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UNIVERSITY OF ILLINOIS

Annual Financial Report

June 30, 2014

(With Independent Auditors’ Report Thereon)

UNIVERSITY OF ILLINOIS

Annual Financial Report

June 30, 2014

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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 19, 2014

The information in this Annual Financial Report of the University of Illinois for the fiscal year ended June 30, 2014, documents that the financial position of the University remains sound.

The ongoing economic challenges impacting our state and nation continued to demand the best from administrators and business staff across the University. They made wise management and budgetary decisions with the goal of ensuring the financial integrity of University programs and initiatives through efficient and effective utilization of resources.

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

Respectfully submitted,

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

KPMG LLP
Aon Center
Suite 5500
200 East Randolph Drive
Chicago, IL 60601-6436

Independent Auditors' Report

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

Report on the Financial Statements

As Special Assistant Auditors for the Auditor General of the State of Illinois, we have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units (University Related Organizations) of the University of Illinois, a component unit of the State of Illinois, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the University of Illinois' basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component units. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aggregate discretely presented component units, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of The University of Illinois Alumni Association; Wolcott, Wood, and Taylor, Inc.; Prairieland Energy, Inc.; Illinois Ventures, LLC; The University of Illinois Research Park, LLC; and UI Singapore Research, LLC (all discretely presented component units) were not audited in accordance with *Government Auditing Standards*.

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

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

Opinions

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the University of Illinois as of June 30, 2014, and the respective changes in financial position, and where applicable, cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in note 1(r) to the financial statements, in 2014, the University of Illinois adopted Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinions are not modified with respect to this matter.

Other Matters

Report on Summarized Comparative Information

We have previously audited the University of Illinois' 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 20, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived, with the exception of the effects of the implementation of GASB Statement No. 65 as discussed in the *Emphasis of Matter* paragraph immediately preceding this section.

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 5 through 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2014, on our consideration of the University of Illinois' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University of Illinois' internal control over financial reporting and compliance.

KPMG LLP

Chicago, Illinois
December 19, 2014

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, 2014. 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 78,000 students. The University has internationally renowned faculty that are known for being world leaders in research and currently employs approximately 5,900 faculty members on its three campuses. The University offers a diverse range of degree programs from baccalaureate to doctoral levels. Approximately 20,000 degrees are awarded annually. The operating budget for fiscal year 2014, from all fund sources, was approximately $5.63 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 2014 state appropriations (excluding capital) were $668 million, up from $667 million in fiscal year 2013. The overall budget utilized by the University increased by 3.9%, even though direct funding from the State of Illinois (State) increased by only 0.25%. 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 increased during the current year by $307 million.

(Continued)

Statement of Net Position

The Statement of Net Position presents the financial position of the University at the end of the fiscal year and includes all assets, deferred outflows of resources, and liabilities of the University using the accrual basis of accounting. The difference between total assets and deferred outflows of resources and total liabilities, net position, is one indicator of the current financial condition of the University. The changes in net position that occur over time indicate improvement or deterioration in the University's financial condition. Generally, assets and liabilities are reported at cost with the exception of investments and permanently endowed real estate and farms, which are reported at fair value. Capital assets are reported at historical cost less accumulated depreciation. Deferred outflows of resources represent the losses on debt refundings and the change in fair value of the swap agreements associated with the related bonds and certificates of participation (COPs). A summarized comparison of the University's assets, deferred outflows of resources, liabilities and net position at June 30, 2014 and 2013 is as follows:

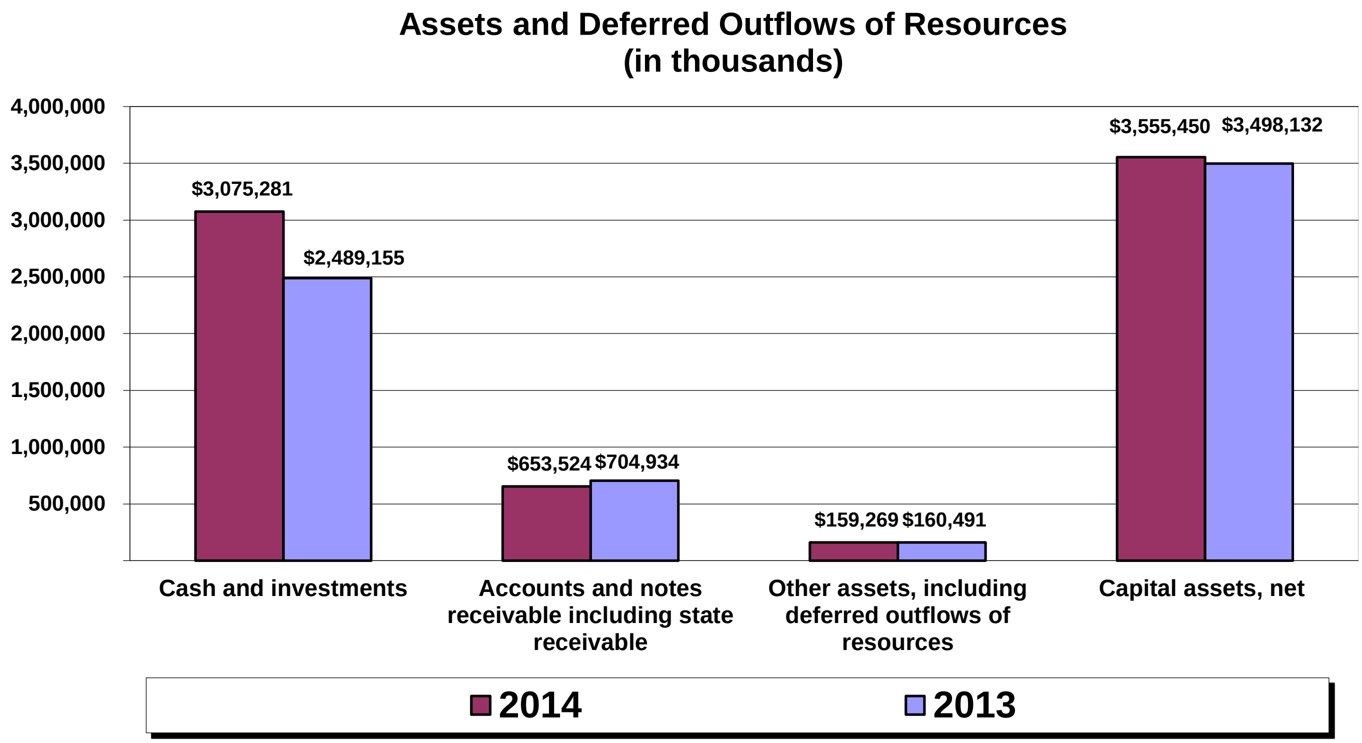
		2014	2013
		(In thousands)	
Current assets:			
Cash and investments	$	894,859	1,021,301
Accounts and notes receivable		453,621	488,080
Appropriations receivable from State of Illinois		145,887	164,398
Other current assets		94,099	88,497
Noncurrent assets:			
Cash and investments		2,180,422	1,467,854
Notes receivable		54,016	52,456
Capital assets, net of accumulated depreciation		3,555,450	3,498,132
Other assets		4,726	4,960
Deferred outflows of resources		60,444	67,034
Total assets and deferred outflows of resources	$	7,443,524	6,852,712
Current liabilities:			
Accounts payable, accrued liabilities and unearned revenue	$	650,029	609,439
Bonds payable		49,256	48,340
Leaseholds payable and other obligations		42,114	40,481
Accrued self-insurance		58,567	60,751
Other current liabilities		93,019	98,298
Noncurrent liabilities:			
Bonds payable		1,357,048	1,092,928
Leaseholds payable and other obligations		414,094	422,035
Accrued self-insurance		165,177	171,571
Accrued compensated absences		177,770	175,982
Derivative instruments – swap liability		23,719	27,265
Total liabilities		3,030,793	2,747,090
Net position		4,412,731	4,105,622
Total liabilities and net position	$	7,443,524	6,852,712

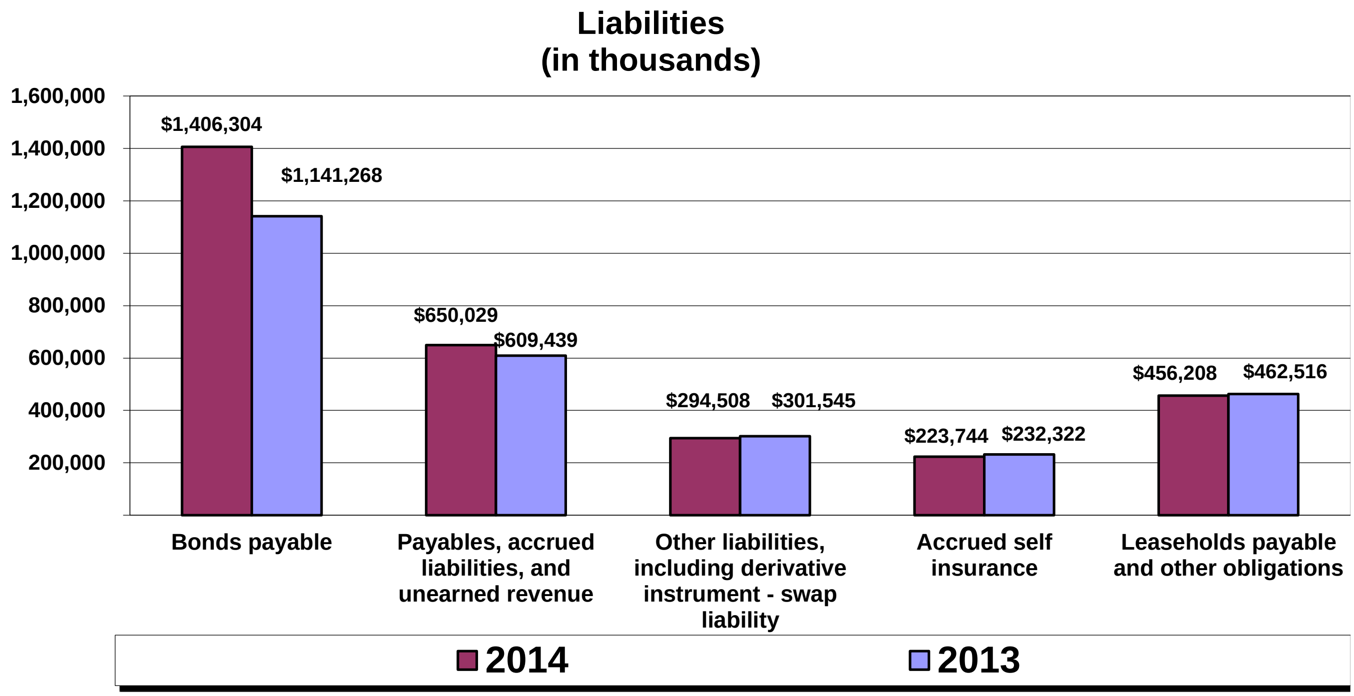
Total assets and deferred outflows of resources have increased by $591 million or 8.6% to $7.4 billion during fiscal year 2014. The primary drivers of this change were increases in cash and investments associated with tuition revenues and debt proceeds invested for future use, along with an increase in capital assets, partially offset by a reduction in sponsored research receivables and the State appropriation receivable.

