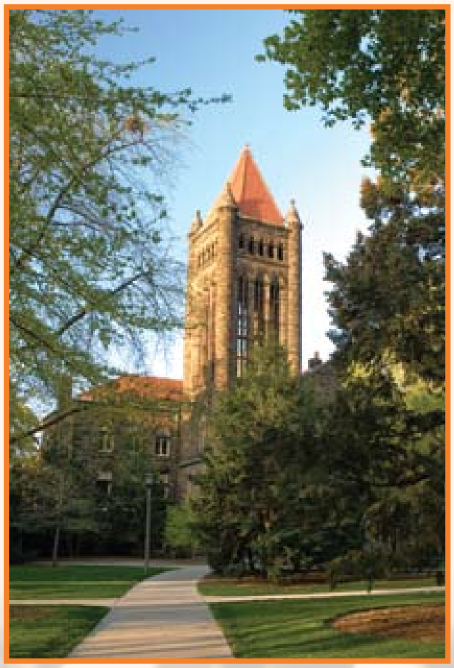
University of Illinois
Urbana-Champaign · Chicago · Springfield

Annual Financial Report

FISCAL YEAR 2009



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UNIVERSITY OF ILLINOIS
URBANA-CHAMPAIGN • CHICAGO • SPRINGFIELD

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UNIVERSITY OF ILLINOIS

Established in 1867, the University of Illinois at Urbana-Champaign is a premier public research university distinguished by the breadth and quality of its programs. Faculty conduct world-class interdisciplinary research and scholarship in an environment that enables creative thinking, promotes academic excellence and advances understanding. Students select their academic major from more than 150 undergraduate and more than 100 graduate and professional programs. The campus boasts more than 1,000 registered student organizations.

www.illinois.edu

UIC

The University of Illinois at Chicago is an urban university that is a vital partner in the educational, technological and cultural fabric of the Chicago metropolitan area. UIC operates the state's major public medical center and is a principal educator of Illinois' physicians, dentists, pharmacists, nurses and other health-care professionals. A noted research center, particularly in urban affairs, medicine and the health sciences, UIC is committed to creating and disseminating new knowledge.

www.uic.edu

UIS

The University of Illinois at Springfield offers an outstanding liberal arts education by pairing academic excellence with small class size, high-quality programs and internships in public affairs, journalism and government. Faculty and students enrich the life of Illinois' capital city of Springfield, and graduates assume leadership positions in government, media and communications. The Engaged Citizenship Common Experience course fosters an appreciation for diversity and the active effort to make a difference in the world.

www.uis.edu

MESSAGE FROM THE PRESIDENT

I am pleased to present the 2009 University of Illinois Financial Report on behalf of our Board of Trustees and our faculty, students and staff. This report, which gives detailed information about the University's financial position and performance for the fiscal year that ended June 30, 2009, shows that our resources have been well managed and that the University's financial house is in order.

The 2009 fiscal year was particularly challenging for the institution. With prudent spending, we handled a midyear rescission in state appropriations and dealt with a delay at the end of the fiscal year in funding from the state of Illinois, which is our largest stakeholder. The state's direct annual investment in the University exceeds $700 million. More than $400 million in state funds also pay for medical and pension benefits for our 25,000 employees, who have a deep loyalty and commitment to the University and its students.

As you will read inside this report, the impact of the University of Illinois on the state is significant. Each year, the University of Illinois system has a direct and indirect impact of more than $13 billion across the state, from urban Chicago to downstate communities. For every dollar that the state spends on the institution, more than $17 is generated into the economy. Investing in the University is a great value and we are grateful to the legislature and governor for their support.

I welcome your comments.

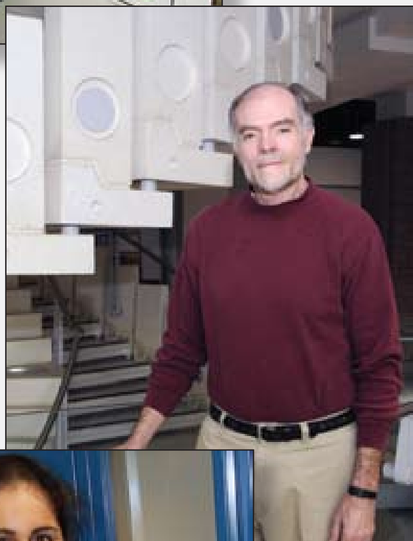
Sincerely,

B. Joseph White
President

SHOWCASE OF RESEARCH AND

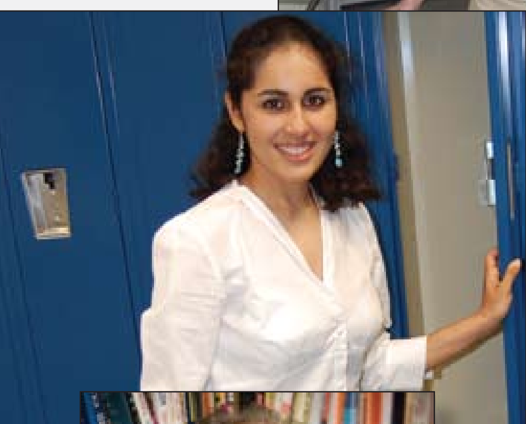
Miscanthus Host for Rootworm Beetle

The western corn rootworm beetle, a pest that eats corn roots and corn silk and costs growers more than $1 billion annually in the U.S., also can survive on the perennial grass *Miscanthus x giganteus*, a potential biofuels crop that would likely be grown alongside corn. Joseph Spencer is co-author of a study that identifies *Miscanthus* as a host for the rootworms beetle. The number of rootworms that survived on the perennial grass was a revelation, according to Spencer, an insect behaviorist with the Urbana State Natural History Survey. Researchers will do further work to determine if acres devoted to *Miscanthus* could function as a perennial reservoir of rootworm beetles with devastating consequences for corn growers.



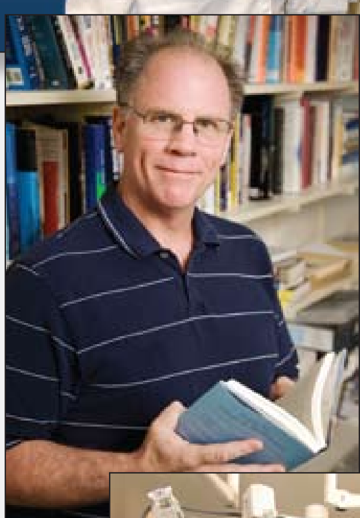
Developing Remedies for Bioterrorism

UIC pharmacy researchers received a $4 million federal grant to develop new antibiotics to treat anthrax, tularemia and plague—infections that could be used in bioterrorism and biowarfare. The microorganisms pose a risk to national security because they can be easily transmitted and spread, result in high fatalities, have potential major public health impact and cause panic. According to Michael Johnson, professor and director of the Center for Pharmaceutical Biotechnology, these infections can be treated with current antibiotics, but none is ideal. The goal of the project is to develop a series of broad-spectrum antibacterial compounds that are safe and efficacious and can be taken orally.



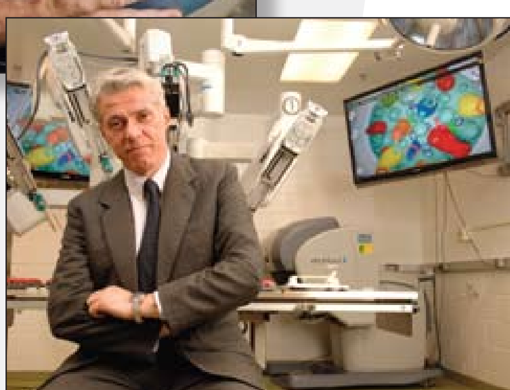
UIS Students Attend Model United Nations Conference

Students in a Model United Nations course at UIS earned several group and individual awards at the organization's annual national conference in New York during the spring of 2009. The conference, attended by students from more than 300 schools, simulated a real UN meeting. Adriana Crocker, the UIS professor of political science who taught the class, said it was exceptional for her group to earn the Distinguished Delegation Award because the team was smaller than most others that attended. Two UIS students, including Priyanka Deo, were chosen to attend a conference in Switzerland based on their performance in New York.



Journalism Subsidies?

Journalism in the U.S. needs government support, preferably tens of billions of dollars, according to Robert McChesney, a co-author of a new book making that case. With the rapid decline of commercial journalism, especially of the newspapers that publish most original reporting, federal subsidies may be the only means left for maintaining the journalism that a healthy democracy needs. An Urbana communication professor, McChesney says large government support for journalism is nothing new and should even be considered the norm. Federal subsidies have been a constant through American history, beginning with postal and printing subsidies to support newspapers in the 1800s. McChesney wrote "The Death and Life of American Journalism" (Nation Books) with John Nichols, a political blogger and writer for The Nation magazine.



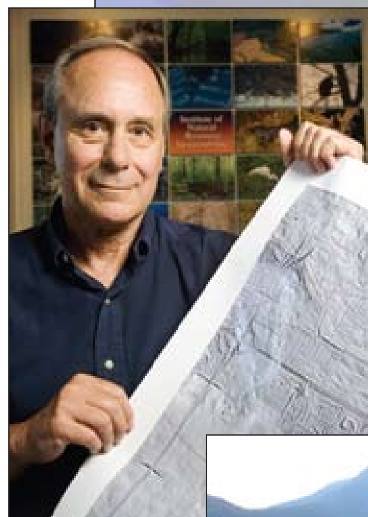
Robotic Surgery Program Recognized as an Innovator

The UIC College of Medicine won a 2009 Chicago Innovation Award – a program sponsored by local and national businesses – in recognition of its pioneering efforts in complex general and thoracic surgery. Led by professor of surgery Pier Cristoforo Giulianotti, UIC's robotics program is the largest in the nation based on the volume of procedures and performs up to 600 operations a year. More than 250 surgeons from around the world have attended UIC's Advanced Robotic Laboratory to learn basic and advanced robotic surgery techniques.

INSTRUCTIONAL SUCCESSES

Self-cleaning Beading Process

Constantine Megaridis, professor of mechanical and industrial engineering, and students from the Micro/Nanoscale Fluid Transport Laboratory have developed a patent-pending coating process that may lead to new uses for superhydrophobic self-cleaning surfaces in a wide range of products. As happens on a lotus leaf, water hitting the coated surface forms into beads on contact. The beads collect and remove dirt and dust while rolling along, leaving behind a clean surface. A broad range of surfaces can be coated with the Megaridis lab process, from glass and metal to fabrics and rubber. The coating ingredients they use are inexpensive, and Megaridis' unique chemistry process makes application easy, quick drying, and provides greater durability for use in a variety of environmental conditions.



Glaciers Tell Story of Climate Change

William Shilts, executive director of the Institute of Natural Resource Sustainability, has spent nearly two decades chronicling the decline of glaciers on Bylot Island, an uninhabited land mass located about 300 miles southwest of Greenland. Shilts, a geologist on the Urbana campus, said aerial photos of the island taken since the 1940s to the present show a steady, rapid decline in several glaciers. He attributes the decline to a natural cycle of glacial retreat but also pointed to a human effect driven by higher carbon dioxide emissions in the atmosphere since the Industrial Revolution.

Students Study in South America

A dedicated group of UIS students spent part of the summer of 2009 climbing Machu Picchu, navigating a lake located 12,500 feet above sea level, and immersing themselves in the Spanish language by living with non-English speakers in Peru. The trip, led by Spanish instructor Veronica Espina, marked the first time UIS sent a study abroad group to South America. Students kept a bilingual journal and reflected on Peru's culture and the environment. They discussed their experiences on campus upon their return.

New Certificate Program in e-Government

UIC's top-ranked public administration program began offering an online certificate program in e-government in the fall of 2009. Students, many of whom are working professionals, will gain knowledge that allows them to apply existing and emerging information technologies to local, state, and federal governments. James Thompson, head of public administration in the College of Urban Planning and Public Affairs, says the program consists of 12 credit hours in topics such as the Internet and web-based service delivery, data and project management, and geographic information systems.

The Right Diet May Ward off Disease

An apple a day keeps the doctor away. Gregory Freund, head of the department of pathology, and his colleagues are discovering that the aphorism may actually be true. Freund studies cytokines, the small proteins released by immune cells that play a significant role in the symptoms associated with everything from common colds to chronic illnesses. His team believes the soluble fiber found in foods such as apples and oats may play a role in correcting cytokine imbalances, which cause obesity, diabetes, and other diseases. The College of Medicine at Urbana-Champaign is one of three regional branches of the College of Medicine, a unit of the University of Illinois at Chicago.

Humanities Awarded Mellon Foundation Grant

The Illinois Program for the Research in the Humanities (IPRH) on the Urbana campus has been awarded a six-year, $1.25 million grant by the Andrew W. Mellon Foundation. The grant will fund 10 post-doctoral fellowships in the humanities and humanistic social sciences during the next six years, with the first appointments to begin in the fall of 2010. IPRH will name two fellows each year, who will engage in research and teaching at Illinois, pursuing scholarship on a wide range of humanities topics and teaching four courses each during their two-year terms in the appropriate academic departments. The Mellon Fellows must have recently completed a doctoral degree in a humanities discipline, with expertise and research that falls into one of four broadly interdisciplinary areas: race and diaspora studies, the history of science and technology, empire and colonial studies, and memory studies.

Grant Helps Fund New Center to Eliminate Health Disparities

UIC is working to develop a pipeline of researchers interested in health disparities. The Center of Excellence in Eliminating Health Disparities is the result of a five-year, $7.2 million grant from the National Center on Minority Health and Health Disparities. Elizabeth Calhoun, associate professor of health policy and administration, directs the new center where researchers will examine disparities in prostate and colorectal cancer. Their main goals include developing a comprehensive strategy to incorporate research, education, policy changes and community partnerships to reduce health disparities in Chicago and other cities.

Researchers Study Erosion Control Practices

An enormous mound of dirt located south of the Urbana campus is actually a berm that will be used to test more than a dozen varieties of grass to gauge their ability to control erosion. Constructed on the U of I research farm last summer with a $450,000 grant from the Illinois Department of Transportation (IDOT), the 300 feet long, 13 feet high dirt berm will be used by IDOT to train engineers and technicians as they develop storm water management plans for Illinois roads. Prasanta Kalita, professor of agricultural and bioengineering, is coordinating the project.

Exploring the Ocean Floor from the Laboratory

Two UIC geoscientists say a device they've built duplicates extreme sea floor conditions within a small, specially designed chamber that they use in their lab, showing how rocks, sediment, gases and liquids below interact. Stephen Guggenheim, professor of earth and environmental sciences, and emeritus professor Gus Koster van Groos say their high-pressure environmental chamber can simulate deep-sea pressure to 1,000 atmospheres and at temperatures from zero to 200 degrees Celsius. A new National Science Foundation grant will let the scientists modify and improve their device, adding injection and extraction valves to facilitate sample manipulation. The chamber may be used to study whether long-term, deep underground sequestering of excess carbon dioxide can be done safely and for a variety of applications, such as examining the interaction between various materials and caustic acids.

Pledge Creates Brazilian Studies Institute

A $14 million gift will help the Urbana campus create a leading Brazilian studies program in the US. The Lemann Institute is the result of a donation from Brazilian businessman Jorge Paulo Lemann, a longtime supporter of the campus, and his family. Lemann said the gift—the largest ever to the campus from a non-alumnus—recognizes the campus' efforts to attract talented students who have had a positive impact on Brazilian society. The gift is expected to increase scholarly exchange and research between faculty and students in Urbana and their counterparts in Brazil.

