UNIVERSITY OF ILLINOIS

Annual Financial Report

June 30, 2016

(With Independent Auditors' Report Thereon)

UNIVERSITY OF ILLINOIS

Annual Financial Report

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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

February 1, 2017

The information in this Annual Financial Report of the University of Illinois, for the fiscal year ended June 30, 2016, documents that the financial position of the University remains sound.

The ongoing economic challenges, including a significant reduction in appropriations from the State of Illinois, 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

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INDEPENDENT AUDITORS' REPORT

Honorable Frank J. Mautino
Auditor General, State of Illinois
and Board of Trustees
University of Illinois

Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of University of Illinois (the University), collectively a component unit of the State of Illinois, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the University's aggregate discretely presented component units (the University Related Organizations), as described in Note 1 of the financial statements. Those statements were audited by other auditors whose reports thereon have been provided to us, and our opinion on the financial statements, insofar as it relates to the amounts included for the University Related Organizations, is based solely on the reports of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

The financial statements of The University of Illinois Alumni Association; Wolcott, Wood, and Taylor, Inc.; Prairieland Energy, Inc.; Illinois Ventures, LLC; The University of Illinois Research Park, LLC, and UI Singapore Research, LLC (all discretely presented component units) were not audited in accordance with Government Auditing Standards.

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

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

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of University of Illinois and its aggregate discretely presented component units as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

During fiscal year ended June 30, 2016, the University adopted GASB Statement No. 72, Fair Value Measurement and Application. As a result of the implementation of this standard, the University reported a restatement for the change in accounting principle. See Note 1(s). Our auditors' opinion was not modified with respect to the restatement.

Additionally, as discussed in Note 17 to the financial statements, Public Act 099-0524 granted the University Fiscal Year 2017 appropriations, totaling $355,815,000, which the University has used to pay Fiscal Year 2016 costs as allowed for by Public Act 099-0524. Even though this law was enacted on June 30, 2016, the University did not recognize this nonoperating appropriations revenue from the State of Illinois at June 30, 2016. 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' 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 23, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Honorable Frank J. Mautino
Auditor General, State of Illinois
and Board of Trustees
University of Illinois

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued under separate cover our report dated February 1, 2017, on our consideration of 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering University of Illinois's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Peoria, Illinois
February 1, 2017

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, 2016. 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, with three primary locations – 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 currently enrolls approximately 80,300 students. The University has internationally renowned faculty that are known for being world leaders in research and currently employs approximately 6,000 faculty members. The University offers a diverse range of degree programs from baccalaureate to doctoral levels. Approximately 20,900 degrees are awarded annually. 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

In fiscal year 2016, state appropriations (excluding capital) were $182 million, down from $653 million in fiscal year 2015. The University experienced a decrease in net position of $240 million, which largely resulted from the reduced state appropriations. The University relied on other diverse sources of funding, including reserves, to provide services to University students and support the University mission.

Net position represents the residual interest in the University's assets and deferred outflows of resources after liabilities and deferred inflows of resources.

Statement of Net Position

The Statement of Net Position presents the financial position of the University at the end of the fiscal year and includes all assets, deferred outflows of resources, and liabilities of the University using the accrual basis of accounting. As of June 30, 2016 and 2015, the University had no deferred inflows of resources. Net position is one indicator of the current financial condition of the University. The changes in net position that occur over time indicate improvement or deterioration in the University's financial condition. Generally, assets and liabilities are reported at cost with the exception of investments, which are reported at fair value. Capital assets are reported at historical cost less accumulated depreciation. Deferred outflows of resources represent the losses on debt refundings, the change in fair value of the swap agreements associated with the related bonds and certificates of participation (COPs) and the fiscal year 2016 employer pension contributions. A summarized comparison of the University's assets, deferred outflows of resources, liabilities and net position at June 30, 2016 and 2015 is as follows:

		2016	2015
		(In thousands)	
Current assets:			
Cash and investments	$	876,476	1,011,815
Accounts and notes receivable		525,112	467,114
Appropriations receivable from State of Illinois		1,537	118,126
Other current assets		81,324	72,160
Noncurrent assets:			
Cash and investments		1,813,963	2,046,030
Notes receivable		51,504	54,303
Capital assets, net of accumulated depreciation		3,711,559	3,643,175
Other assets		5,515	4,095
Deferred outflows of resources		99,473	107,518
Total assets and deferred outflows of resources	$	7,166,463	7,524,336
Current liabilities:			
Accounts payable, accrued liabilities and unearned revenue	$	698,838	711,417
Bonds payable		57,849	60,097
Leaseholds payable and other obligations		38,816	36,091
Accrued self-insurance		49,086	53,766
Other current liabilities		65,787	66,210
Noncurrent liabilities:			
Bonds payable		1,283,023	1,317,116
Leaseholds payable and other obligations		285,169	323,638
Accrued self-insurance		170,148	190,193
Accrued compensated absences		176,896	183,243
Derivative instruments – swap liability		18,970	20,604
Total liabilities		2,844,582	2,962,375
Net position		4,321,881	4,561,961
Total liabilities and net position	$	7,166,463	7,524,336

Total assets and deferred outflows of resources decreased by $358 million or 4.8% to $7.2 billion during fiscal year 2016. The largest components of this change resulted from the significant decrease in appropriations from the State of Illinois.

Total liabilities decreased $118 million, or 4.0% for fiscal year 2016. This change primarily resulted from a decrease in accrued liabilities due to timing of payrolls, a decrease in accrued self-insurance and a decrease in long term debt as explained in the next section.

Capital Assets and Long-Term Debt

The University's policy requires the capitalization of equipment at $5,000, software and other intangibles at $100,000, buildings and improvements at $100,000, infrastructure at $1,000,000 and all land and collection purchases regardless of cost. The University depreciates 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)

	2016		2015	
Buildings	$ 2,449,116	66.0%	$ 2,434,398	66.8%
Improvements and infrastructure	282,352	7.6	282,951	7.8
Construction in progress	400,531	10.8	303,682	8.3
Land	135,822	3.6	135,822	3.7
Equipment and software	307,249	8.3	338,217	9.3
Collections	136,489	3.7	148,105	4.1
	$ 3,711,559	100.0%	$ 3,643,175	100.0%

Capital assets, net of accumulated depreciation, increased by $68 million in fiscal year 2016. This increase included current year additions to 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 progress and buildings placed in service included the Center for Veterans in Higher Education building and Wassaja Hall, along with improvements to the University of Illinois Hospital (Hospital), State Farm Center and Willard Airport.

The University has historically utilized revenue bonds to finance capital projects related to the Auxiliary Facilities System (AFS), the Health Services Facilities System (HSFS) and the University of Illinois – Chicago (UIC) South Campus project. In fiscal year 2016, the University issued AFS Revenue Bonds of $150 million to partially refund the AFS Revenue Bonds, Series 2006A and to construct a new student union at the University of Illinois at Springfield. The following table details the various bonded debt outstanding at June 30, 2016 and 2015:

Bonds Payable
(In thousands)

	2016	2015
AFS	$ 1,182,615	1,210,313
HSFS	116,144	119,404
UIC South Campus	42,113	47,496
	$ 1,340,872	1,377,213

The University has issued COPs, which are reported as leaseholds payable in the financial statements. The outstanding COPs have funded projects such as utility infrastructure, College of Medicine facilities and deferred maintenance on medical, academic and research facilities. The reduction in the outstanding balance of the COPs was due to scheduled redemptions. The outstanding balances of the COPs as of June 30, 2016 and 2015 were $253,155,000 and $282,526,000 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 decreased by $240 million during fiscal year 2016. Net position balances are detailed below:

Net Position
(In thousands)

	2016	2015
Net position:		
Net investment in capital assets	$ 2,248,166	2,185,442
Restricted	734,177	759,078
Unrestricted	1,339,538	1,617,441
	$ 4,321,881	4,561,961

The decrease in net position primarily resulted from reduced appropriations from the State of Illinois.

Statement of Revenues, Expenses and Changes in Net Position

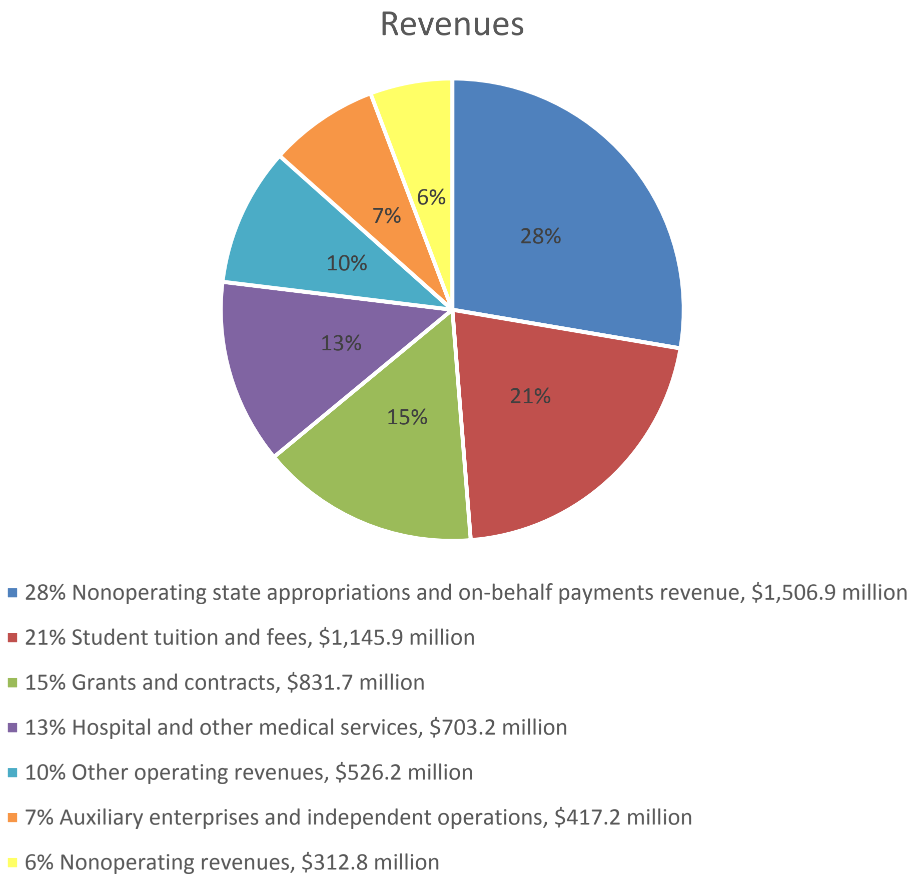
The Statement of Revenues, Expenses and Changes in Net Position presents the University's results of operations. In accordance with GASB reporting standards, revenues and expenses are classified as either operating or nonoperating. A summarized comparison of the University's Statement of Revenues, Expenses and Changes in Net Position for the years ended June 30, 2016 and 2015 is as follows:

