UNIVERSITY OF ILLINOIS

Annual Financial Report

June 30, 2018

(With Independent Auditors' Report Thereon)

CliftonLarsonAllen LLP

UNIVERSITY OF ILLINOIS

Annual Financial Report

June 30, 2018

Table of Contents

UNIVERSITY OF ILLINOIS SYSTEM

Office of the Vice President, Chief Financial Officer and Comptroller
349 Henry Administration Building, 506 South Wright Street • Urbana, Illinois 61801

December 19, 2018

I am pleased to present the Annual Financial Report for the University of Illinois. The report provides information regarding the University of Illinois' financial position as of June 30, 2018, and results of operations and cash flows for the fiscal year then ended on that date.

The report reveals a strong financial position thanks to robust and diversified revenue sources, including higher tuition revenue from record student enrollment, strong research portfolio and clinical operations, and appropriation support from the State of Illinois, combined with prudent and effective use of those resources.

The University of Illinois' tradition of excellence in teaching, research, public service, healthcare and economic development has made it a distinguished leader in higher education. Through the commitment of its faculty, administrators and staff the institution has continued to advance its mission.

The University remains focused on enhancing its value to the State and to its students.

Respectfully submitted,

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Avijit Ghosh,
Vice President, Chief Financial Officer and Comptroller

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CliftonLarsonAllen LLP
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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of University of Illinois (the University), collectively a component unit of the State of Illinois, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

The financial statements of The University of Illinois Foundation; The University of Illinois Alumni Alliance; 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.

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

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

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

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of University of Illinois and its aggregate discretely presented component units as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

During fiscal year ended June 30, 2018, the University adopted GASB Statement No. 75 Accounting and Financial Reporting for Postemployment Benefits Other than Pensions. As a result of the implementation of this standard, the University reported a restatement for the change in accounting principle (see Note 1.) Our auditors' opinion was not modified with respect to the restatement.

Other Matters

Report on Summarized Comparative Information

We have previously reported on the University of Illinois' 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 30, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 12, the Schedule of Share of the Net Pension Liability and Schedule of Contributions on page 64 and Schedule of the University's Proportionate Share of the Net OPEB Liability on page 66 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued under separate cover our report dated December 19, 2018, on our consideration of University of Illinois' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the University's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering University of Illinois's internal control over financial reporting and compliance.

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CliftonLarsonAllen LLP

Peoria, Illinois
December 19, 2018

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, 2018. The MD&A should be read in conjunction with the audited financial statements and notes appearing in this report.

The University serves the people of Illinois through a commitment to excellence in teaching, research, public service, economic development and healthcare. With main campus locations in Urbana-Champaign, Chicago and Springfield, the University currently enrolls nearly 86,000 talented students to hundreds of programs-many of them ranked among the best in the nation. Faculty members are world leaders in research and discovery and contribute new knowledge and life changing breakthroughs to a variety of fields. In addition to the three main campuses, the University has teaching and service facilities, including regional campuses and extension offices, located throughout the state.

Using the Financial Statements

The University’s financial report includes three financial statements: the Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position; and the Statement of Cash Flows. The financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles, which establish standards for external financial reporting for public colleges and universities and require that financial statements focus on the University as a whole.

The financial statements encompass the University and its discretely presented component units: University of Illinois Foundation; University of Illinois Alumni Alliance; 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 excludes the discretely presented component units. Condensed financial information regarding those units is disclosed separately in Note 16 to the financial statements.

Financial Highlights and Key Trends

The University achieved robust financial results in fiscal year 2018, marked by both strong revenue growth and prudent use of resources. State appropriations (excluding capital) increased to $888 million from $356 million in fiscal year 2017. This increase, along with growth in tuition revenue, gifts received, and clinical operations, among others, while controlling operating expense resulted in a $638 million increase in net position for the year. However, cumulative net position declined by $961 million from the beginning of the year, due to the adoption of GASB Statement No. 75. The adoption of GASB Statement No. 75 created a $1.3 billion liability for other postemployment benefits (OPEB).

Statement of Net Position

The Statement of Net Position presents the financial position of the University at the end of the fiscal year and includes all assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the University using the accrual basis of accounting. Net position is one indicator of the current financial condition of the University. The changes in net position that occur over time indicate improvement or deterioration in the University's financial condition. Generally, assets and liabilities are reported at cost with the exception of investments, which are reported at fair value. Capital assets are reported at historical cost less accumulated depreciation. A summarized comparison of the University's assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position at June 30, 2018 and 2017 is as follows:

		2018	2017
		(In thousands)	
Current assets:			
Cash and investments	$	1,103,131	815,430
Accounts and notes receivable		546,026	548,977
Appropriations receivable from State of Illinois		45,181	714
Other current assets		90,374	81,212
Noncurrent assets:			
Cash and investments		2,163,436	1,827,011
Notes receivable		44,569	49,178
Capital assets, net of accumulated depreciation		3,761,293	3,751,300
Other assets		23,019	27,589
Deferred outflows of resources		99,704	76,876
Total assets and deferred outflows of resources	$	7,876,733	7,178,287
Current liabilities:			
Accounts payable, accrued liabilities and unearned revenue	$	792,654	702,021
Bonds payable		56,028	54,358
Leaseholds payable and other obligations		44,067	41,356
Accrued self-insurance		41,484	45,097
Other current liabilities		72,477	71,278
Noncurrent liabilities:			
Bonds payable		1,171,945	1,230,972
Leaseholds payable and other obligations		239,727	252,656
Accrued self-insurance		193,564	194,388
Accrued compensated absences		187,047	184,214
Derivative instruments – swap liability		3,176	5,620
OPEB liability		1,314,760	
Deferred inflows of resources		346,539	21,741
Total liabilities and deferred inflows of resources		4,463,468	2,803,701
Net position		3,413,265	4,374,586
Total liabilities, deferred inflows of resources and net position	$	7,876,733	7,178,287

Change in 2017 balances for other assets and deferred inflows of resources due to implementation of GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, see note 1 (t).

Total assets and deferred outflows of resources increased by $698 million or 9.7% during fiscal year 2018. The largest component of this change resulted from the significant increase in appropriations from the State of Illinois.