Photo credits: Robert Dupuis-Devlin (UIC); L. Brian Stauffer (Urbana); Don Hamerman/Urbana Institute for Genomic Biology; UIS Public Relations Office; Joyce Seay-Knoblauch, Urbana ACES/ITCS

For more information: Urbana News Bureau at news.illinois.edu/; UIC News Bureau at www.uic.edu and click on *More news*; or UIS at www.uis.edu/newsbureau/

STAFF AND STUDENT DATA
as of October 2008

Staff Full-Time Equivalent (all funds)

	Urbana-Champaign	Chicago	Springfield	University Administration*	Total University
Faculty	3,013	2,457	248	7	5,725
Academic Professional	3,986	3,860	225	886	8,957
Support Staff	4,628	5,323	297	399	10,647
Graduate Assistant	2,667	2,063	135	20	4,885
TOTAL	14,294	13,703	905	1,312	30,214

Note: Chicago campus includes University of Illinois Hospital; Urbana-Champaign campus includes Cooperative Extension Service.
*Includes Global Campus employees

Degrees Awarded FY 2008

	Urbana-Champaign	Chicago	Springfield	Total University
Certificates	13	—	—	13
Bachelors	7,314	3,323	684	11,321
Postbaccalaureate Certificates	—	11	15	26
Masters	2,655	1,742	840	5,237
Post-Masters Certificates	18	2	—	20
Doctorate	759	315	—	1,074
First-Professional	308	558	—	866
First-Professional-Certificates	—	29	—	29
TOTAL	11,067	5,980	1,539	18,586

Student Full-Time Equivalent Enrollment

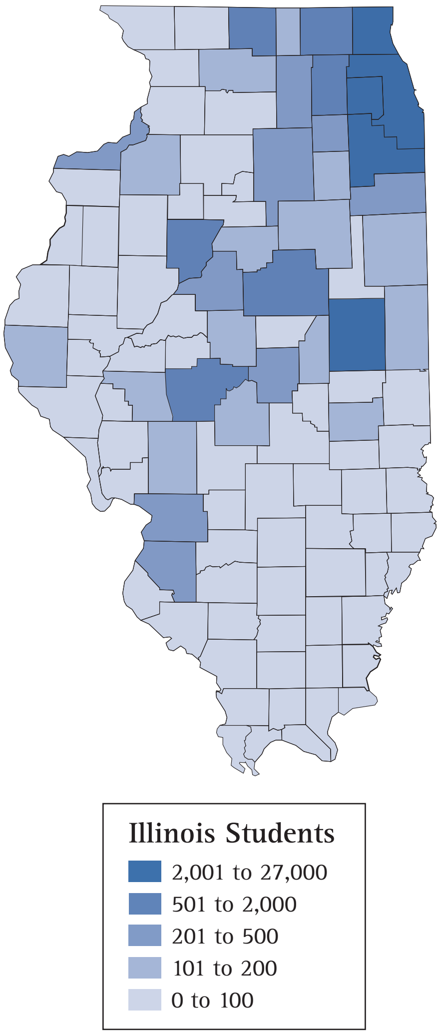
	Fall 2008 On-Campus Enrollment			
	Urbana-Champaign	Chicago*	Springfield	Total University
Undergraduate	32,024	14,906	1,730	48,660
Graduate & Professional	11,644	9,701	643	21,988
TOTAL	43,668	24,607	2,373	70,648

*Includes 982 residents.
Note: Fte calculated based on IBHE definition

A State University With A Global Reach

Total University enrollment for the fall semester of 2008 was approximately 69,700. Illinois residents account for 80% of the total enrollment. The remaining 20% of the University's enrollment is divided between students from other states and U.S. territories, 9%, and international students, 11%.

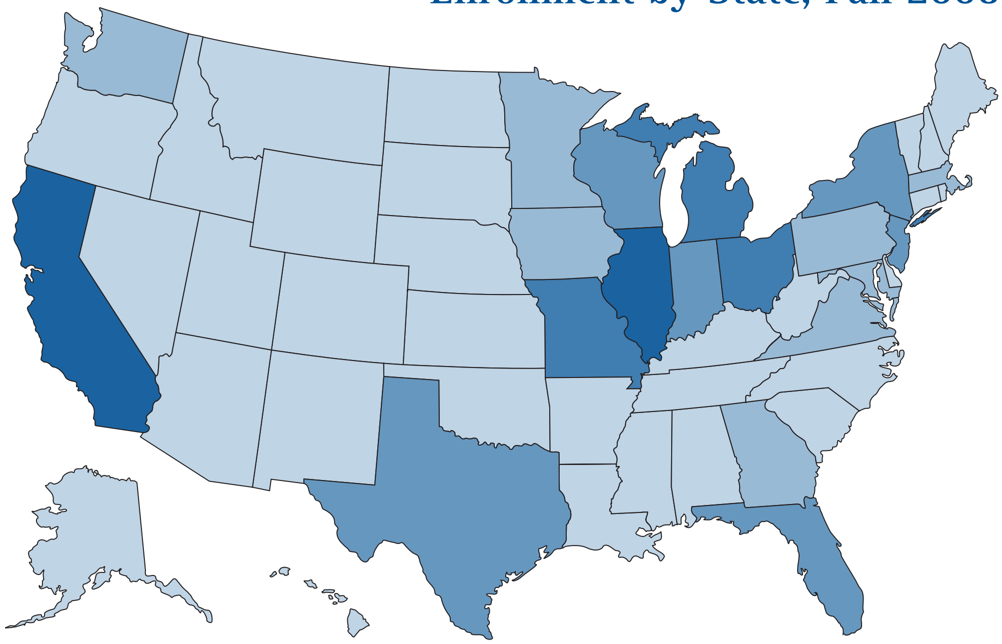
The primary focus of the University's educational program is to provide the highest quality educational experience to Illinois residents. Illinois taxpayers provide a direct subsidy to the University that represents about 30% of the University's operating budget. The enrollment of students from other states, U.S. territories and foreign countries help broaden the educational and life experience of all our students.



Enrollment by County, Fall 2008

Adams	174
Alexander	3
Bond	25
Boone	110
Brown	12
Bureau	100
Calhoun	5
Carroll	27
Cass	44
Champaign	2,823
Christian	167
Clark	18
Clay	18
Clinton	63
Coles	138
Cook	26,492
Crawford	41
Cumberland	18
Dekalb	241
Dewitt	32
Douglas	70
Du Page	6,592
Edgar	45
Edwards	8
Effingham	97
Fayette	21
Ford	61
Franklin	18
Fulton	61
Gallatin	0
Greene	35
Grundy	165
Hamilton	3
Hancock	35
Hardin	2
Henderson	4
Henry	142
Iroquois	104
Jackson	72
Jasper	27
Jefferson	31
Jersey	28
JoDaviess	28
Johnson	4
Kane	1,426
Kankakee	243
Kendall	268
Knox	85
Lake	3,821
La Salle	254
Lawrence	22
Lee	79
Livingston	106
Logan	120
McDonough	78
McHenry	1,194
McClean	571
Macon	345
Macoupin	108
Madison	410
Marion	28
Marshall	37
Mason	52
Massac	11
Menard	82
Mercer	30
Monroe	77
Montgomery	94
Morgan	141
Moultrie	45
Ogle	113
Peoria	572
Perry	16
Piatt	114
Pike	44
Pope	2
Pulaski	3
Putnam	20
Randolph	29
Richland	22
Rock Island	259
St. Clair	386
Saline	17
Sangamon	1,923
Schuyler	28
Scott	24
Shelby	40
Stark	12
Stephenson	100
Tazewell	332
Union	7
Vermilion	191
Wabash	15
Warren	30
Washington	27
Wayne	16
White	17
Whiteside	83
Will	2,677
Williamson	66
Winnebago	645
Woodford	107

Enrollment by State, Fall 2008



Alabama	43
Alaska	19
Arizona	72
Arkansas	27
California	625
Colorado	78
Connecticut	66
Delaware	11
District of Columbia	32
Florida	236
Georgia	102
Hawaii	23
Idaho	23
Illinois	55,868
Indiana	282
Iowa	175
Kansas	77
Kentucky	81
Louisiana	38
Maine	17
Maryland	185
Massachusetts	155
Michigan	305
Minnesota	177
Mississippi	16
Missouri	325
Montana	10
Nebraska	56
Nevada	24
New Hampshire	17
New Jersey	264
New Mexico	33
New York	299
North Carolina	97
North Dakota	10
Ohio	308
Oklahoma	29
Oregon	50
Pennsylvania	192
Rhode Island	18
South Carolina	40
South Dakota	13
Tennessee	87
Texas	278
Utah	69
Vermont	14
Virginia	158
Washington	104
West Virginia	19
Wisconsin	228
Wyoming	4
Other*	406

*U.S. residents with foreign addresses

United States
(AK & HI inset)

- 401 to 56,000
- 301 to 400
- 201 to 300
- 101 to 200
- 0 to 100

Enrollment by Continent, Fall 2008**

North/Central America and W. Indies	246
U.S. and U.S. Territories*	61,941
Subtotal North/Central America	62,187
Asia (includes Middle East)	6,129
Europe	648
South America	251
Africa	126
Oceania	33
Unknown – International	304

*Includes U.S. residents with foreign addresses or unknown addresses.
**Represents headcount

MESSAGE FROM THE CHIEF FINANCIAL OFFICER

The information in this Annual Financial Report of the University of Illinois for the fiscal year ended June 30, 2009, documents that the financial position of the University is sound.

This fiscal year—with a midyear rescission and a global recession—demanded the best from the members of our business staff across University administration and the three campuses. They made wise management and budgetary decisions, guided by best practices and the goal of ensuring the financial integrity of University initiatives and programs even in tough fiscal times.

The University's greatest asset is its people. Our outstanding faculty and students keep the University of Illinois at the forefront of higher education. Our excellent administrative team—in system offices and on our campuses in Urbana-Champaign, Chicago and Springfield—keeps the University's financial base sound. Unit financial staff are attentive caretakers of institutional funds and they have my thanks for their vigilance.

The University of Illinois' tradition of excellence in teaching, research, public service, and economic development has made it an educational leader. All of our efforts focus on continuing that tradition and increasing the stature of the University of Illinois.

Walter Knorr
February 26, 2010

KPMG LLP
303 East Wacker Drive
Chicago, IL 60601-5212

Independent Auditors' Report

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

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units (University Related Organizations) of the University of Illinois, a component unit of the State of Illinois, as of and for the year ended June 30, 2009, which collectively comprise the University of Illinois' financial statements. These financial statements are the responsibility of the University of Illinois' management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component units. The financial statements of the discretely presented component units were audited by other auditors whose reports thereon have been provided to us, and our opinion, insofar as it relates to the amounts included for the aggregate discretely presented component units, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of The University of Illinois Alumni Association, Wolcott, Wood, and Taylor, Inc., Prairieland Energy, Inc., Illinois Ventures, LLC, The University of Illinois Research Park, LLC, and UI Singapore Research, LLC (discretely presented component units) were not audited in accordance with *Government Auditing Standards*. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University of Illinois' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit, and the reports of other auditors, provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the University of Illinois as of June 30, 2009, and the respective changes in financial position and cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

KPMG

In accordance with *Government Auditing Standards*, we have also issued our report dated February 26, 2010 on our consideration of the University of Illinois' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 13 through 22 is not a required part of the basic financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

Chicago, Illinois
February 26, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

The following Management's Discussion and Analysis (MD&A) provides an overview of the financial position and activities of The University of Illinois for the year ended June 30, 2009.

We encourage you to read this MD&A section in conjunction with the audited financial statements and footnotes appearing in this report.

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, 2009. The MD&A should be read in conjunction with the audited financial statements and footnotes appearing in this report.

The University was founded in 1867 in response to the federal Land Grant Act of 1862. The University's evolution over 140 years as a land-grant institution has produced a set of core values that underlie all aspects of its present and future programs. The University is a comprehensive public university, a family of three distinct campuses – Urbana-Champaign, Chicago, and Springfield serving the people of Illinois through a shared commitment to our missions of excellence in teaching, research, public service and economic development.

Our campuses currently enroll approximately 70,000 on-campus students and thousands more take courses off campus and online. The University of Illinois has internationally renowned faculty that are known for being world leaders in research and currently employs approximately 5,700 faculty members on its three campuses. The University offers a diverse range of degree programs from baccalaureate to post-doctoral levels. Approximately 19,000 degrees are awarded annually. The operating budget for fiscal year 2009, from all fund sources, was approximately $4.2 billion. Our faculty, staff and students share their knowledge and expertise and the resources of the University with citizens in every corner of Illinois through more than 700 public service and outreach programs.

The University has a mission to transform lives and serve society by educating, creating knowledge, and putting knowledge to work on a large scale and with excellence. Our vision is to create a brilliant future for the University in which students, faculty, and staff thrive and citizens of Illinois, the nation, and the world benefit.

A commitment to research is an integral part of the University's mission. The University's world-class faculty is the driver of cutting-edge research, yielding inventions and the discovery of new knowledge, which can be commercialized into new processes, products, and services. The faculty members at the University generate external grants that bring employment, graduate students, and resources to Illinois.

The University of Illinois serves as an essential partner with the State in sustaining growth in the economy and thriving, healthy communities. Our very operation means billions in direct spending in Illinois and employment for approximately 30,000. In addition, the increased earning power of hundreds of thousands of alumni living in Illinois results in additional tax revenue for our state.

The University is dedicated to using the resources at all three campuses in an integrated fashion to strengthen the services to the State through the education of a modern work force, engagement in research and development, technology commercialization, and partnerships with business, government and community groups. Each campus makes specific and different contributions to the University's overarching mission and vision. The campuses are strengthened by intercampus cooperation and by university-wide services, yet carry out their academic functions with a high degree of delegated authority and autonomy. In addition to the three main campuses, the University also has health professions sites in the Illinois towns of Rockford, Peoria, and the Quad Cities, continuing education centers and offices across the State of Illinois.

University of Illinois at Urbana-Champaign

The University of Illinois at Urbana-Champaign (Illinois) is a place of excellence, innovation, and tradition. At our State's classic land-grant university, approximately 3,000 faculty members lead more than 43,000 undergraduate, graduate and professional students from around the world in a process of discovery and learning in 16 colleges and schools, and more than 80 research centers and labs. Illinois faculty and students are engaged with top scholars from around the world and across disciplines to address humanity's critical issues. Their work has earned the world's top prizes and recognitions, including Nobel and Pulitzer Prizes, Tony Awards, MacArthur "genius" awards, and National

Medals of Science and Technology. Many faculty members have been inducted into the nation's elite academies of arts and sciences. Unique campus resources include one of the world's largest university libraries, outstanding centers for the arts, and many world-class research facilities, including the National Center for Supercomputing Applications, Beckman Institute for Advanced Science and Technology, and Siebel Center for Computer Science.

University of Illinois at Chicago

The University of Illinois at Chicago (UIC) is a major research university located in the heart of one of the world's great cities. The largest university in Chicago, UIC ranks among the nation's top 50 universities in federally funded research. UIC plays a critical role in Illinois healthcare, operating the state's major public medical center and serving as the principal educator of Illinois' physicians, dentists, pharmacists, nurses and other health professionals. UIC's student body is one of the nation's most diverse, reflecting the global character of Chicago. The hallmark of the campus is its Great Cities Commitment, through which UIC faculty, staff and students engage in hundreds of programs with civic, community, corporate and government partners to improve the quality of life in Chicago and other metropolitan areas around the world.

University of Illinois at Springfield

The University of Illinois Springfield (UIS) is located on 746 picturesque acres in the state capital of Illinois. UIS is a public liberal arts university and the only university in Illinois that is a member of the Council of Public Liberal Arts Colleges (COPLAC). The classes are small and professors know their students. Graduates consistently cite the resulting close relationships they build as UIS's greatest strength. Students select from 42 undergraduate and graduate degree programs and one doctoral program in public administration. UIS also offers 17 degree programs fully online. UIS emphasizes public affairs, citizen engagement and effecting societal change. Students have access to extraordinary internships and research projects with government and state agencies. The UIS campus features a Recreation and Athletic Center and state-of-the-art townhouses and residence halls for a growing number of students. UIS athletics recently joined the Great Lakes Valley Conference in NCAA Division II.

USING THE FINANCIAL STATEMENTS

The University's financial report includes three financial statements: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. The financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles, which establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a consolidated basis to 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. MD&A for these component units is included in their separately issued financial statements.

During the year ended June 30, 2009, the University changed the reporting for three of its component units, Prairieland Energy, Inc., Illinois Ventures, LLC, and University of Illinois Research Park, LLC. In previous years, these component units were incorporated into the University's financial statements using the blending method. As a result of increased activity and transactions with external parties since their establishment, the University determined that it is preferable to present these organizations as discretely presented component units within the financial statements, and accordingly, are now included within the University Related Organizations column. Condensed financial information is disclosed separately for each of the discretely presented component units in note 17 to the financial statements.

FINANCIAL HIGHLIGHTS AND KEY TRENDS

The fiscal year 2009 budget for direct state appropriations, as approved by the Governor, was approximately $747 million, which represented a 2.9% increase from the approved fiscal year 2008 budget. A mid-year rescission resulted in a budget reduction in fiscal year 2009 of 2.5% or almost $19 million. The overall budget utilized by the University, less the rescission, increased by 6.3%. This trend demonstrates the University's ability to rely on other diverse sources of funding to provide services to our students and support our mission.

Net assets, which represent the residual interest in the University's assets after liabilities, increased during the current year by approximately $2.4 million. After consideration of increases in state appropriations and on-behalf payments from the State of Illinois, the University's operating results were largely consistent in fiscal year 2009 as compared to fiscal year 2008. Also, as disclosed in the accompanying financial statements, changes in accounting principles in fiscal year 2009 resulted in a net increase of net assets.