(Continued)

Total liabilities increased $284 million, or 10.3% for fiscal year 2014. This change primarily resulted from an issuance of bonds payable associated with construction and improvements to facilities.

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





Capital Assets

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

Capital Assets, Net of Accumulated Depreciation
(In thousands)

	2014		2013	
Buildings	$ 2,353,141	66.2%	$ 2,296,560	65.7%
Improvements and infrastructure	303,772	8.5	309,189	8.8
Construction in progress	244,176	6.9	207,852	5.9
Land	135,822	3.8	135,822	3.9
Equipment and software	367,581	10.3	400,882	11.5
Collections	150,958	4.3	147,827	4.2
	$ 3,555,450	100.0%	$ 3,498,132	100.0%

Capital assets, net of accumulated depreciation, increased by $57 million in fiscal year 2014. 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, University of Illinois Hospital (hospital), State Farm Center, Ikenberry Commons and Mile Square Health Center.

(Continued)

Long-Term Debt

The University has historically utilized revenue bonds to finance capital projects related to the Auxiliary Facilities System (AFS), the Health Services Facilities System (HSFS) and the UIC South Campus project. These activities have the ability to generate resources from student fees, users and third parties to service the debt. In fiscal year 2014, the University issued AFS Revenue Bonds of $228 million to fund the State Farm Center renovation and addition project and the Stanley O. Ikenberry Commons – Residence Hall No. 3 project. Additionally, the University issued HSFS Revenue Bonds of $71 million to finance certain construction and renovation costs related to the HSFS. The following table details the various bonded debt outstanding at June 30, 2014 and 2013:

Bonds Payable
(In thousands)

		2014	2013
AFS	$	1,231,105	1,029,470
HSFS		122,544	54,190
UIC South Campus		52,655	57,608
	$	1,406,304	1,141,268

The University has issued COPs, which are reported as leaseholds payable on the financial statements. The COPs have funded projects such as UI Integrate, utility infrastructure, College of Medicine facilities, Petascale Computing Facility and deferred maintenance on medical, academic and research facilities. The outstanding balances of the COPs as of June 30, 2014 and 2013 were $372,934,000 and $406,992,000 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 $307 million during fiscal year 2014. Net position balances are detailed below:

Net Position
(In thousands)

		2014	2013
Net position:			
Net investment in capital assets	$	2,091,311	2,063,410
Restricted		789,661	725,784
Unrestricted		1,531,759	1,316,428
	$	4,412,731	4,105,622

The growth in net position largely resulted from increases in tuition, endowments and unexpended private gifts, along with favorable operating results in self-supporting activities, such as the hospital, auxiliaries and medical service plans. Spending controls and the timing of expenditures on grants also contributed to the growth in net position.

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, 2014 and 2013 is as follows:

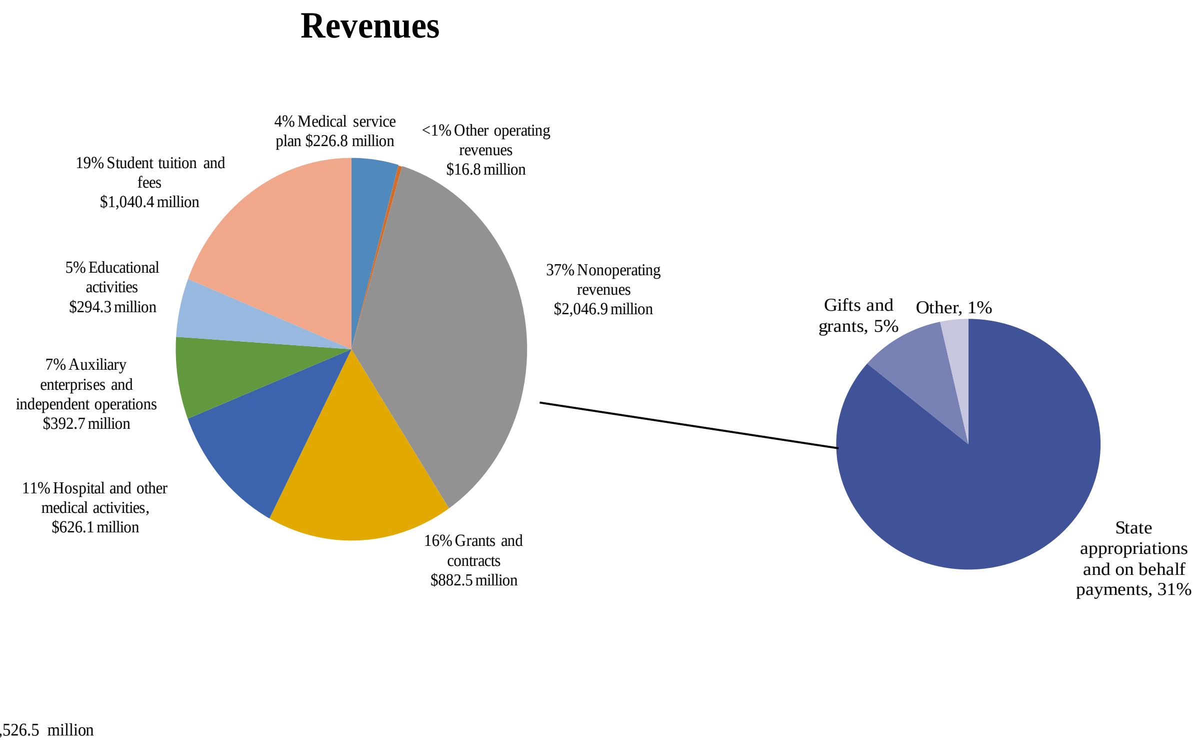
	2014	2013
	(In thousands)	
Operating revenues:		
Student tuition and fees	$ 1,040,399	989,502
Grants and contracts	882,467	935,638
Hospital and other medical activities	626,094	624,858
Auxiliary enterprises and independent operations	392,696	383,573
Educational activities	294,353	273,394
Medical service plan	226,781	236,668
Other	16,782	18,998
Total operating revenues	3,479,572	3,462,631
Operating expenses	5,287,635	5,169,574
Operating loss	(1,808,063)	(1,706,943)
Nonoperating revenues (expenses):		
State appropriations and on behalf payments	1,743,285	1,750,397
Transfer of state appropriation to the Hospital Services Fund	(45,000)	(45,000)
Private gifts	174,875	139,039
Grants, nonoperating	136,245	128,544
Investment income	37,458	68,005
Net increase in the fair value of investments	61,467	5,312
Other nonoperating expenses, net	(18,321)	(34,217)
Net nonoperating revenues	2,090,009	2,012,080
Capital state appropriations and capital gifts and grants	24,815	154,584
Endowment gifts	348	4,082
Increase in net position	307,109	463,803
Net position, beginning of year	4,105,622	3,651,209
Change in accounting principles (note 1(r))		(9,390)
Net position, end of year	$ 4,412,731	4,105,622

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.

(Continued)

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, 2014:



Operating and nonoperating revenues experienced a net increase of $23 million in fiscal year 2014. This increase included several significant components. Tuition and fee revenue increased by $51 million primarily due to a tuition increase approved by the Board of Trustees. Also, educational activities revenue increased by $21 million largely due to an increase in revenues from self-supporting activities associated with the College of Pharmacy. The increases noted above were partially offset by a decrease in grants and contracts revenue, which included declines in federal funding primarily caused by the expiration of stimulus programs and budget sequestration at the national level.

Expenses

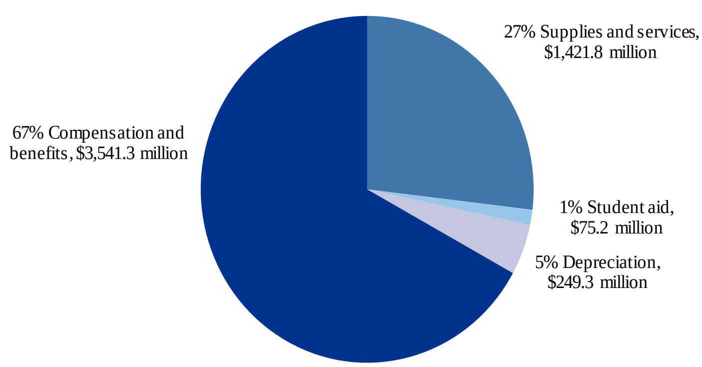
The majority of the University's expenses are exchange transactions, which GASB standards define as operating expenses. Nonoperating expenses include capital financing and other costs related to capital assets.