		2016	2015
		(In thousands)	
Operating revenues:			
Student tuition and fees	$	1,145,945	1,095,905
Grants and contracts		831,651	855,096
Hospital and other medical activities		703,177	684,000
Auxiliary enterprises and independent operations		417,222	420,429
Educational activities		302,581	293,743
Medical service plan		206,513	198,495
Other		17,115	16,442
Total operating revenues		3,624,204	3,564,110
Operating expenses		5,702,494	5,560,527
Operating loss		(2,078,290)	(1,996,417)
Nonoperating revenues (expenses):			
State appropriations and on behalf payments		1,517,993	1,825,482
Transfer of state appropriation to the Illinois Hospital Services Fund		(11,105)	(43,988)
Private gifts		158,913	177,195
Grants, nonoperating		111,067	134,910
Investment income		42,863	69,462
Net decrease in the fair value of investments		(22,439)	(39,044)
Other nonoperating expenses, net		(7,157)	(24,295)
Net nonoperating revenues		1,790,135	2,099,722
Capital state appropriations and capital gifts and grants		12,185	11,724
Endowment gifts		4	1
(Decrease) increase in net position		(275,966)	115,030
Net position, beginning of year		4,561,961	4,412,731
Change in accounting principles		35,886	34,200
Net position, end of year	$	4,321,881	4,561,961

Revenues

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

The following graph illustrates the revenues by source (both operating and certain nonoperating), which were used to fund the University's operating activities for the year ended June 30, 2016:



Operating and nonoperating revenues experienced a net decrease of $283 million in fiscal year 2016. This decrease included several significant components. State appropriations decreased by $472 million due to the State issuing a stop-gap budget resulting in the University receiving significantly less state appropriations in the fiscal year compared to prior fiscal years. This decrease was partially offset by increases of $164 million for on-behalf payments by the State for employee benefits and $50 million for tuition and fee revenues which included increased enrollments.

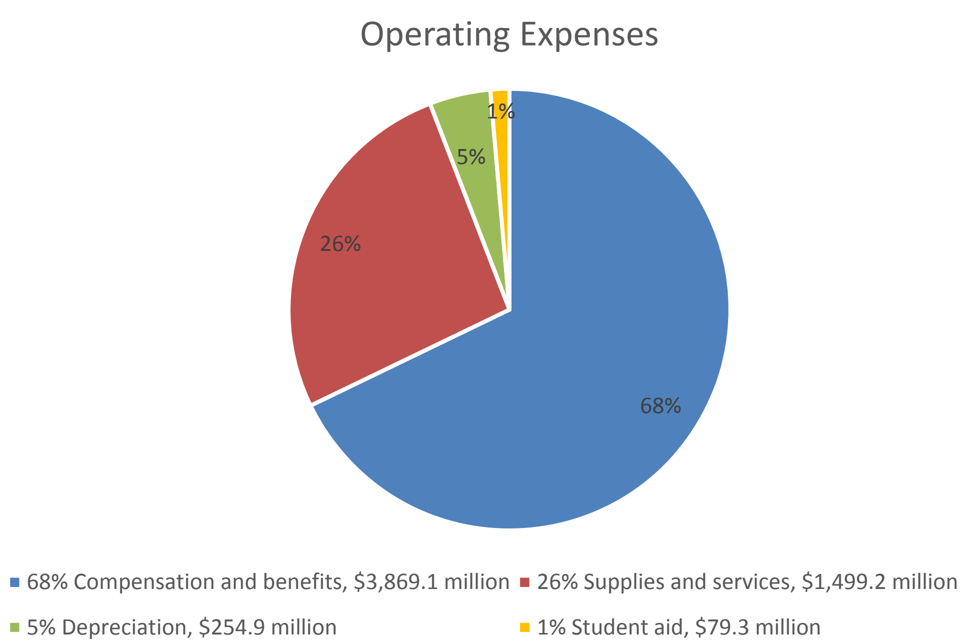
Expenses

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.

	2016		2015	
	(In thousands)			
Operating expenses:				
Instruction	$ 1,380,175	24.2%	$ 1,300,281	23.4%
Research	740,788	13.0	744,043	13.4
Public service	476,457	8.4	477,614	8.6
Support services	1,012,766	17.7	974,752	17.5
Hospital and medical activities	895,572	15.7	829,116	14.9
Auxiliary enterprises and independent operations	363,206	6.4	383,821	6.9
Scholarships and fellowships	278,994	4.9	278,001	5.0
Operation and maintenance of plant	299,657	5.2	324,010	5.8
Depreciation	254,879	4.5	248,889	4.5
Total operating expenses	$ 5,702,494	100.0%	$ 5,560,527	100.0%

The increase in operating expenses was $142 million, or 2.6%. This change included increases in payments on behalf of $164 million, which are allocated across the operating functions. Excluding the increase in on behalf payments, operating expenses decreased by $22 million, which included the impact of spending constraints.

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 $5,702.5 million of operating expenses by natural classification:



The University's Economic Outlook

The University continues to maintain its level of excellence in service to students, patients, the research community, the State and the nation. A critical element to the University's future continues to be a strong partnership with the State of Illinois (State), since State appropriations from the Governor and General Assembly provide essential operating support for University programs. The direct appropriation for fiscal year 2016, signed into law by the Governor in April 2016, was enacted as a stop gap measure and reflects a decrease of $472 million (72%) from the final budget appropriated in fiscal year 2015. Fiscal 2017 budget recommendations from the Governor and General Assembly for the University range from flat funding to a reduced level of funding. Although the Governor and General Assembly were unable to come to an agreement on a full year budget by the end of the legislative session, they did appropriate $356 million in bridge funding for the University for fiscal year 2017. This funding represents approximately 55% of fiscal year 2015 levels and was intended to fund operations through the end of the 2016 calendar year. The presidents of all public universities in Illinois have been communicating with the Governor and General Assembly emphasizing the importance of resolving the State's budget impasse, with a sustained and predictable level of support that ensures student achievement. Until there is some stability in funding levels and resolution on the full state budget, the University continues to monitor cash flows and has deferred and reduced spending to meet current operational needs.

Tuition is being held level between fiscal years 2016 and 2017. However, based on multiple factors (such as enrollment levels and student mix) the University projects an increase in the tuition revenue budget of approximately $40 million. Undergraduate students have a four-year tuition guarantee. The incremental tuition revenue for fiscal 2016 includes changes in enrollment patterns, current students paying higher tuition rates than the recent graduating class and varying increases in graduate and professional programs.

Research is one of four components of the University's mission. The University consistently ranks among the top universities in research and development expenditures in the country. Research leading to the development of new products and services is also an engine driving economic development, another component of the University's mission. The University continues to advance the economic development mission by supporting research and innovation activities that elevate ideas into sustainable businesses and global solutions.

The University experienced growth from a variety of funding sources during fiscal year 2016. 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, 2016
(with comparative totals for June 30, 2015)

(In thousands)

	University		University Related Organizations	
Assets and Deferred Outflows of Resources	**2016**	**2015**	**2016**	**2015**
Current assets:				
Cash and cash equivalents	$ 429,914	$ 535,956	$ 6,548	$ 11,946
Cash and cash equivalents, restricted	116,046	125,936	1,120	670
Investments	266,581	290,188	146	289
Investments, restricted	63,935	59,735		
Accrued investment income	5,298	5,870	320	904
Accounts receivable, net of allowance for uncollectible	515,338	457,447	33,974	20,773
Appropriations receivable from State of Illinois	1,537	118,126		
Pledges receivable, net of allowance			59,495	33,405
Notes receivable, net of allowance for uncollectible	9,774	9,667		
Accrued interest on notes receivable	4,006	4,468		
Inventories	31,989	29,203	6	7
Prepaid expenses	33,259	27,866	1,265	1,549
Due from related organizations	6,772	4,753		
Total current assets	1,484,449	1,669,215	102,874	69,543
Noncurrent assets:				
Cash and cash equivalents, restricted	1,577	6,480	325	57
Investments	1,279,378	1,418,554	18,334	20,827
Investments, restricted	533,008	620,996	1,705,844	1,775,352
Pledges receivable, net of allowance			115,508	160,601
Notes receivable, net of allowance for uncollectible	51,504	54,303		
Capital assets, net of accumulated depreciation	3,711,559	3,643,175	15,328	13,364
Other assets	5,515	4,095	127	127
Total noncurrent assets	5,582,541	5,747,603	1,855,466	1,970,328
Deferred outflows of resources	99,473	107,518	42	
Total assets and deferred outflows of resources	$ 7,166,463	$ 7,524,336	$ 1,958,382	$ 2,039,871
Liabilities, Deferred Inflows of Resources and Net Position				
Current liabilities:				
Accounts payable and accrued liabilities	$ 378,609	$ 364,164	$ 23,805	$ 9,488
Accrued payroll	149,425	169,803	280	242
Accrued compensated absences, current portion	19,023	19,141	1,240	1,171
Accrued self-insurance, current portion	49,086	53,766		
Unearned revenue and student deposits	170,804	177,450	210	208
Accrued interest payable	16,234	17,284		
Notes payable			4,757	3,257
Bonds payable, current portion	57,849	60,097		
Due to related organizations, current portion			6,772	4,753
Leaseholds payable and other obligations, current portion	38,816	36,091	6,280	7,103
Assets held for others	30,530	29,785	2,000	2,014
Total current liabilities	910,376	927,581	45,344	28,236
Noncurrent liabilities:				
Bonds payable	1,283,023	1,317,116		
Leaseholds payable and other obligations	285,169	323,638	47,125	50,676
Accrued compensated absences	176,896	183,243		
Accrued self-insurance	170,148	190,193		
Unearned distributions			128	124
Derivative instrument – swap liability	18,970	20,604		
Total noncurrent liabilities	1,934,206	2,034,794	47,253	50,800
Deferred inflows of resources			125	
Total liabilities and deferred inflows of resources	2,844,582	2,962,375	92,722	79,036
Net investment in capital assets	2,248,166	2,185,442	10,571	10,107
Restricted:				
Nonexpendable	101,756	108,287	990,278	958,007
Expendable	632,421	650,791	858,112	957,178
Unrestricted	1,339,538	1,617,441	6,699	35,543
Total net position	4,321,881	4,561,961	1,865,660	1,960,835
Total liabilities, deferred inflows of resources and net position	$ 7,166,463	$ 7,524,336	$ 1,958,382	$ 2,039,871

See accompanying notes to financial statements.

