt issuance costs		(773)	(1,327)
Net cash used in capital and related financing activities		(531,179)	(70,897)
Cash flows from investing activities:			
Interest and dividends on investments, net		34,665	17,628
Proceeds from sales and maturities of investments		1,818,869	1,637,201
Purchase of investments		(1,829,129)	(2,181,428)
Net cash provided by (used in) investing activities		24,405	(526,599)
Net decrease in cash and cash equivalents		(12,719)	(54,022)
Cash and cash equivalents, beginning of year		681,091	735,113
Cash and cash equivalents, end of year	$	668,372	681,091

UNIVERSITY OF ILLINOIS

Statement of Cash Flows

Year ended June 30, 2015
(with comparative totals for the year ended June 30, 2014)

(In thousands)

	University 2015	University 2014
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$ (1,996,417)	(1,808,063)
Adjustments to reconcile operating loss to net cash used in operating activities:		
On-behalf payments for fringe benefits expense	1,172,354	1,074,913
Depreciation expense	248,889	249,250
Changes in assets, deferred outflows of resources and liabilities:		
Accounts receivable, net	(5,075)	38,394
Notes receivable, net	(812)	(1,441)
Accrued interest on notes receivable	(443)	(436)
Inventories	762	(571)
Prepaid expenses	(2,036)	(5,817)
Deferred outflow of resources	727	
Accounts payable and accrued liabilities	23,177	(12,281)
Accrued payroll	9,469	10,955
Unearned revenue and student deposits	10,771	7,682
Accrued compensated absences	3,210	(1,085)
Accrued self-insurance	20,215	(8,578)
Assets held for others	2,644	(5,670)
Net cash used in operating activities	$ (512,565)	(462,748)
Noncash investing, capital, and financing activities:		
On-behalf payments for fringe benefits	$ 1,172,354	1,074,913
State appropriation	43,988	45,000
Transfers to Illinois DHFS Hospital Services Fund	(43,988)	(45,000)
Net (decrease) increase in fair value of investments	(39,044)	61,467
Gifts in kind – capital assets	2,227	4,988
Increase of capital asset obligations in accounts payable	15,184	15,677
Capital asset acquisitions by Capital Development Board	8,942	10,865
Capital asset acquisitions via leaseholds payable	639	2,717
Net interest capitalized	11,544	6,521
Other capital asset adjustments	(2,679)	3,010
Loss on disposal of capital assets	(10,802)	(7,093)
Capital appreciation on bonds payable	7,782	8,404
Capital assets placed in service subsequent to obligation incurrence	73	3,127

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 fundraising 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 Financial and Administrative Operations, 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 Executive Vice President, 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, 100 Trade Centre Drive, Suite 304, Champaign, Illinois 61820.

Illinois Ventures, a for-profit, wholly-owned corporation, exists to facilitate the development of new companies commercializing technology originated or developed by faculty, staff and/or students of the University and other organizations. The University desires Illinois Ventures to foster technology commercialization and economic development in accordance with the teaching, research and public service missions of the University. Complete financial information may be obtained by writing the CEO and Managing Director, 2001 South First Street, Suite 201, Champaign, 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 Finance Manager, 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 unearned 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 2014 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, 2014.

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 Financial Accounting Standards Board (FASB) standards for financial statement presentation. Consequently, reclassifications have been made to reformat 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 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 generally determined by quoted market prices for the University's investments. The fair values of the 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 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 (net appreciation) within the endowment pool after spending rule distributions.

University

The University's endowment pool investment policy follows the total return concept. 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, six-year moving average market value of fund units. At June 30, 2015, net appreciation of $103,242,000 was available to be spent, of which $78,516,000 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 $73,494,000 for fiscal year ended June 30, 2015.

(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.

Losses on refundings for the University's bonds are reported as deferred outflow of resources on the accompanying Statement of Net Position. The losses on refundings are amortized over the life of the debt using the straight-line method.

Per Note (q) and (s), employer pension contributions made in fiscal year 2015 are deferred outflow of resources.

Deferred Outflow of Resources (In thousands)						
		Beginning balance	**Additions**	**Deductions**	**Change in fair value**	**Ending balance**
Interest rate swap	$	20,370	395		(3,116)	17,649
Unamortized deferred loss on refunding		40,074	21,419	5,097		56,396
Pension contributions			33,473			33,473
Total deferred outflow of resources	$	60,444	55,287	5,097	(3,116)	107,518

(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, 2015, the University estimates that $99,709,000 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, 2015. 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

Premiums for bonds and certificates of participation are reported within bonds payable and leaseholds payable, respectively, and are 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 2015, $43,988,000 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 (IDHFS) and this fund is not part of or a related organization of the University.

(l) Tuition, Scholarships and Fellowships

Scholarships and fellowships of $338,283,000 and $7,974,000 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 are unearned and recognized in the next fiscal year.

(m) Patient Services Revenue – Hospital

With respect to the Hospital, net patient service revenue is reported at the estimated net realizable amounts due from patients, third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge reimbursed costs, discounted charges and per diem payments. Approximately 96% of the Hospital's net patient service revenues were derived from Medicare, Medicaid, Blue Cross and managed care programs for the year ended June 30, 2015. 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, 2015, the contractual allowances totaled $1,461,486,000.

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 2015 was $8,468,000, a reduction of 58% from the prior year, largely as a result of patients obtaining insurance under the Affordable Care Act. 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 $62,967,000 at June 30, 2015 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 2016 rather than from the unrestricted net position available at June 30, 2015.

(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 $681,300,000 for the year ended June 30, 2015. 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 $491,054,000 for year ended June 30, 2015. 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) ***Pensions***

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the plan net position of the State Universities Retirement System (SURS) and additions to/deductions from SURS' plan net position has been determined on the same basis as they are reported by SURS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

For the purposes of financial reporting, the State of Illinois and participating employers are considered to be under a special funding situation. A special funding situation is defined as a circumstance in which a non-employer entity is legally responsible for making contributions directly to a pension plan that is used to provide pensions to the employees of another entity or entities and either (1) the amount of the contributions for which the non-employer entity is legally responsible is not dependent upon one or more events unrelated to pensions or (2) the non-employer is the only entity with a legal obligation to make contributions directly to a pension plan. The State of Illinois is considered a non-employer contributing entity. Participating employers are considered employer contributing entities.