	2014		2013	
	(In thousands)			
Operating expenses:				
Instruction	$ 1,259,862	23.8%	$ 1,249,732	24.2%
Research	724,924	13.7	746,625	14.4
Public service	471,414	8.9	459,093	8.9
Support services	870,886	16.5	832,316	16.1
Hospital and medical activities	771,520	14.6	761,237	14.7
Auxiliary enterprises and independent operations	354,350	6.7	346,070	6.7
Scholarships and fellowships	270,036	5.1	260,658	5.0
Operation and maintenance of plant	315,393	6.0	282,287	5.5
Depreciation	249,250	4.7	231,556	4.5
Total operating expenses	$ 5,287,635	100.0%	$ 5,169,574	100.0%

The increase in operating expenses was $118 million, or 2.3%. Significant components of the rise in operating expenses from the prior fiscal year included increases in instruction and academic support functions to facilitate student and faculty achievement, along with increases in operation and maintenance of plant due to deferred maintenance projects. A rise in depreciation due to recently capitalized improvements to facilities also contributed to the growth in operating expenses.

The University chooses to report its expenses by functional classifications in the Statement of Revenues, Expenses and Changes in Net Position. For the reader's information, the expenses are displayed in their natural classifications in note 14. The following graph illustrates the $5,287.6 million of operating expenses by natural classification:

Operating Expenses



The University's Economic Outlook

The University continues to maintain its level of excellence in service to students, patients, the research community, the State and the nation. A critical element to the University's future continues to be a strong partnership with the State since state appropriations from the Governor and General Assembly provide essential operating support for University programs. The direct appropriation for fiscal year 2015, signed into law by the Governor, reflects a decrease of $1.2 million (0.2%) from the original budget appropriated in fiscal year 2014. While all major sources of funding for the University were strong in fiscal year 2014, cash flow issues that began in fiscal year 2010 continued to be an issue in fiscal year 2014, where the University ended the year with a receivable of $146 million from the State. The University expects cash flows from the State to continue to be a major concern due to the scheduled phasing out of the majority of the 2011 tax increase, beginning January 1, 2015.

The continuing pressures on funding employee pensions and health insurance benefits impacts the ability of the State to fund other areas of the State, including direct funding to public universities. The State appropriates funds for on-behalf payments for these benefits as related to University employees. State pension reform legislation passed in December 2013 that would decrease the State's pension costs is currently being reviewed by the courts and a ruling is not expected until 2015. The legislation included changes to retirement age, cost of living adjustments and the effective interest rate used in pension calculations.

Based on multiple factors (such as enrollment levels, student mix and tuition rates) the University projects an increase in tuition and miscellaneous departmental revenue in fiscal year 2015. The recommended fiscal year 2015 revenue budget represents a $33.8 million (3.2%) increase from fiscal year 2014, of which the largest component of the change relates to tuition income. Undergraduate students have a four-year tuition guarantee. The incremental tuition income for fiscal 2015 results from general tuition rate increases of $101 per semester at Urbana, $89 per semester at Chicago and $5.25 per credit hour at Springfield for the freshman cohort, and varying increases in the graduate and professional programs.

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 fiscal year 2015 sponsored project budget is an estimate of grant and contract awards for direct costs and represents a 2.8% budget-to-budget decline from fiscal year 2014. The funding provided for research programs at the federal level contributed to this trend.

The University experienced growth from a variety of funding sources during fiscal year 2014. 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, 2014
(with comparative totals for June 30, 2013)

(In thousands)

		University		University Related Organizations	
Assets and Deferred Outflows of Resources		**2014**	**2013**	**2014**	**2013**
Current assets:					
Cash and cash equivalents	$	536,691	580,765	6,838	12,576
Cash and cash equivalents, restricted		122,529	143,883	650	1,896
Investments		194,438	232,935	639	923
Investments, restricted		41,201	63,718		
Securities lending collateral		25,544	25,545		
Accrued investment income		5,787	4,991	1,804	789
Accounts receivable, net of allowance for uncollectible		444,479	478,819	18,014	11,963
Appropriations receivable from State of Illinois		145,887	164,398		
Pledges receivable, net of allowance				29,849	28,640
Notes receivable, net of allowance for uncollectible		9,142	9,261	75	59
Accrued interest on notes receivable		4,025	3,589		
Inventories		29,965	29,394	7	6
Prepaid expenses		25,830	23,140	1,021	1,852
Due from related organizations		2,948	1,838		
Total current assets		1,588,466	1,762,276	58,897	58,704
Noncurrent assets:					
Cash and cash equivalents, restricted		21,871	10,465	575	97
Investments		1,397,395	1,029,365	23,414	21,886
Investments, restricted		761,156	428,024	1,750,374	1,542,519
Pledges receivable, net of allowance				156,162	202,378
Notes receivable, net of allowance for uncollectible		54,016	52,456		
Capital assets, net of accumulated depreciation		3,555,450	3,498,132	12,551	10,995
Other assets		4,726	4,960	126	127
Total noncurrent assets		5,794,614	5,023,402	1,943,202	1,778,002
Deferred outflows of resources		60,444	67,034		
Total assets and deferred outflows of resources	$	7,443,524	6,852,712	2,002,099	1,836,706
Liabilities and Net Position					
Current liabilities:					
Accounts payable and accrued liabilities	$	323,016	301,063	17,464	19,235
Accrued payroll		160,334	149,379	162	494
Accrued compensated absences, current portion		21,404	24,277	1,213	1,276
Accrued self-insurance, current portion		58,567	60,751		
Unearned revenue and student deposits		166,679	158,997	206	548
Accrued interest payable		18,930	15,665		
Securities lending collateral		25,544	25,545		
Notes payable				2,057	3,378
Bonds payable, current portion		49,256	48,340		
Due to related organizations, current portion				2,948	1,838
Leaseholds payable and other obligations, current portion		42,114	40,481	6,931	6,461
Assets held for others		27,141	32,811	2,014	2,014
Total current liabilities		892,985	857,309	32,995	35,244
Noncurrent liabilities:					
Bonds payable		1,357,048	1,092,928		
Leaseholds payable and other obligations		414,094	422,035	50,707	48,088
Accrued compensated absences		177,770	175,982		
Accrued self-insurance		165,177	171,571		
Unearned distributions				124	116
Derivative instrument – swap liability		23,719	27,265		
Total noncurrent liabilities		2,137,808	1,889,781	50,831	48,204
Total liabilities		3,030,793	2,747,090	83,826	83,448
Net investment in capital assets		2,091,311	2,063,410	10,494	7,618
Restricted:					
Nonexpendable		110,960	89,597	914,043	888,875
Expendable		678,701	636,187	955,273	830,558
Unrestricted		1,531,759	1,316,428	38,463	26,207
Total net position		4,412,731	4,105,622	1,918,273	1,753,258
Total liabilities and net position	$	7,443,524	6,852,712	2,002,099	1,836,706

See accompanying notes to financial statements.

UNIVERSITY OF ILLINOIS

Statement of Revenues, Expenses and Changes in Net Position

Year ended June 30, 2014
(with comparative totals for the year ended June 30, 2013)

(In thousands)

	University		University Related Organizations	
	2014	2013	2014	2013
Operating revenues:				
Student tuition and fees, net	$ 1,040,399	989,502		
Federal appropriations	14,645	16,830		
Federal grants and contracts	654,637	692,225		
State of Illinois grants and contracts	86,306	92,836		
Private and other government agency grants and contracts	141,524	150,577	131,243	178,278
Educational activities	294,353	273,394		
Auxiliary enterprises, net	378,992	369,953		
Hospital and other medical activities, net	626,094	624,858		
Medical service plan	226,781	236,668		
Independent operations	13,704	13,620		
Interest and service charges on student loans	2,137	2,168		
Allocation from the University			15,025	14,124
Other sources			90,005	84,187
Total operating revenues	3,479,572	3,462,631	236,273	276,589
Operating expenses:				
Instruction	1,259,862	1,249,732		
Research	724,924	746,625		
Public service	471,414	459,093		
Academic support	451,948	421,200		
Student services	163,064	160,960		
Institutional support	255,874	250,156	120,419	104,435
Operation and maintenance of plant	315,393	282,287		
Scholarships and fellowships	270,036	260,658		
Auxiliary enterprises	341,780	333,648		
Hospital and medical activities	771,520	761,237		
Independent operations	12,570	12,422		
Depreciation	249,250	231,556	909	1,066
Distributions on behalf of the University			190,269	147,680
Total operating expenses	5,287,635	5,169,574	311,597	253,181
Operating (loss) income	(1,808,063)	(1,706,943)	(75,324)	23,408
Nonoperating revenues (expenses):				
State appropriations	668,372	666,731		
Transfer of state appropriations to the Illinois DHFS Hospital Services Fund	(45,000)	(45,000)		
Private gifts	174,875	139,039		
Grants, nonoperating	136,245	128,544		
On-behalf payments for fringe benefits	1,074,913	1,083,666		
Net investment income (net of investment expense of $3,936)	37,458	68,005	17,727	22,067
Net increase in the fair value of investments	61,467	5,312	197,381	143,829
Interest expense	(70,575)	(70,877)	(46)	(53)
Loss on disposal of capital assets	(7,093)	(4,783)		
Other nonoperating revenues (expenses), net	59,347	41,443	109	(20)
Net nonoperating revenues	2,090,009	2,012,080	215,171	165,823
Income before other revenues	281,946	305,137	139,847	189,231
Capital state appropriations	10,865	26,123		
Capital gifts and grants	13,950	128,461		
Private gifts for endowment purposes	348	4,082	25,168	122,205
Increase in net position	307,109	463,803	165,015	311,436
Net position, beginning of year	4,105,622	3,651,209	1,753,258	1,441,822
Cumulative effect of change in accounting principle		(9,390)		
Net position, beginning of year, as adjusted (note 1(r))	4,105,622	3,641,819	1,753,258	1,441,822
Net position, end of year	$ 4,412,731	4,105,622	1,918,273	1,753,258

See accompanying notes to financial statements.