UNIVERSITY OF ILLINOIS

Statement of Revenues, Expenses and Changes in Net Position

Year Ended June 30, 2016
(with comparative totals for the year ended June 30, 2015)

(In thousands)

	University		University Related Organizations	
	2016	2015	2016	2015
Operating revenues:				
Student tuition and fees, net	$ 1,145,945	$ 1,095,905	$	$
Federal appropriations	15,826	14,297		
Federal grants and contracts	653,156	627,236		
State of Illinois grants and contracts	40,376	83,798		
Private and other government agency grants and contracts	138,119	144,062	120,284	167,330
Educational activities	302,581	293,743		
Auxiliary enterprises, net	406,620	407,530		
Hospital and other medical activities, net	703,177	684,000		
Medical service plan	206,513	198,495		
Independent operations	10,602	12,899		
Interest and service charges on student loans	1,289	2,145		
Allocation from the University			13,804	18,211
Other sources			76,666	82,750
Total operating revenues	3,624,204	3,564,110	210,754	268,291
Operating expenses:				
Instruction	1,380,175	1,300,281		
Research	740,788	744,043		
Public service	476,457	477,614		
Academic support	517,258	507,303		
Student services	198,433	184,572		
Institutional support	297,075	282,877	109,072	119,392
Operation and maintenance of plant	299,657	324,010		
Scholarships and fellowships	278,994	278,001		
Auxiliary enterprises	353,159	371,639		
Hospital and medical activities	895,572	829,116		
Independent operations	10,047	12,182		
Depreciation	254,879	248,889	1,878	966
Distributions on behalf of the University			163,132	193,936
Total operating expenses	5,702,494	5,560,527	274,082	314,294
Operating loss	(2,078,290)	(1,996,417)	(63,328)	(46,003)
Nonoperating revenues (expenses):				
State appropriations	181,502	653,128		
Transfer of state appropriations to the Illinois Hospital Services Fund	(11,105)	(43,988)		
Private gifts	158,913	177,195		
Grants, nonoperating	111,067	134,910		
On-behalf payments for fringe benefits	1,336,491	1,172,354		
Net investment income (net of investment expense of $4,965)	42,863	69,462	12,285	14,108
Net (decrease) increase in the fair value of investments	(22,439)	(39,044)	(76,441)	31,242
Interest expense	(62,188)	(63,790)	(72)	(49)
Loss on disposal of capital assets	(11,136)	(10,802)		
Other nonoperating revenues (expenses), net	66,167	50,297	110	(95)
Net nonoperating revenues (expenses)	1,790,135	2,099,722	(64,118)	45,206
(Loss) income before other revenues	(288,155)	103,305	(127,446)	(797)
Capital state appropriations	3,366	8,942		
Capital gifts and grants	8,819	2,782		
Private gifts for endowment purposes	4	1	32,271	43,946
(Decrease) increase in net position	(275,966)	115,030	(95,175)	43,149
Net position, beginning of year	4,561,961	4,412,731	1,960,835	1,918,273
Cumulative effect of change in accounting principle	35,886	34,200		(587)
Net position, beginning of year, as adjusted [Note 1 (s)]	4,597,847	4,446,931	1,960,835	1,917,686
Net position, end of year	$ 4,321,881	$ 4,561,961	$ 1,865,660	$ 1,960,835

See accompanying notes to financial statements.

UNIVERSITY OF ILLINOIS

Statement of Cash Flows

Year ended June 30, 2016
(with comparative totals for the year ended June 30, 2015)

(In thousands)

	University	
	2016	2015
Cash flows from operating activities:		
Student tuition and fees	$ 1,135,487	$ 1,098,784
Federal appropriations	16,074	14,466
Federal, state, and local grants and contracts	668,082	715,300
Other governmental agencies and private grants and contracts	148,681	150,250
Sales and services of educational activities	307,615	282,891
Auxiliary activities and independent operations	414,891	421,267
Hospital and other medical activities	656,541	673,969
Medical service plan	213,677	210,734
Payments to employees and for benefits	(2,559,958)	(2,500,315)
Payments to suppliers	(1,521,097)	(1,502,649)
Payments for scholarships and fellowships	(79,427)	(77,438)
Student loans issued	(6,794)	(11,077)
Student loans collected	9,554	9,550
Student loan interest and fees collected	1,751	1,703
Net cash used in operating activities	(594,923)	(512,565)
Cash flows from noncapital financing activities:		
State appropriations	286,986	636,901
Gifts transferred from University of Illinois Foundation	158,913	177,195
Direct lending receipts	461,127	464,651
Direct lending payments	(462,567)	(464,027)
Grants, nonoperating	111,067	134,910
Private gifts for endowment purposes	4	1
Advances to related organizations, net	(2,019)	(1,805)
Other receipts	68,806	59,565
Other disbursements	(125)	(771)
Net cash provided by noncapital financing activities	622,192	1,006,620
Cash flows from capital and related financing activities:		
Proceeds from issuance of capital debt	160,722	191,068
Capital gifts and grants	170	848
Purchase of capital assets	(315,201)	(311,486)
Principal payments on bonds, capital leases, and other obligations	(233,073)	(341,227)
Interest payments on bonds, capital leases, and other obligations	(65,536)	(69,609)
Payment of capital debt issuance costs	(1,078)	(773)
Net cash used in capital and related financing activities	(453,996)	(531,179)
Cash flows from investing activities:		
Interest and dividends on investments, net	34,648	34,665
Proceeds from sales and maturities of investments	1,918,151	1,818,869
Purchase of investments	(1,646,907)	(1,829,129)
Net cash provided by investing activities	305,892	24,405
Net decrease in cash and cash equivalents	(120,835)	(12,719)
Cash and cash equivalents, beginning of year	668,372	681,091
Cash and cash equivalents, end of year	$ 547,537	$ 668,372

(Continued)

UNIVERSITY OF ILLINOIS

Statement of Cash Flows

Year ended June 30, 2016
(with comparative totals for the year ended June 30, 2015)

(In thousands)

	University	
	2016	**2015**
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$ (2,078,290)	$ (1,996,417)
Adjustments to reconcile operating loss to net cash used in operating activities:		
On-behalf payments for fringe benefits expense	1,336,491	1,172,354
Depreciation expense	254,879	248,889
Changes in assets, deferred outflows of resources and liabilities:		
Accounts receivable, net	(55,220)	(5,075)
Notes receivable, net	2,692	(812)
Accrued interest on notes receivable	462	(443)
Inventories	(2,786)	762
Prepaid expenses	(5,735)	(2,036)
Deferred outflow of resources	(1,280)	727
Accounts payable and accrued liabilities	11,333	23,177
Accrued payroll	(20,378)	9,469
Unearned revenue and student deposits	(6,646)	10,771
Accrued compensated absences	(6,465)	3,210
Accrued self-insurance	(24,725)	20,215
Assets held for others	745	2,644
Net cash used in operating activities	$ (594,923)	(512,565)
Noncash investing, capital, and financing activities:		
On-behalf payments for fringe benefits	$ 1,336,491	$ 1,172,354
State appropriation	11,105	43,988
Transfers to Illinois Hospital Services Fund	(11,105)	(43,988)
Net decrease in fair value of investments	(22,439)	(39,044)
Gifts in kind – capital assets	8,614	2,227
(Decrease) increase of capital asset obligations in accounts payable	(1,694)	15,184
Capital asset acquisitions by Capital Development Board	3,366	8,942
Capital asset acquisitions via leaseholds payable	307	639
Net interest capitalized	9,966	11,544
Other capital asset adjustments	(1,361)	(2,679)
Loss on disposal of capital assets	(11,136)	(10,802)
Capital appreciation on bonds payable	7,039	7,782
Capital assets placed in service subsequent to obligation incurrence		73

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, conducts education, research, public service and related activities principally at its three locations 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 Chief Financial Officer, 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 Controller, 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 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, 507 East Green Street, Suite 501, Champaign, Illinois 61820.

Illinois Ventures 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, 2242 W. Harrison, Suite 201, Chicago, Illinois 60612.

Research Park was formed to aid and assist the University and other organizations by establishing and operating a research park with offices located in Champaign, Illinois. Research Park's jurisdiction extends to oversight of the research park in Urbana-Champaign. This jurisdiction also extends to potential research parks in Chicago and any other research parks in Illinois where the University has some operating responsibility by statute or contract. The Research Park was designed to promote the development of new companies, which commercialize University technologies. Complete financial information may be obtained by writing the Finance Manager, University of Illinois Research Park, LLC, 60 Hazelwood Drive, Champaign, Illinois 61820.

Singapore Research 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 2015 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, 2015.

Certain items in the June 30, 2015 comparative information have been reclassified to correspond to the June 30, 2016 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 reformat their financial statements to the GASB format for inclusion in the UROs column of the financial statements and disclosure in Note 16.

(b) Cash and Cash Equivalents

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

(c) Inventories

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

(d) Investments

Investments are reported at fair value in accordance with guidelines defined by GASB Statement No. 72. Fair value is determined for the University's investments based upon a framework described in Note 2(f). The fair values of the farm properties held as investments are determined by a periodic appraisal of the property by a certified real estate appraiser. Fair value for investments in certain mutual funds, hedge funds and private equity is determined using net asset values (NAV) as provided by external investment managers. Bank deposits, money market funds, and Illinois public treasurer's investment pool are recorded at cost.

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

(e) Endowments

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

University

The University's endowment pool investment policy follows the total return concept. The focus is to preserve the real value or purchasing power of endowment pool assets and the annual support the assets provide. Distributions are made from the University Endowment Fund to the University entities that benefit from the endowment funds. The endowment spending rule provides for an annual distribution of 4.0% of the two-quarter lagged, six-year moving average market value of fund units. At June 30, 2016, net appreciation of $85,943,000 was available to be spent, of which $65,110,000 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 $70,306,000 for fiscal year ended June 30, 2016.

(f) Capital Assets

Capital assets are recorded at cost or, if donated, at acquisition 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, such as works of art or historical treasures, which are 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 must be applied to the acquisition of additional items for the same collection. Estimated useful lives for capital assets are as follows:

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

(g) Deferred Outflows of Resources

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

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

Employer pension contributions made in fiscal year 2016 are deferred outflow of resources.

Deferred Outflow of Resources

(In thousands)

		Beginning balance	Additions	Deductions	Change in fair value	Ending balance
Interest rate swap	$	17,649	395		(1,634)	16,410
Unamortized deferred loss on refunding		56,396		8,086		48,310
Pension contributions		33,473	34,753	33,473		34,753
Total deferred outflow of resources	$	107,518	35,148	41,559	(1,634)	99,473

(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, 2016, the University estimates that $94,806,000 of the accrued compensated absences liability will be paid from revenue to be recognized in subsequent years, rather than from unrestricted net position available at June 30, 2016. The amount associated with future State appropriations was calculated based upon the unused vacation and sick leave days and pay rates for the applicable employees.

(i) Premiums

Premiums for bonds and certificates of participation are reported within bonds payable and leaseholds payable, respectively, and are amortized over the life of the debt issue using the straight-line method.

(j) Net Position

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

(k) Classification of Revenues

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

In fiscal year 2016, $11,105,000 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 and this fund is not part of or a related organization of the University.