(r) ***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.

(s) New Accounting Pronouncements

The University adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which was effective for periods beginning after June 15, 2014. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about pensions also are addressed. Implementation of this pronouncement required a change in the notes to the University's financial statements and an addition of required supplementary information.

The University adopted the provisions of GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, which was effective for periods beginning after December 15, 2013. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. This Statement requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions. Implementation of this pronouncement did not impact the University's financial statements.

The University adopted the provisions of GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which was effective for periods beginning after June 15, 2014. This Statement amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts. Implementation of this pronouncement required a change in the notes to the University's financial statements and an adjustment to net position as of July 1, 2014.

Change in Beginning Balance of Net Position

(In thousands)

Net position, July 1, 2014, as previously reported	$	4,412,731
Cumulative effect of change in accounting principle		34,200
Net position, July 1, 2014, as adjusted	$	4,446,931

(2) Cash, Cash Equivalents and Investments

The carrying amount of the University's cash totaled $192,902,000 at June 30, 2015. The June 30, 2015 total bank account balances for the University aggregated $209,992,000 all of which 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 $200,000 at June 30, 2015 and was covered by federal depository insurance.

The Board follows the State of Illinois Uniform Prudent Management of Institutional Funds Act, 760 ILCS 51/1-11, when managing the University's investments. The Board fulfills its fiduciary responsibility for the management of investments, including endowment farm real estate, by adopting policies to maximize investment return with a prudent level of risk.

The University has farm properties held as investments by permanent and term endowments reported at fair value of $67,456,000. The fair value of the 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 farm properties held as investments by quasi-endowments reported at $8,542,000, 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 or limited partnership agreement.

The following details the carrying value of the University's cash, cash equivalents and investments as of June 30, 2015:

University Cash, Cash Equivalents and Investments

(In thousands)

U.S. Treasury bonds and bills	$	277,064
U.S. government agencies		278,374
Commercial paper		67,081
Asset backed securities		262,414
Corporate bonds		677,155
Bond funds		124,622
Nongovernment mortgage-backed securities		101,775
International government bonds and governmental agencies		19,855
Municipal bonds		28,647
Money market funds		432,642
Illinois public treasurer's investment pool		33,126
Subtotal before cash deposits, equities and other investments		2,302,755
Equities		64,788
Equity funds		297,425
Hedge funds		61,536
Private equity		26,347
Repurchase agreements		108
Certificates of deposit		200
Farm properties		75,998
Real estate		35,786
Cash deposits		192,902
Total	$	3,057,845

(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 using the Barclay's Capital 90-Day and Bank of America Merrill Lynch 12 month Treasury Bill Index as performance benchmarks. 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 debt securities and maturities at June 30, 2015 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	$	277,064	55,668	189,710	27,360	4,326
U.S. government agencies		278,374	83,135	43,778	21,117	130,344
Commercial paper		67,081	67,081			
Asset backed securities		262,414	855	243,496	13,465	4,598
Corporate bonds		677,155	285,524	357,347	34,167	117
Bond funds		124,622		831	123,791	
Nongovernment mortgage-backed securities		101,775	497			101,278
International government bonds and govermental agencies		19,855	6,893	12,510	452	
Municipal bonds		28,647	9,344	18,193		1,110
Money market funds		432,642	432,642			
Illinois public treasurer's investment pool		33,126	33,126			
Total	$	2,302,755	974,765	865,865	220,352	241,773

At June 30, 2015, 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 the University's short-term operating funds be invested in fixed income securities and short-term instruments (e.g. money markets, certificates of deposits). 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.

The University reports the credit ratings of interest-bearing investments using Standard and Poor's and Moody's ratings. Securities with split ratings or with a different rating assignment are disclosed using the rating indicative of the greatest degree of risk.

At June 30, 2015, the University had debt securities and quality ratings as illustrated below:

University Investments Quality Ratings

(In thousands)

	Total	AAA/Aaa	AA/Aa/ TSY/AGY*	A/A	BBB/Baa	BB/Ba	Less than BB or not rated
U.S. Treasury bonds and bills	$ 277,064		277,064				
U.S. government agencies	278,374	10,665	267,709				
Commercial paper	67,081		10,092	56,989			
Asset backed securities	262,414	261,159	770	8			477
Corporate bonds	677,155	10,095	89,341	371,276	202,095	477	3,871
Bond funds	124,622	84,312	8,215	12,364	10,800	772	8,159
Nongovernment mortgage-backed securities	101,775	74,283	19,071	6,200	1,976		245
International government bonds and govermental agencies	19,855	12,785	1,001	4,622	1,447		
Municipal bonds	28,647	8,632	14,410	5,605			
Money market funds	432,642	398,007	34,635				
Illinois public treasurer's investment pool	33,126	33,126					
Total	$ 2,302,755	893,064	722,308	457,064	216,318	1,249	12,752

* TSY (U.S. Treasury Securities) & AGY (U.S. Agency Securities) is a reporting convention used by the University's custodian to identify investments that have not received individual security ratings. These securities have an explicit or implicit guarantee by the U.S. government which has been rated AA+ by Standard and Poor's and Aaa by Moody's.

(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, 2015, the University's investments 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. Issuer concentrations are limited to 5% per issuer of the total market value of the portfolio at the time of purchase, or in the case of securitized investments (e.g. mortgage-backed securities), concentration is limited to an individual issuance trust (e.g. pooled receivables). These concentration limits do not apply to investments in mutual funds, exchange traded funds, or other pooled investment products or obligations of, and issues guaranteed by, the U.S. Treasury, U.S. agencies or U.S. government sponsored enterprises.

As of June 30, 2015, 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, exchange traded 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 each investment manager's respective fund agreement, the portfolio's foreign currency exposure may be unhedged or hedged back into U.S. dollars.

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. As 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***

The University discontinued participation in the securities lending program during fiscal year 2015.

(g) URO – Foundation Investments

As the investments of the University's URO-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 3 – Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

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

Investments: Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would 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 and other certain securities. These securities are valued primarily through a multi-dimensional relational model including standard inputs such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, offers and reference data.