Total liabilities and deferred inflows of resources increased $1,660 million, or 59.2% for fiscal year 2018. This change primarily resulted from the addition of the OPEB liability due to the adoption of GASB Statement No.75.

Capital Assets and Long-Term Debt

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

Capital Assets, Net of Accumulated Depreciation
(In thousands)

	2018		2017	
Buildings	$ 2,719,038	72.2%	$ 2,661,729	71.0%
Improvements and infrastructure	247,047	6.6	263,793	7.0
Construction in progress	267,032	7.1	280,143	7.5
Land	138,374	3.7	136,472	3.6
Equipment and software	251,157	6.7	268,584	7.2
Collections	138,645	3.7	140,579	3.7
	$ 3,761,293	100.0%	$ 3,751,300	100.0%

Capital assets, net of accumulated depreciation, increased by $10 million in fiscal year 2018. This increase included current year additions to buildings, partially offset by current year depreciation. Facilities improvements under construction were funded by revenue bonds, federal grants, private gifts, internal funds and State capital appropriations. Improvements to existing buildings included the Natural History Building, Integrated Bioprocessing Laboratory and University of Illinois Hospital (Hospital). New construction included the Student Union at Springfield.

The University has historically utilized revenue bonds to finance capital projects related to the Auxiliary Facilities System (AFS), the Health Services Facilities System (HSFS) and the University of Illinois – Chicago (UIC) South Campus project. The following table details the various bonded debt outstanding at June 30, 2018 and 2017:

Bonds Payable
(In thousands)

	2018	2017
AFS	$ 1,088,798	1,136,422
HSFS	109,253	112,758
UIC South Campus	29,922	36,150
	$ 1,227,973	1,285,330

The University has issued Certificates of Participation (Certificates), which are reported as leaseholds payable in the financial statements. The outstanding Certificates have funded projects such as utility infrastructure, College of Medicine facilities and deferred maintenance on medical, academic and research facilities. The reduction in the outstanding balance of the Certificates was due to scheduled redemptions. The outstanding balances of the Certificates as of June 30, 2018 and 2017 were $194,132,000 and $229,570,000 respectively.

(Continued)

Net Position

The University's resources are classified into net position categories on the Statement of Net Position. These categories are defined as (a) Net investment in capital assets, (b) Restricted nonexpendable – net position restricted by externally imposed stipulations, (c) Restricted expendable – net position subject to externally imposed restrictions that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time and (d) Unrestricted – net position not subject to externally imposed stipulations but may be designated for specific purposes by action of management or the Board of Trustees. The University's net position decreased by $961 million during fiscal year 2018. Net position balances are detailed below:

Net Position
(In thousands)

		2018	2017
Net position:			
Net investment in capital assets	$	2,386,445	2,297,463
Restricted		763,199	992,450
Unrestricted		263,621	1,084,673
	$	3,413,265	4,374,586

The overall decrease in net position was due to the recognition of the OPEB liability as noted earlier, offset by the increase in appropriations from the State of Illinois in fiscal year 2018.

Statement of Revenues, Expenses and Changes in Net Position

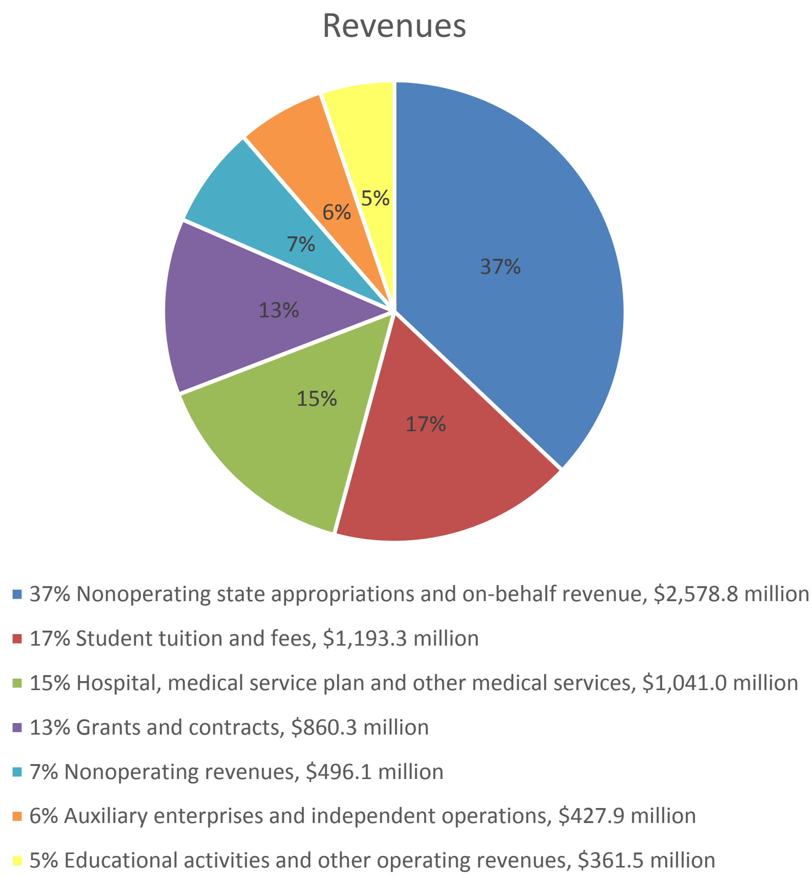
The Statement of Revenues, Expenses and Changes in Net Position presents the University's results of operations. In accordance with GASB reporting standards, revenues and expenses are classified as either operating or nonoperating. A summarized comparison of the University's Statement of Revenues, Expenses and Changes in Net Position for the years ended June 30, 2018 and 2017 is as follows:

		2018	2017
		(In thousands)	
Operating revenues:			
Student tuition and fees	$	1,193,322	1,168,498
Hospital, medical service plans and other medical activities		1,041,026	1,010,576
Grants and contracts		860,254	890,162
Auxiliary enterprises and independent operations		427,852	420,213
Educational activities		338,287	309,371
Other		23,213	20,117
Total operating revenues		3,883,954	3,818,937
Operating expenses		6,311,865	6,113,621
Operating loss		(2,427,911)	(2,294,684)
Nonoperating revenues (expenses):			
State appropriations and on behalf payments		2,598,849	1,967,236
Transfer of state appropriation to the Illinois Hospital Services Fund		(20,000)	(20,177)
Private gifts		193,680	190,183
Grants, nonoperating		244,332	110,561
Investment income		58,082	36,376
Change in fair value of investments		7,704	50,713
Interest expense		(65,038)	(65,734)
Other nonoperating revenues, net		26,341	53,303
Net nonoperating revenues		3,043,950	2,322,461
Capital state appropriations and capital gifts and grants		18,097	18,601
Endowment gifts		4,197	6,327
Increase in net position		638,333	52,705
Net position, beginning of year		4,374,586	4,321,881
Change in accounting principle		(1,599,654)	
Net position, end of year	$	3,413,265	4,374,586

Revenues

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

The following graph illustrates the revenues by source (both operating and certain nonoperating), which were used to fund the University's operating activities for the year ended June 30, 2018:



Operating and nonoperating revenues experienced a net increase of $856 million in fiscal year 2018. This increase included State appropriations totaling $588 million to fund fiscal year 2018 expenditures, however, due to the timing of additional $300 million in appropriations intended to cover fiscal year 2017 expenditures, the total revenue recognized by the University in fiscal year 2018 was $888 million. In addition, the increase included $99 million for payments on behalf by the State for employee fringe benefits (primarily health insurance benefits) largely due to the adoption of GASB Statement No.75. The University also achieved revenue growth from student tuition and fees, associated with rising enrollment, along with increased activity levels across a variety of operations.

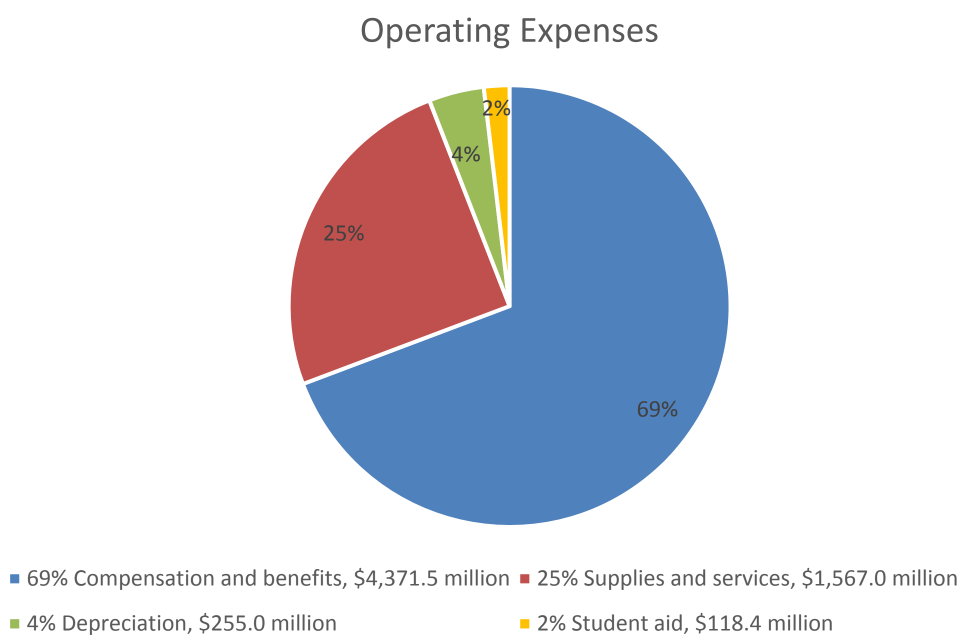
Expenses

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

	2018		2017	
	(In thousands)			
Operating expenses:				
Instruction	$ 1,583,388	25.1%	$ 1,492,069	24.4%
Research	756,032	12.0	788,526	12.9
Public service	477,291	7.6	481,976	7.9
Support services	1,156,959	18.3	1,097,608	18.0
Hospital and medical activities	1,044,824	16.6	992,956	16.2
Auxiliary enterprises and independent operations	418,470	6.6	412,684	6.7
Scholarships and fellowships	289,134	4.6	275,955	4.5
Operation and maintenance of plant	330,762	5.2	309,313	5.1
Depreciation	255,005	4.0	262,534	4.3
Total operating expenses	$ 6,311,865	100.0%	$ 6,113,621	100.0%

The increase in operating expenses was $198 million, or 3.2%. This change included increases in payments on behalf by the State for employee fringe benefits of $99 million, which are allocated across the operating functions. Excluding the increase in on behalf payments, operating expenses increased by $99 million, or 2.2%. Significant components of the rise in operating expenses from the prior fiscal year included increases in instruction and support functions to facilitate student and faculty achievement, along with increases in self-supporting activities such as auxiliary enterprises, hospital and other medical activities.

The University chooses to report its expenses by functional classifications in the Statement of Revenues, Expenses and Changes in Net Position. For the reader's information, the expenses are displayed in their natural classifications in Note 14. The following graph illustrates the $6,311.9 million of operating expenses by natural classification:



The University's Economic Outlook

The University continues to maintain its level of excellence in service to students, patients, the research community, the State of Illinois (State) and the nation. A critical element to the University's future continues to be a strong partnership with the State, since State appropriations from the Governor and General Assembly provide essential operating support for University programs. Appropriations of $600 million were enacted on June 6, 2018 to fund fiscal year 2019 expenditures, an increase of 1.9% from the $588 million appropriated for fiscal year 2018.

Tuition rates are largely being held level between fiscal years 2018 and 2019. However, based on multiple factors (such as enrollment levels and student mix), the University projects an increase in the tuition revenue budget of approximately $62 million. Undergraduate students have a four-year tuition guarantee. The incremental tuition revenue for fiscal year 2019 includes increases in total enrollment, changes in enrollment patterns, and varying increases in graduate and professional programs.