UNIVERSITY OF ILLINOIS

Statement of Cash Flows

Year ended June 30, 2014
(with comparative totals for the year ended June 30, 2013)

(In thousands)

	University	
	2014	**2013**
Cash flows from operating activities:		
Student tuition and fees	$ 1,042,974	997,455
Federal appropriations	15,172	16,463
Federal, state, and local grants and contracts	759,390	805,904
Other governmental agencies and private grants and contracts	153,426	154,770
Sales and services of educational activities	300,009	263,987
Auxiliary activities and independent operations	393,917	383,944
Hospital and other medical activities	641,125	577,145
Medical service plan	217,499	239,267
Payments to employees and for benefits	(2,462,236)	(2,384,474)
Payments to suppliers	(1,449,045)	(1,402,871)
Payments for scholarships and fellowships	(74,436)	(72,276)
Student loans issued	(11,293)	(9,331)
Student loans collected	9,049	9,242
Student loan interest and fees collected	1,701	1,728
Net cash used in operating activities	(462,748)	(419,047)
Cash flows from noncapital financing activities:		
State appropriations	641,883	662,306
Gifts transferred from University of Illinois Foundation	174,875	139,039
Direct lending receipts	472,204	480,941
Direct lending payments	(471,900)	(481,541)
Grants, nonoperating	136,245	128,544
Private gifts for endowment purposes	348	4,082
Advances to related organizations, net	(1,111)	(413)
Other receipts	54,729	45,185
Other disbursements	(1,051)	(1,927)
Net cash provided by noncapital financing activities	1,006,222	976,216
Cash flows from capital and related financing activities:		
Proceeds from issuance of capital debt	305,919	248,900
Capital gifts and grants	11,553	126,306
Purchase of capital assets	(266,756)	(303,075)
Proceeds from issuance of Energy Services Agreements installment payable	32,600	
Principal payments on bonds, capital leases, and other obligations	(85,978)	(335,760)
Interest payments on bonds, capital leases, and other obligations	(66,908)	(68,783)
Payment of bond and installment payment contract issuance costs	(1,327)	(2,745)
Net cash used in capital and related financing activities	(70,897)	(335,157)
Cash flows from investing activities:		
Interest and dividends on investments, net	17,628	27,021
Proceeds from sales and maturities of investments	1,637,201	2,276,614
Purchase of investments	(2,181,428)	(2,600,011)
Net cash used in investing activities	(526,599)	(296,376)
Net decrease in cash and cash equivalents	(54,022)	(74,364)
Cash and cash equivalents, beginning of year	735,113	809,477
Cash and cash equivalents, end of year	$ 681,091	735,113

(Continued)

UNIVERSITY OF ILLINOIS

Statement of Cash Flows

Year ended June 30, 2014
(with comparative totals for the year ended June 30, 2013)

(In thousands)

		University	
		2014	2013
Reconciliation of operating loss to net cash used in operating activities:			
Operating loss	$	(1,808,063)	(1,706,943)
Adjustments to reconcile operating loss to net cash used in operating activities:			
On-behalf payments for fringe benefits expense		1,074,913	1,083,666
Depreciation expense		249,250	231,556
Changes in assets and liabilities:			
Accounts receivable, net		38,394	(33,868)
Notes receivable, net		(1,441)	463
Accrued interest on notes receivable		(436)	(440)
Inventories		(571)	3,087
Prepaid expenses		(5,817)	(309)
Accounts payable and accrued liabilities		(12,281)	11,157
Accrued payroll		10,955	4,207
Unearned revenue and student deposits		7,682	12,341
Accrued compensated absences		(1,085)	(793)
Accrued self-insurance		(8,578)	(13,388)
Assets held for others		(5,670)	(9,783)
Net cash used in operating activities	$	(462,748)	(419,047)
Noncash investing, capital, and financing activities:			
On-behalf payments for fringe benefits	$	1,074,913	1,083,666
State appropriation		45,000	45,000
Transfers to Illinois DHFS Hospital Services Fund		(45,000)	(45,000)
Net increase in fair value of investments		61,467	5,312
Gifts in kind – capital assets		4,988	2,819
Increase of capital asset obligations in accounts payable		15,677	5,549
Capital asset acquisitions by Capital Development Board		10,865	26,123
Capital asset acquisitions via leaseholds payable		2,717	3,908
Net interest capitalized		6,521	3,722
Other capital asset adjustments		3,010	(29)
Loss on disposal of capital assets		(7,093)	(4,783)
Capital appreciation on bonds payable		8,404	8,959
Capital assets placed in service subsequent to obligation incurrence		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 Administration, 400 Harker Hall, 1305 W. Green Street, Urbana, Illinois 61801.

The Alumni Association was formed to promote the general welfare of the University and to encourage and stimulate interest among students, former students and others in the University's programs. In this capacity, the Alumni Association offers memberships in the Alumni Association to former students, conducts various activities for students and alumni, and publishes periodicals for the benefit of alumni. Complete financial statements for the Alumni Association may be obtained by writing the Chief Financial Officer, Alice Campbell Alumni Center, 601 S. Lincoln Avenue, Urbana, Illinois 61801.

WWT was formed to provide practice management support services and operate as a billing/collection entity for healthcare activities under the laws of the State. Complete financial information may be obtained by writing the President and CEO, 200 W. Adams, Suite 225, Chicago, Illinois 60606.

Prairieland, a for-profit, wholly-owned corporation, was formed for the purpose of providing support for the University through delivery of comprehensive economical utility services to the University and other organizations. Complete financial information may be obtained by writing the Controller, 106 Town Center, Suite 304, Champaign, Illinois 61820.

Illinois Ventures, a for-profit, wholly-owned corporation, exists to facilitate the development of new companies commercializing technology originated or developed by faculty, staff and/or students of the University and other organizations. The University desires Illinois Ventures to foster technology commercialization and economic development in accordance with the teaching, research and public service missions of the University. Complete financial information may be obtained by writing the CEO and Managing Director, 2001 South First Street, Suite 201, Champaign, Illinois 61820.

Research Park, a for-profit, wholly-owned corporation, was formed to aid and assist the University and other organizations by establishing and operating a research park on the University's Urbana-Champaign campus. The Research Park was designed to promote the development of new companies, which commercialize University technologies. Complete financial information may be obtained by writing the University of Illinois Research Park, LLC, 60 Hazelwood Drive, Champaign, Illinois 61820.

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

The Foundation, Alumni Association, WWT, Prairieland, Illinois Ventures, Research Park and Singapore Research are related organizations as defined under *University Guidelines* adopted by the State of Illinois Legislative Audit Commission.

The University is a component unit of the State for financial reporting purposes. The financial balances and activities included in these financial statements are, therefore, also included in the State's comprehensive annual financial report.

Significant Accounting Policies

(a) Financial Statement Presentation and Basis of Accounting

University

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

Under the accrual basis, revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grant and contract revenues, which are received or receivable from external sources, are recognized as revenues to the extent of related expenses or satisfaction of eligibility requirements. Advances are classified as 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 2013 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, 2013. Due to the implementation of GASB Statement No. 65, as discussed in note 1(r), a restatement was made to the 2013 financial statement amounts. Specifically, the July 1, 2012 net position was restated to reflect the impact of writing off the unamortized debt issuance costs that were previously capitalized. Additionally, the

2013 Statement of Net Position was changed to reflect losses on refundings for the University's bonds and leaseholds payable as a deferred outflow of resources, as required by GASB Statement No. 65.

Certain other items in the June 30, 2013 comparative information have been reclassified to correspond to the June 30, 2014 financial statement presentation.

UROs

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

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

(b) Cash and Cash Equivalents

The 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 commercial paper and money market funds.

(c) Inventories

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

(d) Investments

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

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

(e) Endowments

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

University

The University utilizes the total return concept in allocating endowment income. The focus is to preserve the real value or purchasing power of endowment pool assets and the annual support the assets provide. Distributions are made from the University Endowment Fund to the University entities that benefit from the endowment funds. The endowment spending rule provides for an annual distribution of 4.0% of the two-quarter lagged, six-year moving average market value of fund units. At June 30, 2014, net appreciation of $109,531,000 was available to be spent, of which $84,886,000 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 $65,347,000 for fiscal year ended June 30, 2014.

(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.

With the adoption of GASB Statement No. 65 (Note 1(r)), 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.

Deferred Outflows of Resources
(In thousands)

		Beginning balance	Additions	Deductions	Change in fair value	Ending balance
Interest rate swap agreements	$	23,519	395		(3,544)	20,370
Unamortized deferred loss on refunding		43,515	—	3,441	—	40,074
Total deferred outflows of resources	$	67,034	395	3,441	(3,544)	60,444

(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, 2014, the University estimates that $98,529,000 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, 2014. 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 COPs 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 2014, $45,000,000 of State appropriations were transferred to the University of Illinois Hospital Services Fund, which is a special fund established in the State Treasury pursuant to the State Finance Act, 30 ILCS 105/6z-30. This fund is owned and operated by the Illinois Department of Healthcare and Family Services (DHFS) and this fund is not part of or a related organization of the University.

(l) Tuition, Scholarships and Fellowships

Scholarships and fellowships of $323,033,000 and $7,782,000 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 95% 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, 2014. 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, 2014, the contractual allowances totaled $1,301,916,000.