STATEMENT OF NET ASSETS

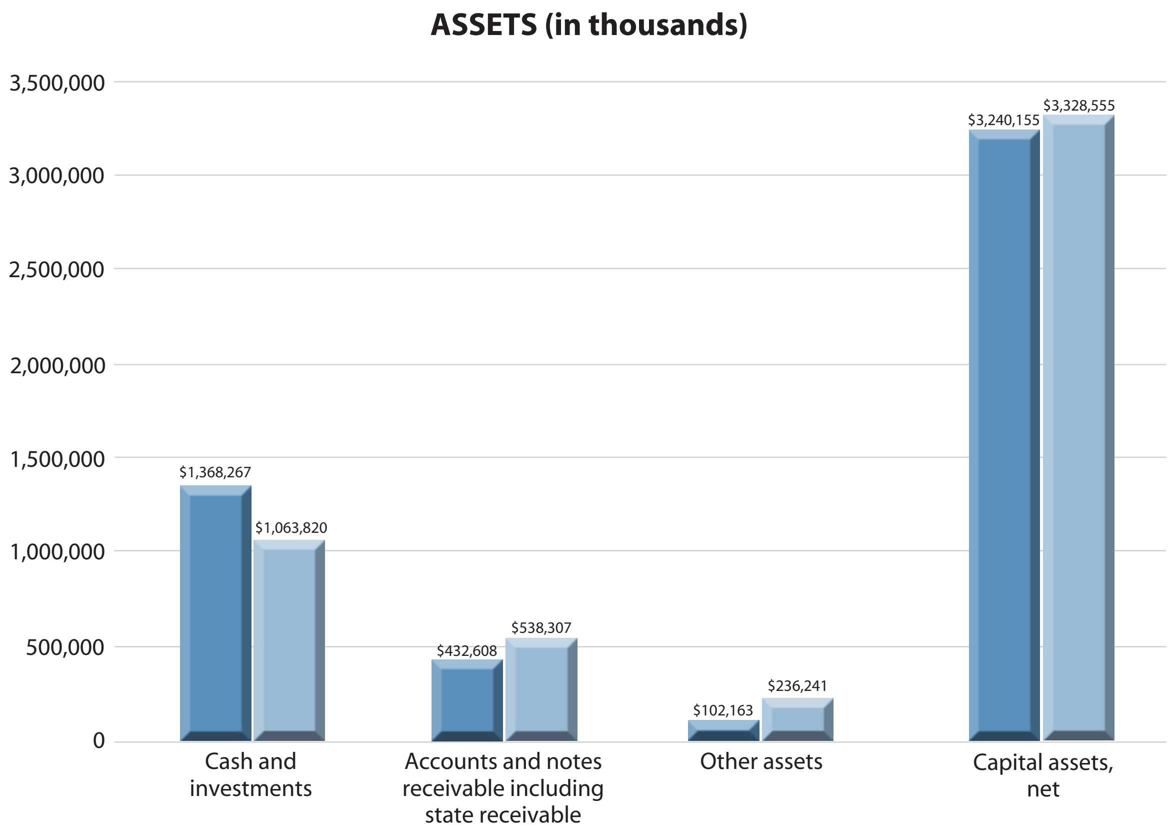
The Statement of Net Assets presents the financial position of the University at the end of the fiscal year and includes all assets and liabilities of the University using the accrual basis of accounting. The difference between total assets and total liabilities, net assets, is one indicator of the current financial condition of the University. The changes in net assets that occur over time indicate improvement or deterioration in the University's financial condition. Generally, assets and liabilities are reported at cost with the exception of investments and permanently endowed real estate and farms, which are reported at fair value. Capital assets are reported at historical cost less accumulated depreciation. A summarized comparison of the University's assets, liabilities and net assets at June 30, 2009 and 2008 is as follows:

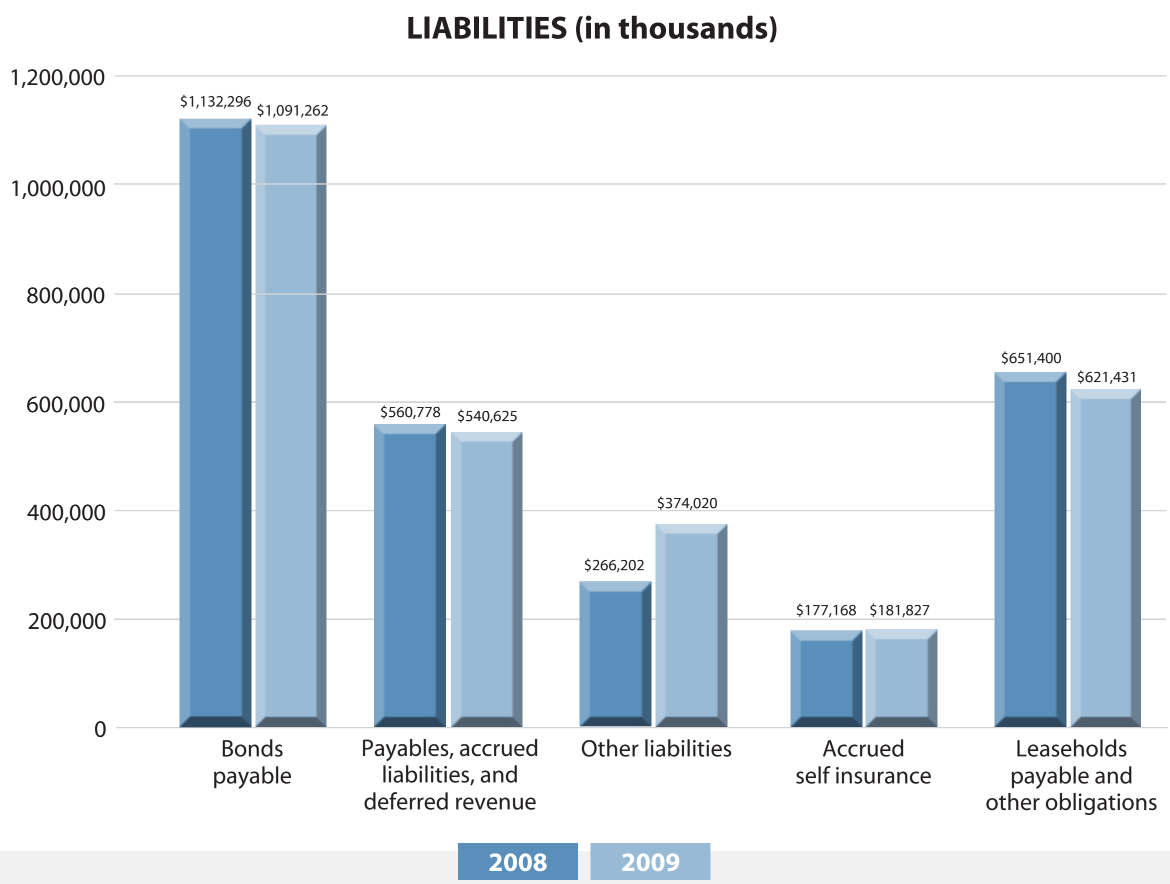
(in thousands)	2009	2008
Current assets:		
Cash and investments	$ 616,340	$ 766,462
Accounts and notes receivable	362,571	375,948
Receivable from State of Illinois General Revenue Fund	120,902	1,355
Other current assets	168,436	64,024
Noncurrent assets:		
Investments	447,480	601,805
Notes receivable	54,834	55,305
Capital assets, net of accumulated depreciation	3,328,555	3,240,155
Other assets	67,805	38,139
Total assets	$ 5,166,923	$ 5,143,193
Current liabilities:		
Accounts payable, accrued liabilities and deferred revenue	$ 540,625	$ 560,778
Bonds payable	33,090	126,807
Leaseholds payable and other obligations	231,786	25,942
Accrued self insurance	54,311	48,591
Other current liabilities	174,076	69,942
Noncurrent liabilities:		
Bonds payable	1,058,172	1,005,489
Leaseholds payable and other obligations	389,645	625,458
Accrued self insurance	127,516	128,577
Accrued compensated absences	199,944	196,260
Total liabilities	$ 2,809,165	$ 2,787,844
Net assets	$ 2,357,758	$ 2,355,349

Total assets increased by $23.7 million or 0.5% to $5.2 billion during fiscal year 2009. The largest components of this change included increases in other assets of $134.1 million, receivable from the State of Illinois of $119.5 million, and capital assets of $88.4 million. Decreases in cash and investments of $304.4 million and a decrease in accounts and notes receivable of $13.8 million offset the majority of these increases. The increase in other assets was primarily due to the reporting of a securities lending asset of $105 million, which has a corresponding liability similar in amount. In 2008, the University had securities lending collateral of $105,328,000; however, the asset and corresponding liability were not included in the statement of net assets. Capital assets increased due to the utilization of debt proceeds for various construction projects throughout the University's three campuses. Total University cash and investments decreased largely due to the utilization of debt proceeds, declining fair value of investments, and state-funded expenditures awaiting reimbursement.

Total liabilities increased by $21.3 million or 0.8% to approximately $2.8 billion during fiscal year 2009. The components of this change included an increase of $104.1 million in other current liabilities, offset by decreases of $41 million in bonds payable and $30 million in leaseholds payable and other obligations, combined with a net decrease of $11.8 million in all other categories. The decreases in bonds payable and leaseholds payable and other obligations were due to scheduled redemptions. The establishment of a securities lending liability largely drove the increase in other liabilities. The current portion of leaseholds payable and other obligations increased significantly, with an offsetting decrease in the related long-term portion, due to certain liquidity facility agreements related to variable rate certificates of participation expiring in fiscal year 2010. The University intends to have new liquidity facility agreements in place on or before the expiration of the existing agreements. In 2008, the University had similar circumstances in which the underlying facility for $20.1 million in variable rate bonds expired within the subsequent year (i.e. fiscal year 2009), but reported the outstanding balance of the certificates as long-term.

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





Capital Assets

Capital assets, net, which includes the University's land, buildings, improvements, infrastructure, and equipment including capitalized software and collections, increased by $88.4 million to $3.3 billion at June 30, 2009. The University's policy requires the capitalization of all land and collection purchases regardless of cost, equipment at $5,000, buildings and improvements at $100,000, and infrastructure at $1,000,000. The University depreciates its capital assets on a straight-line basis, using estimated useful lives ranging from three to fifty years. Facilities under construction included projects funded by revenue bonds, certificates of participation, private gifts, internal funds, and state capital appropriations. Revenue bonds were used to fund Memorial Stadium renovations, residence hall improvements, and other new construction at each of the three campuses. The certificates of participation included funding for the Petascale computing facility. No new State capital appropriation funding was received for fiscal year 2009, but funds re-appropriated from prior years of approximately $3.2 million were utilized as planned for various projects. The following chart illustrates the composition of the University's capital assets, net of accumulated depreciation, by category.

CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION
(in thousands)

	2009		2008	
Buildings	$ 2,226,356	66.9%	$ 1,983,712	61.2%
Improvements and infrastructure	376,888	11.3%	369,283	11.4%
Construction in progress	173,472	5.2%	333,711	10.3%
Land	132,694	4.0%	126,300	3.9%
Equipment and software	290,721	8.7%	301,895	9.3%
Collections	128,424	3.9%	125,254	3.9%
	$ 3,328,555	100.0%	$ 3,240,155	100.0%

Long - Term Debt

The University has historically utilized revenue bonds to finance capital projects related to the Auxiliary Facilities System, the Health Services Facilities System, and the UIC South Campus project. These activities generally have the ability to generate resources from student fees, users, and third parties sufficient to service the debt. The University issued variable rate demand Health Services Facilities System bonds in connection with a refunding of previously existing bond debt. Related proceeds of approximately $41 million, received in June 2008, were used to refund the prior debt in early fiscal year 2009. The following chart details the various bonded debt outstanding at June 30, 2009 and 2008:

BONDS PAYABLE
(in thousands)

	2009	2008
Auxiliary Facilities System	$ 960,824	$ 960,839
Health Services Facilities System	61,305	99,659
UIC South Campus	69,133	71,538
Other Issues		260
	$ 1,091,262	$ 1,132,296

The University has issued certificates of participation (COPs) which are reported as leaseholds payable on the financial statements. The COPs have funded infrastructure projects which included medical, academic, and research facilities such as deferred maintenance, UI Integrate, utility infrastructure, College of Medicine facilities, and the Petascale computing facility. The reduction in the outstanding balance of the COPs was due to scheduled redemptions. The following chart shows the outstanding balance as of June 30, 2009 and 2008:

CERTIFICATES OF PARTICIPATION OUTSTANDING
(in thousands)

	2009	2008
	$ 571,965	$ 589,957

Net Assets

The University's resources are classified into net asset categories in the Statement of Net Assets. These categories are defined as (a) Invested in capital assets, net of related debt - capital assets net of accumulated depreciation and outstanding debt balances, (b) Restricted nonexpendable - assets restricted by externally imposed stipulations, (c) Restricted expendable - assets subject to externally imposed restrictions that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time and (d) Unrestricted - assets not subject to externally imposed stipulations but may be designated for specific purposes by action of management or the Board of Trustees. The University's net assets increased by $2.4 million during fiscal year 2009. Net assets balances are detailed below:

NET ASSETS
(in thousands)

	2009	2008
Net Assets:		
Invested in capital assets, net of related debt	$ 1,861,131	$ 1,822,522
Restricted:	431,171	442,963
Unrestricted:	65,456	89,864
	$ 2,357,758	$ 2,355,349

The $38.6 million increase of invested in capital assets, net of related debt, largely resulted from significant progress on and completion of building improvement projects, along with a reduction in the associated debt. Decreases in restricted and unrestricted net assets of $11.8 million and $24.4 million, respectively, included decreases in the fair value of investments caused by current market conditions. These decreases in fair value were partially offset by the adoption of a new accounting standard, which required the University to value permanently endowed real estate and farm investments at fair value, instead of cost.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

The Statement of Revenues, Expenses and Changes in Net Assets presents the University's results of operations. In accordance with GASB reporting standards, revenues and expenses are classified as either operating or non-operating. A summarized comparison of the University's Statement of Revenues, Expenses and Changes in Net Assets for the years ended June 30, 2009 and 2008 is as follows:

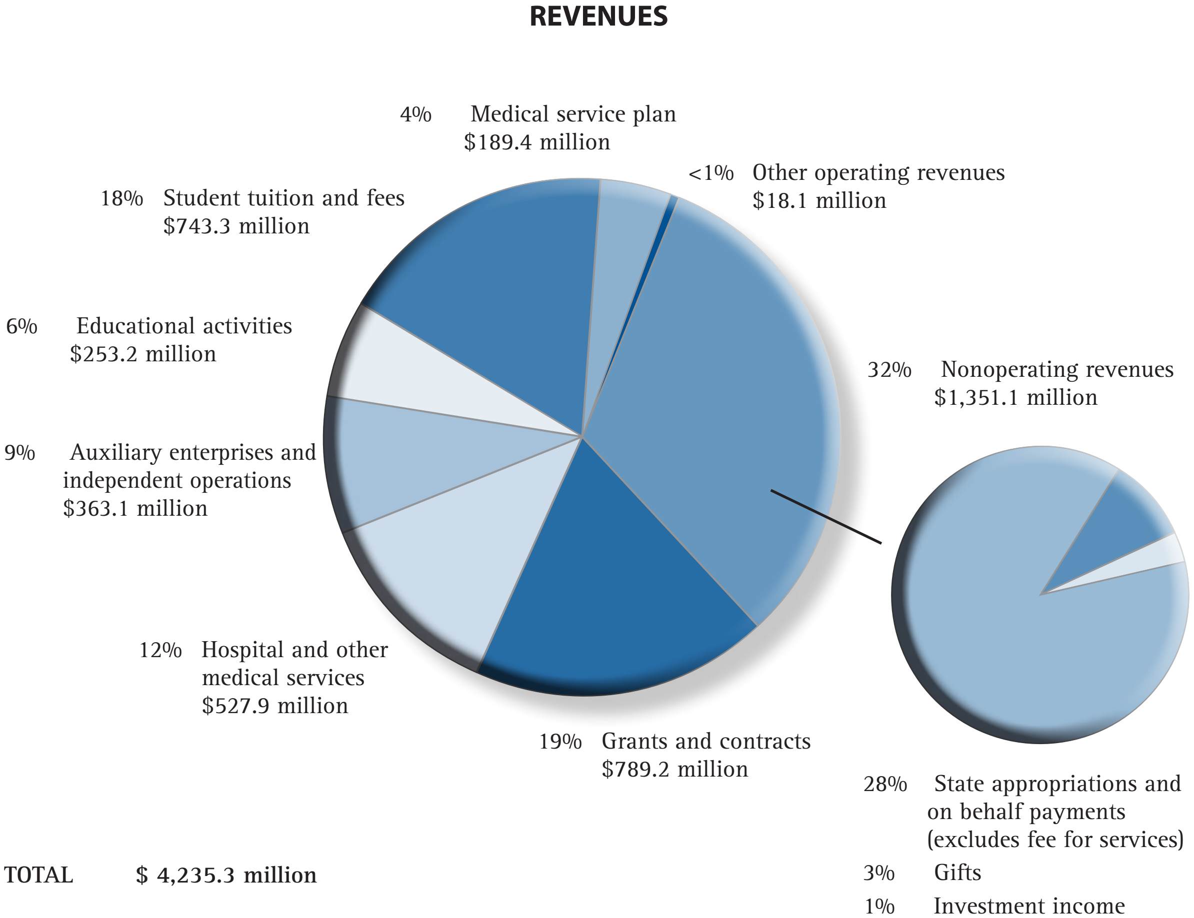
(in thousands)	2009	2008*
Operating revenues:		
Student tuition and fees	$ 743,286	$ 662,464
Grants and contracts	789,168	774,298
Hospital and other medical activities	527,925	508,732
Auxiliary enterprises and independent operations	363,146	341,233
Educational activities	253,203	234,549
Medical service plan	189,444	185,499
Other	18,069	21,770
Total operating revenues	2,884,241	2,728,545
Operating expenses	4,209,187	4,038,418
Operating loss	(1,324,946)	(1,309,873)
Nonoperating revenues (expenses):		
State appropriations and on behalf payments	1,185,060	1,121,983
Private gifts	141,315	129,948
Investment income	24,836	66,682
Net decrease in the fair value of investments	(54,547)	(60,508)
Other net nonoperating	(204)	(17,386)
Net nonoperating revenues	1,296,460	1,240,719
Capital state appropriations and capital gifts and grants	11,645	8,393
Endowment gifts	1,905	254
Decrease in net assets	(14,936)	(60,507)
Net assets, beginning of year	2,355,349	2,415,856
Change in accounting principles (See Note 9)	17,345	
Net assets, end of year	$ 2,357,758	$ 2,355,349

*For fiscal year 2008 Pell grants from the Federal government were reclassified from grants and contracts to other net nonoperating. In addition, on behalf payments for hospital and other medical activities were reclassified from other operating to nonoperating state appropriations and on behalf payments. These reclassifications were made to coincide with current year presentation.