(l) Tuition, Scholarships and Fellowships

Scholarships and fellowships of $356,982,000 and $8,492,000 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, patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated adjustments under reimbursement agreements with third-party payors and others for services rendered, including estimated adjustments under reimbursement agreements with third-party payors, certain of which are subject to audit by administrating agencies. These adjustments are accrued on an estimated basis and are adjusted in future periods. 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, discounted charges and per diem payments. Approximately 93% of the Hospital's net patient service revenues were derived from Medicare, Medicaid and managed care programs for the year ended June 30, 2016. Reimbursement under these programs provided for payments to the Hospital at amounts different from its established rates, based on a specific amount per case, or a contracted price, for rendering services to program beneficiaries. The Hospital records contractual allowances in the current period representing the difference between charges for services rendered and the expected payments under these programs, and adjusts them in future periods as final settlements through cost reports or other means are determined. For the year ended June 30, 2016, the contractual allowances totaled $1,617,150,000.

The policy of the University is to treat patients in immediate need of medical services without regard to their ability to pay for such services. The Hospital provides care without charge or at amounts less than its established rates to patients who meet the criteria of its charity care policy. This policy defines charity care and provides guidelines for assessing a patient's ability to pay. Eligibility is based on a patient qualification, financial resources and service criteria. Because the Hospital does not pursue collection of amounts determined to be charity care, they are not reported as revenue.

The Hospital maintains records to identify and monitor the level of charity care provided. These records include the amount of estimated costs for services rendered and supplies furnished under its charity care policy. The estimated cost of charity care using the Hospital's cost-to-charge ratio was $9,788,000 for fiscal year 2016, an increase of 16% from the prior year, primarily as a result of an increase in inpatient cases. The ratio of costs to charges is calculated based on the Hospital's total operating expenses. Unreimbursed costs of providing care to Medicare and Medicaid patients are not included as charity care.

(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 $63,914,000 at June 30, 2016 and is recorded in the accompanying financial statements as accrued payroll. This amount will be paid from revenues to be recognized in fiscal year 2017 rather than from the unrestricted net position available at June 30, 2016.

(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 $836,040,000 for the year ended June 30, 2016. 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 by the Department of Central Management Services (CMS) on behalf of the Entity and include postemployment benefits. The employer contributions to these plans on behalf of employees paid from other Entity held funds are paid by the Entity. The on-behalf payments were $500,451,000 for year ended June 30, 2016. The on-behalf payments amount that relates to State group health insurance is an allocation of estimated costs incurred by CMS on behalf of the University.

On-behalf payments for fringe benefits are reflected as nonoperating revenues. The corresponding on-behalf expense is reflected as an operating expense and is allocated by function.

(q) Pensions

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

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

(r) Use of Estimates

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

(s) New Accounting Pronouncements

The University adopted the provisions of GASB Statement No. 72, *Fair Value Measurement and Application*, which was effective for periods beginning after June 15, 2015. This Statement provides guidance for determining a fair value measurement for financial reporting purposes and for applying fair value to certain investments and disclosures related to all fair value measurements. In accordance with this statement, real estate investments held as quasi-endowments that were previously reported at amortized costs are reported at fair value. This Statement requires the University to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. The techniques should be consistent with one or more of the following approaches: the market approach, the cost approach, or the income approach. The Statement establishes a hierarchy of inputs to valuation techniques used to measure fair value. The hierarchy has three levels. Level 1 inputs are quoted prices, Level 2 inputs are observable inputs other than quoted prices, and Level 3 inputs are unobservable inputs. Implementation of this pronouncement required additional disclosures related to investments in the notes to the University's financial statements and an adjustment to net position as of July 1, 2015.

Change in Beginning Balance of Net Position

(In thousands)

Net position, July 1, 2015, as previously reported	$	4,561,961
Cumulative effect of change in accounting principle		35,886
Net position, July 1, 2015, as adjusted	$	4,597,847

The University adopted the provisions of GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which was effective for periods beginning after June 15, 2015. The Statement establishes the hierarchy of generally accepted accounting principles (GAAP). This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP (category A – GASB Statements & category B – GASB Tech Bulletins, Implementation Guides, AICPA Literature cleared by GASB) and addresses the use of authoritative and nonauthoritative literature in the event that accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. Implementation of this pronouncement did not impact the University's financial statements.

The University adopted the provisions of GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, which was effective for periods beginning after June 15, 2015. This Statement establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity, and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant. Implementation of this pronouncement required additional disclosures related to investments in the notes to the University's financial statements.

(2) Cash, Cash Equivalents and Investments

The carrying amount of the University's cash totaled $39,873,000 at June 30, 2016. The June 30, 2016 total bank account balances for the University aggregated $60,547,000 all of which was covered by federal depository insurance or by collateral held by an agent in the University's name.

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

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, 2016:

University Cash, Cash Equivalents and Investments
(In thousands)

U.S. Treasury bonds and bills	$	260,559
U.S. government agencies		193,979
International government bonds and governmental agencies		12,919
Nongovernment mortgage-backed securities		88,262
Asset backed securities		229,120
Corporate bonds		606,512
Commercial paper		48,880
Municipal bonds		28,390
Bond funds		127,158
Money market funds		490,761
Illinois public treasurer's investment pool		2,549
Subtotal before cash deposits, equities and other investments		2,089,089
Equities		58,093
Equity funds		283,256
Hedge funds		52,684
Private equity		30,641
Farm properties		102,241
Real estate		34,562
Cash deposits		39,873
Total	$	2,690,439

(a) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, the University employs multiple investment managers, of which each has specific maturity assignments related to the operating funds. The funds are structured with different layers of liquidity. Funds expected to be used within one year are invested using the Barclay's Capital 90-Day and Bank of America Merrill Lynch 12 month Treasury Bill Index as performance benchmarks. Core operating funds are invested in longer maturity investments. Core operating funds investment manager's performance benchmarks are the Barclays Capital one-year to three-year Government Bond Index, the Barclays Capital one-year to three-year Government Credit Bond Index and the Barclays Capital Intermediate Aggregate Bond Index.

The University's investment maturities at June 30, 2016 are illustrated below:

University Investment Maturities

(In thousands)

		Total	Less than 1 year	1 - 5 years	5 - 10 years	Greater than 10 years
U.S. Treasury bonds and bills	$	260,559	44,153	185,191	31,215	
U.S. government agencies		193,979	42,196	25,911	7,132	118,740
International government bonds and governmental agencies		12,919	10,612	2,049	258	
Nongovernment mortgage-backed securities		88,262				88,262
Asset backed securities		229,120	4,274	217,936	4,339	2,571
Corporate bonds		606,512	260,980	315,808	29,609	115
Commercial paper		48,880	48,880			
Municipal bonds		28,390	13,197	13,293	900	1,000
Bond funds		127,158		1,919	125,239	
Money market funds		490,761	490,761			
Illinois public treasurer's investment pool		2,549	2,549			
Total	$	2,089,089	917,602	762,107	198,692	210,688

At June 30, 2016, the University's operating funds pool portfolio had an effective duration of 1.3 years.

(b) Credit Risk

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

The University reports the credit ratings of fixed income securities and short term instruments using Standard and Poor's and Moody's ratings. Securities with split ratings or with a different rating assignment are disclosed using the rating indicative of the greatest degree of risk.

The University’s investment quality ratings at June 30, 2016 are illustrated below:

University Investments Quality Ratings

(In thousands)

	Total	AAA/Aaa	AA/Aa/ TSY/AGY[1]	A/A [2]	BBB/Baa	BB/Ba	Less than BB or not rated
U.S. Treasury bonds and bills	$ 260,559		260,559				
U.S. government agencies	193,979		193,979				
International government bonds and governmental agencies	12,919	8,223	3,337	588	771		
Nongovernment mortgage-backed securities	88,262	67,499	17,097	3,468			198
Asset backed securities	229,120	228,363	556	8			193
Corporate bonds	606,512	11,445	91,251	301,397	197,334	2,352	2,733
Commercial paper	48,880		9,848	39,032			
Municipal bonds	28,390	9,254	9,881	8,374			881
Bond funds	127,158	80,474	7,113	14,711	16,175	811	7,874
Money market funds	490,761	490,761					
Illinois public treasurer’s investment pool	2,549	2,549					
Total	$ 2,089,089	898,568	593,621	367,578	214,280	3,163	11,879

[1] TSY (U.S. Treasury Securities) & AGY (U.S. Agency Securities) is a reporting convention used by the University’s custodian to identify investments that have not received individual security ratings. These securities have an explicit or implicit guarantee by the U.S. government which has been rated AA+ by Standard and Poor’s and Aaa by Moody’s. Short term Standard and Poor's ratings of A-1+ and Moody’s ratings of P1 are placed in this category.

[2] Short term Standard and Poor's ratings of A-1 and A-2 and Moody’s short-term ratings of P1 and P2 are placed in this category.

(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, 2016, the amount of the University’s investments subject to custodial credit risk was $80,000.

(d) Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the University’s investment in a single issuer. The University’s investment policy provides that the total operating funds portfolio will be broadly diversified across securities in a manner that is consistent with fiduciary standards of diversification. Issuer concentrations are limited to 5% per issuer of the total market value of the portfolio at the time of purchase, or in the case of securitized investments (e.g., mortgage-backed securities), concentration is limited to an individual issuance trust (e.g., pooled receivables). These concentration limits do not apply to investments in money market funds, tri-party repurchase agreements or obligations of, or issues guaranteed by, the U.S. Treasury, U.S. agencies or U.S. government sponsored enterprises.

As of June 30, 2016, not more than 5% of the University’s total investments were invested in securities of any one issuer, excluding money market funds, tri-party repurchase agreements or obligations of, or issues guaranteed by, the U.S. Treasury, U.S. agencies or U.S. government sponsored enterprises.

(e) Foreign Currency Risk

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

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

(f) ***Investments and Fair Value Measurements***

Accounting guidance for fair value establishes 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 University 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 University has access to where transactions occur with sufficient frequency and volume to provide reliable pricing information.

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

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

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

Investments may be classified as Level 1 when the values are based upon unadjusted quoted prices in active markets for identical assets and generally include active listed equities. Publicly-traded investments that have no or insignificant restrictions are classified in Level 1 of the fair value hierarchy. Level 1 securities would include exchange traded equities.

Investments may be classified as Level 2 when the values include inputs that are directly observable for an asset (including quoted prices for similar assets), as well as inputs that are not directly observable for the asset. These inputs are derived principally from or corroborated by observable market data through correlation or by other means (market corroborated inputs). The concept of market-corroborated inputs is intended to incorporate observable market data (such as interest rates and yield curves that are observable at commonly quoted intervals) based upon an assessment of factors relevant to the asset or liability. Level 2 securities include US Treasury bonds and bills, US government agencies, international government bonds and agencies, nongovernment mortgage-backed securities, asset backed securities, corporate bonds, commercial paper, and municipal bonds.

Investments may be classified as Level 3 when the values include inputs that are unobservable and Level 1 and Level 2 inputs are not available. The values are based upon the best information available under the circumstances and may include management's own data. Level 3 securities include certain types of inactively traded corporate bonds and equities and farm properties.