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

To maintain its financial position, the University continues to develop multiple sources of revenue to support its mission of teaching, research, public service, healthcare and economic development. The University's Board of Trustees, the administration, faculty and staff are committed to upholding the University's outstanding academic reputation and strong financial condition.

UNIVERSITY OF ILLINOIS

Statement of Net Position

June 30, 2018
(with summarized comparative information for June 30, 2017)

(In thousands)

	University		University Related Organizations	
Assets and Deferred Outflows of Resources	**2018**	**2017**	**2018**	**2017**
Current assets:				
Cash and cash equivalents	$ 776,265	$ 340,287	$ 10,053	$ 8,582
Cash and cash equivalents, restricted	63,114	140,055	1,392	1,395
Investments	200,575	239,673	743	288
Investments, restricted	63,177	95,415		
Accrued investment income	8,383	5,813	398	357
Accounts receivable, net of allowance for uncollectible	535,375	539,233	14,816	10,953
Appropriations receivable from State of Illinois	45,181	714		
Pledges receivable, net of allowance			31,147	52,065
Notes receivable, net of allowance for uncollectible	10,651	9,744		
Accrued interest on notes receivable	3,784	4,127		
Inventories	28,537	32,017	6	6
Prepaid expenses	45,562	35,132	1,254	1,340
Due from related organizations	4,108	4,123		
Total current assets	1,784,712	1,446,333	59,809	74,986
Noncurrent assets:				
Cash and cash equivalents, restricted			766	594
Investments	1,485,849	1,167,690	18,258	17,883
Investments, restricted	677,587	659,321	2,114,892	1,945,797
Pledges receivable, net of allowance			184,854	90,936
Notes receivable, net of allowance for uncollectible	44,569	49,178		
Capital assets, net of accumulated depreciation	3,761,293	3,751,300	15,698	14,953
Irrevocable trusts held by other trustees	18,874	21,741	17,181	20,068
Other assets	4,145	5,848	131	131
Total noncurrent assets	5,992,317	5,655,078	2,351,780	2,090,362
Deferred outflows of resources	99,704	76,876	461	154
Total assets and deferred outflows of resources	$ 7,876,733	$ 7,178,287	$ 2,412,050	$ 2,165,502
Liabilities, Deferred Inflows of Resources and Net Position				
Current liabilities:				
Accounts payable and accrued liabilities	$ 458,780	$ 380,616	$ 11,886	$ 7,324
Accrued payroll	159,464	156,216	335	295
Accrued compensated absences, current portion	19,631	18,682	1,547	1,296
Accrued self-insurance, current portion	41,484	45,097		
Unearned revenue and student deposits	174,410	165,189	5	31
Accrued interest payable	14,795	15,461		
Notes payable			3,118	3,963
Bonds payable, current portion	56,028	54,358		
Due to related organizations, current portion			4,108	4,123
Leaseholds payable and other obligations, current portion	44,067	41,356	6,129	5,950
Assets held for others	38,051	37,135	2,000	2,000
Total current liabilities	1,006,710	914,110	29,128	24,982
Noncurrent liabilities:				
Bonds payable	1,171,945	1,230,972		
Leaseholds payable and other obligations	239,727	252,656	45,826	43,899
Accrued compensated absences	187,047	184,214		
Accrued self-insurance	193,564	194,388		
Other postemployment benefits	1,314,760			
Unearned distributions			130	126
Derivative instruments– liability	3,176	5,620	378	36
Total noncurrent liabilities	3,110,219	1,867,850	46,334	44,061
Deferred inflows of resources	346,539	21,741	83	118
Total liabilities and deferred inflows of resources	4,463,468	2,803,701	75,545	69,161
Net investment in capital assets	2,386,445	2,297,463	13,980	10,990
Restricted:				
Nonexpendable	116,654	111,302	1,185,848	1,047,433
Expendable	646,545	881,148	1,071,972	997,326
Unrestricted	263,621	1,084,673	64,705	40,592
Total net position	3,413,265	4,374,586	2,336,505	2,096,341
Total liabilities, deferred inflows of resources and net position	$ 7,876,733	$ 7,178,287	$ 2,412,050	$ 2,165,502

See accompanying notes to financial statements.

UNIVERSITY OF ILLINOIS

Statement of Revenues, Expenses and Changes in Net Position

Year Ended June 30, 2018
(with summarized comparative information for the year ended June 30, 2017)

(In thousands)

	University 2018	University 2017	University Related Organizations 2018	University Related Organizations 2017
Operating revenues:				
Student tuition and fees, net	$ 1,193,322	$ 1,168,498	$	$
Federal appropriations	21,309	18,264		
Federal grants and contracts	652,271	672,091		
State of Illinois grants and contracts	64,942	71,347		
Private and other government agency grants and contracts	143,041	146,724	175,753	125,637
Educational activities	338,287	309,371		
Auxiliary enterprises, net	416,319	409,484		
Hospital and other medical activities, net	784,909	749,504		
Medical service plan	256,117	261,072		
Independent operations	11,533	10,729		
Interest and service charges on student loans	1,904	1,853		
Allocation from the University			15,638	13,997
Other sources			78,840	77,578
Total operating revenues	3,883,954	3,818,937	270,231	217,212
Operating expenses:				
Instruction	1,583,388	1,492,069		
Research	756,032	788,526		
Public service	477,291	481,976		
Academic support	613,615	570,787		
Student services	235,675	217,887		
Institutional support	307,669	308,934	108,332	107,743
Operation and maintenance of plant	330,762	309,313		
Scholarships and fellowships	289,134	275,955		
Auxiliary enterprises	406,300	402,930		
Hospital and medical activities	1,044,824	992,956		
Independent operations	12,170	9,754		
Depreciation and amortization	255,005	262,534	1,816	1,823
Distributions on behalf of the University			208,413	196,666
Total operating expenses	6,311,865	6,113,621	318,561	306,232
Operating loss	(2,427,911)	(2,294,684)	(48,330)	(89,020)
Nonoperating revenues (expenses):				
State appropriations	888,361	355,792		
Transfer of state appropriations to the Illinois Hospital Services Fund	(20,000)	(20,177)		
Private gifts	193,680	190,183		
Grants, nonoperating	244,332	110,561		
On-behalf for fringe benefits	1,710,488	1,611,444		
Net investment income (net of investment expense of $6,189)	58,082	36,376	6,439	5,570
Net increase in the fair value of investments	7,704	50,713	143,769	256,393
Interest expense	(65,038)	(65,734)	(153)	(101)
Loss on disposal of capital assets	(2,755)	(1,990)		
Other nonoperating revenues, net	29,096	55,293	26	213
Net nonoperating revenues	3,043,950	2,322,461	150,081	262,075
Income before other revenues	616,039	27,777	101,751	173,055
Capital state appropriations	12,858	13,622		
Capital gifts and grants	5,239	4,979		
Private gifts for endowment purposes	4,197	6,327	138,413	57,160
Increase in net position	638,333	52,705	240,164	230,215
Net position, beginning of year	4,374,586	4,321,881	2,096,341	1,865,660
Cumulative effect of change in accounting principle	(1,599,654)			
Restatement, correction of an error				466
Net position, beginning of year, as adjusted	2,774,932	4,321,881	2,096,341	1,866,126
Net position, end of year	$ 3,413,265	$ 4,374,586	$ 2,336,505	$ 2,096,341