Revenues

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

The following graph illustrates the revenues by source (both operating and certain non-operating) which were used to fund the University's operating activities for the year ended June 30, 2009:



Student tuition and state appropriations are primary sources of funding for the University's academic programs. State appropriation revenue, excluding fees for services, increased by $18.5 million between fiscal years 2008 and 2009. Tuition and fee revenue increased by $80.8 million during fiscal year 2009. The increase in tuition is primarily due to a tuition increase approved by the Board of Trustees for fiscal year 2009 and special tuition differentials in various graduate and undergraduate programs. Payments made by the State on behalf of the University to Central Management Services (CMS) and the State Universities Retirement System (SURS), classified as nonoperating, for fiscal year 2009 were $486 million compared to $441 million in fiscal year 2008. This increase is caused by growth in state funding for employer required contributions to SURS and CMS. Investment income decreased $41.8 million due to reduced interest income and realized losses during fiscal year 2009. Other categories included in operating revenue increased by $74.9 million due to various factors such as rate or fee increases, volume increases and expansion of activities.

Expenses

The majority of the University's expenses are exchange transactions, which GASB standards define as operating expenses. Non-operating expenses include capital financing and other costs related to capital assets, and the net decrease in the fair value of investments occurring in fiscal year 2009.

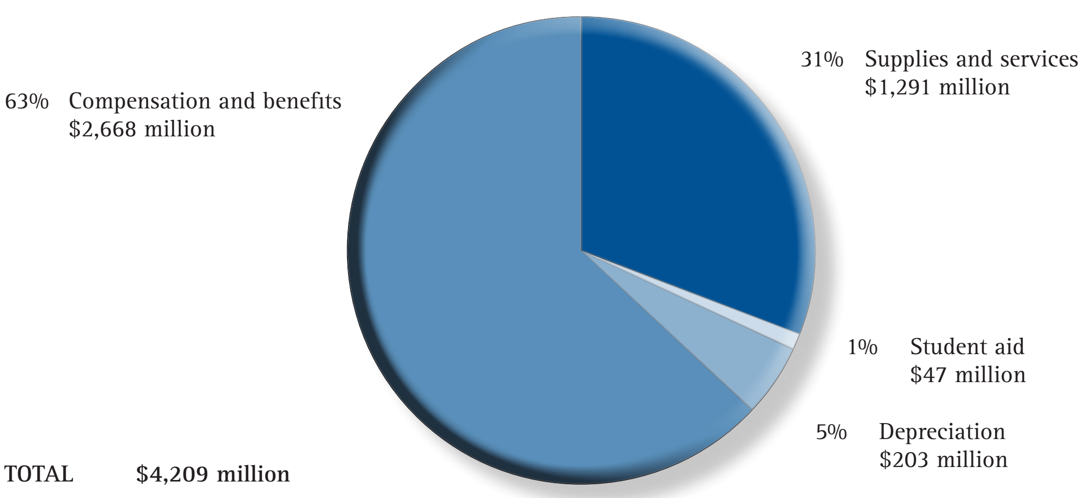
OPERATING EXPENSES
(in thousands)

	2009		2008	
Instruction	$ 961,305	22.8%	$ 933,157	23.1%
Research	630,127	15.0%	591,412	14.6%
Public service	383,429	9.1%	367,450	9.1%
Support services	656,807	15.6%	631,359	15.6%
Hospital and medical activities	578,858	13.8%	554,186	13.7%
Auxiliary enterprises and independent operations	320,773	7.6%	293,362	7.3%
Scholarships and fellowships	200,038	4.8%	199,259	4.9%
Operation and maintenance of plant	274,373	6.5%	268,624	6.7%
Depreciation	203,477	4.8%	199,609	5.0%
TOTAL OPERATING EXPENSES	$ 4,209,187	100.0%	$ 4,038,418	100.0%

Operating expenses per the Statement of Revenues, Expenses and Changes in Net Assets increased by $170.8 million during fiscal year 2009. Expenses related to the University's mission of instruction, research and public service increased by $82.8 million, or 4.4%, primarily due to expanded programs and activities, as well as, inflationary increases. Expenses related to support services and hospital and medical activities grew by $25.4 million and $24.7 million, respectively, which included increases resulting from expanded activities. Expenses increased in auxiliary enterprises and independent operations by $27.4 million which included renovated or newly built residence halls and student service facilities, such as dining halls and recreation centers, being fully operational in fiscal year 2009.

The University chooses to report their expenses by functional classifications in the Statement of Revenues, Expenses and Changes in Net Assets. For the reader's information, the expenses are displayed in their natural classifications in Note 15. The following graph illustrates the expenses by natural classification:

OPERATING EXPENSES



THE UNIVERSITY'S ECONOMIC OUTLOOK

The University is positioned to continue its strong financial condition and level of excellence in service to students, patients, the research community, the state and the nation. A critical element to the University's future continues to be a strong relationship with the State of Illinois. State appropriations from the Governor and General Assembly provide essential operating support for University programs. The direct appropriation for fiscal year 2010, signed into law by the Governor, is the same as the original budget appropriated in fiscal year 2009. However, $45.5 million of the appropriation is funded by Federal stabilization funds provided by the American Recovery and Reinvestment Act of 2009. The State of Illinois also appropriates funds for payments on-behalf of University employees to Department of Healthcare and Family Services, as well as SURS to pay benefits for our employees. The fiscal year 2010 budget for payments on-behalf has increased by $161.3 million from the prior year's budget, to a total of $679.2 million. As of December 31, 2009 the University has received 7% ($51 million) of its fiscal year 2010 state appropriation. The amount owed to the University by the State of Illinois for fiscal year 2010 was $436 million at January 1, 2010.

The University projects an increase in tuition and miscellaneous departmental revenue. The recommended $719.2 million fiscal year 2010 tuition and miscellaneous departmental revenue budget represents a $70.8 million (10.9%) increase from fiscal year 2009. Undergraduate students have a four-year tuition guarantee. The estimated increase in tuition revenue is largely due to prior years' tuition increases cycling through the tuition cohorts more than the 2.6% tuition increase for new undergraduate students. In addition, there are several special programs which have differential tuition rate increases along with adjustments for enrollment levels, investment income on tuition revenue and revenues associated with the library/IT assessment.

In fiscal year 2009, the Governor and General Assembly transferred control of the four state scientific surveys, previously operated as divisions of the Illinois Department of Natural Resources, to the University of Illinois. For fiscal year 2010, $15.8 million will again be transferred from the State's General Fund into the University's Income Fund to provide operating support for the surveys. It is anticipated that funding for the surveys operations will become part of the University's direct appropriation from the state's General Revenue fund in fiscal year 2011. In addition, with the exception of one inactive special appropriated fund, all funds for the surveys were appropriated at fiscal year 2009 levels.

Private gifts are an important supplement to the University's sources of funding for operating costs, a significant factor in the growth of academic units, and essential for capital acquisition and construction. On June 1, 2007, the University publicly announced the "Brilliant Futures" campaign; the largest and most ambitious campaign in the history of the University of Illinois. The University aims to raise $2.25 billion for students, faculty, research and the campus environment. As of June 30, 2009, the University is almost three-fourths the way to meeting this lofty goal. Private gifts for current year operations are budgeted to increase by 0.9% during fiscal year 2010.

Research is one of four components of the University's mission. Research leading to the development of new products and services is also the engine driving economic development, another component of the University's mission. The growth in externally sponsored research is testimony to the public and private sector confidence in the University's research faculty. The fiscal year 2010 sponsored project budget is an estimate of grant and contract awards for direct costs and represents a 14.3 % increase from fiscal year 2009.

The University experienced growth from a variety of funding sources during fiscal year 2009. To achieve a continued strong financial position, the University constantly pursues multiple and diverse sources of revenue to support our mission of instruction, research, public service and economic development. The University's Board of Trustees and management are committed to upholding the University's outstanding academic reputation and believe the University's financial condition will remain strong.

AUDITED FINANCIAL STATEMENTS

Statement of Net Assets as of June 30, 2009 (in thousands)

	University	University Related Organizations
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 264,142	$ 4,917
Cash and cash equivalents, restricted	185,931	1,851
Investments	13,100	478
Investments, restricted	153,167	
Securities lending collateral	104,985	
Accrued investment income	3,136	1,916
Accounts receivable, net of allowance for uncollectible	355,799	5,033
Receivable from State of Illinois General Revenue Fund	120,902	
Pledges receivable, net of allowance		8,327
Notes receivable, net of allowance for uncollectible	6,772	86
Accrued interest on notes receivable	2,782	
Inventories	30,141	11
Prepaid expenses and deferred charges	26,480	2,530
Due from related organizations	912	
Other assets		4,351
Total Current Assets	1,268,249	29,500
Noncurrent Assets:		
Cash and cash equivalents, restricted		90
Investments	276,072	126,051
Investments, restricted	171,408	814,440
Pledges receivable, net of allowance		24,840
Notes receivable, net of allowance for uncollectible	54,834	
Real estate and farm properties	8,172	
Real estate and farm properties, restricted	40,510	42,773
Prepaid expenses and deferred charges	13,574	
Due from related organizations	1,231	
Capital assets, net of accumulated depreciation	3,328,555	13,746
Other assets	4,318	15,597
Total Noncurrent Assets	3,898,674	1,037,537
TOTAL ASSETS	$ 5,166,923	$ 1,067,037
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued liabilities	$ 257,216	$ 18,245
Accrued payroll	137,287	612
Accrued compensated absences, current portion	17,591	1,115
Accrued self insurance, current portion	54,311	
Deferred revenue and student deposits	146,122	934
Accrued interest payable	17,683	3
Securities lending collateral	106,229	
Notes payable		7,292
Annuities payable		5,989
Bonds payable, current portion	33,090	
Due to related organizations, current portion		912
Leaseholds payable and other obligations, current portion	231,786	
Assets held for others	32,573	2,007
Total Current Liabilities	1,033,888	37,109
Noncurrent Liabilities:		
Bonds payable	1,058,172	
Leaseholds payable and other obligations	389,645	
Due to related organizations		1,231
Accrued compensated absences	199,944	
Accrued self-insurance	127,516	
Annuities payable		38,518
Remainder interest due to others		4,891
Deferred distributions		127
Total Noncurrent Liabilities	1,775,277	44,767
Total Liabilities	2,809,165	81,876
NET ASSETS		
Invested in capital assets, net of related debt	1,861,131	6,454
Restricted:		
Nonexpendable	57,362	563,466
Expendable	373,809	378,811
Unrestricted	65,456	36,430
Total Net Assets	2,357,758	985,161
TOTAL LIABILITIES AND NET ASSETS	$ 5,166,923	$ 1,067,037

See accompanying notes to financial statements.

Statement of Revenues, Expenses and Changes in Net Assets

Year Ended June 30, 2009 (in thousands)

	University	University Related Organizations
OPERATING REVENUES:		
Student tuition and fees, net	$ 743,286	$
Medical fees for services - state appropriation	45,982	
Federal appropriations	16,909	
Federal grants and contracts	572,598	
State of Illinois grants and contracts	79,499	125
Private gifts, grants, and contracts	137,071	123,012
Educational activities	253,203	
Auxiliary enterprises, net	348,134	
Hospital and other medical activities, net	481,943	
Medical service plan	189,444	
Independent operations	15,012	
Interest and service charges on student loans	1,160	
Allocation from the University		15,724
Other sources		53,504
TOTAL OPERATING REVENUES	2,884,241	192,365
OPERATING EXPENSES:		
Instruction	961,305	
Research	630,127	
Public service	383,429	
Academic support	303,742	
Student services	123,328	
Institutional support	229,737	53,792
Operation and maintenance of plant	274,373	
Scholarships and fellowships	200,038	
Auxiliary enterprises	306,967	
Hospital and medical activites	578,858	
Independent operations	13,806	
Depreciation	203,477	786
Distributions on behalf of the University		152,197
TOTAL OPERATING EXPENSES	4,209,187	206,775
Operating loss	(1,324,946)	(14,410)
NONOPERATING REVENUES (EXPENSES):		
State appropriations	699,038	
Private gifts	141,315	
Federal grants, nonoperating	39,347	
On behalf payments for fringe benefits	486,022	
Net investment income (net of University investment expense of $1,932)	24,836	4,342
Net decrease in the fair value of investments	(54,547)	(277,144)
Interest expense	(73,460)	(282)
Loss on sale/disposal of capital assets	(4,871)	
Other nonoperating revenues (expenses), net	38,780	(546)
Net nonoperating revenues (expenses)	1,296,460	(273,630)
Loss before other revenues	(28,486)	(288,040)
Capital state appropriations	3,203	
Capital gifts and grants	8,442	
Private gifts for endowment purposes	1,905	41,477
DECREASE IN NET ASSETS	(14,936)	(246,563)
NET ASSETS, BEGINNING OF YEAR, AS RESTATED	2,372,694	1,231,724
NET ASSETS, END OF YEAR	$ 2,357,758	$ 985,161

See accompanying notes to financial statements.