There have been no changes in valuation techniques used for any assets measured at fair value during the year ended June 30, 2016.

The following table summarizes assets measured at fair value as of June 30, 2016, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

University Fair Value Measurements as of June 30, 2016

(In thousands)

	Total	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Quoted prices unobservable inputs (Level 3)
U.S. Treasury bonds and bills	$ 260,559		260,559	
U.S. government agencies	193,979		193,979	
International government bonds and governmental agencies	12,919		12,919	
Nongovernment mortgage-backed securities	88,262		88,262	
Asset backed securities	229,120		229,120	
Corporate bonds	606,512		605,675	837
Commercial paper	48,880		48,880	
Municipal bonds	28,390		28,390	
Equities	58,093	58,020		73
Farm properties	102,241			102,241
Total subject to fair value hierarchy	$ 1,628,955	58,020	1,467,784	103,151
Investments measured at the NAV				
Bond funds	127,158			
Equity funds	283,256			
Hedge funds	52,684			
Private equity	30,641			
Real estate	34,562			
Total investments measured at NAV	$ 528,301			
Investments measured at cost				
Money market funds	490,761			
Cash deposits	39,873			
Illinois public treasurer's investment pool	2,549			
Total investments measured at cost	$ 533,183			
Total cash, cash equivalents and investments	$ 2,690,439			

The following table sets forth additional disclosure of the University's investments whose fair value is estimated using NAV per share (or its equivalent) as of June 30, 2016:

		Fair value		Unfunded commitment	Redemption frequency	Redemption notice period
		(In thousands)				
Investments:						
Bond funds (A)	$	127,158	$		(A)	(A)
Equity funds (B)		283,256			(B)	(B)
Hedge funds (C)		52,684			(C)	(C)
Private equity (D)		30,641		20,991	(D)	(D)
Real estate (E)		34,562			(E)	(E)
	$	528,301	$	20,991		

(A) The funds in this category invest in bonds and other debt instruments. Investments may include government, corporate, municipal and convertible bonds, along with other debt securities such as mortgage-backed and asset-backed securities. These funds can be redeemed with same business day to two business days' redemption notification requirement determined by the managers. Settlement may take up to seven business days.

(B) The funds in this category invest in marketable equities that are exchange traded in the United States of America (USA) and in countries outside of the USA. These funds can be redeemed with same business day to two business days' redemption notification requirement determined by the managers. Settlement may take up to seven business days.

(C) The funds in this category are generally not restricted in the types of securities in which they can invest. They may invest in limited partnership vehicles or directly in equity, fixed income and derivative instruments to achieve a stated investment objective. These funds can be redeemed monthly, quarterly or annually depending on the partnership agreement within redemption notice periods of 1 to 12 months. The fund values of these investments have been estimated using the NAV per share provided by the fund manager.

(D) The funds in this category 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. 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 dates of the last available NAV and June 30, 2016.

(E) The funds in this category invest in real estate. Subject to general partner approval, these funds can be redeemed with a 3 month notice period. Distributions of operating cash flow are paid out on a quarterly basis as determined by the general partner. 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 dates of the last available NAV and June 30, 2016.

(g) URO – Foundation Investments

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

The Foundation financial statements follow FASB standards; therefore, the required disclosures, within the University's statements, for the Foundation investments differ from GASB requirements.

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

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

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

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

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

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

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

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

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

There have been no changes in valuation techniques used for any assets measured at fair value during the year ended June 30, 2016.

The following table summarizes assets measured at fair value on a recurring basis as of June 30, 2016, 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, 2016

(In thousands)

	Fair value	Level 1	Level 2	Level 3
Assets:				
U.S. Treasury bonds and bills	$ 15,406		15,406	
International government bonds	51,079		46,993	4,086
U.S. government agencies	20		20	
Municipal bonds	2,490		2,490	
Corporate bonds and notes	25,329		25,329	
Commercial mortgage-backed securities	6,878		6,878	
Asset-backed securities	11,099		11,099	
Mortgaged backed securities	1,884		1,884	
Common stock, domestic:				
Consumer goods	1,874	1,874		
Energy	42	42		
Financial services	1,166	160	1,006	
Healthcare	467	467		
Industrials	111	111		
Information technology	243	243		
Materials	3,505	3,505		
Real estate	4	4		
Telecommunications	5	5		
Utilities	5	5		
Bond mutual funds:				
U.S. government	4,339	119	4,220	
Mortgages	6,937	219	6,718	
Corporate bonds and notes	4,896	111	4,785	
High Yield	843	34	809	
Municipals	1,255	38	1,217	
Internationals	52,994	69	52,925	
Equity mutual funds:				
Small cap	511	383	128	
Mid cap	664	664		
Large cap	76,490	76,490		
International	12,211	12,211		
Subtotal forward	$ 282,747	96,754	181,907	4,086

(Continued)

URO – Foundation Fair Value Measurements as of June 30, 2016 (Continued)

(In thousands)

		Fair value	Level 1	Level 2	Level 3
Subtotal forward	$	282,747	96,754	181,907	4,086
Money market mutual funds		32,268	32,268		
Other investments		3,287			3,287
Farms		60,303		60,303	
Beneficial interest in trusts		42,147			42,147
Trusts held by others		19,804			19,804
Cash surrender value of life insurance		6,879			6,879
Partnership interests		5,293		5,293	
Total investments	$	452,728	129,022	247,503	76,203

The investments above exclude $7,269,000 of real estate and $6,640,000 of private equities which are carried at cost and $1,237,207,000 of investments where values are based on NAV.

There were no transfers between Level 1 or 2 of the fair value hierarchy during the year ended June 30, 2016.

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, 2016

(In thousands)

		Beginning balance	Purchases	Sales (distributions)	Total gains or losses*		Ending balance
Other investments	$	3,530		(100)	(143)	$	3,287
Beneficial interest in trusts		40,237			1,910		42,147
International government bonds			4,506		(420)		4,086
Trusts held by others		22,670			(2,866)		19,804
Cash surrender value of life insurance		6,605			274		6,879
Total	$	73,042	4,506	(100)	(1,245)	$	76,203

*Total gains or losses included in change in net assets attributable to the change in unrealized gains or losses relating to financial instruments still held at fiscal year-end.

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, 2016:

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)	$	794,865		(A)	(A)
Private equity (B)		157,053	165,891	(B)	(B)
Real estate trusts and partnerships (B)		41,175	34,809	(B)	(B)
Large cap equity fund (C)		2,214		Daily	Trade Date Plus 1 – 3 Days
International equity fund (D)		243,900		Daily-30 days	Trade Date Plus 1 day – 30 Days
	$	1,239,207	200,700		

(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.

(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, 2016.

(C) These funds invest in marketable equities that are all exchange traded in the USA and that are categorized as large cap. These funds can be redeemed at the month-end NAV per share based on the fair value of the underlying assets.

(D) These funds invest in international equities that are all exchange traded in countries outside of the USA. These funds can be redeemed at the month-end NAV per share based on the fair value of the underlying assets.

All URO – Foundation investments are considered noncurrent assets.

(3) Accounts, Notes and Pledges Receivable

The University provides allowances for uncollectible accounts and notes receivable based upon management's best estimate considering type, age, collection history of receivables and any other factors as considered appropriate. Accounts and notes receivable are reported net of allowances at June 30, 2016.

The composition of accounts receivable and notes and pledges receivable at June 30, 2016 is summarized as follows:

University Accounts Receivable, Net of Allowance
(In thousands)

		Gross receivables	Allowance for uncollectible	Net receivables
Receivables from sponsoring agencies	$	177,577	(2,887)	174,690
Hospital and other medical activities		503,945	(319,274)	184,671
Student tuition and fees		53,369	(20,416)	32,953
Auxiliaries		17,289	(5,751)	11,538
Medical service plan		63,333	(21,171)	42,162
Educational activities		44,557	(6,101)	38,456
Other		31,309	(441)	30,868
Total	$	891,379	(376,041)	515,338

Notes and Pledges Receivable
(In thousands)

Student notes receivable – University:		
Student notes outstanding - Perkins loan program*	$	37,918
Student notes outstanding - other programs		26,705
Allowance for uncollectible loans		(3,345)
Total student notes receivable, net	$	61,278

* Perkins loan program is planned to expire September 30, 2017. The University is waiting on guidance from the Department of Education regarding the potential close out of this program.

Gift pledges receivable, URO – Foundation:	$	190,685
Less:		
Allowance for doubtful pledges		(12,994)
Present value discount		(2,691)
Total gift pledges outstanding, net	$	175,000

(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 $9,966,000 was capitalized during the year ended June 30, 2016.

Capital assets activity during the year ended June 30, 2016 is summarized as follows:

University Capital Assets
(In thousands)

	Beginning balance	Additions	Retirements	Transfers	Impairments	Ending balance
Nondepreciable capital assets:						
Land	$ 135,822					135,822
Construction in progress	303,682	240,521		(143,672)		400,531
Inexhaustible collections	22,983	292				23,275
Total nondepreciable capital assets	462,487	240,813	—	(143,672)	—	559,628
Depreciable capital assets:						
Buildings	4,035,443	341		116,673	(2,097)	4,150,360
Improvements and infrastructure	702,297			23,032		725,329
Equipment	1,220,365	73,678	(48,163)	1,961		1,247,841
Software	176,884			2,006		178,890
Exhaustible collections	623,923	20,501	(8,085)			636,339
Total depreciable capital assets	6,758,912	94,520	(56,248)	143,672	(2,097)	6,938,759
Less accumulated depreciation:						
Buildings	1,601,045	101,362			(1,163)	1,701,244
Improvements and infrastructure	419,346	23,631				442,977
Equipment	889,666	102,564	(45,112)			947,118
Software	169,366	2,998				172,364
Exhaustible collections	498,801	24,324				523,125
Total accumulated depreciation	3,578,224	254,879	(45,112)	—	(1,163)	3,786,828
Total net depreciable capital assets	3,180,688	(160,359)	(11,136)	143,672	(934)	3,151,931
Total	$ 3,643,175	80,454	(11,136)	—	(934)	3,711,559

(5) Accrued Self-Insurance and Loss Contingency

The University's accrued self-insurance liability of $219,234,000, as of June 30, 2016 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, 2016. Amounts increasing the accrued self-insurance liability are charged as expenses based upon estimates made by actuaries and the University's risk management division. An additional workers' compensation self-insurance liability of $19,344,000 at June 30, 2016 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, 2016.