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 2014 was $20,101,000, a reduction of 5% from the prior year. The net cost of charity care is determined by the total charity care cost less any patient related revenue due to the sliding scale payments or other patient specific resources. Most of the patient specific resources came from the Center for Medicare & Medicaid Services 1011 program reimbursement.

(n) Classification of Expenses

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

(o) Employment Contracts

Employment contracts for certain academic personnel provide for twelve monthly salary payments, although the contracted services are rendered during a nine-month period. The liability for those employees who have completed their contracted services, but have not yet received final payment, was $58,567,000 at June 30, 2014 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 2015 rather than from the unrestricted net position available at June 30, 2014.

(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 $644,332,000 for the year ended June 30, 2014. 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 $430,581,000 for year ended June 30, 2014. On-behalf payments are reflected as nonoperating revenues. The corresponding on-behalf expense is reflected as an operating expense and is allocated by function.

(q) Use of Estimates

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

(r) New Accounting Pronouncements

The University adopted the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which was effective for periods beginning after December 15, 2012. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. In implementing this pronouncement, the University recorded an effect of a change in accounting principle to beginning of the year net position for fiscal year 2013 by ($9,390,000). A retroactive adjustment of ($9,390,000) represents the July 1, 2012 unamortized prepaid debt issuance costs that were being amortized over the term of the debt and are to be expensed as incurred in accordance with the provisions of GASB Statement No. 65.

Change in Beginning Balance of Net Position

(In thousands)

Net position, July 1, 2012, as previously reported	$	3,651,209
Cumulative effect of change in accounting principle		(9,390)
Net position, July 1, 2012, as adjusted	$	3,641,819

The University adopted the provisions of GASB Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62,* which was effective for periods beginning after December 15, 2012. This statement amends GASB Statement No. 10 by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. This statement also amends GASB Statement No. 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. Implementation of this pronouncement did not impact the University's financial statements.

(2) Cash, Cash Equivalents and Investments

The carrying amount of the University's cash totaled $195,900,000 at June 30, 2014. The June 30, 2014 total bank account balances for the University aggregated $213,538,000 of which $717,000 was not 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 $300,000 at June 30, 2014 and was covered by federal depository insurance.

Illinois statutes require a third-party custodian to perfect the University's security interest under repurchase agreements. The University follows industry standards and requires that securities underlying repurchase agreements must have a fair value of at least 102% of the cost of the repurchase agreement. At June 30, 2014, the University had repurchase agreements of $205,000 and the market value of securities underlying these repurchase agreements was $218,000 at June 30, 2014.

Illinois statutes govern the investment policies of the University. The Board develops University policy on investments and delegates the execution of those policies to its administrative agents. The University follows the State of Illinois UPMIFA and the State of Illinois Public Funds Investment Act when investing its funds. Allowable investments under these policies include:

- Obligations of the U.S. Treasury, other federal agencies and instrumentalities
- Interest-bearing savings accounts and time deposits of any bank as defined by the Illinois Banking Act
- Asset-backed securities
- Corporate bonds, stocks and equities
- Commercial paper
- Repurchase agreements
- Limited partnerships
- Mutual funds
- Hedge funds

Additionally, the University has real estate and farm properties held as investments by permanent and term endowments reported at fair value of $71,073,000. The fair value of the real estate and farm properties is determined by a periodic appraisal of the property by a certified real estate appraiser. Changes in fair value during the reporting period are reported as investment income. The University also has real estate and farm properties held as investments by quasi-endowments reported at $8,555,000, 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, 2014:

University Cash, Cash Equivalents and Investments

(In thousands)

U.S. Treasury bonds and bills	$	340,592
U.S. government agencies		342,258
Commercial paper		132,617
Corporate bonds		618,966
Bond mutual funds		99,034
Nongovernment mortgage-backed securities		95,030
Other asset-backed securities		229,290
Non-U.S. government bonds		38,492
Money market funds		457,664
Illinois public treasurer's investment pool		4,082
Subtotal before cash deposits, equities and other investments		2,358,025
U.S. equities		38,335
International equities		9
Equity mutual funds		309,937
Hedge funds		51,023
Limited partnerships		24,568
Repurchase agreements		205
Certificates of deposit		300
Real estate and farm properties		79,628
Real estate index funds		17,351
Cash deposits		195,900
Total	$	3,075,281

(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 Barclays 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 manager guidelines provide that the average weighted duration of the portfolio, including option positions, not vary from that of their respective performance benchmarks by more than +/-20%.

The University's debt securities and maturities at June 30, 2014 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	$ 340,592	46,470	261,054	30,254	2,814
U.S. government agencies	342,258	58,911	126,096	26,813	130,438
Commercial paper	132,617	132,617			
Corporate bonds	618,966	173,205	418,750	26,894	117
Bond mutual funds	99,034	99,034			
Nongovernment mortgage-backed securities	95,030		2,117		92,913
Other asset-backed securities	229,290	1,143	207,705	13,241	7,201
Non-U.S. government bonds	38,492	1,133	32,620	1,862	2,877
Money market funds	457,664	457,664			
Illinois public treasurer's investment pool	4,082	4,082			
Total	$ 2,358,025	974,259	1,048,342	99,064	236,360

At June 30, 2014, the University's operating funds pool portfolio had an effective duration of 1.5 years.

(b) Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The University's investment policy requires that operating funds be invested in fixed income securities and money market instruments. Fixed income securities shall be rated investment grade or better by one or more nationally recognized statistical rating organizations. Securities not covered by the investment grade standard are allowed if, in the manager's judgment, those instruments are of comparable credit quality. Securities that fall below the stated minimum credit requirements subsequent to initial purchase may be held at the manager's discretion. Per the University's investment policy, fixed-income securities shall be rated Baa or better by Moody's (BBB per Standard & Poor's) or equivalent.

At June 30, 2014, the University had debt securities and quality ratings as illustrated below:

University Investments Quality Ratings

(In thousands)

	Total	AAA	AA	A	BBB	BB	Less than BB or not rated
U.S. Treasury bonds and bills	$ 340,592		340,592				
U.S. government agencies	342,258		341,908				350
Commercial paper	132,617		39,876	92,741			
Corporate bonds	618,966	9,436	177,680	321,150	108,386		2,314
Bond mutual funds	99,034	95,805	2,692	292	224	8	13
Nongovernment mortgage-backed securities	95,030	78,338	12,133	2,694	1,012	615	238
Other asset-backed securities	229,290	219,342	5,660	3,579			709
Non-U.S. government bonds	38,492	11,468	17,999	6,691	1,208		1,126
Money market funds	457,664	424,787	32,877				
Illinois public treasurer's investment pool	4,082	4,082					
Total	$ 2,358,025	843,258	971,417	427,147	110,830	623	4,750

(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, 2014, 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. This diversification is achieved by employing multiple investment managers and by imposing 5% maximum position limits with the exception of U.S. treasury and agency securities for each manager.

As of June 30, 2014, not more than 5% of the University's total investments were invested in securities of any one issuer, excluding securities issued or guaranteed by the U.S. government, mutual funds and external investment pools or other pooled investments.

(e) Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The University's operating fund investments generally are not exposed to foreign currency risk. The University does not have an overarching policy related to foreign currency risk; however, under the investment manager's guidelines, the portfolio's foreign currency exposure may be unhedged or hedged back into U.S. dollars. Cross hedging is not permitted.

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

(f) Securities Lending

To enhance the return on investments, the Board has authorized participation in a securities lending program. Through its custodian bank, the University loans securities to independent third parties. Such loans are secured by collateral consisting of cash, cash equivalents or U.S. government securities and irrevocable bank letters of credit in an amount not less than 102% of the fair value of the securities loaned. Noncash collateral cannot be pledged or sold by the University unless the borrower defaults. Cash collateral is invested by the custodian bank in a short-term investment pool. As of June 30, 2014, the short-term investment pool has a weighted average maturity of 91 days. The University receives interest and dividends during the loan period as well as a fee from the custodian. Marking to market is performed every business day and the borrower is required to deliver additional collateral when necessary so that the total collateral held by the custodian will equal at least the fair value plus accrued interest of the borrowed securities. All security loans can be terminated on demand by either the University or the borrowers. The University's pro rata share of cash received as securities lending collateral was $25,544,000 at June 30, 2014, and is recorded as an asset and corresponding liability on the University's Statement of Net Position. As of June 30, 2014, $25,026,000 of the investments reported on the University's Statement of Net Position was on loan, secured by collateral with a fair value of $25,544,000. At June 30, 2014, the University has no credit risk exposure to borrowers because the amounts the University owes the borrowers exceed the amounts the borrowers owe the University.

(g) URO – Foundation Investments

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

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

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

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

If quoted market prices are not available, then the fair values are estimated by using pricing models, quoted prices of securities with similar characteristics and other valuation methodologies. Level 2 securities would include mortgage-backed agency securities, certain corporate securities, mutual funds of Level 1 securities where values are based on NAV provided by the investment manager, emerging market funds where the value is based on the NAV provided by the investment manager and other certain securities. These securities are valued primarily through a multidimensional relational model including standard inputs such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, offers, reference data and NAV provided by the investment manager.

In certain cases where there is limited activity or less transparency around inputs to the valuation, including alternative investments, securities are classified within Level 3 of the valuation hierarchy and may include equity and/or debt securities issued by private entities and certain corporate bonds. The Foundation's private equity, hedge and real estate investment funds do not have a readily determinable fair value. These funds are valued using the practical expedient.

Beneficial interest in trusts and trusts held by others: The values of the beneficial interest in trusts are derived from the underlying investments of the trusts. The value of those investments is determined in the same manner as investments described above. The 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 based on Foundation management's estimate of the trusts' expected performance is then present valued back to the date of the financial statements based on life expectancy factors published by the Internal Revenue Service.