Statement of Cash Flows

Year Ended June 30, 2009 (in thousands)

	University	University Related Organizations
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student tuition and fees	$ 748,799	$
Medical fees for service - state appropriations	39,620	
Federal appropriations	17,394	
Federal, state, and local grants and contracts	666,873	396
Private gifts, grants, and contracts	144,536	6,172
Sales and services of educational and other departmental activities	243,634	
Contributions and gifts		104,090
Service fee revenue		19,834
Auxiliary activities and independent operations	364,027	
Hospital and other medical activities	476,846	
Medical service plan	182,884	
Distributions on behalf of the University		(142,349)
Allocation from the University		10,077
Payments to employees and benefits	(2,176,203)	(24,295)
Payments to suppliers	(1,290,631)	(23,895)
Payments for scholarships and fellowships	(46,844)	
Payments to annuitants		(7,300)
Student loans issued	(6,129)	
Student loans collected	7,088	
Student loan interest and fees collected	1,309	
Other operating revenue		19,723
NET CASH USED BY OPERATING ACTIVITIES	(626,797)	(37,547)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State appropriations	585,854	
Gifts transferred from University of Illinois Foundation	141,315	
Federal grants and contracts, nonoperating	39,347	
Private gifts for endowment purposes	1,905	41,477
Advances and repayments to related organizations, net	414	(600)
Other, net	25,934	(2)
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	794,769	40,875
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from issuance of capital debt	254,141	263
Capital state appropriations	547	
Capital gifts and grants	5,231	
Purchase of capital assets	(292,016)	(4,303)
Principal payments on bonds and capital leases	(332,836)	
Interest payments on bonds and capital leases	(70,819)	(154)
Payment on notes payable		(185)
Payment of bond issuance costs	(2,086)	
Other, net		(191)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(437,838)	(4,570)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest and dividends on investments, net	34,718	7,417
Proceeds from sales and maturities of investments	999,143	534,302
Purchase of investments	(931,236)	(540,399)
NET CASH PROVIDED BY INVESTING ACTIVITIES	102,625	1,320
Net increase (decrease) in cash and cash equivalents	(167,241)	78
Cash and cash equivalents, beginning of year	617,314	6,780
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 450,073	$ 6,858

continued

Statement of Cash Flows
Year Ended June 30, 2009 (in thousands) - (continued)

	University	University Related Organizations
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	$ (1,324,946)	$ (14,410)
Adjustments to reconcile operating loss to net cash used by operating activities:		
On behalf payments for fringe benefits expense	486,022	
Depreciation expense	203,477	786
Actuarial adjustment		(13,816)
Payment for income taxes and other adjustments		(151)
Changes in assets and liabilities:		
Accounts receivable, net	17,682	705
State of Illinois receivable	(6,363)	
Notes receivable, net	1,189	7
Accrued interest on notes receivable	149	
Inventories	(1,346)	2
Prepaid expenses and deferred charges	(3,832)	(658)
Pledges receivable		(6,000)
Other assets		(5,118)
Accounts payable and accrued liabilities	925	443
Accrued payroll	4,834	(68)
Deferred revenue and student deposits	(10,400)	874
Accrued compensated absences	4,226	(147)
Accrued self insurance	4,659	
Assets held for others	(3,073)	4
Net cash used by operating activities	$ (626,797)	$ (37,547)
Noncash investing, capital, and financing activities:		
On behalf payments for fringe benefits	$ 486,022	$
Gifts in kind	3,210	14,904
Capital asset obligations in accounts payable	51,175	
Capital asset acquisitions by Capital Development Board	2,656	
Capital asset acquisitions via leaseholds payable	3,587	
Capital appreciation on bonds payable	10,415	
Net interest capitalized	5,234	
Capital assets transferred from other institutions	7,529	
Other capital asset adjustments	1,989	
Loss on sale/disposal of capital assets	4,871	

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The University of Illinois (University), a federal land grant institution and a component unit of the State of Illinois, conducts education, research, public service and related activities principally at its three campuses in Urbana-Champaign, Chicago, which includes the University of Illinois Hospital (Hospital) and other health care facilities, and Springfield. The governing body of the University is The Board of Trustees of the University of Illinois (Board).

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

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

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

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

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

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

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

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

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

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

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

Significant Accounting Policies

Financial Statement Presentation and Basis of Accounting

The Entity prepared its financial statements as a Business Type Activity, as defined by GASB Statement No. 35, using the economic resources measurement focus and the accrual basis of accounting. Business Type Activities are those financed in whole or in part by fees charged to external parties for goods and services.

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

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other governmental Entities That Use Proprietary Fund Accounting*, the Entity follows all applicable GASB pronouncements. In addition, the Entity applies all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations. Accounting Principles Board (APB) Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The Entity has elected not to apply FASB pronouncements issued after November 30, 1989.

Cash and Cash Equivalents

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

Inventories

Inventories are stated at the lower of cost or market. Cost is determined principally by the average cost method.

Investments

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

Changes in fair value during the reporting period are reported as a net increase (decrease) in the fair value of investments.

Endowments

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

Both the University and the Foundation utilize the total return concept in allocating endowment income. The focus is to preserve the real value or purchasing power of endowment pool assets and the annual support the assets provide. For the University Endowment, the fiscal year 2009 payout percentage was 4.75% of the two-quarter lagged, four year moving average market value. For the Foundation, the fiscal year 2009 payout percentage was 4.75% of the four year moving average market value.

Capital Assets

Capital assets are recorded at cost or, if donated, at fair value at the date of a gift. Depreciation of the capital assets is calculated on a straight line basis over the estimated useful lives (three to fifty years) of the respective assets. The University's policy requires the capitalization of all land and collection purchases regardless of cost, equipment over $5,000, buildings and improvements over $100,000, and infrastructure over $1,000,000. The Entity does not capitalize collections of works of art or historical treasures held for public exhibition, education, or research in furtherance of public service rather than capital gain, unless they were previously capitalized as of June 30, 1999. Proceeds from the sale, exchange, or other disposal of any item belonging to a collection of works of art or historical treasures must be applied to the acquisition of additional items for the same collection.

Compensated Absences

Accrued compensated absences for Entity personnel are charged as an operating expense, using the vesting method, based on earned but unused vacation and sick leave days including the Entity's share of social security and Medicare taxes. At June 30, 2009, the University estimates that $125,681,000 of the accrued compensated absences liability will be paid out of State of Illinois General Revenue Fund appropriations to the University in subsequent years, rather than from unrestricted net assets available at June 30, 2009.

Premiums, Issuance Costs, and Losses on Refundings

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

Net Assets

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

Classification of Revenues

The Statement of Revenues, Expenses, and Changes in Net Assets classifies the Entity's fiscal year activity as operating and nonoperating. Operating revenues generally result from exchange transactions such as payments received for providing goods and services, including tuition and fees, net of scholarships and fellowships, certain grants and contracts, sales and services of educational activities, hospital, and auxiliary enterprises revenues. Certain revenue sources that the Entity relies on to provide funding for operations including State appropriations, gifts, 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.

Tuition, Scholarships, and Fellowships

Scholarships and fellowships of $178,165,000 and $5,835,000 are netted against student tuition and fees and auxiliary enterprises revenues, respectively. Stipends and other payments made directly to students are reported as scholarship and fellowship expense. Net tuition and fees, except for Summer Session, are recognized as revenues as they are assessed. The portion of Summer Session tuition and fees applicable to the following fiscal year is deferred.

Patient Services Revenue

With respect to the Hospital, net patient service revenue is reported at the estimated net realizable amounts due from patients, third party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. The Hospital has agreements with third party payors that provide for payments to the Hospital at amounts different from its established rates. Approximately 96% of the Hospital's net patient service revenues were derived from Medicare, Medicaid, Blue Cross and managed care programs for the year ended June 30, 2009. Payments under these programs are based on established program rates or cost, as defined, of rendering services to program beneficiaries. The Hospital provides contractual allowances on a current basis for the differences between charges for services rendered and the expected payments under these programs. For the year ended June 30, 2009, the contractual allowances totaled $951,659,000.

Classification of Expenses

The majority of the Entity's expenses are exchange transactions which GASB defines as operating expenses for financial statement presentation. Nonoperating expenses include capital financing costs and costs related to investment activity.

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 approximately $55,475,000 at June 30, 2009 and is recorded in the accompanying financial statements. This amount will be paid from amounts specifically included in State of Illinois General Revenue Fund appropriations to the University for fiscal year 2010 rather than from the unrestricted net assets available at June 30, 2009.

On-behalf Payments for Retirement Benefits

In accordance with GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, the University reported payments made to the State Universities Retirement System on behalf of the Entity for contributions to retirement programs for Entity employees of approximately $191,960,000 for the year ended June 30, 2009. Substantially all employees participate in group health insurance plans administered by the State of Illinois. The employer contributions to these plans for University employees paid by State appropriations and auxiliary enterprises are paid to Central Management Services on behalf of the University and include postemployment benefits. The employer contributions to these plans on behalf of employees paid from other University held funds are paid by the University. The on behalf payments were approximately $294,062,000 for year ended June 30, 2009. On behalf payments are reflected as nonoperating revenues. In all cases, the corresponding on behalf expense is reflected as operating and is allocated by function.

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.

New Accounting Pronouncements

Effective for the year ended June 30, 2009, the Entity adopted GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which establishes standards of accounting and financial reporting for pollution remediation obligations. These obligations address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities. Implementation of the Standard required the Entity to accrue a reasonable, estimated liability in the event the Entity needs to take remediation action. There was no significant impact to the financial statements as a result of implementing this statement.

Effective for year ended June 30, 2009, the Entity adopted GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, which establishes accounting and financial reporting for land and other real estate held as investments by endowments. This statement establishes consistency between the reporting of land and other real estate investments held by endowments and other entities that exist for similar purposes. Implementation of the Standard required the Entity to report land and other real estate investments held by endowments at fair value. This statement was implemented retroactively with the cumulative effect of adopting this standard reported as a restatement of beginning net assets for the fiscal year. The impact of this restatement is disclosed in Note 9.

Effective for the year ending June 30, 2010, the Entity will adopt GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which establishes accounting and financial reporting for intangible assets. The Entity has not yet determined the impact on the Entity's financial statements as a result of adopting this statement.

Effective for year ending June 30, 2010, the Entity will adopt GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which establishes accounting and financial reporting for derivative instruments. The Entity has not yet determined the impact on the Entity's financial statements as a result of adopting this statement.

NOTE 2 – CASH AND DEPOSITS

The carrying amount of the University's and the UROs' cash totaled $(7,995,000) and $6,487,000 at June 30, 2009, respectively.

The total bank account balances at June 30, 2009, of the University and the UROs aggregated $10,911,000, and $5,595,000, respectively, of which $10,911,000 and $4,698,000, respectively, was covered by federal depository insurance or by collateral held by an agent in the Entity's name.

Certificates of Deposit held by the University and the UROs totaled $400,000 and $54,000, respectively, at June 30, 2009 and were covered by federal depository insurance or collateral held by an agent in the Entity's name.

Illinois Statutes require a third party custodian to perfect the University's security interest under repurchase agreements. The University follows industry standards and requires that securities underlying repurchase agreements must have a fair value of at least 102% of the cost of the repurchase agreement. At June 30, 2009, the University and the UROs had repurchase agreements of $38,427,000 and $373,000, respectively, and the market value of securities underlying these repurchase agreements was $40,746,000 and $373,000, respectively, at June 30, 2009.

NOTE 3 – CASH EQUIVALENTS AND INVESTMENTS

Illinois Statutes govern the investment policies of the University and UROs. Allowable investments under these policies include:

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

Additionally, the University and the UROs have real estate and farm properties held as investments by permanent and term endowments reported at fair values of $40,510,000 and $22,478,000, respectively. The University also has real estate and farm properties held as investments by quasi-endowments reported at $8,172,000, which are carried at cost, or when donated, at the fair value at the date of donation. The UROs also held non-endowed real estate and farm properties at $20,295,000, which are carried at cost, or when donated, at the fair value at the date of donation.

Nearly all of the University's and the UROs' 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 the UROs, and in the case of mutual funds and other commingled vehicles, in accordance with the applicable prospectus.

The Board develops University policy on investments and delegates the execution of those policies to its administrative agents. The University follows the State of Illinois Uniform Prudent Management of Institutional Funds Act when investing its endowment funds. The State of Illinois Public Funds Investment Act provides the context and framework for other investments. The following details the carrying value of the University's and the UROs' investment portfolio as of June 30, 2009:

UNIVERSITY CASH EQUIVALENTS AND INVESTMENTS (in thousands)	
U.S. Treasury Put	$ 4,345
U.S.Treasury Bonds and Bills	81,161
U.S. Government Agencies	212,421
Commercial Paper	1,999
Corporate Bonds	87,215
Bond Mutual Funds	48,820
Non Government Mortgage Backed Securities	40,569
Non U.S. Government Bonds	3,294
Money Market Funds	413,929
Illinois Public Treasurer's Investment Pool	1,957
Subtotal before equities and other investments	895,710
US Equities	18,306
International Equities	24,441
U.S. Equity Mutual Funds	83,898
Limited Partnerships	10,339
Repurchase Agreements	38,427
Certificates of Deposit	400
Preferred Stock	294
TOTAL	$ 1,071,815

URO CASH EQUIVALENTS AND INVESTMENTS (in thousands)	
U.S. Government Securities	$ 34,264
International Government Securities	308
Municipal Bonds	222
Corporate Bonds and Notes	41,649
Mutual Funds - Bonds	80,842
Mutual Funds - Municipal Bonds	2,067
Mutual Funds - Blended Bonds	3,331
Mutual Funds - Money Market	47,041
Subtotal before equities and other investments	209,724
U.S. Equities	162,319
International Equities	127,334
Preferred Stock	6,479
Mutual Funds - Stocks	130,204
Real Estate Trust and Partnerships	301,935
Repurchase Agreements	373
Certificates of Deposit	54
Other	2,918
TOTAL	$ 941,340

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University employs multiple investment managers, of which each has specific maturity assignments related to the operating funds. The funds are structured with different layers of liquidity. Funds expected to be used within one year are invested in money market instruments. Core operating funds are invested in longer maturity investments. Core operating funds investment manager's performance benchmarks are the Barclays Capital 1-3 year Government Credit Bond Index and the Barclays Capital Intermediate Aggregate Bond Index. The University's manager guidelines provide that the average weighted duration of the portfolio, including option positions, not vary from that of their respective performance benchmarks by more than +/-20 percent. The University's and the UROs' investments and maturities at June 30, 2009 are illustrated below:

UNIVERSITY INVESTMENT MATURITIES
(in thousands)

	Total	Less than 1 year	1 - 5 years	6 - 10 years	Greater than 10 years
U.S. Treasury Put	$ 4,345	$	$	$	$ 4,345
U.S.Treasury Bonds and Bills	81,161	31,329	34,520	15,064	248
U.S. Government Agencies	212,421	130,538	26,286	6,394	49,203
Commercial Paper	1,999	1,999			
Corporate Bonds	87,215	5,683	48,232	20,374	12,926
Bond Mutual Funds	48,820	24	1,469	47,327	
Non Government Mortgage Backed Securities	40,569	74	1,684	2,719	36,092
Non U.S. Government Bonds	3,294	177	2,868	249	
Money Market Funds	413,929	413,929			
Illinois Public Treasurer's Investment Pool	1,957	1,957			
TOTAL	$ 895,710	$ 585,710	$ 115,059	$ 92,127	$ 102,814

At June 30, 2009, the University's operating funds pool portfolio had an effective duration of 1.4 years.

URO INVESTMENT MATURITIES
(in thousands)

	Total	Less than 1 year	1 - 5 years	6 - 10 years	Greater than 10 years
U.S. Government Securities	$ 34,264	$ 5,999	$ 4,489	$	$ 23,776
International Government Securities	308				308
Municipal Bonds	222			222	
Corporate Bonds and Notes	41,649	422	2,686	1,519	37,022
Mutual Funds - Bonds	80,842		61,069	15,228	4,545
Mutual Funds - Municipal Bonds	2,067	208	572	815	472
Mutual Funds - Blended Bonds	3,331		2,587	744	
Mutual Funds - Money Markets	47,041	47,041			
TOTAL	$ 209,724	$ 53,670	$ 71,403	$ 18,528	$ 66,123

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The University's investment policy requires that operating funds be invested in fixed income securities and money market instruments. Fixed income securities shall be rated investment grade or better by one or more nationally recognized statistical rating organizations. Securities not covered by the investment grade standard are allowed if, in the manager's judgment, those instruments are of comparable credit quality. Securities which fall below the stated minimum credit requirements subsequent to initial purchase may be held at the manager's discretion. It is expected that the average credit quality of the operating funds will not fall below Standard & Poor's AA- or equivalent. At June 30, 2009 the University and the UROs had debt securities and quality ratings as shown in the charts below:

UNIVERSITY INVESTMENTS QUALITY RATINGS
(in thousands)

	Total	AAA	AA	A	BBB	BB	Less than BB or Not Rated
U.S. Treasury Put	$ 4,345	$	$	$	$	$	$ 4,345
U.S. Treasury Bonds and Bills	81,161	81,161					
U.S. Government Agencies	212,421	211,849		572			
Commercial Paper	1,999						1,999
Corporate Bonds	87,215	14,980	7,734	28,977	25,030	4,859	5,635
Bond Mutual Funds	48,820	46,782	1,315	700			23
Non Government Mortgage Backed Securities	40,569	31,057	1,816	1,230	1,592	125	4,749
Non U.S. Government Bonds	3,294	2,413		704	177		
Money Market Funds	413,929	410,790					3,139
Illinois Public Treasurer's Investment Pool	1,957	1,957					
TOTAL	$ 895,710	$ 800,989	$ 10,865	$ 32,183	$ 26,799	$ 4,984	$ 19,890

URO INVESTMENTS QUALITY RATINGS
(in thousands)

	Total	AAA	AA	A	BBB	BB	Less than BB or Not Rated
U.S. Government Securities	$ 34,264	$ 34,170	$	$ 94	$	$	$
International Government Securities	308			107	201		
Municipal Bonds	222	113	62				47
Corporate Bonds and Notes	41,649	6,764	4,828	7,008	7,253	3,302	12,494
Mutual Funds - Bonds	80,842	52,299	7,633	11,038	5,697	2,399	1,776
Mutual Funds - Municipal Bonds	2,067	636	794	532	100		5
Mutual Funds - Blended Bonds	3,331	126	2,053	1,138	7		7
Mutual Funds - Money Market	47,041	47,041					
TOTAL	$ 209,724	$ 141,149	$ 15,370	$ 19,917	$ 13,258	$ 5,701	$ 14,329

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, 2009, the University's investments and deposits had no custodial credit risk exposure.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the University's investment in a single issuer. The University's investment policy provides that the total operating funds portfolio will be broadly diversified across securities in a manner that is consistent with fiduciary standards of diversification. This diversification is achieved by employing multiple investment managers and imposing maximum position limits for each manager. The University's manager guidelines for operating investments provide that non-U.S. government obligations may not exceed 10% per issuer and private mortgage-backed and asset-backed securities may not exceed 10% per issuer (unless collateral is credit independent of the issuer and the security's credit enhancement is generated internally, in which case the limit is 25% per issuer). Obligations with other issuers, other than the U.S. government, U.S. agencies, or U.S. government sponsored corporations and agencies, may not exceed 5%. As of June 30, 2009, except for two issuers, not more than 5% of the University's total investments were invested in securities of any one issuer, excluding securities issued or guaranteed by the U.S. government, mutual funds, and external investment pools or other pooled investments. The University held securities of Federal Home Loan Mortgage Company and Federal Home Loan Bank that represented approximately 5.3% and 5.9% of the University's total investments.