In certain cases where there is limited activity or less transparency around inputs to the valuation, including alternative investments, securities are classified within Level 3 of the valuation hierarchy and may include equity and/or debt securities issued by private entities.

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 value of trusts held by others is based on the Foundation owning an interest in trust and not the underlying investments. The estimated future value of that interest in the trust is based on management's estimate of the trusts' expected performance which 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, 2015.

The following table summarizes assets measured at fair value on a recurring basis as of June 30, 2015, 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, 2015

(In thousands)

		Fair value	Level 1	Level 2	Level 3
Assets:					
U.S. Treasury bonds and bills	$	13,178		13,178	
U.S. government agencies		7,190		7,190	
Municipal bonds		2,229		2,229	
Corporate bonds and notes		57,649		57,649	
Commercial mortgage-backed securities		13,912		13,912	
Asset-backed securities		24,484		24,484	
Nongovernment backed collateralized mortgage obligation (CMOS)		699		699	
Common stock, domestic:					
Consumer goods		2,962	2,962		
Energy		57	57		
Financial services		1,211	205	1,006	
Healthcare		1,500	1,500		
Industrials		153	153		
Information technology		274	274		
Materials		3,972	3,972		
Telecommunications		47	47		
Utilities		6	6		
Common stock, foreign:					
Consumer goods		19,737	19,737		
Energy		1,572	1,572		
Financial services		11,257	11,257		
Health care		5,076	5,076		
Industrials		8,590	8,590		
Information technology		1,587	1,587		
Materials		2,515	2,515		
Subtotal forward	$	179,857	59,510	120,347	—

URO – Foundation Fair Value Measurements as of June 30, 2015 (Continued)

(In thousands)

		Fair value	Level 1	Level 2	Level 3
Subtotal forward	$	179,857	59,510	120,347	
Bond mutual funds:					
U.S. government		11,528	710	10,818	
Mortgages		19,069	1,221	17,848	
Corporate bonds and notes		7,208	298	6,910	
High yield		2,043	115	1,928	
Municipals		3,392	192	3,200	
Internationals		59,186	827	58,359	
Equity mutual funds:					
Small cap		694	444	250	
Mid cap		693	693		
Large cap		177,018	177,018		
International		77,056	77,056		
Money market mutual funds		48,979	48,979		
Other investments		3,530			3,530
Farms		62,689		62,689	
Beneficial interest in trusts		40,237			40,237
Trusts held by others		22,670			22,670
Cash surrender value of life insurance		6,605			6,605
Partnership interests		5,293		5,293	
Total investments	$	727,747	367,063	287,642	73,042

The investments above exclude $6,298,000 of real estate and $8,140,000 of private equities which are carried at cost and $1,033,167,000 of investments where values are based on NAV.

There were no transfers between Level 1 or 2 of the fair value hierarchy during the year ended June 30, 2015.

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, 2015
(In thousands)

		Beginning balance	Purchases	Sales (distributions)	Total gains or losses*	Ending balance
International government bonds	$	116	296	(994)	582	—
Other investments		3,635		(118)	13	3,530
Beneficial interest in trusts		37,978			2,259	40,237
Trusts held by others		23,739			(1,069)	22,670
Cash surrender value of life insurance		6,281			324	6,605
Total	$	71,749	296	(1,112)	2,109	73,042

*(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 net increase (decrease) in fair value of investments.

The following table sets forth additional disclosure of the URO-Foundation's investments whose fair value is estimated using NAV per share (or its equivalent) as of June 30, 2015:

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)	$	687,567		(A)	(A)
Private equity (B)		100,858	59,936	(B)	(B)
Real estate trusts and partnerships (B)		30,104	82,433	(B)	(B)
Large cap equity fund (C)		1,425		Daily	Trade Date Plus 1 – 3 Days
International equity fund (D)		213,213		Daily/30 days	Trade Date Plus 1 day – 30 Days
	$	1,033,167	142,369		

(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 United States of America (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 1 to 36 months.

(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 NAV from the investment manager and June 30, 2015.

(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 NAV per share based on the fair value of the underlying assets.

(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 NAV per share based on the fair value of the underlying assets.

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, 2015.

The composition of accounts receivable and notes and pledges receivable at June 30, 2015 is summarized as follows:

University Accounts Receivable, Net of Allowance
(In thousands)

		Gross receivables	Allowance for uncollectible	Net receivables
Receivables from sponsoring agencies	$	164,308	(1,425)	162,883
Hospital and other medical activities		520,066	(382,030)	138,036
Student tuition and fees		36,855	(10,796)	26,059
Auxiliaries		17,026	(5,798)	11,228
Medical service plan		72,107	(22,874)	49,233
Educational activities		44,475	(5,746)	38,729
Other		38,872	(7,593)	31,279
Total	$	893,709	(436,262)	457,447

Notes and Pledges Receivable

(In thousands)

Student notes receivable – University:		
Student notes outstanding	$	67,775
Allowance for uncollectible loans		(3,805)
Total student notes receivable, net	$	63,970
Gift pledges receivable, URO – Foundation:	$	208,341
Less:		
Allowance for doubtful pledges		(11,241)
Present value discount		(3,100)
Total gift pledges outstanding, net	$	194,000

(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 $11,544,000 was capitalized during the year ended June 30, 2015.