See accompanying notes to financial statements.

UNIVERSITY OF ILLINOIS

Statement of Cash Flows

Year ended June 30, 2018
(with summarized comparative information for the year ended June 30, 2017)

(In thousands)

	University	
	2018	**2017**
Cash flows from operating activities:		
Student tuition and fees	$ 1,197,196	$ 1,191,756
Federal appropriations	20,877	14,698
Federal, state, and local grants and contracts	743,569	724,577
Other governmental agencies and private grants and contracts	154,524	137,323
Sales and services of educational activities	334,108	311,171
Auxiliary activities and independent operations	426,079	421,197
Hospital and other medical activities	776,675	770,079
Medical service plan	262,187	233,834
Payments to employees and for benefits	(2,642,604)	(2,609,201)
Payments to suppliers	(1,534,437)	(1,521,932)
Payments for scholarships and fellowships	(117,565)	(104,554)
Student loans issued	(6,755)	(7,571)
Student loans collected	9,681	9,382
Student loan interest and fees collected	2,246	1,732
Net cash used in operating activities	(374,219)	(427,509)
Cash flows from noncapital financing activities:		
State appropriations	823,894	336,438
Gifts transferred from University of Illinois Foundation	193,680	190,183
Direct lending receipts	471,914	470,070
Direct lending payments	(470,249)	(470,383)
Grants, nonoperating	244,332	110,561
Private gifts for endowment purposes	4,197	6,327
Repayments from related organizations, net	15	2,649
Other receipts	66,424	59,002
Other disbursements	(1,236)	(653)
Net cash provided by noncapital financing activities	1,332,971	704,194
Cash flows from capital and related financing activities:		
Proceeds from issuance of capital debt		128,055
Capital gifts and grants	206	338
Purchase of capital assets	(237,337)	(264,266)
Principal payments on bonds, capital leases, and other obligations	(96,764)	(214,715)
Interest payments on bonds, capital leases, and other obligations	(62,443)	(64,285)
Upfront equity contribution of public-private partnership project	(8,535)	
Payment related to termination of interest rate swap agreement		(7,780)
Payment of capital debt issuance costs	(77)	(868)
Net cash used in capital and related financing activities	(404,950)	(423,521)
Cash flows from investing activities:		
Interest and dividends on investments, net	36,689	32,277
Proceeds from sales and maturities of investments	2,258,614	2,514,938
Purchase of investments	(2,490,068)	(2,467,574)
Net cash (used in) provided by investing activities	(194,765)	79,641
Net increase (decrease) in cash and cash equivalents	359,037	(67,195)
Cash and cash equivalents, beginning of year	480,342	547,537
Cash and cash equivalents, end of year	$ 839,379	$ 480,342

(Continued)

UNIVERSITY OF ILLINOIS

Statement of Cash Flows

Year ended June 30, 2018
(with summarized comparative information for the year ended June 30, 2017)

(In thousands)

	University	
	2018	**2017**
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$ (2,427,911)	$ (2,294,684)
Adjustments to reconcile operating loss to net cash used in operating activities:		
On-behalf for fringe benefits expense	1,710,488	1,611,444
Depreciation expense	255,005	262,534
Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources:		
Accounts receivable, net	23,944	(29,834)
Notes receivable, net	3,702	2,356
Accrued interest on notes receivable	343	(121)
Inventories	3,480	(28)
Prepaid expenses	(1,895)	(1,873)
Deferred outflow of resources	447	(730)
Accounts payable and accrued liabilities	35,423	(11,582)
Accrued payroll	3,248	6,791
Unearned revenue and student deposits	9,221	(5,615)
Accrued compensated absences	3,782	6,977
Accrued self-insurance	(4,437)	20,251
Other postemployment benefits	(317,640)	
Deferred inflows of resources	327,665	
Assets held for others	916	6,605
Net cash used in operating activities	$ (374,219)	$ (427,509)
Noncash investing, capital, and financing activities:		
On-behalf for fringe benefits nonoperating revenue	$ 1,710,488	$ 1,611,444
State appropriation	39,589	20,177
Transfers of state appropriations to Illinois Hospital Services Fund	(20,000)	(20,177)
Net increase in fair value of investments	7,704	50,713
Gifts in kind – capital assets	4,971	4,825
Increase of capital asset obligations in accounts payable	10,208	11,415
Capital asset acquisitions by Capital Development Board	12,858	13,622
Capital asset acquisitions via leaseholds payable	145	260
Net interest capitalized	2,161	8,669
Other capital asset adjustments	73	1,208
Loss on disposal of capital assets	(2,755)	(1,990)
Capital appreciation on bonds payable	$ 5,364	$ 6,234

See accompanying notes to financial statements.

(1) Organization and Summary of Significant Accounting Policies

Organization

The University of Illinois (University), a federal land grant institution, founded in 1867 and a component unit of the State, conducts education, research, public service and related activities principally at its three locations in Urbana-Champaign, Chicago, which includes the University of Illinois Hospital (Hospital) and other healthcare facilities, and Springfield. The governing body of the University is The Board of Trustees of the University of Illinois (Board).