Foreign Currency Risk: Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The University's operating fund investments generally are not exposed to foreign currency risk. The University does not have an overarching policy related to foreign currency risk; however, under the investment manager's guidelines, the portfolio's foreign currency exposure may be unhedged or hedged back into U.S. dollars. Cross hedging is not permitted. The U.S. dollar balances of the University's and the UROs' cash equivalents and investments exposed to foreign currency risk as of June 30, 2009 are categorized by currency below:

UNIVERSITY INVESTMENTS FOREIGN CURRENCY EXPOSURE
(in thousands)

	Total	Cash Equivalents	Equity Investments
European Euro	$ 11,543	$ 306	$ 11,237
British Pound	5,263	91	5,172
Swiss Franc	2,417	3	2,414
Japanese Yen	1,232		1,232
Hong Kong Dollar	1,090	10	1,080
Singapore Dollar	836		836
Canadian Dollar	566	30	536
South Korean Won	477		477
Norwegian Krone	350		350
Australian Dollar	333	2	331
All other currency	776		776
TOTAL	$ 24,883	$ 442	$ 24,441

URO INVESTMENTS FOREIGN CURRENCY EXPOSURE
(in thousands)

	Total	Cash Equivalents	Equity Investments	International Mutual Funds	Real Estate Trusts and Partnerships
British Pound	$ 36,340	$ 138	$ 33,465	$ 2,737	$
Hong Kong Dollar	34,643	175	25,592	3,609	5,267
Malaysian Ringgit	23,480	531	21,045	1,505	399
Swiss Franc	10,165	5	8,916	1,244	
Canadian Dollar	7,090	18	6,893	179	
Hungarian Forint	6,414	70	6,179	657	(492)
Australian Dollar	5,619	56	5,229	334	
Swedish Krona	3,386	5	3,070	311	
New Zealand Dollar	2,821	129	1,391	107	1,194
European Euro	3,207	10	2,958	239	
Singapore Dollar	1,982	7	1,796	179	
All other currency	29,220	1,023	10,800	7,700	9,697
TOTAL	$ 164,367	$ 2,167	$ 127,334	$ 18,801	$ 16,065

Securities Lending: To enhance the return on investments, the Board has authorized participation in a securities lending program. Through its custodian bank, Northern Trust, the University loans securities to independent third parties. Such loans are secured by collateral consisting of cash, cash equivalents or U.S. Government securities and irrevocable bank letters of credit in an amount not less than 102% of the fair value of the securities loaned. Noncash collateral cannot be pledged or sold by the University unless the borrower defaults. Cash collateral is invested by Northern Trust in a short-term investment pool. As of June 30, 2009, the short-term investment pool has a weighted average maturity of fifteen days. The University receives interest and dividends during the loan period as well as a fee from the custodian. Marking to market is performed every business day and the borrower is required to deliver additional collateral when necessary so that the total collateral held by the custodian will equal at least the fair value plus accrued interest of the borrowed securities. All security loans can be terminated on demand by either the University or the borrowers. The University's pro rata share of cash received as securities lending collateral was approximately $106,229,000 at June 30, 2009, and is recorded as an asset and corresponding liability on the University's Statement of Net Assets. As of June 30, 2009, approximately $103,910,000 of the investments reported on the University's Statement of Net Assets were on loan, secured by collateral with a fair value of approximately $106,534,000. At June 30, 2009, the University has no credit risk exposure to borrowers because the amounts the University owes the borrowers exceed the amounts the borrowers owe the University. However, due to an impairment of the short-term investment pool of cash collateral, the University has an exposure of $1,244,000, which has been recorded as an unrealized loss on investments.

NOTE 4 – ACCOUNTS, NOTES AND PLEDGES RECEIVABLE

The Entity 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 receivable are reported net of allowances of $288,587,000 at June 30, 2009. Notes receivable are reported net of allowances of $2,800,000 at June 30, 2009.

The composition of accounts receivable and notes and pledges receivable at June 30, 2009 is summarized as follows:

ACCOUNTS RECEIVABLE, NET OF ALLOWANCE (in thousands)		
Receivables from sponsoring agencies	$	137,448
Hospital and other medical activities		80,432
Student tuition and fees, net of allowances		26,725
Auxiliaries, net of discounts and allowances		11,309
Medical service plan		47,357
Educational activities		20,462
Other		32,066
TOTAL	$	355,799

NOTES AND PLEDGES RECEIVABLE (in thousands)		
Student notes - University:		
Student notes outstanding	$	64,406
Allowance for uncollectible loans		(2,800)
Total student notes, net	$	61,606
Gift pledges outstanding - UROs:		
Operations	$	17,808
Capital		32,763
Total gift pledges outstanding		50,571
Less:		
Allowance and unamortized discount to present value		(17,404)
Total pledges receivable, net	$	33,167

NOTE 5 – CAPITAL ASSETS

Net interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Net interest of $5,234,000 was capitalized during the year ended June 30, 2009.

Capital assets activity for the University and the UROs for the year ended June 30, 2009 is summarized as follows:

CAPITAL ASSETS FOR THE UNIVERSITY
(in thousands)

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Nondepreciable Capital Assets:					
Land	$ 126,300	$ 2,284	$	$ 4,110	$ 132,694
Construction in progress	333,711	188,209		(348,448)	173,472
Inexhaustible collections	15,474	563	(48)		15,989
Total nondepreciable capital assets	475,485	191,056	(48)	(344,338)	322,155
Depreciable Capital Assets:					
Buildings	2,976,871		(494)	321,587	3,297,964
Improvements and infrastructure	626,860			30,157	657,017
Equipment and software	1,123,254	75,847	(60,004)	9,977	1,149,074
Exhaustible collections	451,007	24,376	(529)		474,854
Total depreciable capital assets	5,177,992	100,223	(61,027)	361,721	5,578,909
Less: Accumulated Depreciation					
Buildings	993,159	76,108	(168)	2,509	1,071,608
Improvements and infrastructure	257,577	22,552			280,129
Equipment and software	821,359	83,625	(56,035)	9,404	858,353
Exhaustible collections	341,227	21,192			362,419
Total accumulated depreciation	2,413,322	203,477	(56,203)	11,913	2,572,509
Total net depreciable capital assets	2,764,670	(103,254)	(4,824)	349,808	3,006,400
TOTAL	$ 3,240,155	$ 87,802	$ (4,872)	$ 5,470	$ 3,328,555

URO CAPITAL ASSETS
(in thousands)

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Nondepreciable Capital Assets:					
Land	$ 181	$	$ (181)	$	$
Farmland	3,780				3,780
Other		130			130
Total nondepreciable capital assets	3,961	130	(181)		3,910
Depreciable Capital Assets:					
Buildings	4,403	1,610			6,013
Leasehold improvements	1,014	1,955	(27)		2,942
Equipment and software	4,795	643	(534)		4,904
Total depreciable capital assets	10,212	4,208	(561)		13,859
Less: Accumulated Depreciation					
Buildings	147	42			189
Leasehold improvements	196	191	(27)		360
Equipment and software	3,298	553	(377)		3,474
Total accumulated depreciation	3,641	786	(404)		4,023
Total net depreciable capital assets	6,571	3,422	(157)		9,836
TOTAL	$ 10,532	$ 3,552	$ (338)	$	$ 13,746

NOTE 6 – ACCRUED SELF-INSURANCE, LOSS CONTINGENCY AND COMPENSATED ABSENCES

The University's accrued self-insurance liability of $181,827,000 at June 30, 2009 covers hospital patient liability; hospital and medical professional liability; estimated general and contract liability; and workers' compensation liability related to employees paid from local funds. The accrued self-insurance liability was discounted at a rate of 5.0% at June 30, 2009. Amounts increasing the accrued self-insurance liability are charged as expenses based upon estimates made by actuaries and the University's risk management division. The workers' compensation self-insurance liability of $19,712,000 at June 30, 2009 related to employees who are paid from State appropriations is included in the University's accounts payable. These claims will be paid from State appropriations in the year in which the claims are finalized, rather than from unrestricted net assets as of June 30, 2009.

Accrued self-insurance includes $132,250,000 at June 30, 2009 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, 2009. Changes in these estimates will be reflected in the Statement of Revenues, Expenses and Changes in Net Assets in the period when additional information is available.

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

CHANGES IN ACCRUED SELF-INSURANCE
(in thousands)

	2009	2008
Balance, beginning of year	$ 177,168	$ 156,178
Claims incurred and changes in estimates	77,348	65,165
Claim payments and other deductions	(72,689)	(44,175)
Balance, end of year	181,827	177,168
Less: current portion	(54,311)	(48,591)
Balance, end of year - noncurrent portion	$ 127,516	$ 128,577

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.

CHANGES IN COMPENSATED ABSENCES BALANCE
(in thousands)

Balance, beginning of year	$ 213,308
Additions/(Deductions)	4,227
Balance, end of year	217,535
Less: current portion	(17,591)
Balance, end of year - noncurrent portion	$ 199,944

NOTE 7 – BONDS AND NOTES PAYABLE

On July 16, 2008 the University issued $54,245,000 of Variable Rate Demand UIC South Campus (UIC SC) Development Project Revenue Refunding Bonds, Series 2008. Proceeds from the bonds were used to refund and redeem all of the outstanding principal amount of the UIC South Campus, Series 2006A Bonds and to fund all costs incidental to the issuance of the Bonds. The refunding resulted in a projected additional cost of $2,648,000 over the life of the issue at a present value loss of $2,011,000. The difference between the reacquisition price and the net carrying amount of the old debt, loss on refunding, was $4,083,000. This loss is deferred and amortized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter.

On June 26, 2008 the University issued $41,215,000 Variable Rate Demand Health Services Facilities System (HSFS) Revenue Bonds, Series 2008. Proceeds from the bonds funded the redemption of the Variable Rate Demand Health Services Facilities System Revenue Bonds, Series 2007 on July 28, 2008 and paid costs incidental to the issuance of the Bonds. The difference between the reacquisition price and net carrying amount of the old debt, loss on refunding was $3,134,000. The loss is deferred and amortized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter.

On March 19, 2009 the University issued $84,100,000 of Auxiliary Facilities System (AFS) Revenue Bonds, Series 2009A. Proceeds of these bonds will be used to fund various improvements and additions to the System, and provide for the refunding of the outstanding Variable Rate Demand Auxiliary Facilities System Revenue Bonds, Series 2005B, and fund all costs incidental to the issuance of the Series 2009A Bonds. The refunding resulted in a projected additional cost of $1,981,000 over the life of the issue at a present value loss of $710,000. The difference between the reacquisition price and the net carrying amount of the old debt, loss on refunding, was $610,000. This loss is deferred and amortized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter.

BONDS PAYABLE
(in thousands)

	Maturity Dates	Beginning Balance	New Debt	Principal Paid/Debt Refunded	Ending Balance	Current Portion
AUXILIARY FACILITIES SYSTEM -						
Current Interest Bonds	2009-2038	$ 789,900	$ 84,100	$ 80,635	$ 793,365	$ 13,640
Capital Appreciation Bonds	2009-2030	250,035		14,975	235,060	16,270
WILLARD AIRPORT	2009	260		260		
HEALTH SERVICES FACILITIES SYSTEM	2009-2027	102,190		41,575	60,615	800
UIC SOUTH CAMPUS	2009-2023	75,045	54,245	56,410	72,880	2,895
		$ 1,217,430	$ 138,345	$ 193,855	1,161,920	33,605
Unaccreted appreciation					(88,954)	(838)
					1,072,966	32,767
Unamortized debt premium					34,336	1,342
Unamortized loss on refunding					(19,705)	(1,231)
Financing payable under swap					3,665	212
TOTAL					$ 1,091,262	$ 33,090

Capital appreciation bonds of $235,060,000 outstanding at June 30, 2009 do not require current interest payments and have a net unappreciated value of $146,106,000. The University records the annual increase in the principal amount of these bonds as interest expense and accretion on bonds payable.

None of the University's bonds described above constitute obligations of the State of Illinois. Costs associated with the issuance of the Series 1991, 1996, 1999A, 1999B, 2000, 2001A, 2001B, 2001C, 2003A, 2005A, 2006, 2008, and 2009A Auxiliary Facilities System Bonds; Series 1997B and 2008 Health Services Facilities System Bonds; and Series 2000, 2003, and 2008 UIC South Campus Bonds have been recorded as deferred charges and are being amortized over the life of the related bond issue.

Included in bonds payable is $135,345,000 of variable rate demand bonds. These bonds mature serially through April 2038. These bonds have variable interest rates that are adjusted periodically (i.e. daily, weekly, or monthly), generally with interest paid at the beginning of each month. The bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest on seven days notice and delivery to the University's several remarketing agents. The University pays the remarketing agent fees on the outstanding bond balance. If the remarketing agent is unable to resell any bonds that are "put" to the agent, the University has a standby bond purchase agreement with a liquidity facility entity. The University has several such agreements, with the fees on the Bond Purchase Commitment (formula based on outstanding bonds plus pro-forma interest). The University, in the event a liquidity facility is utilized, has reimbursement agreements with different financial entities. Generally the payback period is five to seven years, at an interest rate initially set at slightly above prime or the federal funds rate. The required future interest payments for these variable rate bonds have been calculated using the current interest rate, based upon short term tax exempt rates, or the synthetic fixed rate, as illustrated in the tables below. Other outstanding bond issues bear interest at fixed rates ranging from 2.00% to 7.96%.

VARIABLE RATE BONDS
AT JUNE 30, 2009

	Interest Rate at	Remarketing	Remarketing	Liquidity Facility			Liquidity
Bond Issues	June 30, 2009	Agent	Fee	Bank	Expiration	Insurer	Fee
UIC South Campus, Series 2008	0.35%	JPMorgan Securities	0.075%	JPMorgan Chase LOC	7/16/2011	JPMorgan Chase LOC	0.55%
AFS, Series 2008	0.27%	Loop Capital	0.075%	JPMorgan Chase	6/18/2011	None	0.30%
HSFS, Series 1997B	0.45%	JPMorgan Securities	0.070%	HELABA LOC	12/31/2015	HELABA LOC	0.70%
HSFS, Series 2008	0.30%	Goldman	0.070%	JPMorgan Chase LOC	6/24/2011	JPMorgan Chase LOC	0.60%

Interest Rate Swap Agreements

The University has entered into three separate pay-fixed, receive variable interest rate swap agreements. The objective of these swaps was to effectively change the University's variable interest rate on the Bonds to a synthetic fixed rate. The notional amount of the interest rate swaps is equal to the par amount of the related bonds, except for HSFS Series 2008, of which $340,000 is not covered by the swap agreement. In addition, the swaps were entered at the same time as the Bonds were issued and terminate with maturity of the Bonds. During fiscal year 2009, declining interest rates exposed the University to interest rate risk, which adversely affected the fair values of the swap agreements. As of June 30, 2009, 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, 2009 are listed below.