Capital assets activity during the year ended June 30, 2015 is summarized as follows:

University Capital Assets
(In thousands)

		Beginning balance	Additions	Retirements	Transfers	Ending balance
Nondepreciable capital assets:						
Land	$	135,822				135,822
Construction in progress		244,176	247,742		(188,236)	303,682
Inexhaustible collections		22,480	510	(7)		22,983
Total nondepreciable capital assets		402,478	248,252	(7)	(188,236)	462,487
Depreciable capital assets:						
Buildings		3,856,680			178,763	4,035,443
Improvements and infrastructure		699,757			2,540	702,297
Equipment		1,222,407	69,542	(75,786)	4,202	1,220,365
Software		175,076		(923)	2,731	176,884
Exhaustible collections		602,442	29,622	(8,141)		623,923
Total depreciable capital assets		6,556,362	99,164	(84,850)	188,236	6,758,912
Less accumulated depreciation:						
Buildings		1,503,539	97,506			1,601,045
Improvements and infrastructure		395,985	23,361			419,346
Equipment		863,042	99,756	(73,132)		889,666
Software		166,860	3,429	(923)		169,366
Exhaustible collections		473,964	24,837			498,801
Total accumulated depreciation		3,403,390	248,889	(74,055)	—	3,578,224
Total net depreciable capital assets		3,152,972	(149,725)	(10,795)	188,236	3,180,688
Total	$	3,555,450	98,527	(10,802)	—	3,643,175

(5) Accrued Self-Insurance and Loss Contingency

The University’s accrued self-insurance liability of $243,959,000 June 30, 2015 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, 2015. 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 $19,471,000 at June 30, 2015 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, 2015.

The accrued self-insurance liability includes $175,839,000 at June 30, 2015 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, 2015. 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)

		2015	2014
Balance, beginning of year	$	223,744	232,322
Claims incurred and changes in estimates		49,707	22,894
Claim payments and other deductions		(29,492)	(31,472)
Balance, end of year		243,959	223,744
Less current portion		(53,766)	(58,567)
Balance, end of year – noncurrent portion	$	190,193	165,177

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	$	199,174
Additions		19,425
Deductions		(16,215)
Balance, end of year		202,384
Less current portion		(19,141)
Balance, end of year – noncurrent portion	$	183,243

(7) Bonds Payable

On February 11, 2015, the University issued $109,340,000 of AFS Revenue Bonds, Series 2015A. Proceeds of these bonds were used to provide for the partial refunding of the outstanding principal of two different Series of AFS Revenue Bonds, Series 2005A and Series 2009A. Proceeds were also used to fund all costs incidental to the issuance of the Series 2015A Bonds. The refunding resulted in a projected savings over the life of the issue at a net present value of $9,792,000. The difference between the reacquisition price and the net carrying amount of the old debt, (gain) loss on refunding for each Series, was $(658,000) and $14,251,000, 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	2016 – 2044	$ 1,056,010	109,340	(121,860)	1,043,490	30,885
Capital appreciation bonds	2016 – 2030	153,710		(17,730)	135,980	17,815
Health Services Facilities System	2016 – 2043	121,970		(3,120)	118,850	3,240
UIC South Campus	2016 – 2023	52,625		(5,155)	47,470	5,380
		1,384,315	109,340	(147,865)	1,345,790	57,320
Unaccreted appreciation		(41,770)	7,782		(33,988)	(923)
		1,342,545	117,122	(147,865)	1,311,802	56,397
Unamortized debt premium		63,759	8,343	(6,691)	65,411	3,700
Total		$ 1,406,304	125,465	(154,556)	1,377,213	60,097

None of the University’s bonds described above constitute obligations of the State.

Capital appreciation bonds of $135,980,000 outstanding at June 30, 2015 do not require current interest payments and have a net unappreciated value of $101,992,000. The University records the annual increase in the principal amount of these bonds as interest expense and accretion on bonds payable.

Included in bonds payable is $158,280,000 of variable rate demand bonds. These bonds mature serially through April 2044. These bonds have variable interest rates that are adjusted periodically (e.g., 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 three to five 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 rates, or the synthetic fixed rate, as illustrated in the table below. Other outstanding bond issues bear interest at fixed rates ranging from 0.862% to 6.250%.

Variable Rate Bonds

Bond issues	Interest rate at June 30, 2015	Remarketing agent	Remarketing fee	Liquidity facility: Bank	Liquidity facility: Expiration	Liquidity facility: Insured by	Liquidity fee
UIC South Campus, Series 2008	0.06%	JPMorgan Securities	0.075%	JPMorgan Chase	6/24/2019	Letter of Credit	0.550%
AFS, Series 2008	0.07	Loop Capital	0.075	JPMorgan Chase	5/19/2016	None	0.525
AFS, Series 2014C	0.15	Wells Fargo	0.080	Northern Trust	2/19/2019	Letter of Credit	0.350
HSFS, Series 1997B	0.07	JPMorgan Securities	0.070	Wells Fargo	5/30/2019	Letter of Credit	0.320
HSFS, Series 2008	0.06	Goldman Sachs	0.070	Wells Fargo	5/30/2019	Letter of Credit	0.320

(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 $275,000 is not covered by the swap agreement. In addition, the swaps were entered at the same time as the original bonds were issued and terminate with maturity of the existing bonds. No cash was paid or received when the original swap agreements were entered into.

Credit Risk – As of June 30, 2015, 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, 2015 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	$ 33,390,000	Nov 2008*	3.534%	68% of LIBOR**	$ (4,252,000)	Oct-2026	Loop	BBB+/A3
UIC SC 2008	21,283,000	Feb 2006*	4.086	68% of LIBOR**	(2,477,000)	Jan-2022	Morgan Stanley	A-/A3
UIC SC 2008	20,888,000	Feb 2006*	4.092	68% of LIBOR**	(2,424,000)	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, 2015. 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)
AFS	Refunding, various improvements and additions to the System	Net AFS revenue, student tuition and fees	$ 1,823,306	2044	7.53%
HSFS	Additions to System and refunding	Net HSFS revenue, Medical Service Plan revenue net of bad debt expense, College of Medicine net tuition revenue	217,208	2043	3.24
UIC South Campus	South Campus Development Project[1] and refunding	Defined Tax Increment Financing District revenue, student tuition and fees, and sales of certain land in the UIC South Campus project	55,413	2023	2.18
		Total future revenues pledged	$ 2,095,927		

[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, 2015 are as follows:

Debt Service Requirements

		Principal	Interest
		(In thousands)	
2016	$	57,320	54,282
2017		54,870	52,462
2018		55,440	51,036
2019		56,160	49,484
2020		58,780	47,753
2021 – 2025		292,765	205,917
2026 – 2030		272,770	146,507
2031 – 2035		237,205	88,345
2036 – 2040		133,550	42,251
2041 – 2044		126,930	12,100
Total	$	1,345,790	750,137