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

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

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

The Alumni Alliance 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 Alliance offers memberships in the Alumni Alliance to former students, conducts various activities for students and alumni, and publishes periodicals for the benefit of alumni. Complete financial statements for the Alumni Alliance may be obtained by writing the Chief Financial Officer, Alice Campbell Alumni Center, 601 S. Lincoln Avenue, Urbana, Illinois 61801.

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

Prairieland Energy, Inc. was approved by the Board of Trustees of the University in September 1996 to provide low-cost energy for the benefit of the University and others. Prairieland provides an efficient vehicle for flexible, nimble and real-time participation in wholesale energy markets, resulting in cost savings and other benefits to the University. Complete financial information may be obtained by writing the Controller, 807 S. Wright Street, Suite 340, Champaign, Illinois 61820.

Illinois Ventures exists to facilitate the development of new companies commercializing technology originated or developed by faculty, staff and/or students of the University and other organizations. The University desires Illinois Ventures to foster technology commercialization and economic development in accordance with the teaching, research and public service missions of the University. Complete financial information may be obtained by writing the CEO and Managing Director, 2242 W. Harrison, Suite 201, Chicago, Illinois 60612.

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

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

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

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

Significant Accounting Policies

(a) ***Financial Statement Presentation and Basis of Accounting***

University

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

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

The financial statements include certain prior year comparative information, which has been derived from the University's 2017 financial statements. Such information does not include all of the information required to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the University's financial statements for the year ended June 30, 2017.

Certain items in the June 30, 2017 comparative information have been reclassified to correspond to the June 30, 2018 financial statement presentation.

UROs

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

The Foundation and Alumni Alliance are nonprofit organizations that report under FASB standards, including Topic 958. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation or Alumni Alliance financial information in the University's financial reporting entity for these differences. Only certain reclassifications have been made for consistency with the University's GASB reporting format.

(b) ***Cash and Cash Equivalents***

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

(c) ***Inventories***

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

(d) ***Investments***

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

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

(e) ***Endowments***

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

University

The University's endowment pool investment policy follows the total return concept. The focus is to preserve the real value or purchasing power of endowment pool assets and the annual support the assets provide. Distributions are made from the University Endowment Fund to the University entities that benefit from the endowment funds. The endowment spending rule provides for an annual distribution of 4.0% of the two-quarter lagged, six-year moving average market value of fund units.

At June 30, 2018, net appreciation of $115,699,000 was available to be spent, of which $89,412,000 was restricted to specific purposes.

URO – Foundation

Interpretation of Relevant Law: The board of directors of the Foundation interprets UPMIFA to require consideration of the following factors, if relevant, in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the endowment fund
- The purposes of the institution and the endowment fund
- General economic conditions
- The possible effect of inflation or deflation
- The expected total return from income and the appreciation of investments
- Other resources of the institution
- The investment policy of the institution

In accordance with the Foundation's interpretation of UPMIFA, absent explicit donor stipulations to the contrary, the Foundation shall classify as permanently restricted net assets (restricted – nonexpendable) the original value of the gifts donated to the permanent endowment, but such classification does not limit the expenditures from the endowment fund only to income, interest, dividends, or rents, issues or profits. The portion of the fund's value spendable annually for the donor-designated purpose is to be determined, from time to time, by the Foundation's board of directors, acting in good faith, with the care that an ordinarily prudent person in a like position would exercise under similar circumstances, considering the above relevant factors. The Foundation's Board approved spending was $81,271,000 for fiscal year ended June 30, 2018.

(f) *Capital Assets*

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

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

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

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

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

Employer pension and OPEB contributions made in fiscal year 2018 are also reported as deferred outflows of resources.

Deferred Outflow of Resources
(In thousands)

	Beginning balance	Additions	Deductions	Change in fair value	Ending balance
Interest rate swap agreements	$ 3,455	395		(2,443)	$ 1,407
Unamortized deferred loss on refunding	37,938		7,423		30,515
Pension contributions	35,483	37,139	35,483		37,139
OPEB contributions		32,746	2,103		30,643
Total deferred outflow of resources	$ 76,876	70,280	45,009	(2,443)	$ 99,704

(h) ***Compensated Absences***

Accrued compensated absences for University personnel are charged as an operating expense, using the vesting method, based on earned but unused vacation and sick leave days including the University's share of Social Security and Medicare taxes.

(i) ***Premiums***

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

(j) ***Deferred Inflows of Resources***

The University has determined that they have split-interest agreements where the University is a beneficiary. As such, at the inception of these agreements the University recognizes assets, liabilities and deferred inflows of resources on the accompanying Statement of Net Position.

The difference between the expected and actual OPEB liability is also reported as deferred inflows of resources.

Deferred Inflow of Resources (In thousands)	Beginning balance	Additions	Deductions	Change in fair value	Ending balance
Irrevocable trusts (note 10)	$ 21,741		2,867		$ 18,874
OPEB (note 12)		327,665			327,665
Total deferred inflow of resources	$ 21,741	327,665	2,867	—	$ 346,539

(k) ***Net Position***

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

(l) ***Classification of Revenues***

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

In fiscal year 2018, $20,000,000 was appropriated by the State to be transferred to the University of Illinois Hospital Services Fund, which is a special fund established in the State Treasury pursuant to the State Finance Act, 30 ILCS 105/6z-30. This fund is owned and operated by the Illinois Department of Healthcare and Family Services and this fund is not part of or a related organization of the University.

(m) ***Tuition, Scholarships and Fellowships***

Scholarships and fellowships of $394,615,000 and $8,902,000 are netted against student tuition and fees and auxiliary enterprises revenues, respectively. Stipends and other payments made directly to students are reported as scholarship and fellowship expense. Net tuition and fees, except for summer session, are recognized as revenues as they are assessed. The portion of summer session tuition and fees applicable to the following fiscal year are unearned and recognized in the next fiscal year.