The accrued self-insurance liability includes $159,762,000 at June 30, 2016 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, 2016. 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)

		2016	2015
Balance, beginning of year	$	243,959	223,744
Claims incurred and changes in estimates		49,926	49,707
Claim payments and other deductions		(74,651)	(29,492)
Balance, end of year		219,234	243,959
Less current portion		(49,086)	(53,766)
Balance, end of year – noncurrent portion	$	170,148	190,193

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	$	202,384
Additions		14,841
Deductions		(21,306)
Balance, end of year		195,919
Less current portion		(19,023)
Balance, end of year – noncurrent portion	$	176,896

(7) Bonds Payable

On February 24, 2016, the University issued $129,025,000 of AFS Refunding Revenue Bonds, Series 2016A. Proceeds of these bonds were used to provide for the refunding of the outstanding principal of Series 2006A. Proceeds were also used to fund all costs incidental to the issuance of the Series 2016A Bonds. The refunding resulted in a projected savings over the life of the issue at a net present value of $22,125,000. The difference between the reacquisition price and the net carrying amount of the old debt, gain on refunding, was $641,000. This gain is deferred and amortized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter.

On April 20, 2016, the University issued $20,630,000 of AFS Revenue Bonds, Series 2016B. Proceeds of these bonds were used to provide for constructing a new student union at the University of Illinois Springfield. Proceeds were also used to fund all costs incidental to the issuance of the Series 2016B Bonds.

Bonds Payable
(In thousands)

	Maturity dates	Beginning balance	Additions	Deductions	Ending balance	Current portion
Auxiliary Facilities System:						
Current interest bonds	2017 – 2046	$ 1,043,490	149,655	(169,245)	1,023,900	27,545
Capital appreciation bonds	2017 – 2030	135,980		(17,815)	118,165	17,895
Health Services Facilities System	2017 – 2043	118,850		(3,240)	115,610	3,365
UIC South Campus	2017 – 2023	47,470		(5,380)	42,090	5,960
		1,345,790	149,655	(195,680)	1,299,765	54,765
Unaccreted appreciation		(33,988)	7,039		(26,949)	(927)
		1,311,802	156,694	(195,680)	1,272,816	53,838
Unamortized debt premium		65,411	11,067	(8,422)	68,056	4,011
Total		$ 1,377,213	167,761	(204,102)	1,340,872	57,849

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

Capital appreciation bonds of $118,165,000 outstanding at June 30, 2016 do not require current interest payments and have a net unappreciated value of $91,216,000. 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 $139,765,000 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 associated 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 1.285% to 6.250%.

Variable Rate Bonds

Bond issues	Interest rate at June 30, 2016	Remarketing agent	Remarketing fee	Liquidity facility: Bank	Liquidity facility: Expiration	Liquidity facility: Insured by	Liquidity fee
UIC South Campus, Series 2008	0.46%	JPMorgan Securities	0.075%	JPMorgan Chase	6/24/2019	Letter of Credit	0.550%
AFS, Series 2008	0.88	Loop Capital	0.075	JPMorgan Chase	5/19/2021	None	0.525
AFS, Series 2014C	0.42	Wells Fargo	0.080	Northern Trust	2/19/2019	Letter of Credit	0.350
HSFS, Series 1997B	0.46	JPMorgan Securities	0.070	Wells Fargo	5/30/2019	Letter of Credit	0.470
HSFS, Series 2008	0.41	Goldman Sachs	0.070	Wells Fargo	5/30/2019	Letter of Credit	0.470

(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 $255,000 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, 2016, 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, 2016 are listed below:

Interest Rate Swaps

Bond issues	Outstanding notional amount	Effective date	Fixed rate paid	Variable rate received	Level 2 Fair value	Swap termination date	Counterparty	Counterparty credit rating (S&P/Moody's)
HSFS 2008	$ 31,170,000	Nov 2008*	3.534%	68% of LIBOR**	$ (4,767,000)	Oct-2026	Loop	BBB+/Baa2
UIC SC 2008	18,862,500	Feb 2006*	4.086	68% of LIBOR**	(2,206,000)	Jan-2022	Morgan Stanley	BBB+/A3
UIC SC 2008	18,497,500	Feb 2006*	4.092	68% of LIBOR**	(2,156,000)	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 determine the fair value of the swap agreements. The fair values provided by the consultant were derived from proprietary models based upon well-recognized financial principles and reasonable estimates about relevant market conditions. 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, 2016. However, if the University decides to issue refunding bonds and credit is more costly at that time, it could be exposed to market access risk.

(b) Pledged Revenues and Debt Service Requirements

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

Pledged Revenues

Bond issues	Purpose	Source of revenue pledged	Future revenues pledged [2] (In thousands)	Term of commitment	Debt service to pledged revenues (current year)
AFS	Refunding, various improvements and additions to the System	Net AFS revenue, student tuition and fees	$ 1,737,003	2046	8.03%
HSFS	Additions to System and refunding	Net HSFS revenue, Medical Service Plan revenue net of bad debt expense, College of Medicine net tuition revenue	208,878	2043	3.19
UIC South Campus	South Campus Development Project[1] and refunding	Defined Tax Increment Financing District revenue, student tuition and fees, and sales of certain land in the UIC South Campus project	48,120	2023	2.05
		Total future revenues pledged	$ 1,994,001		

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

[2]Total estimated future principal and interest payments on debt

Future debt service requirements for all bonds outstanding at June 30, 2016 are as follows:

Debt Service Requirements
(In thousands)

		Principal	Interest
2017	$	54,765	52,282
2018		55,710	50,894
2019		56,445	49,319
2020		59,075	47,565
2021		66,510	45,837
2022 – 2026		278,380	192,324
2027 – 2031		272,375	132,798
2032 – 2036		225,510	77,312
2037 – 2041		130,845	38,202
2042 – 2046		100,150	7,703
Total	$	1,299,765	694,236

Using the actual rates of 0.46% (UIC South Campus, Series 2008) and 0.41% (Health Services Facilities System, Series 2008), in effect as of June 30, 2016, 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
2017	$	5,370	172	1,273	6,815
2018		5,610	147	1,074	6,831
2019		5,855	121	867	6,843
2020		6,520	95	644	7,259
2021		6,845	64	403	7,312
2022		7,160	33	149	7,342
Total	$	37,360	632	4,410	42,402

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

	Variable-rate bonds Principal	Variable-rate bonds Interest	Interest rate swaps, net	Total
2017	$ 2,365	128	919	3,412
2018	2,485	119	842	3,446
2019	2,520	109	765	3,394
2020	2,655	99	683	3,437
2021	2,700	88	600	3,388
2022 - 2026	15,325	263	1,627	17,215
2027	3,375	14	25	3,414
Total	$ 31,425	820	5,461	37,706

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, 2016 consists of the following:

Advanced Refunded Bonds
(In thousands)

Series	Outstanding at June 30, 2016
Auxiliary Facilities System, Series 2009A	$ 76,305

(8) Leaseholds Payable and Other Obligations

Leaseholds payable and other obligations activity for the year ended June 30, 2016 consists of the following:

Leaseholds Payable and Other Obligations
(In thousands)

		Beginning balance	Additions	Deductions	Ending balance	Current portion
University:						
Certificates of participation	$	271,560		(27,460)	244,100	30,525
Unamortized debt premium		10,966		(1,911)	9,055	1,660
		282,526	—	(29,371)	253,155	32,185
Other capital leases		33,414	415	(3,697)	30,132	3,577
Energy services agreement installment payment contracts		43,565		(2,966)	40,599	3,054
Environmental remediation liability		224		(125)	99	
Total University	$	359,729	415	(36,159)	323,985	38,816
URO – Foundation:						
Annuities payable	$	52,838	2,733	(7,103)	48,468	6,280
Other liabilities		4,941		(4)	4,937	
Total URO – Foundation	$	57,779	2,733	(7,107)	53,405	6,280

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

Included in leaseholds payable is $95,025,000 of variable-rate demand COPs. The COPs mature serially through August 2021. The COPs have variable interest rates that are adjusted periodically (e.g., daily, weekly, or monthly), generally with interest paid at the beginning of each month. The COPs are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest on seven days notice and delivery to the University's remarketing agent. The University pays the remarketing agent fees on the outstanding COPs balance. If the remarketing agent is unable to resell any COPs that are "put" to the agent, the University has a standby certificate purchase agreement with a liquidity facility entity. The University has an agreement, with the fees based on the Adjusted Principal (formula based on COPs outstanding plus pro forma interest). The University, in the event a liquidity facility is utilized, has a reimbursement agreement with a financial entity. Generally, the payback period is five to seven years, at an interest rate initially set at slightly above prime or the federal funds rate. The required future interest payments for these variable-rate certificates have been calculated using the synthetic fixed rate for Series 2004, as illustrated in the table below. Other outstanding COPs bear interest at fixed rates ranging from 1.85% to 5.25%.

Variable Rate Certificates of Participation

COP issue	Interest rate at June 30, 2016	Remarketing agent	Remarketing fee	Liquidity facility: Bank	Liquidity facility: Expiration	Liquidity facility: Insured by	Liquidity fee
COP 2004	0.99%	Morgan Stanley	0.10%	BMO Harris Bank, N.A.	8/16/2021	None	0.50%

(a) Interest Rate Swap Agreement on Certificates of Participation

To facilitate the advance refunding of the COPs (Utility Infrastructure Projects) Series 2001 A & B, and, as a means to lower its borrowing costs, when compared against fixed-rate bonds at the time of issuance, the University entered into an interest rate swap in connection with its COPs (Utility Infrastructure Projects) Series 2004.

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

Credit Risk – As of June 30, 2016, 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, 2016 are listed below:

Interest Rate Swap								
COP issue	**Outstanding notional amount**	**Effective date**	**Fixed rate paid**	**Variable rate received**	**Level 2 Fair value**	**Swap termination date**	**Counterparty**	**Counterparty credit rating (S&P/Moody's)**
COP 2004	$ 95,025,000	March 2004	3.765%	100% of SIFMA	$ (9,841,000)	August 2021	Morgan Stanley	BBB+/A3

The University engaged a third-party consultant to determine the fair value of the swap agreements. The fair value provided by the consultant was derived from proprietary models based upon well-recognized financial principles and reasonable estimates about relevant market conditions. 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, 2016. 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 0.99% in effect as of June 30, 2016, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, were as follows. As rates vary, variable-rate certificate interest payments and net swap payments will also vary.