Using the actual rates of 0.06% (UIC South Campus, Series 2008) and 0.06% (Health Services Facilities System, Series 2008), in effect as of June 30, 2015, 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
2016	$	4,810	25	1,625	6,460
2017		5,370	23	1,422	6,815
2018		5,610	19	1,202	6,831
2019		5,855	16	973	6,844
2020		6,520	12	726	7,258
2021 – 2022		14,005	13	636	14,654
Total	$	42,170	108	6,584	48,862

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

		Variable-rate bonds		Interest rate	
		Principal	**Interest**	**swaps, net**	**Total**
2016	$	2,240	20	1,108	3,368
2017		2,365	19	1,028	3,412
2018		2,485	18	943	3,446
2019		2,520	16	857	3,393
2020		2,655	14	767	3,436
2021 - 2025		14,730	47	2,371	17,148
2026 - 2027		6,670	6	190	6,866
Total	$	33,665	140	7,264	41,069

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 refunding in the prior years, and accordingly, they are not reflected in the accompanying financial statements. The amount of bonds that have been defeased as of June 30, 2015 consists of the following:

Advanced Refunded Bonds
(In thousands)

Series		**Outstanding at June 30, 2015**
Auxiliary Facilities System, Series 2006	$	160,460
Auxiliary Facilities System, Series 2009A		76,305
Total	$	236,765

(8) Leaseholds Payable and Other Obligations

On December 23, 2014, the University issued $65,255,000 of Certificates of Participation (COPs), Series 2014A, Taxable Series 2014B, and Series 2014C. Proceeds of these certificates were used to provide for the partial refunding of the outstanding principal of COPs, Series 2007A and the refunding of the outstanding principal of COPs Taxable Series 2005 and COPs Series 2006A, respectively. Proceeds were also used to fund all costs incidental to the issuance of the Series 2014A, Taxable Series 2014B and Series 2014C COPs. The refunding resulted in a projected savings over the life of the issue at a net present value of $11,155,000. The difference between the reacquisition price and the net carrying value amount of the old debt, loss on the refunding for each Series, was $3,563,000, $349,000 and $2,819,000, respectively. This loss is deferred and amortized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter.

On December 23, 2014, the University also had a partial cash defeasance of the COPs Series 2009A. $17,740,000 was advance refunded with a projected savings over the life of the issue at a net present value of $4,539,000. The difference between the reacquisition price and the net carrying value amount of the old debt, loss on the refunding, was $1,947,000. This loss is deferred and amortized as a component of interest expense over the remaining life of the debt.

Leaseholds payable and other obligations activity for the year ended June 30, 2015 consists of the following:

Leaseholds Payable and Other Obligations
(In thousands)

		Beginning balance	Additions	Deductions	Ending balance	Current portion
University:						
Certificates of participation	$	365,725	65,255	(159,420)	271,560	27,460
Unamortized debt premium		7,209	8,130	(4,373)	10,966	1,911
		372,934	73,385	(163,793)	282,526	29,371
Other capital leases		36,549	639	(3,774)	33,414	3,698
Energy services agreement installment payment contracts		46,445		(2,880)	43,565	2,966
Environmental remediation liability		280		(56)	224	56
Total University	$	456,208	74,024	(170,503)	359,729	36,091
URO – Foundation:						
Annuities payable	$	52,074	7,695	(6,931)	52,838	7,103
Other liabilities		5,564		(623)	4,941	
Total URO – Foundation	$	57,638	7,695	(7,554)	57,779	7,103

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 $103,040,000 of variable-rate demand COPs. The COPs mature serially through August 2021. The COPs have variable interest rates that are adjusted periodically (e.g., 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 COPs bear interest at fixed rates ranging from 1.30% to 5.25%.

Variable Rate Certificates of Participation

COP issue	Interest rate at June 30, 2015	Remarketing agent	Remarketing fee	Liquidity facility Bank	Expiration	Insured by	Liquidity fee
COP 2004	0.10%	Morgan Stanley	0.10%	Bank of New York Mellon	8/31/2015	None	0.55%

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

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

The objective of the swap was to effectively change the University's variable interest rate on the COPs to a synthetic fixed rate. The notional amount of the interest rate swap is equal to the par amount of the related COPs. The swap agreement was entered at the same time as the COPs 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, 2015, 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, 2015 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	$ 103,040,000	March 2004	3.765%	100% of SIFMA	$ (11,451,000)	August 2021	Morgan Stanley	A-/A3

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, 2015. 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 0.10% in effect as of June 30, 2015, 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**
2016	$ 8,015	103	3,626	11,744
2017	8,345	95	3,326	11,766
2018	15,990	87	2,876	18,953
2019	16,635	71	2,278	18,984
2020	17,305	54	1,655	19,014
2021-2022	36,750	55	1,341	38,146
Total	$ 103,040	465	15,102	118,607

(b) Capital Leases (includes Certificates of Participation)

Assets held under capital leases are included in capital assets at June 30, 2015 as follows:

Assets Held Under Capital Lease
(In thousands)

Land	$ 6,471
Buildings	140,145
Improvements	261,715
Equipment	10,434
Subtotal	418,765
Less accumulated depreciation	159,720
Total	$ 259,045

The net present value of outstanding capital leases at June 30, 2015 is as follows:

Outstanding Capital Leases
(In thousands)

Certificates of participation:		
Series 2003 Utility Infrastructure	$	13,730
Series 2004 Utility Infrastructure		103,040
Series 2007A		30,700
Series 2007B		45,645
Series 2009A		13,190
Series 2014A		25,055
Series 2014B		11,040
Series 2014C		29,160
Other capital leases		33,414
Net present value	$	304,974

As of June 30, 2015, future minimum lease payments under capital leases are as follows:

Future Minimum Lease Payments
Under Capital Leases
(In thousands)

2016	$	43,877
2017		45,388
2018		44,395
2019		43,357
2020		43,139
2021 – 2025		116,162
2026 – 2030		35,157
2031 – 2033		4,742
Total minimum lease payments		376,217
Amount representing interest		(71,243)
Net present value	$	304,974

(c) Advanced Refunded Certificates Of Participation

The University has defeased COPs through advanced refunding in the prior years, and accordingly, they are not reflected in the accompanying financial statements. The amounts of COPs that have been defeased as of June 30, 2015 consists of the following:

Advanced Refunded COPs (In thousands)		
Series		**Outstanding at June 30, 2015**
Series 2006A	$	53,790
Series 2007A		40,985
Series 2009A		17,740
Total	$	112,515

(d) Other Obligations

As part of energy services agreements, the University has entered into installment payment contracts to finance energy conservation measures. As of June 30, 2015, future minimum lease payments under installment payment contracts are as follows:

Future Minimum Lease Payments Under Installment Payment Contracts (In thousands)		
2016	$	4,215
2017		4,215
2018		4,215
2019		4,215
2020		4,216
2021 – 2025		21,078
2026 – 2029		10,122
Total minimum lease payments		52,276
Amount representing interest		(8,711)
Net present value	$	43,565

The University monitors environmental matters and records an estimated liability for identified environmental remediation costs. The estimated liability at June 30, 2015 is $224,000.

At June 30, 2015, the URO – Foundation had annuities payable outstanding of $52,838,000. The Foundation recalculates the present value of these payments through the use of Internal Revenue Service (IRS) discount rates and IRS life expectancy tables.

(e) Operating Leases

The University also leases various buildings and equipment under operating lease agreements. Total rental expense under these agreements was $12,437,000 for the year ended June 30, 2015. The future minimum lease payments (excluding those leases renewed on an annual basis) are as follows:

Future Minimum Operating Lease Payments
(In thousands)

2016	$	9,144
2017		6,581
2018		4,182
2019		2,371
2020		344
2021 – 2022		175
Total	$	22,797

(9) Net Position

As discussed in note 1(j), 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 URO-Foundation including major categories of restrictions and internal designation of unrestricted funds.

University Net Position
(In thousands)

Net investment in capital assets	$	2,185,442
Restricted – nonexpendable:		
Invested in perpetuity to produce income expendable for – scholarships, fellowships and research		108,287
Restricted – expendable for:		
Scholarships, fellowships and research		392,508
Loans		79,741
Service plans		136,853
Retirement of indebtedness		38,307
Capital projects		3,382
Unrestricted:		
Designated		1,617,441
Undesignated		
Total	$	4,561,961

URO – Foundation Net Position
(In thousands)

Net investment in capital assets	$	7,565
Restricted – nonexpendable:		
Invested in perpetuity to produce income expendable for academic programs, scholarships, fellowships and research		957,989
Restricted – expendable for:		
Academic programs, scholarships, fellowships and research		957,178
Unrestricted		8,937
Total	$	1,931,669

(10) Funds Held in Trust by Others

The University and URO-Foundation are income beneficiaries of several irrevocable trusts which are held and administered by outside trustees. The University and URO-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 URO-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, 2015 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	$	55,759	62,907
Income received from funds held in trust by others		1,230	1,379

(11) State Universities Retirement System

General Information about the Pension Plan

Plan Description: The University contributes to the State Universities Retirement System of Illinois, a cost-sharing multiple-employer defined benefit 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 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's financial reporting entity and is included in the State's financial reports as a pension trust fund. SURS is governed by Section 5/15, Chapter 40, of the *Illinois Compiled Statutes*. SURS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by accessing the website at www.surs.org.

Benefits Provided: A traditional benefit plan was established in 1941. Public Act 90-0448 enacted effective January 1, 1998, established an alternative defined benefit program known as the portable benefit package.

The traditional and portable plan Tier 1 refers to members that began participation prior to January 1, 2011. Public Act 96-0889 revised the traditional and portable benefit plans for members who begin participation on or after January 1, 2011, and who do not have other eligible Illinois reciprocal system services. The revised plan is referred to as Tier 2. New employees are allowed 6 months after their date of hire to make an irrevocable election. A summary of the benefit provisions as of June 30, 2014 can be found in the SURS' comprehensive annual financial report (CAFR) Notes to the Financial Statements.

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.

Contributions: The State is primarily responsible for funding the SURS on behalf of the individual employers at an actuarially determined amount. Public Act 88-0593 provides a Statutory Funding Plan consisting of two parts: (i) a ramp-up period from 1996 to 2010 and (ii) a period of contributions equal to a level percentage of the payroll of active members of the SURS to reach 90% of the total Actuarial Accrued Liability by the end of Fiscal Year 2045. Employer contributions from "trust, federal, and other funds" are provided under Section 15-155(b) of the Illinois Pension Code and require employers to pay contributions which are sufficient to cover the accruing normal costs on behalf of applicable employees. The employer normal cost for fiscal year 2014 and 2015 respectively, was 11.91% and 11.71% of employees payroll. The normal cost is equal to the value of current year's pension benefit and does not include any allocation for past unfunded liability or interest on the unfunded liability. Plan members are required to contribute 8.0% of their annual covered salary. The contribution requirements of plan members and employers are established and may be amended by the Illinois General Assembly.

Participating employers make contributions toward separately financed specific liabilities under Section 15.139.5(e) of the Illinois Pension Code (relating to contributions payable due to the employment of "affected annuitants" or specific return to work annuitants) and Section 15.155(g) (relating to contributions payable due to earning increases exceeding 6% during the final rate of earnings period).

Pension Liabilities, Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Net Pension Liability: At June 30, 2014, SURS reported a net pension liability (NPL) of $21,790,983,000. The net pension liability was measured as of June 30, 2013.

Employer Proportionate Share of Net Pension Liability: The amount of the proportionate share of the net pension liability to be recognized for the University is $0. The proportionate share of the State's net pension liability associated with the University is $8,995,845,000. This amount should not be recognized in the financial statement. The net pension liability was measured as of June 30, 2014, and the total pension used to calculate the net pension liability was determined based on the June 30, 2013 actuarial valuation rolled forward. The basis of allocation used in the proportionate share of net pension liability is the actual reported pensionable earnings made to SURS during fiscal year 2014.

Pension Expense: At June 30, 2014 SURS reported a collective net pension expense of $1,650,338,000.

Employer Proportionate Share of Pension Expense: The employer proportionate share of collective pension expense should be recognized similarly to on-behalf payments as both revenue and matching expenditure in the financial statements. The basis of allocation used in the proportionate share of collective pension expense is the actual reported pensionable contributions made to SURS during fiscal year 2014.