(n) ***Patient Services Revenue – Hospital***

With respect to the Hospital, patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated adjustments under reimbursement agreements with third-party payors and others for services rendered, including estimated adjustments under reimbursement agreements with third-party payors, certain of which are subject to audit by administrating agencies. These adjustments are accrued on an estimated basis and are adjusted in future periods. The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates, discounted charges and per diem payments. Approximately 93% of the Hospital's net patient service revenues were derived from Medicare, Medicaid and managed care programs for the year ended June 30, 2018. Reimbursement under these programs provided for payments to the Hospital at amounts different from its established rates, based on a specific amount per case, or a contracted price, for rendering services to program beneficiaries. The Hospital records contractual allowances in the current period representing the difference between charges for services rendered and the expected payments under these programs, and adjusts them in future periods as final settlements through cost reports or other means are determined. For the year ended June 30, 2018, the contractual allowances totaled $1,760,762,000.

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

The Hospital maintains records to identify and monitor the level of charity care provided. These records include the amount of estimated costs for services rendered and supplies furnished under its charity care policy. The estimated cost of charity care using the Hospital's cost-to-charge ratio was $18,397,000 for fiscal year 2018, an increase of 37% from the prior year, primarily due to accelerated charity reviews being performed, and an increase in the number of patients qualifying for charity care and patients who qualified under the presumptive requirement of the System's financial assistance policy who were either declined Medicaid coverage or were previously covered by Medicaid but are now uninsured. The ratio of costs to charges is calculated based on the Hospital's total operating expenses. Unreimbursed costs of providing care to Medicare and Medicaid patients are not included as charity care.

(o) ***Classification of Expenses***

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

(p) ***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 $66,019,000 at June 30, 2018 and is recorded in the accompanying financial statements as accrued payroll. This amount will be paid from revenues to be recognized in fiscal year 2019 rather than from the unrestricted net position available at June 30, 2018.

(q) ***On-Behalf for Fringe Benefits***

In accordance with GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, the University reported expense related to the State Universities Retirement System (SURS) on behalf of the Entity for contributions to retirement programs for Entity employees of $1,040,721,000 for the year ended June 30, 2018. Substantially all employees participate in group health insurance plans administered by the State. The employer contributions to these plans for University employees paid by State appropriations and auxiliary enterprises are paid by the Department of Central Management Services (CMS) on behalf of the Entity and include postemployment benefits. The employer contributions to these plans on behalf of employees paid from other Entity held funds are paid by the Entity. The on-behalf amounts were $669,767,000 for year ended June 30, 2018. The on-behalf amounts that relate to State group health insurance is an allocation of estimated costs incurred by CMS on behalf of the University.

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

(r) ***Pensions***

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

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

(s) ***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.

(t) ***New Accounting Pronouncements***

The University adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* which was effective for periods beginning after June 15, 2017. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit other postemployment benefits (OPEB), this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. Implementation of this pronouncement required a change on the face of the financial statements, additional disclosures related to OPEB in note 12 to the University's financial statements and an adjustment to net position as of July 1, 2017 as disclosed in note 1(u).

The University adopted the provisions of GASB Statement No. 81, *Irrevocable Split-Interest Agreements,* which was effective for periods beginning after December 15, 2016. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Implementation of this pronouncement required recognition of additional assets and deferred inflows of resources on the University's financial statements.

The University adopted the provisions of GASB Statement No. 85, *Omnibus 2017,* which was effective for periods beginning after June 15, 2017. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and OPEB). Implementation of this pronouncement did not impact the University's financial statements.

The University adopted the provisions of GASB Statement No. 86, *Certain Debt Extinguishment Issues,* which was effective for periods beginning after June 15, 2017. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. Implementation of this pronouncement did not impact the University's financial Statements.

(u) ***Prior Period Adjustment – Change in Accounting Principle***

Due to the University adopting GASB Statement No. 75 as of July 1, 2017, beginning of the fiscal year amounts were reduced for net position due to recognition of OPEB liability and its related deferred outflows of resources.

Change in Beginning Balance of Net Position

(In thousands)

Net position, July 1, 2017, as previously reported	$	4,374,586
Cumulative effect of change in accounting principle		(1,599,654)
Net position, July 1, 2017, as adjusted	$	2,774,932

(2) Cash, Cash Equivalents and Investments

The carrying amount of the University's cash totaled $(1,891,000) at June 30, 2018. The June 30, 2018 total bank account balances for the University aggregated $20,491,000 all of which was covered by federal depository insurance or by collateral held by an agent in the University's name.

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

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

The following details the carrying value of the University's cash, cash equivalents and investments as of June 30, 2018:

University Cash, Cash Equivalents and Investments

(In thousands)

U.S. Treasury bonds and bills	$ 357,067
U.S. government agencies	141,624
International government bonds and governmental agencies	9,658
Nongovernment mortgage-backed securities	70,556
Asset backed securities	289,560
Corporate bonds	826,070
Commercial paper	18,000
Municipal bonds	23,285
Bond funds	79,599
Money market funds	829,497
Illinois public treasurer's investment pool	2,665
Subtotal before cash deposits, equities and other investments	2,647,581
Equities	27,029
Equity funds	363,860
Hedge funds	45,995
Private equity	45,698
Farm properties	99,963
Real estate	38,332
Cash deposits (net of outstanding checks)	(1,891)
Total	$ 3,266,567

(a) ***Interest Rate Risk***

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

The University's investment maturities at June 30, 2018 are illustrated below:

University Investment Maturities

(In thousands)

		Total	Less than 1 year	1 - 5 years	5 - 10 years	Greater than 10 years
U.S. Treasury bonds and bills	$	357,067	44,702	277,432	25,853	9,080
U.S. government agencies		141,624	3,430	11,530	15,942	110,722
International government bonds and governmental agencies		9,658	4,877	2,774	1,627	380
Nongovernment mortgage-backed securities		70,556			325	70,231
Asset backed securities		289,560	817	253,914	14,972	19,857
Corporate bonds		826,070	212,250	516,533	85,336	11,951
Commercial paper		18,000	18,000			
Municipal bonds		23,285	3,215	14,566	3,640	1,864
Bond funds		79,599	1,107	735	77,757	
Money market funds		829,497	829,497			
Illinois public treasurer's investment pool		2,665	2,665			
Total	$	2,647,581	1,120,560	1,077,484	225,452	224,085

At June 30, 2018, the University's operating funds pool portfolio had an effective duration of 1.5 years.