INTEREST RATE SWAPS
AT JUNE 30, 2009

Bond Issues	Outstanding Notional Amount	Effective Date	Fixed Rate Paid	Variable Rate Received****	Fair Value	Swap Termination Date	Counterparty	Counterparty Credit Rating (S&P/Moody's)
HSFS 2008	$ 40,875,000	Apr 2007**	3.534%	68% of one-month LIBOR	$ (90,000)	Oct-2026	Loop***	A+/Aa1
UIC SC 2008	27,395,000	Feb 2006**	4.086%	SIFMA + 0.05%*	(3,479,000)	Jan-2022	Morgan Stanley	A/A2
UIC SC 2008	26,850,000	Feb 2006**	4.092%	SIFMA + 0.05%*	(3,492,000)	Jan-2022	JPM	AA-/Aa1

* Rate received from February 19, 2008 through February 3, 2010. Received cost of funds prior to February 19, 2008 and will receive 68% of LIBOR after February 3, 2010.
** Swap agreement was transferred from original issue to refunded bond issues.
*** Loop replaced Lehman Brothers Commercial Bank (LBCB) as the swap counterparty during fiscal year 2009.
**** LIBOR - London Interbank Offered Rate / SIFMA-Securities Industry & Financial Market Association Index.

The University engaged a third-party consultant to calculate the "mark to market" or "market value" of the swap transactions. Since these are negative numbers, they represent an approximation of the amount of money that the University may have to pay a swap provider to terminate the swap. In accordance with governmental accounting standards, this amount is not required to be included in the accompanying financial statements.

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.

In September 2008, Lehman Brothers Holdings Inc. (LBHI), the parent of LBCB filed for protection under Chapter 11 of the bankruptcy code. This caused an event of default under the HSFS Series 2008 interest rate swap agreement dated April 2, 2007 by and between LBCB and the University. The University entered into a novation agreement which terminated the swap with LBCB and entered into a new interest rate swap agreement with a different counterparty with the same terms and conditions that were present in the April 2, 2007 agreement. On November 19, 2008 LBHI managed the bidding process for this interest rate swap. Loop Financial Products (Loop) won the bid at $3.099 million, plus $100,000 to reimburse the University for expenses. The transaction closed on December 2, 2008 with Loop paying $3.099 million to LBCB and $100,000 to the University. The University's expenses related to this transaction only included legal counsel and financial advisory services. Due to the event of default and swap transaction aforementioned, $(3,665,000) is recorded in prepaid expenses and bonds payable on the Statement of Net Assets. This amount represents the mark to market value of the swap at the date the transaction was negotiated between LBCB and Loop.

As noted above, the swap exposes the University to basis risk should the relationship between LIBOR or 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 moving to convergence, the expected cost savings may not be realized.

Pledged Revenues & 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
(in thousands)

Bond Issues	Purpose	Source of Revenue Pledged	Future Revenues Pledged [2]	Term of Commitment	Debt Service To Pledged Revenues (Current Year)
Auxiliary Facilities System	Refundings, various improvements and additions to the System	Net AFS revenue, student tuition and fees	$ 1,670,783	2038	8.84%
Health Services Facilities System	Additions to System and Refunding	Net HSFS, Medical Service Plan revenue net of bad debt expense, College of Medicine net tuition revenue	77,041	2027	1.16%
UIC South Campus	South Campus Development Project[1] and Refunding	Defined Tax Increment Financing District (TIF) revenue, student tuition and fees, and sales of certain land in the UIC South Campus project	97,484	2023	2.71%
		Total Future Revenues Pledged	$ 1,845,308		

[1]An integrated academic, residential, recreational, and commercial development south of UIC's main campus
[2]Total future principal and interest payments on debt (in thousands)

Future debt service requirements for all bonds outstanding at June 30, 2009 are as follows:

DEBT SERVICE REQUIREMENTS
(in thousands)

	Principal	Interest
2010	$ 33,605	$ 44,868
2011	35,495	43,836
2012	38,350	42,847
2013	40,795	41,682
2014	42,665	40,462
2015-2019	239,970	183,149
2020-2024	248,245	142,986
2025-2029	220,790	95,208
2030-2034	198,815	44,000
2035-2038	63,190	4,350
TOTAL	$ 1,161,920	$ 683,388

Using the actual rates of 0.35% and 0.30%, in effect as of June 30, 2009, 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			
	Principal	Interest	Interest Rate Swaps, Net	Total
2010	$	$ 190	$ 2,028	$ 2,218
2011	245	190	2,025	2,460
2012	570	188	2,011	2,769
2013	2,225	184	1,966	4,375
2014	4,425	173	1,852	6,450
2015-2019	26,255	612	6,534	33,401
2020-2022	20,525	119	1,269	21,913
TOTAL	$ 54,245	$ 1,656	$ 17,685	$ 73,586

HEALTH SERVICES FACILITIES SYSTEM REVENUE BONDS, SERIES 2008
VARIABLE-RATE DEBT SERVICE REQUIREMENTS
(in thousands)

	Variable-Rate Bonds			
	Principal	Interest	Interest Rate Swaps, Net	Total
2010	$	$ 124	$ 1,322	$ 1,446
2011		124	1,322	1,446
2012	1,135	121	1,298	2,554
2013	2,090	116	1,241	3,447
2014	2,105	110	1,173	3,388
2015-2019	11,830	446	4,771	17,047
2020-2024	14,160	250	2,679	17,089
2025-2027	9,895	17	450	10,362
TOTAL	$ 41,215	$ 1,308	$ 14,256	$ 56,779

Certain bonds of the University have debt service reserve requirements. The Maximum Annual Net Debt Service for those bonds, as defined, is $15,138,000.

Advanced Refunded Bonds

The University has defeased bonds through advanced funding in prior years and, accordingly, they are not reflected in the accompanying financial statements. The amount of bonds which have been defeased as of June 30, 2009 consists of the following:

ADVANCE REFUNDED BONDS
(in thousands)

Series	Outstanding at June 30, 2009
1999	$ 49,365
1999A	85,300
2000	10,785
2001B	55,315
TOTAL	$ 200,765

Foundation Note Payable

The Foundation has a demand note outstanding with interest at 1.25% and principal outstanding of $7,292,000. The change in the balance for year ended June 30, 2009 is as follows:

URO NOTES PAYABLE
(in thousands)

Balance, beginning of year	$ 7,214
Proceeds	263
Payments	(185)
Balance, end of year	$ 7,292

NOTE 8 – LEASEHOLDS AND OTHER OBLIGATIONS

Leaseholds payable and other obligations activity for the year ended June 30, 2009 consist of the following:

LEASEHOLDS AND OTHER OBLIGATIONS
(in thousands)

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
University:					
Certificates of Participation	$ 588,690	$ 113,230	$ (131,400)	$ 570,520	$ 233,160
Unamortized debt premium	16,072	381	(1,739)	14,714	1,520
Unamortized deferred loss on refunding	(14,805)	(416)	1,952	(13,269)	(9,199)
	589,957	113,195	(131,187)	571,965	225,481
Other capital leases	56,002	772	(7,780)	48,994	6,179
Environmental remediation liability	5,441	48	(5,017)	472	126
Total University	$ 651,400	$ 114,015	$ (143,984)	$ 621,431	$ 231,786
UROs:					
Annuities payable	$ 53,891	$	$ (9,384)	$ 44,507	$ 5,989
Other liabilities	6,491		(1,600)	4,891	
Total UROs	$ 60,382	$	$ (10,984)	$ 49,398	$ 5,989

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.

On June 12, 2009, the University issued Certificates of Participation Series 2009A and 2009B. The Certificates were issued for the refunding of the outstanding Certificates of Participation, Series 2007C and Series 2007D, and to fund all costs incidental to the issuance of the Certificates. The refunding resulted in a projected savings of $18,287,000 over the life of the issue at a present value of $14,377,000. The difference between the reacquisition price and the net carrying amount of the old debt, loss on refunding, was $416,000. This loss is deferred and amortized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter.

Included in leaseholds payable is $214,765,000 of variable rate demand Certificates of Participation (COP). These COPs mature serially through October 2027. These COPs have variable interest rates that are adjusted periodically (i.e. daily, weekly, or monthly), generally with interest paid at the beginning of each month. The COPs are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest on seven days notice and delivery to the University's several remarketing agents. The University pays the remarketing agent fees on the outstanding COPs balance. If the remarketing agent is unable to resell any COPs that are "put" to the agent, the University has a standby certificate purchase agreement with a liquidity facility entity. The University has several such agreements, with the fees ranging from the Adjusted Principal (formula based on COPs outstanding plus pro-forma interest). The University, in the event a liquidity facility is utilized, has reimbursement agreements with different financial entities. Generally the payback period is five to seven years, at an interest rate initially set at slightly above prime or the federal funds rate. The required future interest payments for these variable rate certificates have been calculated using the current interest rate, based upon short term tax exempt rates for Series 2009B, and the synthetic fixed rate for Series 2004, as illustrated in the tables below. Other outstanding certificates bear interest at fixed rates ranging from 3.00% to 5.38%

VARIABLE RATE CERTIFICATES OF PARTICIPATION
AT JUNE 30, 2009

COP Issues	Interest Rate at June 30, 2009	Remarketing Agent	Remarketing Fee	Liquidity Facility: Bank	Liquidity Facility: Expiration	Liquidity Facility: Insurer	Liquidity Fee
COP Series 2004	0.40%	Morgan Stanley	0.10%	Bank of America	3/5/2010	None	0.09%
COP Series 2009B	0.35%	JPMorgan Securities	0.10%	JPMorgan Chase	6/11/2010	None	1.35%

The COP Series 2004 is supported by a liquidity facility provided by Bank of America. Since this facility will expire in March of 2010, the University is currently in the process of obtaining a replacement liquidity facility. The COP Series 2009B is supported by a liquidity facility provided by JPMorgan Chase Bank. Since this facility will expire in June of 2010, the University will initiate the process of obtaining a replacement liquidity facility in the third quarter of fiscal year 2010. Due to the aforementioned maturities, the outstanding balances of COP Series 2004 and Series 2009B are reported as current leaseholds payable at June 30, 2009.

Interest Rate Swap Agreement on Certificates of Participation

To facilitate the advance refunding of the Certificates of Participation (Utility Infrastructure Projects) Series 2001 A & B; and, as a means to lower its borrowing costs, when compared against fixed-rate bonds at the time of issuance, the University entered into an interest rate swap in connection with its Certificates of Participation (Utility Infrastructure Projects) Series 2004. The terms, fair values, and credit rating of the outstanding swap as of June 30, 2009 is listed below.

INTEREST RATE SWAP
AT JUNE 30, 2009

COP Issue	Outstanding Notional Amount	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Value	Swap Termination Date	Counterparty	Counterparty Credit Rating (S&P/Moody's)
COP 2004	$ 139,765,000	Mar-2004	3.765%	100% of SIFMA	$ (9,358,000)	Aug-2021	Morgan Stanley	A/A2

The objective of the swap was to effectively change the University's variable interest rate on the Certificates to a synthetic fixed rate. The notional amount of the interest rate swap is equal to the par amount of the related Certificates of Participation. The swap agreement was entered at the same time as the Certificates were issued and terminate with maturity.

Starting in fiscal year 2006, the notional value of the swap and the principal amount of the associated Certificates began to decline. Conversely, the Certificates' variable interest rates are expected to approximate SIFMA. For fiscal year 2009, the Certificates' average variable interest rate was 0.09% below the SIFMA. As noted above, the swap exposes the University to basis risk should the relationship between SIFMA and the variable weekly rate determined by remarketing agents converge, changing the synthetic rate on the bonds. If a change occurs that results in the rates moving to convergence, the expected cost savings may not be realized.

The University engaged a third-party consultant to calculate the "mark to market" or "market value" of the swap transactions. Since these are negative numbers, they represent an approximation of the amount of money that the University may have to pay a swap provider to terminate the swap. In accordance with governmental accounting standards, this amount is not required to be included in the accompanying financial statements.

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.

Using the actual rate of 0.40% in effect as of June 30, 2009, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, were as follows. As rates vary, variable-rate bond interest payments and net swap payments will also vary.

UTILITY INFRASTRUCTURE CERTIFICATES OF PARTICIPATION, SERIES 2004
VARIABLE-RATE DEBT SERVICE REQUIREMENTS
(in thousands)

	Variable-Rate Certificates			
	Principal	Interest	Interest Rate Swaps, Net	Total
2010	$ 139,765	$ 584	$ 4,915	$ 145,264

Assets held under capital leases are included in capital assets at June 30, 2009 as follows:

ASSETS HELD UNDER CAPITAL LEASE (in thousands)		
Land	$	8,423
Buildings		150,679
Improvements		263,265
Equipment		169,638
Subtotal		592,005
Less: accumulated depreciation		174,370
TOTAL	$	417,635

The net present value of outstanding capital leases at June 30, 2009 is:

OUTSTANDING CAPITAL LEASES (in thousands)		
Certificates of Participation:		
Series 2001 UI Integrate	$	8,540
Series 2003 South Farms		20,230
Series 2003 UI Integrate		31,700
Series 2003 Utility Infrastructure		47,830
Series 2004 Utility Infrastructure		139,765
Series 2005 College of Medicine		17,775
Series 2006A Academic Facilities		73,210
Series 2007A		72,595
Series 2007B		45,645
Series 2009A		38,230
Series 2009B		75,000
Other capital leases		48,994
NET PRESENT VALUE	$	619,514

As of June 30, 2009 future minimum lease payments under capital leases are as follows:

FUTURE MINIMUM LEASE PAYMENTS UNDER CAPITAL LEASES (in thousands)		
2010	$	263,966
2011		34,439
2012		33,149
2013		38,019
2014		44,789
2015-2019		178,148
2020-2024		128,521
2025-2029		84,720
2030-2034		7,006
Total minimum lease payments		812,757
Amount representing interest		(193,243)
NET PRESENT VALUE	$	619,514

Advanced Refunded Certificates of Participation

The University has defeased certificates through advanced funding in prior years and, accordingly, they are not reflected in the accompanying financial statements. The amount of certificates which have been defeased as of June 30, 2009 consists of the following:

ADVANCE REFUNDED CERTIFICATES (in thousands)	
Series	Outstanding at June 30, 2009
1997 Utility	$ 5,405
1999 Utility	46,845
2001A Utility	74,080
2001B Utility	56,900
2001 UI - Integrate	41,015
TOTAL	$ 224,245

Other Obligations

The University monitors environmental matters and records an estimated liability for identified environmental remediation costs. The estimated liability at June 30, 2009 is $472,000.

At June 30, 2009, the Foundation had annuities payable outstanding of $44,507,000. Annuities payable represent an actuarial computation of the present value of future payments to annuitants.

Operating Leases

The University also leases various buildings and equipment under operating lease agreements. Total rental expense under these agreements was $10,845,000 for the year ended June 30, 2009. The future minimum lease payments (excluding those leases renewed on an annual basis) are as follows:

FUTURE MINIMUM OPERATING LEASE PAYMENTS (in thousands)	
2010	$ 8,140
2011	5,914
2012	4,319
2013	3,266
2014	2,777
2015-2019	7,538
2020-2024	78
2025-2027	23
TOTAL	$ 32,055

NOTE 9 – ACCOUNTING CHANGES

Implementation of New Accounting Pronouncement

The Entity adopted the provisions of GASB 52, *Land and Other Real Estate Held as Investments by Endowments*, effective July 1, 2008. This statement requires that land and other real estate investments held by endowments be reported at fair value. As a result of implementing this standard, the University and UROs increased beginning net assets as of July 1, 2008 by $26,926,000 and $11,292,000, respectively, which represents the amount by which fair value exceeded cost for these investments.

Change in Accounting

During the year ended June 30, 2009, the University changed the reporting for three of its component units, Prairieland Energy, Inc., Illinois Ventures, LLC, and University of Illinois Research Park, LLC. In previous years, these component units were incorporated into the University's financial statements using the blending method. As a result of increased activity and transactions with external parties since their establishment, the University determined that it is preferable to present these organizations as discretely presented component units within the financial statements, and accordingly, they are now included within the University Related Organizations column. As a result of this change, the University reduced and the UROs increased beginning net assets as of July 1, 2008 by $9,581,000 and $13,233,000, respectively. The difference between the restated amounts of $3,652,000 represents the amount by which net assets were understated by the University in the previous year.

Correction of Error

The Foundation restated amounts related to certain irrevocable trusts held by trustees other than the Foundation. In prior years, these amounts were improperly recorded as an asset. According to GASB 33, *Accounting and Financial Reporting for Nonexchange Transactions*, these amounts should not have been recognized as assets and revenues until received. As a result, the Foundation (UROs) reduced assets and beginning net assets as of July 1, 2008 by $8,591,000.

Summary of Changes

A summary of changes to beginning net assets for the year ended June 30, 2009 is as follows:

(in thousands)		
	University	UROs
Net assets at June 30, 2008, as previously reported	$ 2,355,349	$ 1,215,790
Increase in reported amount for land and other real estate as a result of implementation of GASB 52	26,926	11,292
Change in accounting for component units from blended to discrete presentation	(9,581)	13,233
Decrease related to certain irrevocable trusts held by others recorded as assets in previous years		(8,591)
Net assets as July 1, 2008, as restated	$ 2,372,694	$ 1,231,724

NOTE 10 – NET ASSETS

As discussed in Note 1 to the financial statements, the Entity's net assets are classified for accounting and reporting purposes into one of four net asset categories according to externally imposed restrictions. The following tables include detail of the net asset balances for the University and the UROs including major categories of restrictions and internal designations of unrestricted funds.