As a result, the University recognized on-behalf revenue and pension expense of $681,300,000 for fiscal year ended June 30, 2015.

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: Deferred Outflows of resources are the consumption of net position by the system that is applicable to future reporting periods.

SURS Collective Deferred Outflows and Deferred Inflows of Resources by Sources
(nearest thousand)

		Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumption	$	88,941	
Net difference between projected and actual earnings on pension plan investments			1,271,106
Total	$	88,941	1,271,106

Employer Deferral of Fiscal Year 2015 Pension Expense

Employer paid $33,473,000 in federal, trust or grant contributions for fiscal year ended June 30, 2015. These contributions were made subsequent to the pension liability measurement date of June 30, 2014 and are recognized as Deferred Outflows of Resources as of June 30, 2015.

Assumptions and Other Inputs

Actuarial assumptions: The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period June 30, 2006 – 2010 and an economic study completed June 2014. The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Salary increases	3.75 to 12.00 percent, including inflation
Investment rate of return	7.25 percent beginning with the actuarial valuation as of June 30, 2014

Mortality rates were based on the RP2000 Combined Mortality Table, projected with Scale AA to 2017, sex-distinct, with rates multiplied by 0.80 for males and 0.85 for females.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return were adopted by the plan’s trustees after considering input from the plan’s investment consultant(s) and actuary(s). For each major asset class that is included in the pension plan’s target asset allocation as of June 30, 2014, these best estimates are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	31%	7.65%
Private Equity	6%	8.65%
Non-U.S. Equity	21%	7.85%
Global Equity	8%	7.90%
Fixed Income	19%	2.50%
Treasury-Inflation Protected Securities	4%	2.30%
Real Estate	6%	6.20%
REITS	4%	6.20%
Opportunity Fund	1%	2.50%
Total	100%	5.00%
Inflation		2.75%
Expected Geometrical Normal Return		**7.75%**

Discount Rate: A single discount rate of 7.090% was used to measure the total pension liability. This single discount rate was based on an expected rate of return on pension plan investments of 7.250% and a municipal bond rate of 4.290% (based on the weekly rate closest to but not later than the measurement date of the 20-Year Bond Buyer Index as published by the Federal Reserve). The projection of cash flows used to determine this single discount rate were the amounts of contributions attributable to current plan members and assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the statutory contribution rates under the SURS' funding policy. Based on these assumptions, the pension plan's fiduciary net position and future contributions were sufficient to finance the benefit payments through the year 2065. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2065, and the municipal bond rate was applied to all benefit payments after that date.

Sensitivity of the SURS' Net Pension Liability to Changes in the Discount Rate: Regarding the sensitivity of the net pension liability to changes in the single discount rate, the following presents the plan's net pension liability, calculated using a single discount rate of 7.09%, as well as what the plan's net pension liability would be if it were calculated using a single discount rate that is 1-percentage-point lower or 1-percentage-point higher:

1% Decrease 6.09%	Current Single Discount Rate Assumption 7.09%	1% Increase 8.09%
$26,583,701,000	$21,790,983,000	$17,796,571,000

Additional information regarding the SURS basic financial statements including the Plan Net Position can be found in the SURS comprehensive annual financial report by accessing the website at www.SURS.org.

(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 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.

(13) Commitments and Contingencies

At June 30, 2015, the University had commitments on various construction projects and contracts for repairs and renovation of facilities of $239,473,000.

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 $94,000,000, with the exception of one energy supplier for which the guarantee is not limited. The exposure related to Prairieland at June 30, 2015 is $6,650,000 for all energy suppliers. This exposure includes the mark-to-market positions on forward contracts and the accounts payable accrued for each vendor.

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 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. During fiscal year 2010, the University submitted additional documentation and evidence of its positions. On 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, 2015 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	$ 1,204,155	89,554	6,572		1,300,281
Research	483,910	257,803	2,330		744,043
Public service	295,969	215,178	1,806		512,953
Academic support	362,959	137,845	6,499		507,303
Student services	135,956	45,750	2,866		184,572
Institutional support	260,325	22,548	4		282,877
Operation and maintenance of plant	63,423	253,719	6,868		324,010
Scholarships and fellowships	240,713	1,650	35,638		278,001
Auxiliary enterprises	166,172	189,899	15,568		371,639
Hospital and medical activities	473,306	320,471			793,777
Independent operations	1,831	10,351			12,182
Depreciation				248,889	248,889
Total	$ 3,688,719	1,544,768	78,151	248,889	5,560,527

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

	Distributions on behalf of the University	Institutional support	Depreciation	Total
Fund-raising	$	17,288		17,288
Distributions on behalf of the University	193,936			193,936
General and administrative		14,524		14,524
Actuarial adjustments		5,346		5,346
Depreciation			674	674
Total	$ 193,936	37,158	674	231,768

(15) Segment Information

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

Condensed Statements of Net Position

June 30, 2015

(In thousands)

		Auxiliary Facilities System	Health Services Facilities System	Total
Assets and deferred outflow of resources:				
Current assets	$	202,656	336,104	538,760
Noncurrent assets:				
Capital assets, net of accumulated depreciation		1,075,985	185,919	1,261,904
Other noncurrent assets		162,883	50,876	213,759
Deferred outflow of resources		37,257	6,191	43,448
Total assets and deferred outflow of resources	$	1,478,781	579,090	2,057,871
Liabilities:				
Current liabilities	$	122,980	124,308	247,288
Noncurrent liabilities:				
Long-term debt		1,158,932	119,461	1,278,393
Other liabilities		13,673	24,796	38,469
Total liabilities		1,295,585	268,565	1,564,150
Net position:				
Net investment in capital assets		21,203	100,893	122,096
Restricted:				
Expendable		24,664	12,641	37,305
Unrestricted		137,329	196,991	334,320
Total net position		183,196	310,525	493,721
Total liabilities and net position	$	1,478,781	579,090	2,057,871

Condensed Statement of Revenues, Expenses and Changes in Net Position

Year ended June 30, 2015

(In thousands)