There have been no changes in valuation techniques used for any assets measured at fair value during the year ended June 30, 2014.

The following table summarizes assets measured at fair value on a recurring basis as of June 30, 2014, 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, 2014

(In thousands)

		Fair value	Level 1	Level 2	Level 3
Assets:					
U.S. Treasury bonds and bills	$	60,410		60,410	
International government bonds		1,383		1,267	116
U.S. government agencies		35,306		35,306	
International government agencies		580		580	
Municipal bonds		3,209		3,209	
Corporate bonds and notes		96,247		96,247	
Commercial mortgage-backed securities		28,996		28,996	
Asset-backed securities		29,101		29,101	
Nongovernment backed collateralized mortgage obligation (CMOS)		2,682		2,682	
Other fixed income		2,664		2,664	
Common stock, domestic:					
Consumer goods		11,596	11,596		
Energy		3,883	3,883		
Financial services		9,361	8,355	1,006	
Healthcare		7,703	7,703		
Industrials		8,026	8,026		
Information technology		8,760	8,760		
Materials		6,400	6,400		
Telecommunications		180	180		
Utilities		877	877		
Common stock, foreign:					
Consumer goods		26,830	26,830		
Energy		4,181	4,181		
Financial services		16,960	16,960		
Health care		8,152	8,152		
Industrials		16,663	16,663		
Information technology		1,604	1,604		
Materials		3,501	3,501		
Pooled funds		17,773		17,773	
Subtotal forward	$	413,028	133,671	279,241	116

(Continued)

URO – Foundation Fair Value Measurements as of June 30, 2014 (Continued)

(In thousands)

		Fair value	Level 1	Level 2	Level 3
Subtotal forward	$	413,028	133,671	279,241	116
Hedged/alternative investments		488,582			488,582
Private equity		98,882			98,882
Real estate trusts and partnerships		34,129			34,129
Bond mutual funds:					
U.S. government		26,990	2,061	24,929	
Mortgages		20,397	1,267	19,130	
Corporate bonds and notes		11,003	525	10,478	
High yield		3,726	255	3,471	
Municipals		4,222	242	3,980	
Internationals		19,789	1,496	18,293	
Equity mutual funds:					
Small cap		755	523	232	
Mid cap		16,056	16,056		
Large cap		169,317	44,183	125,134	
International		155,680	13,011	142,669	
Money market mutual funds		137,913	137,913		
Other		3,635			3,635
Farms		61,267		61,267	
Beneficial interest in trusts		37,978			37,978
Trusts held by others		23,739			23,739
Cash surrender value of life insurance		6,281			6,281
Partnership interests		10,862		10,862	
Total investments	$	1,744,231	351,203	699,686	693,342

The investments above exclude $6,143,000 of real estate, which is carried at cost.

There were no transfers between Level 1 or 2 of the fair value hierarchy during the year ended June 30, 2014.

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, 2014
(In thousands)

	Beginning balance	Purchases	Sales (distributions)	Total gains or losses*	Net transfers in/out of Level 3	Ending balance
International government bonds	$ 1,093	1,297	(1,609)	(553)	(112)	116
Hedged/alternative assets	410,358	143,000	(123,676)	58,900		488,582
Private equity	102,759	4,560	(23,909)	15,472		98,882
Real estate trusts and partnerships	71,336	861	(45,088)	7,020		34,129
Other investments	2,953		(90)	772		3,635
Beneficial interest in trusts	32,082			5,896		37,978
Trusts held by others	20,042			3,697		23,739
Cash surrender value of life insurance	5,732			549		6,281
Asset-backed securities	137			2	(139)	
Nongovernment-backed CMOS	159		(21)	14	(152)	
Total	$ 646,651	149,718	(194,393)	91,769	(403)	693,342

*(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, 2014:

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)	$ 488,582		(A)	(A)
Private equity (B)	98,882	18,286	(B)	(B)
Real estate trusts and partnerships (B)	34,129	21,495	(B)	(B)
Large cap equity fund (C)	125,134		Daily	Trade Date Plus 1 – 3 Days
International equity fund (D)	142,669		Daily/30 days	Trade Date Plus 1 day – 30 Days
	$ 889,396	39,781		

(A) The partnerships in this category consist of funds that invest in multiple limited partnerships with various investment strategies and long and short positions in equity securities of companies within the USA and outside of the USA. These funds can be redeemed daily, monthly, quarterly or annually depending on the partnership agreement within redemption notice periods of 1 to 36 months. The fund values of these investments have been estimated using the NAV per share of the investments provided by the fund manager.

(B) The partnerships in this category consist of funds that invest in the following types of investments in the USA and outside of the USA: venture capital partnerships, buyout partnerships, mezzanine/subordinated debt partnerships, restructuring/distressed debt partnerships and special situation partnerships, and real estate. These investments cannot be redeemed during the life of the partnership, which can be up to 12 years; however, they can be transferred to another eligible investor. Distributions will be received as the underlying investments of the funds are liquidated over time. The fair value of this investment has been estimated using the NAV provided by the fund manager and an adjustment determined by management for the time period between the date of the last available NAV from the investment manager and June 30, 2014.

(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. The fair values of these investments have been estimated using the NAV per share of the investments provided by the fund manager.

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

All URO – Foundation investments are considered noncurrent assets.

(3) Accounts, Notes and Pledges Receivable

The University provides allowances for uncollectible accounts and notes receivable based upon management's best estimate considering type, age, collection history of receivables and any other factors as considered appropriate. Accounts and notes receivable are reported net of allowances at June 30, 2014.

The composition of accounts receivable and notes and pledges receivable at June 30, 2014 is summarized as follows:

University Accounts Receivable, Net of Allowance
(In thousands)

		Gross receivables	**Allowance for uncollectible**	**Net receivables**
Receivables from sponsoring agencies	$	169,306	(1,641)	167,665
Hospital and other medical activities		472,351	(344,347)	128,004
Student tuition and fees		35,602	(9,936)	25,666
Auxiliaries		15,222	(5,243)	9,979
Medical service plan		96,391	(34,879)	61,512
Educational activities		36,030	(7,583)	28,447
Other		29,774	(6,568)	23,206
Total	$	854,676	(410,197)	444,479

Notes and Pledges Receivable
(In thousands)

Student notes receivable – University:		
Student notes outstanding	$	66,563
Allowance for uncollectible loans		(3,405)
Total student notes receivable, net	$	63,158
Gift pledges receivable, URO – Foundation:	$	200,811
Less:		
Allowance for doubtful pledges		(11,887)
Present value discount		(2,924)
Total gift pledges outstanding, net	$	186,000

(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 $6,521,000 was capitalized during the year ended June 30, 2014.

Capital assets activity during the year ended June 30, 2014 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	207,852	212,700		(176,376)	244,176
Inexhaustible collections	21,809	671			22,480
Total nondepreciable capital assets	365,483	213,371	—	(176,376)	402,478
Depreciable capital assets:					
Buildings	3,706,292	266		150,122	3,856,680
Improvements and infrastructure	681,910			17,847	699,757
Equipment	1,209,697	70,646	(63,579)	5,643	1,222,407
Software	172,312			2,764	175,076
Exhaustible collections	575,894	29,378	(2,830)	—	602,442
Total depreciable capital assets	6,346,105	100,290	(66,409)	176,376	6,556,362
Less accumulated depreciation:					
Buildings	1,409,732	93,807			1,503,539
Improvements and infrastructure	372,721	23,264			395,985
Equipment	824,413	97,908	(59,279)		863,042
Software	156,714	10,146			166,860
Exhaustible collections	449,876	24,125	(37)		473,964
Total accumulated depreciation	3,213,456	249,250	(59,316)	—	3,403,390
Total net depreciable capital assets	3,132,649	(148,960)	(7,093)	176,376	3,152,972
Total	$ 3,498,132	64,411	(7,093)	—	3,555,450

(5) Accrued Self-Insurance and Loss Contingency

The University's accrued self-insurance liability of $223,744,000 at June 30, 2014 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, 2014. 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 $21,960,000 at June 30, 2014 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, 2014.

The accrued self-insurance liability includes $156,073,000 at June 30, 2014 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, 2014. 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)

		2014	2013
Balance, beginning of year	$	232,322	245,710
Claims incurred and changes in estimates		22,894	27,827
Claim payments and other deductions		(31,472)	(41,215)
Balance, end of year		223,744	232,322
Less current portion		(58,567)	(60,751)
Balance, end of year – noncurrent portion	$	165,177	171,571

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	$	200,259
Additions		18,498
Deductions		(19,583)
Balance, end of year		199,174
Less current portion		(21,404)
Balance, end of year – noncurrent portion	$	177,770

(7) Bonds Payable

On September 5, 2013, the University issued $70,785,000 of HSFS Revenue Bonds, Series 2013. Proceeds from the bonds will be used to finance the costs of certain construction, renovation and equipment purchases for the HSFS and to pay costs incidental to the issuance of the Series 2013 Bonds.

On February 19, 2014, the University issued $159,985,000 of AFS Revenue Bonds, Series 2014A; $17,845,000 of AFS, Series 2014B; and $50,000,000 of AFS, Series 2014C. Proceeds from the bonds are to be used to fund the State Farm Center renovation and addition project and the Stanley O. Ikenberry Commons – Residence Hall No. 3 project. Proceeds were also used to fund all costs incidental to the issuance of the Series 2014A, B, and C bonds.