UNIVERSITY NET ASSETS (in thousands)	
Invested in capital assets, net of related debt	$ 1,861,131
Restricted - nonexpendable	
Invested in perpetuity to produce income expendable for -	
Scholarships, fellowships and research	57,362
Restricted - expendable for -	
Scholarships, fellowships, research and facilities	209,269
Loans	76,849
Service plans	65,128
Retirement of indebtedness	22,563
Unrestricted -	
Designated for:	
Auxiliary	29,805
Hospital	77,465
Capital projects	24,088
Self supporting activities	14,284
Institutional support	53,700
Bond & COP issuance costs	11,295
Quasi endowments	89,110
Undesignated:	
Amount expected to be financed by the State in future years	(248,040)
Other undesignated	13,749
TOTAL	$ 2,357,758

URO NET ASSETS (in thousands)	
Invested in capital assets, net of related debt	$ 6,454
Restricted - nonexpendable	
Invested in perpetuity to produce income expendable for -	
Scholarships, fellowships and research	563,466
Restricted - expendable for -	
Scholarships, fellowships and research	378,811
Unrestricted	36,430
TOTAL	$ 985,161

NOTE 11 – FUNDS HELD IN TRUST BY OTHERS

The University and Foundation are income beneficiaries of several irrevocable trusts which are held and administered by outside trustees. The University and Foundation have no control over these funds as to either investment decisions or income distributions, thus the principal is not recorded in the accompanying financial statements. The fair value of these funds at June 30, 2009 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	Foundation
Fair value of funds held in trust by others	$ 32,844	$ 33,957
Income received from funds held in trust by others	$ 1,292	$ 935

NOTE 12 – STATE UNIVERSITIES RETIREMENT SYSTEM

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

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

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

Plan members are required to contribute 8.0% of their annual covered salary and substantially all employer contributions are made by the State of Illinois on behalf of the individual employers at an actuarially determined rate. The current rate is 18.61% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the Illinois General Assembly. The University's contributions to SURS for the years ended June 30, 2009, 2008, and 2007 were $219,441,000, $174,318,000 and $138,499,000 respectively, equal to the required contributions for each year. The UROs contributions to SURS for the years ended June 30, 2009, 2008, and 2007 were $958,000, $948,000 and $856,000, respectively.

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

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

NOTE 13 – POSTEMPLOYMENT BENEFITS

The State Employees Group Insurance Act of 1971 (Act), as amended, authorizes the State to provide health, dental, vision, and life insurance benefits for certain retirees and their dependents. Substantially all State and university employees become eligible for these other postemployment benefits (OPEB) if they eventually become annuitants of one of the State sponsored pension plans. The Department of Healthcare and Family Services and the Department of Central Management Services administer these benefits for annuitants with the assistance of the State's sponsored pension plans. The portions of the Act related to OPEB establishes 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 have been followed for reporting the plan. The State is not required to and does not fund the plan other than the pay-as-you-go amount necessary to provide the current benefits.

Annuitants may be required to contribute towards health, dental, and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State or a university, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants who retired prior to January 1, 1998, and who are vested in one of the State's sponsored pension plans do not contribute towards health, dental, and vision benefits. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced five percent for each year of credited service with the State allowing those annuitants with twenty or more years of credited service to not have to contribute towards health, dental, and vision benefits. For fiscal year 2009, the annual cost of health, dental, and vision benefits before the State's contribution was $6,222 ($2,383 if Medicare eligible) if the annuitant chose benefits provided by a health maintenance organization (HMO) and $9,390 ($2,371 if Medicare eligible) if the annuitant chose other benefits. Additional contributions by annuitants for dependents ranging from $984 to $2,712 ($924 to $2,436 if Medicare eligible) are also required depending on the benefits selected and whether there is one or multiple dependents.

For current employees, contributions are dependent upon annual salary and whether or not the employee chooses to receive benefits through an HMO. Current employee contribution amounts to the plan for fiscal year 2009 are shown as follows.

Annual Employee Health, Dental, and Vision Contribution Requirements

Employee Annual Salary	Benefits Provided Through an HMO	Benefits Provided Through Others
$29,500 and below	$546	$846
$29,501 - $44,600	$606	$906
$44,601 - $59,300	$636	$936
$59,301 - $74,300	$666	$966
$74,301 and above	$696	$996

Additional contributions by employees for dependents ranging from $840 to $2,568 ($780 to $2,292 if Medicare eligible) are also required depending on the benefits selected and whether there is one or multiple dependents.

NOTE 14 – COMMITMENTS AND CONTINGENCIES

At June 30, 2009 the University had commitments on various construction projects and contracts for repairs and renovation of facilities of approximately $90,427,000.

The University has secured natural gas at a fixed price for fiscal years 2010-2012 by executing forward fixed-price purchase contracts with Nicor Enerchange. The University did not employ futures contracts or other derivative products. At June 30, 2009, the University's commitment related to these contracts is approximately $83,528,000.

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

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

The University's hospital and clinics are involved in regulatory audits arising in the normal course of business. On June 8, 2007, a notice was received from the Office of Inspector General (OIG) on behalf of the Illinois Department of Healthcare and Family Services (HFS) indicating that the University received an overpayment of $14.8 million on behalf of Medicaid patients. During fiscal year 2008, the University submitted additional documentation and evidence of its positions. HFS conducted a reaudit and on June 18, 2008 issued a revised notice of audit findings reducing the overpayment from $14.8 million to $8.6 million. On August 22, 2008, the University received another letter from the OIG stating the overpayment was reduced to approximately $5 million. The University continues to contest the findings and pursue its administrative options. This liability has been reflected in the University's financial position and results from operations.

NOTE 15 – OPERATING EXPENSES BY NATURAL CLASSIFICATION

Operating expenses by natural classification for the year ended June 30, 2009 for the University and the UROs are summarized as follows:

UNIVERSITY OPERATING EXPENSES BY NATURAL CLASSIFICATION
(in thousands)

	Compensation and benefits	Supplies and services	Student aid	Depreciation	Total
Instruction	$ 822,419	$ 134,006	$ 4,880	$	$ 961,305
Research	398,201	229,524	2,402		630,127
Public service	233,124	147,876	2,429		383,429
Academic support	211,184	86,974	5,584		303,742
Student services	85,939	36,357	1,032		123,328
Institutional support	182,800	46,832	105		229,737
Operations and maintenance of plant	77,154	192,156	5,063		274,373
Scholarships and fellowships	185,182	1,861	12,995		200,038
Auxiliary enterprises	117,946	176,444	12,577		306,967
Hospital and medical activities	352,101	226,750	7		578,858
Independent operations	1,549	12,257			13,806
Depreciation				203,477	203,477
TOTAL	$ 2,667,599	$ 1,291,037	$ 47,074	$ 203,477	$ 4,209,187

URO OPERATING EXPENSES BY NATURAL CLASSIFICATION
(in thousands)

	Distributions on behalf of the University	Institutional support	Depreciation	Total
Salaries and benefits	$	$ 24,402	$	$ 24,402
Distributions on behalf of the University	152,197			152,197
Marketing and communications		7,976		7,976
Travel		1,215		1,215
Equipment		1,134		1,134
Meeting, conferences and special events		1,007		1,007
Supplies and other		18,058		18,058
Depreciation			786	786
TOTAL	$ 152,197	$ 53,792	$ 786	$ 206,775

NOTE 16 – SEGMENT INFORMATION

The following financial information represents identifiable activities for which one or more revenue bonds are outstanding. The Auxiliary Facilities System is comprised of University owned housing units, student unions, recreation and athletic facilities, and similar auxiliary service units, including parking. The Health Services Facilities System is comprised of the University of Illinois Hospital and associated clinical facilities providing patient care. The Willard Airport Facility is not presented below due to its revenue bonds being paid off in fiscal year 2009.

(in thousands)	AUXILIARY FACILITIES SYSTEM	HEALTH SERVICES FACILITIES SYSTEM	TOTAL
Condensed Statement of Net Assets			
ASSETS:			
Current assets	$ 174,743	$ 179,673	$ 354,416
Noncurrent assets			
Capital assets, net of accumulated depreciation	941,071	159,059	1,100,130
Other noncurrent assets	20,803	6,316	27,119
TOTAL ASSETS	$ 1,136,617	$ 345,048	$ 1,481,665
LIABILITIES:			
Current liabilities	$ 82,000	$ 81,473	$ 163,473
Noncurrent liabilities			
Long term debt	943,619	69,524	1,013,143
Other liabilities	5,841	22,570	28,411
TOTAL LIABILITIES	1,031,460	173,567	1,205,027
NET ASSETS:			
Invested in capital assets, net of related debt	2,855	91,206	94,061
Restricted			
Expendable	22,341	2,488	24,829
Unrestricted	79,961	77,787	157,748
TOTAL NET ASSETS	105,157	171,481	276,638
TOTAL LIABILITIES AND NET ASSETS	$ 1,136,617	$ 345,048	$ 1,481,665
Condensed Statement of Revenues, Expenses and Changes in Net Assets			
Operating revenues	$ 289,998	$ 521,462	$ 811,460
Operating expenses	245,852	578,579	824,431
Depreciation expense	24,845	21,087	45,932
Operating income (loss)	19,301	(78,204)	(58,903)
Nonoperating revenues (expenses), net	(22,029)	85,905	63,876
(Decrease) increase in net assets	(2,728)	7,701	4,973
Net assets, beginning of year	107,885	163,780	271,665
NET ASSETS, END OF YEAR	$ 105,157	$ 171,481	$ 276,638
Condensed Statement of Cash Flows			
Net cash flows provided by operating activities	$ 63,103	$ 20,396	$ 83,499
Net cash flows (used) provided by noncapital financing activities	(88)	98	10
Net cash flows used by capital and related financing activities	(141,490)	(65,391)	(206,881)
Net cash flows provided (used) by investing activities	22,055	(1,178)	20,877
Net decrease in cash and cash equivalents	(56,420)	(46,075)	(102,495)
Cash and cash equivalents, beginning of year	204,959	132,202	337,161
Cash and cash equivalents, end of year	$ 148,539	$ 86,127	$ 234,666

NOTE 17 – UNIVERSITY RELATED ORGANIZATIONS

The Entity's financial statements include the activity of the University Related Organizations which represent the discretely presented component units. Below are condensed financial statements by organization:

(in thousands)	FOUNDATION	ALUMNI ASSOCIATION	WWT	IVENTURES
Condensed Statement of Net Assets				
ASSETS:				
Current assets	$ 20,245	$ 2,063	$ 289	$ 998
Noncurrent assets				
Capital assets, net of accumulated depreciation	10,933	750	531	51
Other noncurrent assets	1,001,792	12,343		9,656
TOTAL ASSETS	$ 1,032,970	$ 15,156	$ 820	$ 10,705
LIABILITIES:				
Current liabilities	$ 29,772	$ 1,610	$ 661	$ 259
Noncurrent liabilities				
Long term debt				
Other noncurrent liabilities	43,500	1,240		
TOTAL LIABILITIES	73,272	2,850	661	259
NET ASSETS:				
Invested in capital assets, net of related debt	3,641	750	531	51
Restricted				
Nonexpendable	563,466			
Expendable	378,811			
Unrestricted	13,780	11,556	(372)	10,395
TOTAL NET ASSETS	959,698	12,306	159	10,446
TOTAL LIABILITIES AND NET ASSETS	$ 1,032,970	$ 15,156	$ 820	$ 10,705
Condensed Statement of Revenues, Expenses and Changes in Net Assets				
Operating revenues	$ 158,438	$ 10,466	$ 8,865	$ 2,932
Operating expenses	173,605	10,462	8,299	2,554
Depreciation expense	418	75	203	27
Operating income (loss)	(15,585)	(71)	363	351
Nonoperating revenues (expenses)	(270,097)	(2,288)	(127)	(1,127)
Contributions to endowments	41,477			
Increase (decrease) in net assets	(244,205)	(2,359)	236	(776)
Net assets (deficits), beginning of year, as restated	1,203,903	14,665	(77)	11,222
NET ASSETS, END OF YEAR	$ 959,698	$ 12,306	$ 159	$ 10,446
Condensed Statement of Cash Flows				
Net cash flows (used) provided by operating activities	$ (40,660)	$ 1,019	$ 429	$ 758
Net cash flows provided (used) by noncapital financing activities	41,477	(600)		
Net cash flows used by capital and related financing activities	(3,005)	(506)	(454)	(2)
Net cash flows provided (used) by investing activities	1,491	220		(402)
Net increase (decrease) in cash and cash equivalents	(697)	133	(25)	354
Cash and cash equivalents, beginning of year	3,815	1,462	30	69
Cash and cash equivalents, end of year	$ 3,118	$ 1,595	$ 5	$ 423

(in thousands)	RESEARCH PARK	PRAIRIELAND	SINGAPORE RESEARCH	TOTAL
Condensed Statement of Net Assets				
ASSETS:				
Current assets	$ 305	$ 4,654	$ 946	$ 29,500
Noncurrent assets				
Capital assets, net of accumulated depreciation	815	84	582	13,746
Other noncurrent assets				1,023,791
TOTAL ASSETS	$ 1,120	$ 4,738	$ 1,528	$ 1,067,037
LIABILITIES:				
Current liabilities	$ 25	$ 3,836	$ 946	$ 37,109
Noncurrent liabilities				
Long term debt				
Other noncurrent liabilities		27		44,767
TOTAL LIABILITIES	25	3,863	946	81,876
NET ASSETS:				
Invested in capital assets, net of related debt	815	84	582	6,454
Restricted				
Nonexpendable				563,466
Expendable				378,811
Unrestricted	280	791		36,430
TOTAL NET ASSETS	1,095	875	582	985,161
TOTAL LIABILITIES AND NET ASSETS	$ 1,120	$ 4,738	$ 1,528	$ 1,067,037
Condensed Statement of Revenues, Expenses and Changes in Net Assets				
Operating revenues	$ 330	$ 9,642	$ 1,692	$ 192,365
Operating expenses	223	9,755	1,091	205,989
Depreciation expense	29	14	20	786
Operating income (loss)	78	(127)	581	(14,410)
Nonoperating revenues (expenses)		8	1	(273,630)
Contributions to endowments				41,477
Increase (decrease) in net assets	78	(119)	582	(246,563)
Net assets, beginning of year, as restated	1,017	994		1,231,724
NET ASSETS, END OF YEAR	$ 1,095	$ 875	$ 582	$ 985,161
Condensed Statement of Cash Flows				
Net cash flows (used) provided by operating activities	$	$ (590)	$ 1,497	$ (37,547)
Net cash flows provided (used) by noncapital financing activities		(3)	1	40,875
Net cash flows used by capital and related financing activities		(1)	(602)	(4,570)
Net cash flows provided by investing activities		11		1,320
Net increase (decrease) in cash and cash equivalents		(583)	896	78
Cash and cash equivalents, beginning of year	6	1,398		6,780
Cash and cash equivalents, end of year	$ 6	$ 815	$ 896	$ 6,858

NOTE 18 – SUBSEQUENT EVENTS

On August 26, 2009, The Honorable Governor of Illinois, Pat Quinn, appointed two new members to the Board. In addition, Quinn appointed four new members and reappointed Edward L. McMillan to the Board on September 4, 2009. These appointments and re-appointment were to fill positions made vacant by resignations of Lawrence C. Eppley, Niranjan S. Shah, David V. Dorris, Robert F. Vickrey, Devon C. Bruce, Kenneth D. Schmidt, and Edward L. McMillan.

After this reorganization, the Board consists of the following individuals, their terms of appointment, and city of residence:

Term 2005-2011

Frances G. Carroll, Chicago

Term 2009-2011

Karen A. Hasara, Springfield
Carlos E. Tortolero, Berwyn

Term 2007-2013

James D. Montgomery, Chicago

Term 2009-2013

Timothy N. Koritz, Roscoe
Lawrence Oliver II, Orland Park

Term 2009-2015

Christopher G. Kennedy, Kenilworth
Edward L. McMillan, Greenville
Pamela B. Strobel, Winnetka

Christopher G. Kennedy was elected Chairperson of the Board at the first meeting of the new Board on September 10, 2009.

On October 3, 2009, the Board accepted the resignation of the University President, Dr. B. Joseph White, effective December 31, 2009, and appointed Dr. Stanley O. Ikenberry as Interim President effective January 1, 2010.

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