		Auxiliary Facilities System	Health Services Facilities System	Total
Operating revenues	$	345,090	638,563	983,653
Operating expenses		299,239	810,021	1,109,260
Depreciation expense		33,516	18,613	52,129
Operating income (loss)		12,335	(190,071)	(177,736)
Nonoperating revenues, net		2,390	198,267	200,657
Increase in net position		14,725	8,196	22,921
Net position, beginning of year		168,471	302,329	470,800
Net position, end of year	$	183,196	310,525	493,721

Condensed Statement of Cash Flows

Year ended June 30, 2015

(In thousands)

Net cash flows provided by operating activities	$	101,691	47,935	149,626
Net cash flows provided by noncapital financing activities		147	138	285
Net cash flows used in capital and related financing activities		(173,060)	(23,843)	(196,903)
Net cash flows provided by investing activities		79,170	6,918	86,088
Net increase in cash and cash equivalents		7,948	31,148	39,096
Cash and cash equivalents, beginning of year		193,623	175,382	369,005
Cash and cash equivalents, end of year	$	201,571	206,530	408,101

(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, 2015

(In thousands)

	Foundation	Alumni Association	WWT	Illinois Ventures
Assets:				
Current assets	$ 50,174	2,810	969	1,612
Noncurrent assets:				
Capital assets, net of accumulated depreciation	10,822	604	56	4
Other noncurrent assets	1,936,075	15,822		5,067
Total assets	$ 1,997,071	19,236	1,025	6,683
Liabilities:				
Current liabilities	$ 14,611	665	1,220	172
Due to related organizations				
Noncurrent liabilities:				
Other noncurrent liabilities	50,791	9		
Total liabilities	65,402	674	1,220	172
Net position:				
Net investment in capital assets	7,565	604	56	4
Restricted:				
Nonexpendable	957,989			18
Expendable	957,178			
Unrestricted	8,937	17,958	(251)	6,489
Total net position	1,931,669	18,562	(195)	6,511
Total liabilities and net position	$ 1,997,071	19,236	1,025	6,683

Condensed Statements of Revenues, Expenses and Changes in Net Position

Year ended June 30, 2015

(In thousands)

	Foundation	Alumni Association	WWT	Illinois Ventures
Operating revenues	$ 186,406	6,780	12,346	2,178
Operating expenses	231,094	7,852	12,377	1,862
Depreciation expense	674	31	61	3
Operating income (loss)	(45,362)	(1,103)	(92)	313
Nonoperating revenues (expenses)	45,024	445		(165)
Contributions to endowments	43,946			
Increase (decrease) in net position	43,608	(658)	(92)	148
Net position, beginning of year	1,888,061	19,220	(103)	6,950
Adjustment for correction of error				(587)
Net position, beginning of year, as restated				6,363
Net position, end of year	$ 1,931,669	18,562	(195)	6,511

Condensed Statements of Net Position

June 30, 2015

(In thousands)

		Research Park	Prairieland	Singapore Research	Total
Assets:					
Current assets	$	564	7,474	5,940	69,543
Noncurrent assets:					
Capital assets, net of accumulated depreciation		1,464	29	385	13,364
Other noncurrent assets					1,956,964
Total assets	$	2,028	7,503	6,325	2,039,871
Liabilities:					
Current liabilities	$	23	5,759	1,033	23,483
Due to related organizations				4,753	4,753
Noncurrent liabilities:					
Other noncurrent liabilities					50,800
Total liabilities		23	5,759	5,786	79,036
Net position:					
Net investment in capital assets		1,464	29	385	10,107
Restricted:					
Nonexpendable					958,007
Expendable					957,178
Unrestricted		541	1,715	154	35,543
Total net position		2,005	1,744	539	1,960,835
Total liabilities and net position	$	2,028	7,503	6,325	2,039,871

Condensed Statements of Revenues, Expenses and Changes in Net Position

Year ended June 30, 2015

(In thousands)

		Research Park	Prairieland	Singapore Research	Total
Operating revenues	$	696	47,995	11,890	268,291
Operating expenses		548	48,203	11,392	313,328
Depreciation expense		78	12	107	966
Operating income (loss)		70	(220)	391	(46,003)
Nonoperating revenues (expenses)			2	(100)	45,206
Contributions to endowments					43,946
Increase (decrease) in net position		70	(218)	291	43,149
Net position, beginning of year		1,935	1,962	248	1,918,273
Adjustment for correction of error					(587)
Net position, beginning of year, as restated					1,917,686
Net position, end of year	$	2,005	1,744	539	1,960,835

Required Supplementary Information
(In thousands)

Proportionate Share of the Net Pension Liability	Fiscal Year 2014
(a) Proportion Percentage of the Collective Net Pension Liability	0%
(b) Proportion Amount of the Collective Net Pension Liability	$0
(c) Portion of Nonemployer Contributing Entities' Total Proportion of Collective Net Pension Liability associated with Employer	$8,995,845
Total (b) + (c)	$8,995,845
Employer Covered-employee payroll	$1,953,692
Proportion of Collective Net Pension Liability associated With Employer as a percentage of covered-employee payroll	460.45%

Schedule of Contributions	
SURS Plan Net Position as a Percentage of Total Pension Liability	44.39%
Federal, Trust, Grant and Other Contributions	$33,473
Contributions in relation to required contribution	$33,473
Contribution deficiency (excess)	$0
Employer Covered-employee payroll	$1,953,692
Contributions as a percentage of covered-employee payroll	1.71%

Changes of benefit terms. There were no benefit changes recognized in the Total Pension Liability as of June 30, 2014.

Changes of assumptions. In accordance with Illinois Compiled Statutes, an actuarial review is to be performed at least once every five years to determine the reasonableness of actuarial assumptions regarding the retirement, disability, mortality, turnover, interest and salary of the members and benefit recipients of SURS. An experience review for the years June 30, 2010 to June 30, 2014 was performed in February 2015, resulting in the adoption of new assumptions as of June 30, 2015. There are no changes of assumptions that affect measurement of the total collective pension liability since the prior measurement date.

*Note: The System implemented GASB No. 68 in fiscal year 2015. The information above is presented for as many years as available. The Schedule is intended to show information for 10 years.