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

		Variable-rate certificates Principal	Variable-rate certificates Interest	Interest rate swaps, net	Total
2017	$	8,345	941	2,480	11,766
2018		15,990	858	2,104	18,952
2019		16,635	700	1,649	18,984
2020		17,305	535	1,174	19,014
2021		18,010	364	681	19,055
2022		18,740	185	167	19,092
Total	$	95,025	3,583	8,255	106,863

(b) Capital Leases (includes Certificates of Participation)

Assets held under capital leases are included in capital assets at June 30, 2016 as follows:

Assets Held Under Capital Lease
(In thousands)

Land	$	6,471
Buildings		140,486
Improvements		261,715
Equipment		5,762
Subtotal		414,434
Less accumulated depreciation		173,469
Total	$	240,965

The net present value of outstanding capital leases at June 30, 2016 is as follows:

Outstanding Capital Leases
(In thousands)

Certificates of participation:		
Series 2003 Utility Infrastructure	$	7,030
Series 2004 Utility Infrastructure		95,025
Series 2007A		30,700
Series 2007B		37,030
Series 2009A		12,295
Series 2014A		22,960
Series 2014B		9,900
Series 2014C		29,160
Other capital leases		30,132
Net present value	$	274,232

As of June 30, 2016, future minimum lease payments under capital leases are as follows:

Future Minimum Lease Payments Under Capital Leases
(In thousands)

2017	$	45,518
2018		44,524
2019		43,487
2020		43,160
2021		42,956
2022 – 2026		86,226
2027 – 2031		24,425
2032 – 2033		2,478
Total minimum lease payments		332,774
Amount representing interest		(58,542)
Net present value	$	274,232

(c) Advanced Refunded Certificates Of Participation

The University has defeased COPs through advanced refunding in the prior years, and accordingly, they are not reflected in the accompanying financial statements. The amounts of COPs that have been defeased as of June 30, 2016 consist of the following:

Advanced Refunded COPs
(In thousands)

Series		Outstanding at June 30, 2016
Series 2007A	$	40,810
Series 2009A		16,535
Total	$	57,345

(d) Other Obligations

As part of energy services agreements, the University has entered into installment payment contracts to finance energy conservation measures. As of June 30, 2016, future minimum lease payments under installment payment contracts are as follows:

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

2017	$	4,215
2018		4,215
2019		4,215
2020		4,216
2021		4,216
2022 – 2026		20,305
2027 – 2029		6,678
Total minimum lease payments		48,060
Amount representing interest		(7,461)
Net present value	$	40,599

The University monitors environmental matters and records an estimated liability for identified environmental remediation costs. The estimated liability at June 30, 2016 is $98,700.

At June 30, 2016, the URO – Foundation had annuities payable outstanding of $48,468,000. The Foundation recalculates the present value of these payments through the use of Internal Revenue Service (IRS) discount rates and IRS life expectancy tables.

(e) Operating Leases

The University also leases various buildings and equipment under operating lease agreements. Total rental expense under these agreements was $13,149,000 for the year ended June 30, 2016. The future minimum lease payments (excluding those leases renewed on an annual basis) are as follows:

Future Minimum Operating Lease Payments
(In thousands)

2017	$	11,645
2018		8,712
2019		5,353
2020		2,831
2021		1,496
2022 – 2025		3,728
Total	$	33,765

(9) Net Position

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

University Net Position
(In thousands)

Net investment in capital assets	$	2,248,166
Restricted – nonexpendable:		
Invested in perpetuity to produce income expendable for – scholarships, fellowships and research		101,756
Restricted – expendable for:		
Scholarships, fellowships and research		384,389
Loans		81,032
Service plans		117,576
Retirement of indebtedness		34,447
Capital projects		14,977
Unrestricted:		
Designated		1,339,538
Undesignated		
Total	$	4,321,881

URO – Foundation Net Position
(In thousands)

Net investment in capital assets	$	7,849
Restricted – nonexpendable:		
Invested in perpetuity to produce income expendable for academic programs, scholarships, fellowships and research		990,260
Restricted – expendable for:		
Academic programs, scholarships, fellowships and research		858,112
Unrestricted		(16,067)
Total	$	1,840,154

(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, 2016 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	$	50,844	61,951
Income received from funds held in trust by others		1,304	1,698

(11) State Universities Retirement System

General Information about the Pension Plan

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

Benefits Provided: A traditional benefit plan was established in 1941. Public Act 90-0448 enacted effective January 1, 1998, established an alternative defined benefit program known as the portable benefit package. The traditional and portable plan Tier 1 refers to members that began participation prior to January 1, 2011. Public Act 96-0889 revised the traditional and portable benefit plans for members who begin participation on or after January 1, 2011, and who do not have other eligible Illinois reciprocal system services. The revised plan is referred to as Tier 2. New employees are allowed 6 months after their date of hire to make an irrevocable election. A summary of the benefit provisions as of June 30, 2015 can be found in the SURS' comprehensive annual financial report (CAFR) Notes to the Financial Statements.

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

Contributions: The State is primarily responsible for funding SURS on behalf of the individual employers at an actuarially determined amount. Public Act 88-0593 provides a Statutory Funding Plan consisting of two parts: (i) a ramp-up period from 1996 to 2010 and (ii) a period of contributions equal to a level percentage of the payroll of active members of SURS to reach 90% of the total Actuarial Accrued Liability by the end of Fiscal Year 2045. Employer contributions from "trust, federal, and other funds" are provided under Section 15-155(b) of the Illinois Pension Code and require employers to pay contributions which are sufficient to cover the accruing normal costs on behalf of applicable employees. The employer normal cost for fiscal year 2015 and 2016 respectively, was 11.71% and 12.69% of employee payroll. The normal cost is equal to the value of current year's pension benefit and does not include any allocation for the past unfunded liability or interest on the unfunded liability. Plan members are required to contribute 8.0% of their annual covered salary. The contribution requirements of plan members and employers are established and may be amended by the Illinois General Assembly.

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

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

Net Pension Liability: At June 30, 2015, SURS reported a net pension liability (NPL) of $23,756,361,000. The net pension liability was measured as of June 30, 2014.

Employer Proportionate Share of Net Pension Liability: The amount of the proportionate share of the net pension liability to be recognized for the University is $0. The proportionate share of the State's net pension liability associated with the University is $9,957,590,000. This amount should not be recognized in the financial statement. The net pension liability and total pension liability as of June 30, 2015 was determined based on the June 30, 2014 actuarial valuation rolled forward. The basis of allocation used in the proportionate share of net pension liability is the actual reported pensionable contributions made to SURS during fiscal year 2015.

Pension Expense: At June 30, 2015 SURS reported a collective net pension expense of $1,994,587,000.

Employer Proportionate Share of Pension Expense: The employer proportionate share of collective pension expense should be recognized similarly to on-behalf payments as both revenue and matching expenditure in the financial statements. The basis of allocation used in the proportionate share of collective pension expense is the actual reported pensionable contributions made to SURS during fiscal year 2015. As a result, the University recognized on-behalf revenue and pension expense of $836,040,000 for fiscal year ended June 30, 2016.

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

SURS Collective Deferred Outflows and Deferred Inflows of Resources by Sources

		Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$	27,312,000	
Changes in assumption		609,394,000	
Net difference between projected and actual earnings on pension plan investments		593,841,000	953,329,000
Total	$	1,230,547,000	953,329,000

SURS Collective Deferred Outflows and Deferred Inflows of Resources by Year to be Recognized in Future Pension Expenses

Year Ending June 30		Net Deferred Outflows of Resources
2016	$	154,951,000
2017		118,958,000
2018		(145,152,000)
2019		148,460,000
2020		
Thereafter		
Total	$	277,217,000

Employer Deferral of Fiscal Year 2016 Pension Expense

Employer paid $34,753,000 in federal, trust or grant contributions for fiscal year ended June 30, 2016. These contributions were made subsequent to the pension liability date of June 30, 2015 and are recognized as Deferred Outflows of Resources as of June 30, 2016.

Assumptions and Other Inputs

Actuarial assumptions: The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period June 30, 2010 – 2014. The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return were adopted by the plan's trustees after considering input from the plan's investment consultant(s) and actuary(s). For each major asset class that is included in the pension plan's target asset allocation as of June 30, 2015, these best estimates are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	23%	5.77%
Private Equity	6%	9.23%
Non-U.S. Equity	19%	6.69%
Global Equity	8%	6.51%
Fixed Income	19%	1.12%
Treasury-Inflation Protected Securities	4%	1.22%
Emerging Market Debt	3%	4.61%
Real Estate REITS	4%	5.85%
Direct Real Estate	6%	4.37%
Commodities	2%	4.06%
Hedged Strategies	5%	3.99%
Opportunity Fund	1%	6.80%
Total	100%	5.02%
Inflation		3.00%
Expected Arithmetic Return		**8.02%**

Discount Rate: A single discount rate of 7.12% was used to measure the total pension liability. This single discount rate was based on an expected rate of return on pension plan investments of 7.250% and a municipal bond rate of 3.80% (based on the weekly rate closest to but not later than the measurement date of the 20-Year Bond Buyer Index as published by the Federal Reserve). The projection of cash flows used to determine this single discount rate were the amounts of contributions attributable to current plan members and assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the statutory contribution rates under the SURS' funding policy. Based on these assumptions, the pension plan's fiduciary net position and future contributions were sufficient to finance the benefit payments through the year 2072. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2072, and the municipal bond rate was applied to all benefit payments after that date.

Sensitivity of the SURS' Net Pension Liability to Changes in the Discount Rate: Regarding the sensitivity of the net pension liability to changes in the single discount rate, the following presents the plan's net pension liability, calculated using a single discount rate of 7.12%, as well as what the plan's net pension liability would be if it were calculated using a single discount rate that is 1-percentage-point lower or 1-percentage-point higher:

1% Decrease 6.12%	Current Single Discount Rate Assumption 7.12%	1% Increase 8.12%
$28,929,334,000	$23,756,361,000	$19,470,982,000

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

(12) Postemployment Benefits

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

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

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

(13) Commitments and Contingencies

At June 30, 2016, the University had commitments on various construction projects and contracts for repairs and renovation of facilities of $252,523,000.

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 $71,750,000, with the exception of one energy supplier for which the guarantee is not limited. The exposure related to Prairieland at June 30, 2016 is $3,102,000 for all energy suppliers. This exposure includes the mark-to-market positions on forward contracts and the accounts payable accrued for each vendor.