Bonds Payable
(In thousands)

	Maturity dates	Beginning balance	Additions	Deductions	Ending balance	Current portion
AFS:						
Current interest bonds	2015 – 2044	$ 850,085	227,830	(21,905)	1,056,010	20,865
Capital appreciation bonds	2015 – 2030	169,980		(16,270)	153,710	17,730
HSFS	2015 – 2043	54,190	70,785	(3,005)	121,970	3,120
UIC South Campus	2015 – 2023	57,575		(4,950)	52,625	5,155
		1,131,830	298,615	(46,130)	1,384,315	46,870
Unaccreted appreciation		(50,174)	8,404		(41,770)	(918)
		1,081,656	307,019	(46,130)	1,342,545	45,952
Unamortized debt premium		59,612	7,304	(3,157)	63,759	3,304
Total		$ 1,141,268	314,323	(49,287)	1,406,304	49,256

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

Capital appreciation bonds of $153,710,000 outstanding at June 30, 2014 do not require current interest payments and have a net unappreciated value of $111,940,000. 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 $166,460,000 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 7.560%.

Variable Rate Bonds

Bond issues	Interest rate at June 30, 2014	Remarketing agent	Remarketing fee	Liquidity facility Bank	Liquidity facility Expiration	Liquidity facility Insured by	Liquidity fee
UIC South Campus, Series 2008	0.05%	JPMorgan Securities	0.075%	JPMorgan Chase	6/24/2015	Letter of Credit	0.525%
AFS, Series 2008	0.06	Loop Capital	0.075	JPMorgan Chase	5/19/2016	None	0.525
AFS, Series 2014C	0.10	Wells Fargo	0.080	Northern Trust	2/19/2019	Letter of Credit	0.350
HSFS, Series 1997B	0.05	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 $295,000 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, 2014, 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, 2014 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	$ 35,590,000	Nov 2008*	3.534%	68% of LIBOR**	$ (4,574,000)	Oct-2026	Loop	A/A2
UIC SC 2008	23,602,000	Feb 2006*	4.086	68% of LIBOR**	(3,042,000)	Jan-2022	Morgan Stanley	A-/Baa2
UIC SC 2008	23,178,000	Feb 2006*	4.092	68% of LIBOR**	(2,981,000)	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, 2014. 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 AFS	Net AFS revenue, student tuition and fees	$ 1,919,757	2044	7.31%
HSFS	Additions to HSFS and refunding	Net HSFS revenue, Medical Service Plan revenue net of bad debt expense, College of Medicine net tuition revenue	225,780	2043	2.71
UIC South Campus	South Campus Development Project[1] and refunding	Defined Tax Increment Financing District (TIF) revenue, student tuition and fees, and sales of certain land in the UIC South Campus project	62,695	2023	2.04
		Total future revenues pledged	$ 2,208,232		

[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, 2014 are as follows:

Debt Service Requirements

		Principal	Interest
		(In thousands)	
2015	$	46,870	56,061
2016		50,155	54,850
2017		54,275	53,468
2018		54,885	52,002
2019		55,650	50,404
2020 – 2024		295,390	222,018
2025 – 2029		264,045	163,166
2030 – 2034		248,170	103,932
2035 – 2039		160,560	49,741
2040 – 2044		154,315	18,275
Total	$	1,384,315	823,917

Using the actual rates of 0.05% (UIC South Campus, Series 2008) and 0.06% (HSFS, Series 2008), in effect as of June 30, 2014, 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
2015	$	4,610	23	1,819	6,452
2016		4,810	21	1,629	6,460
2017		5,370	19	1,426	6,815
2018		5,610	16	1,205	6,831
2019		5,855	13	975	6,843
2020 – 2022		20,525	21	1,367	21,913
Total	$	46,780	113	8,421	55,314

HSFS Revenue Bonds, Series 2008
Variable-Rate Debt Service Requirements
(In thousands)

	Variable-rate bonds		Interest rate	
	Principal	**Interest**	**swaps, net**	**Total**
2015	$ 2,220	22	1,184	3,426
2016	2,240	20	1,108	3,368
2017	2,365	19	1,028	3,412
2018	2,485	17	943	3,445
2019	2,520	16	857	3,393
2020 – 2024	14,160	56	2,872	17,088
2025 – 2027	9,895	12	456	10,363
Total	$ 35,885	162	8,448	44,495

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, 2014 consists of the following:

Advanced Refunded Bonds
(In thousands)

Series	**Outstanding at June 30, 2014**
AFS, Series 2005A	$ 54,950
AFS, Series 2006	160,460
Total	$ 215,410

(8) Leaseholds Payable and Other Obligations

Leaseholds payable and other obligations activity for the year ended June 30, 2014 consists of the following:

Leaseholds Payable and Other Obligations
(In thousands)

		Beginning balance	Additions	Deductions	Ending balance	Current portion
University:						
COPs	$	398,415		(32,690)	365,725	34,270
Unamortized debt premium		8,577		(1,368)	7,209	1,229
		406,992	—	(34,058)	372,934	35,499
Other capital leases		39,401	2,717	(5,569)	36,549	3,679
Energy services agreement installment payment contracts		15,770	32,600	(1,925)	46,445	2,880
Environmental remediation liability		353		(73)	280	56
Total University	$	462,516	35,317	(41,625)	456,208	42,114
URO – Foundation:						
Annuities payable	$	47,325	11,210	(6,461)	52,074	6,931
Other liabilities		7,224		(1,660)	5,564	
Total URO – Foundation	$	54,549	11,210	(8,121)	57,638	6,931

The University leases various plant facilities and equipment under capital leases. This includes assets obtained with COPs proceeds and recorded as capital leases, as well as, other capital lease agreements funded through operations.

Included in leaseholds payable is $110,750,000 of variable-rate demand COPs. These COPs mature serially through August 2021. These 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 certificates bear interest at fixed rates ranging from 4.00% to 5.25%.

Variable Rate COPs

COP issue	Interest rate at June 30, 2014	Remarketing agent	Remarketing fee	Liquidity facility: Bank	Liquidity facility: Expiration	Liquidity facility: Insured by	Liquidity fee
COP 2004	0.08%	Morgan Stanley	0.10%	Bank of New York Mellon	8/31/2015	None	0.55%

(a) Interest Rate Swap Agreement on COPs

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, 2014, 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, 2014 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	$ 110,750,000	March 2004	3.765%	100% of SIFMA	$ (13,122,000)	August 2021	Morgan Stanley	A-/Baa2

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, 2014. 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 0.08% in effect as of June 30, 2014, 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 COPs, Series 2004
Variable-Rate Debt Service Requirements
(In thousands)

		Variable-rate certificates		Interest rate	
		Principal	**Interest**	**swaps, net**	**Total**
2015	$	7,710	89	3,936	11,735
2016		8,015	82	3,646	11,743
2017		8,345	76	3,345	11,766
2018		15,990	69	2,893	18,952
2019		16,635	57	2,292	18,984
2020-2022		54,055	87	3,019	57,161
Total	$	110,750	460	19,131	130,341

(b) Capital Leases (includes COPs)

Assets held under capital leases are included in capital assets at June 30, 2014 as follows:

Assets Held Under Capital Lease
(In thousands)

Land	$	8,423
Buildings		163,133
Improvements		263,386
Equipment		149,943
Subtotal		584,885
Less accumulated depreciation		293,139
Total	$	291,746

The net present value of outstanding capital leases at June 30, 2014 is as follows:

Outstanding Capital Leases
(In thousands)

COPs:		
Series 2003 UI Integrate	$	13,435
Series 2003 Utility Infrastructure		20,110
Series 2004 Utility Infrastructure		110,750
Series 2005 College of Medicine		13,590
Series 2006A Academic Facilities		57,430
Series 2007A		71,855
Series 2007B		45,645
Series 2009A		32,910
Other capital leases		36,549
Net present value	$	402,274

As of June 30, 2014, future minimum lease payments under capital leases are as follows:

Future Minimum Lease Payments Under Capital Leases
(In thousands)

2015	$	55,483
2016		49,957
2017		49,180
2018		48,212
2019		47,142
2020 – 2024		196,023
2025 – 2029		73,411
Total minimum lease payments		519,408
Amount representing interest		(117,134)
Net present value	$	402,274

(c) 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, 2014, future minimum lease payments under installment payment contracts are as follows:

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

2015	$	4,215
2016		4,215
2017		4,215
2018		4,215
2019		4,215
2020 – 2024		21,078
2025 – 2029		14,339
Total minimum lease payments		56,492
Amount representing interest		(10,047)
Net present value	$	46,445

The University monitors environmental matters and records an estimated liability for identified environmental remediation costs. The estimated liability at June 30, 2014 is $280,000.

At June 30, 2014, the URO – Foundation had annuities payable outstanding of $52,074,000. Annuities payable represent an actuarial computation of the present value of future payments to annuitants.

(d) Operating Leases

The University also leases various buildings and equipment under operating lease agreements. Total rental expense under these agreements was $12,914,000 for the year ended June 30, 2014. The future minimum lease payments (excluding those leases renewed on an annual basis) are as follows:

Future Minimum Operating Lease Payments
(In thousands)

2015	$	9,967
2016		6,109
2017		3,822
2018		2,411
2019		1,061
2020 – 2022		440
Total	$	23,810

(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 designations of unrestricted funds.

University Net Position

(In thousands)

Net investment in capital assets	$	2,091,311
Restricted – nonexpendable:		
Invested in perpetuity to produce income expendable for – scholarships, fellowships and research		110,960
Restricted – expendable for:		
Scholarships, fellowships and research		385,013
Loans		80,682
Service plans		153,644
Retirement of indebtedness		50,132
Capital projects		9,230
Unrestricted:		
Designated		1,531,759
Undesignated		
Total	$	4,412,731

URO – Foundation Net Position

(In thousands)

Net investment in capital assets	$	8,175
Restricted – nonexpendable:		
Invested in perpetuity to produce income expendable for academic programs, scholarships, fellowships and research		914,043
Restricted – expendable for:		
Academic programs, scholarships, fellowships and research		955,273
Unrestricted		10,570
Total	$	1,888,061

(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, 2014 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	$	49,452	61,717
Income received from funds held in trust by others		1,333	1,212

(11) State Universities Retirement System

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

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

Plan members are required to contribute 8.0% of their annual covered salary and substantially all employer contributions are made by the State on behalf of the individual employers at an actuarially determined rate. The current rate is 35.80% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the Illinois General Assembly. The employer's contributions to SURS for the years ended June 30, 2014, 2013 and 2012 were $678,531,000, $622,664,000, and $439,316,000, respectively, equal to the required contributions for each year.