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

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

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

(14) Operating Expenses by Natural Classification

Operating expenses by natural classification for the year ended June 30, 2016 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	$	1,270,550	102,494	7,131		1,380,175
Research		489,662	248,219	2,907		740,788
Public service		302,311	172,967	1,179		476,457
Academic support		384,954	125,171	7,133		517,258
Student services		143,564	49,924	4,945		198,433
Institutional support		266,735	30,212	128		297,075
Operation and maintenance of plant		63,994	228,704	6,959		299,657
Scholarships and fellowships		244,513	1,275	33,206		278,994
Auxiliary enterprises		173,396	163,992	15,771		353,159
Hospital and medical activities		527,297	368,275			895,572
Independent operations		2,095	7,952			10,047
Depreciation					254,879	254,879
Total	$	3,869,071	1,499,185	79,359	254,879	5,702,494

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

		Distributions on behalf of the University	Institutional support	Depreciation	Total
Fund-raising	$		17,216		17,216
Distributions on behalf of the University		163,132			163,132
General and administrative			13,211		13,211
Actuarial adjustments			2,017		2,017
Depreciation				1,529	1,529
Total	$	163,132	32,444	1,529	197,105

(15) Segment Information

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

Condensed Statements of Net Position

June 30, 2016

(In thousands)

		Auxiliary Facilities System	Health Services Facilities System	Total
Assets and deferred outflow of resources:				
Current assets	$	216,678	330,424	547,102
Noncurrent assets:				
Capital assets, net of accumulated depreciation		1,135,187	185,005	1,320,192
Other noncurrent assets		89,327	49,411	138,738
Deferred outflow of resources		31,431	6,534	37,965
Total assets and deferred outflow of resources	$	1,472,623	571,374	2,043,997
Liabilities:				
Current liabilities	$	101,187	116,594	217,781
Noncurrent liabilities:				
Long-term debt		1,134,155	114,100	1,248,255
Other liabilities		14,510	25,839	40,349
Total liabilities		1,249,852	256,533	1,506,385
Net position:				
Net investment in capital assets		41,564	100,363	141,927
Restricted:				
Expendable		26,731	14,702	41,433
Unrestricted		154,476	199,776	354,252
Total net position		222,771	314,841	537,612
Total liabilities and net position	$	1,472,623	571,374	2,043,997

Condensed Statement of Revenues, Expenses and Changes in Net Position

Year ended June 30, 2016

(In thousands)

		Auxiliary Facilities System	Health Services Facilities System	Total
Operating revenues	$	353,047	687,737	1,040,784
Operating expenses		289,933	895,800	1,185,733
Depreciation expense		34,437	20,068	54,505
Operating income (loss)		28,677	(228,131)	(199,454)
Nonoperating revenues, net		10,898	232,447	243,345
Increase in net position		39,575	4,316	43,891
Net position, beginning of year		183,196	310,525	493,721
Net position, end of year	$	222,771	314,841	537,612

Condensed Statement of Cash Flows

Year ended June 30, 2016

(In thousands)

Net cash flows provided by (used in) operating activities	$	106,729	(28,748)	77,981
Net cash flows provided by noncapital financing activities		6	184	190
Net cash flows used in capital and related financing activities		(169,940)	(27,691)	(197,631)
Net cash flows provided by investing activities		81,451	8,016	89,467
Net increase (decrease) in cash and cash equivalents		18,246	(48,239)	(29,993)
Cash and cash equivalents, beginning of year		201,571	206,530	408,101
Cash and cash equivalents, end of year	$	219,817	158,291	378,108

(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, 2016
(In thousands)

	Foundation	Alumni Association	WWT	Illinois Ventures
Assets and deferred outflow of resources:				
Current assets	$ 82,388	1,493	997	2,365
Noncurrent assets:				
Capital assets, net of accumulated depreciation	12,606	884	24	2
Other noncurrent assets	1,821,744	14,125		4,185
Deferred outflow of resources				
Total assets and deferred outflow of resources	$ 1,916,738	16,502	1,021	6,552
Liabilities and deferred inflow of resources:				
Current liabilities	$ 29,340	848	1,351	550
Due to related organizations				
Noncurrent liabilities	47,244	9		
Deferred inflow of resources				
Total liabilities and deferred inflow of resources	76,584	857	1,351	550
Net position:				
Net investment in capital assets	7,849	884	24	2
Restricted:				
Nonexpendable	990,260			
Expendable	858,112			18
Unrestricted	(16,067)	14,761	(354)	5,982
Total net position	1,840,154	15,645	(330)	6,002
Total liabilities, deferred inflow of resources and net position	$ 1,916,738	16,502	1,021	6,552

Condensed Statement of Revenues, Expenses and Changes in Net Position
Year ended June 30, 2016
(In thousands)

	Foundation	Alumni Association	WWT	Illinois Ventures
Operating revenues	$ 136,715	4,559	14,539	1,940
Operating expenses	195,576	7,262	14,640	1,859
Depreciation expense	1,529	30	34	2
Operating income (loss)	(60,390)	(2,733)	(135)	79
Nonoperating revenues (expenses), net	(63,396)	(184)		(588)
Contributions to endowments	32,271			
(Decrease) increase in net position	(91,515)	(2,917)	(135)	(509)
Net position, beginning of year	1,931,669	18,562	(195)	6,511
Net position, end of year	$ 1,840,154	15,645	(330)	6,002

Condensed Statements of Net Position
June 30, 2016
(In thousands)

		Research Park	Prairieland	Singapore Research	Total
Assets and Deferred Outflow of Resources:					
Current assets	$	617	7,326	7,688	102,874
Noncurrent assets:					
Capital assets, net of accumulated depreciation		1,417	18	377	15,328
Other noncurrent assets			84		1,840,138
Deferred outflow of resources			42		42
Total assets and deferred outflow of resources	$	2,034	7,470	8,065	1,958,382
Liabilities and Deferred Inflow of Resources:					
Current liabilities	$	24	5,643	816	38,572
Due to related organizations				6,772	6,772
Noncurrent liabilities					47,253
Deferred inflow of resources			125		125
Total liabilities and deferred inflow of resources		24	5,768	7,588	92,722
Net position:					
Net investment in capital assets		1,417	18	377	10,571
Restricted:					
Nonexpendable					990,278
Expendable					858,112
Unrestricted		593	1,684	100	6,699
Total net position		2,010	1,702	477	1,865,660
Total liabilities, deferred inflow of resources, and net position	$	2,034	7,470	8,065	1,958,382

Condensed Statement of Revenues, Expenses and Changes in Net Position
Year ended June 30, 2016
(In thousands)

Operating revenues	$	724	42,092	10,185	210,754
Operating expenses		639	42,124	10,104	272,204
Depreciation expense		80	11	192	1,878
Operating income (loss)		5	(43)	(111)	(63,328)
Nonoperating revenues (expenses), net			1	49	(64,118)
Contributions to endowments					32,271
(Decrease) increase in net position		5	(42)	(62)	(95,175)
Net position, beginning of year		2,005	1,744	539	1,960,835
Net position, end of year	$	2,010	1,702	477	1,865,660

(17) Budget Impasse

As a result of a budget impasse at the State level, the University received stop-gap appropriations of $181,502,000 for fiscal year 2016, a decrease of 72% from the prior year appropriation. Article 74 of Public Act 99-0524, which was enacted June 30, 2016, authorized the University to pay Fiscal Year 2016 operating expenses using the University's Fiscal Year 2017 appropriations of $355,815,000. In accordance with the terms of the appropriation, the University is submitting vouchers to the State Comptroller for Fiscal Year 2016 operating expenses. This appropriation, however, will be recognized as revenue in Fiscal Year 2017 because the period to which the appropriation applied had not begun as of June 30, 2016, as noted in GASB Statement No. 33, Paragraph 74. The reduction in overall appropriations to the University has necessitated the use of reserve balances to maintain operations.

(18) Subsequent Events

On September 29, 2016, the University issued $116,845,000 of COPs. The proceeds from this issuance refunded the outstanding balance of existing COP Series 2004 and partially refunded the outstanding balance of COP, Series 2007A, Series 2007B, and Series 2009A. The COP Series 2004 had an interest rate swap agreement associated with it, which terminated as a result of the refunding. The University utilized COP proceeds to pay $7,780,000 of costs related to the termination.

During September of 2016, management within the Singapore Research component unit was made aware that the primary grantor may not renew the grant that provides core funding beyond the expiration date of April 30, 2017. The absence of core funding would result in this unit's inability to continue operations. Given this situation, Singapore Research is engaged in a search for new core funding from other sponsors.

In 2004, the Office of the Inspector General of the U.S. Department of Health and Human Services (OIG) conducted an audit of the Medicaid disproportionate share hospital (DSH) programs in ten states for the years 1997 through 2000, including the State of Illinois. The OIG's audit report indicated that the State of Illinois' Medicaid DSH payments exceeded hospital-specific limits, and that the Federal share of those overpayments was $145.8 million, of which $140.3 million related to payments made to the University's hospital. The Illinois Department of Healthcare and Family Services (IDHFS) believes it followed guidelines published by the U. S. Centers for Medicare and Medicaid Services (CMMS) and that its methodology for calculating the hospital-specific limit had consistently been approved by CMMS. However, on July 25, 2016, CMMS issued a formal notice to IDHFS that it had adopted the OIG's recommendation and was requesting repayment by IDHFS of the $140.3 million associated with the University's hospital. In January 2017, IDHFS filed an appeal notice with the U.S. Department of Health and Human Services Departmental Appeals Board. At this time, neither CMMS nor IDHFS has made a repayment request to the University or its hospital. The impact to the University, if any, will be determined after the appeal process concludes.

UNIVERSITY OF ILLINOIS

Required Supplementary Information
Year Ended June 30, 2016
(In thousands)

Schedule of Share of the Net Pension Liability	Fiscal Year 2015	Fiscal Year 2014
(a) Proportion percentage of the collective net pension liability	0%	0%
(b) Proportion amount of the collective net pension liability	$ -	$ -
(c) Portion of nonemployer contributing entities' total proportion of collective net pension liability associated with employer	9,957,590	8,995,845
Total (b) + (c)	9,957,590	8,995,845
Employer defined benefit covered payroll	$ 2,029,795	$ 1,953,692
Proportion of collective net pension liability associated with employer as a percentage of defined benefit covered payroll	490.57%	460.45%
SURS plan net position as a percentage of total pension liability	42.37%	44.39%

Schedule of Contributions	Fiscal Year 2016	Fiscal Year 2015	Fiscal Year 2014
Federal, trust, grant and other contribution	$ 34,753	$ 33,473	$ 34,200
Contribution in relation to required contribution	34,753	33,473	34,200
Contribution deficiency (excess)	-	-	-
Employer covered payroll	$ 2,059,866	$ 2,029,795	$ 1,953,692
Contributions as a percentage of covered payroll	1.69%	1.65%	1.75%

(Continued)

Changes of benefit terms. There were no benefit changes recognized in the Total Pension Liability as of June 30, 2015.

Changes of assumptions. In accordance with Illinois Compiled Statutes, an actuarial review is to be performed at least once every three years to determine the reasonableness of actuarial assumptions regarding the retirement, disability, mortality, turnover, interest and salary of the members and benefit recipients of SURS. An experience review for the years June 30, 2010 to June 30, 2014 was performed in February 2015, resulting in the adoption of new assumptions as of June 30, 2015.

- Mortality rates. Change from the RP 2000 Mortality table projected to 2017, sex distinct, to the RP-2014 mortality tables with projected generational mortality improvement. Change to a separate mortality assumption for disabled participants.
- Salary increases. Change assumption to service-based rates, ranging from 3.75 percent to 15.00 percent based on years of service, with underlying wage inflation of 3.75 percent.
- Normal retirement rates. Change to retirement rates at ages younger than 60, age 66, and ages 70-79 to reflect observed experiences.
- Early retirement rates. Change to a slight increase to the rates at ages 55 and 56.
- Turnover rates. Change to produce lower expected turnover for members with less than 10 years of service and higher turnover for members with more than 10 years of service than the currently assumed rates.
- Disability rates. Decrease rates and have separate rates for males and females to reflect observed experience.
- Dependent assumption. Maintain the current assumption on marital status that varies by age and sex and the assumption that males are three years older than their spouses.

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