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

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

(12) Postemployment Benefits

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

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

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

Annuitants may be required to contribute toward health, dental, and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State or a university, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed healthcare plan. For fiscal year 2014, the annual cost of health, dental, and vision benefits before the State’s contribution was $8,869 ($4,543 if Medicare eligible) if the annuitant chose benefits provided by a health maintenance organization (HMO) and $11,536 ($4,421 if Medicare eligible) if the annuitant chose other benefits. Additional contributions by annuitants for dependents ranging from $1,152 to $3,546 ($900 to $2,538 if Medicare eligible) are also required depending on the benefits selected and whether there is one or multiple dependents.

For current employees, contributions are dependent upon annual salary and whether or not the employee chooses to receive benefits through an HMO. Current employee contribution amounts to the plan for fiscal year 2014 are shown as follows:

Annual Employee Health, Dental, and Vision Contribution Requirements

		Benefits provided through	
		HMO	**Others**
Employee annual salary:			
$30,200 and below	$	948	1,248
$30,201 – $45,600		1,164	1,464
$45,601 – $60,700		1,368	1,656
$60,701 – $75,900		1,560	1,860
$75,901 – $100,000		1,776	2,076
$100,001 and above		2,364	2,664

Additional contributions by employees for dependents ranging from $1,152 to $3,546 ($900 to $2,538 if Medicare eligible) are also required depending on the benefits selected and whether there is one or multiple dependents.

(13) Commitments and Contingencies

At June 30, 2014, the University had commitments on various construction projects and contracts for repairs and renovation of facilities of $298,937,000.

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

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

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

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

The University's hospital and clinics are involved in regulatory audits arising in the normal course of business. On June 8, 2007, a notice was received from the Office of Inspector General (OIG) on behalf of the DHFS indicating that the University received an overpayment of $14,800,000 on behalf of Medicaid patients covering the period May 2004 through April 2006. University management is in the process of contesting this overpayment and estimates the University's probable liability related to this overpayment is $5,000,000 based on additional documentation received from DHFS subsequent to the original notice.

During fiscal year 2010, the University submitted additional documentation and evidence of its positions. As of September 29, 2011, the OIG, on behalf of the DHFS, contacted the University to request its settlement offer to resolve the audit. The University intends to pursue settlement discussion with OIG and DHFS 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, 2014 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	$ 1,141,748	112,924	5,190		1,259,862
Research	468,083	253,720	3,121		724,924
Public service	293,014	176,331	2,069		471,414
Academic support	324,398	121,597	5,953		451,948
Student services	122,803	37,871	2,390		163,064
Institutional support	245,342	10,516	16		255,874
Operations and maintenance of plant	59,611	249,069	6,713		315,393
Scholarships and fellowships	234,711	2,344	32,981		270,036
Auxiliary enterprises	158,311	166,665	16,804		341,780
Hospital and medical activities	491,551	279,969			771,520
Independent operations	1,777	10,793			12,570
Depreciation				249,250	249,250
Total	$ 3,541,349	1,421,799	75,237	249,250	5,287,635

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

	Distributions on behalf of the University	Institutional support	Depreciation	Total
Fund-raising	$	13,895		13,895
Distributions on behalf of the University	186,862			186,862
General and administrative		15,012		15,012
Actuarial adjustments		5,167		5,167
Depreciation			512	512
Total	$ 186,862	34,074	512	221,448

(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 AFS comprises University owned housing units, student unions, recreation and athletic facilities, and similar auxiliary service units, including parking. The HSFS comprises the University of Illinois Hospital and associated clinical facilities providing patient care.

Condensed Statements of Net Position

June 30, 2014

(In thousands)

		AFS	HSFS	Total
Assets and deferred outflows of resources:				
Current assets	$	186,657	294,412	481,069
Noncurrent assets:				
Capital assets, net of accumulated depreciation		1,009,217	186,123	1,195,340
Other noncurrent assets		248,447	53,607	302,054
Deferred outflows of resources		27,653	6,687	34,340
Total assets and deferred outflows of resources	$	1,471,974	540,829	2,012,803
Liabilities:				
Current liabilities	$	99,327	88,834	188,161
Noncurrent liabilities:				
Long-term debt		1,190,188	124,844	1,315,032
Other liabilities		13,988	24,822	38,810
Total liabilities		1,303,503	238,500	1,542,003
Net position:				
Net investment in capital assets		10,952	101,159	112,111
Restricted:				
Expendable		25,493	10,695	36,188
Unrestricted		132,026	190,475	322,501
Total net position		168,471	302,329	470,800
Total liabilities and net position	$	1,471,974	540,829	2,012,803

Condensed Statement of Revenues, Expenses and Changes in Net Position

Year ended June 30, 2014

(In thousands)

		AFS	HSFS	Total
Operating revenues	$	334,535	604,918	939,453
Operating expenses		293,105	772,038	1,065,143
Depreciation expense		32,581	17,895	50,476
Operating income (loss)		8,849	(185,015)	(176,166)
Nonoperating (expenses) revenues, net		(167)	199,666	199,499
Increase in net position		8,682	14,651	23,333
Net position, beginning of year		159,789	287,678	447,467
Net position, end of year	$	168,471	302,329	470,800

Condensed Statement of Cash Flows

Year ended June 30, 2014

(In thousands)

Net cash flows provided by operating activities	$	87,519	33,296	120,815
Net cash flows (used in) provided by noncapital financing activities		(38)	76	38
Net cash flows provided by capital and related financing activities		110,671	33,153	143,824
Net cash flows used in investing activities		(193,032)	(37,059)	(230,091)
Net increase in cash and cash equivalents		5,120	29,466	34,586
Cash and cash equivalents, beginning of year		188,503	145,916	334,419
Cash and cash equivalents, end of year	$	193,623	175,382	369,005

(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, 2014

(In thousands)

	Foundation	Alumni Association	WWT	Illinois Ventures
Assets:				
Current assets	$ 43,142	1,410	426	1,620
Noncurrent assets:				
Capital assets, net of accumulated depreciation	10,232	571	115	7
Other noncurrent assets	1,907,173	17,983		5,495
Total assets	$ 1,960,547	19,964	541	7,122
Liabilities:				
Current liabilities	$ 21,664	735	644	172
Due to related organizations				
Noncurrent liabilities:				
Other noncurrent liabilities	50,822	9		
Total liabilities	72,486	744	644	172
Net position:				
Net investment in capital assets	8,175	571	115	7
Restricted:				
Nonexpendable	914,043			
Expendable	955,273			
Unrestricted	10,570	18,649	(218)	6,943
Total net position	1,888,061	19,220	(103)	6,950
Total liabilities and net position	$ 1,960,547	19,964	541	7,122

Condensed Statements of Revenues, Expenses and Changes in Net Position

Year ended June 30, 2014

(In thousands)

	Foundation	Alumni Association	WWT	Illinois Ventures
Operating revenues	$ 147,668	6,995	10,184	2,283
Operating expenses	220,936	8,646	10,138	1,978
Depreciation expense	512	31	85	4
Operating income (loss)	(73,780)	(1,682)	(39)	301
Nonoperating revenues (expenses)	212,664	3,147		(735)
Contributions to endowments	25,168			
Increase (decrease) in net position	164,052	1,465	(39)	(434)
Net position, beginning of year	1,724,009	17,755	(64)	7,384
Net position, end of year	$ 1,888,061	19,220	(103)	6,950

Condensed Statements of Net Position

June 30, 2014
(In thousands)

		Research Park	Prairieland	Singapore Research	Total
Assets:					
Current assets	$	555	7,897	3,847	58,897
Noncurrent assets:					
Capital assets, net of accumulated depreciation		1,488	39	99	12,551
Other noncurrent assets					1,930,651
Total assets	$	2,043	7,936	3,946	2,002,099
Liabilities:					
Current liabilities	$	108	5,974	750	30,047
Due to related organizations				2,948	2,948
Noncurrent liabilities:					
Other noncurrent liabilities					50,831
Total liabilities		108	5,974	3,698	83,826
Net position:					
Net investment in capital assets		1,488	39	99	10,494
Restricted:					
Nonexpendable					914,043
Expendable					955,273
Unrestricted		447	1,923	149	38,463
Total net position		1,935	1,962	248	1,918,273
Total liabilities and net position	$	2,043	7,936	3,946	2,002,099

Condensed Statements of Revenues, Expenses and Changes in Net Position

Year ended June 30, 2014
(In thousands)

		Research Park	Prairieland	Singapore Research	Total
Operating revenues	$	502	57,544	11,097	236,273
Operating expenses		519	57,433	11,038	310,688
Depreciation expense		76	13	188	909
Operating income (loss)		(93)	98	(129)	(75,324)
Nonoperating revenues (expenses)			1	94	215,171
Contributions to endowments					25,168
Increase (decrease) in net position		(93)	99	(35)	165,015
Net position, beginning of year		2,028	1,863	283	1,753,258
Net position, end of year	$	1,935	1,962	248	1,918,273

(17) Subsequent Events

Based on preliminary offering documents, the University anticipates issuing $65,255,000 of refunding certificates of participation with a planned closing date in late December 2014. The proceeds from this issuance are expected to partially refund the outstanding balances of various existing certificates of participation.