(b) ***Credit Risk***

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

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

The University's investment quality ratings at June 30, 2018 are illustrated below:

University Investments Quality Ratings

(In thousands)

	Total	AAA/Aaa	AA/Aa/ TSY/AGY[1]	A/A [2]	BBB/Baa	BB/Ba	Less than BB or not rated
U.S. Treasury bonds and bills	$ 357,067		357,067				
U.S. government agencies	141,624		141,624				
International government bonds and governmental agencies	9,658	5,110	1,074	2,542	932		
Nongovernment mortgage-backed securities	70,556	67,840	415	533			1,768
Asset backed securities	289,560	274,394	9,853	8			5,305
Corporate bonds	826,070	5,673	86,218	402,748	313,958	13,106	4,367
Commercial paper	18,000		1,246	13,356			3,398
Municipal bonds	23,285	1,238	15,520	4,984	895		648
Bond funds	79,599	48,078	5,224	10,283	10,620	326	5,068
Money market funds	829,497	829,497					
Illinois public treasurer's investment pool	2,665	2,665					
Total	$ 2,647,581	1,234,495	618,241	434,454	326,405	13,432	20,554

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

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

(c) *Custodial Credit Risk*

Custodial credit risk is the risk that in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Exposure to custodial credit risk relates to investment securities that are held by someone other than the University and are not registered in the University's name. The University investment policy does not limit the value of investments that may be held by an outside party. At June 30, 2018, the University's investments were not subject to custodial credit risk.

(d) *Concentration of Credit Risk*

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

As of June 30, 2018, not more than 5% of the University's total investments were invested in securities of any one issuer, excluding pooled investment products, tri-party repurchase agreements or obligations of, or issues guaranteed by, the U.S. Treasury, U.S. agencies or U.S. government sponsored enterprises.

(e) ***Foreign Currency Risk***

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

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

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

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

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

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

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

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

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

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

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

There have been no changes in valuation techniques used for any assets measured at fair value during the year ended June 30, 2018.

The following table summarizes assets measured at fair value as of June 30, 2018, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

University Fair Value Measurements as of June 30, 2018

(In thousands)

	Total	Quoted prices in active markets **(Level 1)**	Significant other observable inputs **(Level 2)**	Quoted prices unobservable inputs **(Level 3)**
U.S. Treasury bonds and bills	$ 357,067		357,067	
U.S. government agencies	141,624		141,624	
International government bonds and governmental agencies	9,658		9,658	
Nongovernment mortgage-backed securities	70,556		70,556	
Asset backed securities	289,560		289,560	
Corporate bonds	826,070		826,070	
Commercial paper	18,000		18,000	
Municipal bonds	23,285		23,285	
Bond funds	3,676	3,676		
Equities	27,029	26,936		93
Equity funds	5,996	5,996		
Farm properties	99,963			99,963
Total subject to fair value hierarchy	$ 1,872,484	36,608	1,735,820	100,056
Investments measured at the NAV				
Bond funds	75,923			
Equity funds	357,864			
Hedge funds	45,995			
Private equity	45,698			
Real estate	38,332			
Total investments measured at NAV	$ 563,812			
Investments measured at cost				
Money market funds	829,497			
Cash deposits	(1,891)			
Illinois public treasurer's investment pool	2,665			
Total investments measured at cost	$ 830,271			
Total cash, cash equivalents and investments	$ 3,266,567			

The following table sets forth additional disclosure of the University's investments whose fair value is estimated using NAV per share (or its equivalent) as of June 30, 2018:

	Fair value	Unfunded commitment	Redemption frequency	Redemption notice period
	(In thousands)			
Investments:				
Bond funds (A)	$ 75,923	$	(A)	(A)
Equity funds (B)	357,864		(B)	(B)
Hedge funds (C)	45,995		(C)	(C)
Private equity (D)	45,698	36,911	(D)	(D)
Real estate (E)	38,332		(E)	(E)
	$ 563,812	$ 36,911		

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

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

(C) The funds in this category are generally not restricted in the types of securities in which they can invest. They may invest in limited partnership vehicles or directly in equity, fixed income and derivative instruments to achieve a stated investment objective. These funds can be redeemed bi-monthly or quarterly depending on the partnership agreement within redemption notice periods of less than one month to 60 days. The fund values of these investments have been estimated using the NAV per share provided by the fund manager.

(D) The funds in this category invest in the following types of investments in the USA and outside of the USA: venture capital partnerships, buyout partnerships, mezzanine/subordinated debt partnerships, restructuring/distressed debt partnerships, special situation partnerships, and directly in portfolio companies. These investments cannot be redeemed during the life of the partnership; however they may be able to be transferred to another eligible investor. Distributions will be received as the underlying investments of the funds are liquidated over time. The fair value of this investment has been estimated using the NAV provided by the fund manager and an adjustment determined by management for the time period between the dates of the last available NAV and June 30, 2018.

(E) The funds in this category invest in real estate. Subject to general partner approval and available cash, these funds can be redeemed quarterly with up to a 3 month notice period. Distributions of operating cash flow are paid out on a quarterly basis as determined by the general partner. The fair value of this investment has been estimated using the NAV provided by the fund manager and an adjustment determined by management for the time period between the dates of the last available NAV and June 30, 2018.

(g) ***URO – Foundation Investments***

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

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

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

Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the Foundation has the ability to access as of the measurement date.

Level 2 – Inputs other than quoted prices in the markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level 3 – Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities.

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

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

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

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

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

The following table summarizes assets measured at fair value on a recurring basis as of June 30, 2018, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

URO – Foundation Fair Value Measurements as of June 30, 2018

(In thousands)

	Fair value	Level 1	Level 2	Level 3
U.S. Treasury bonds and bills	$ 3,486		3,486	
U.S. Index linked government bonds	23,945		23,945	
International government bonds	2,006		2,006	
International index linked government bonds	33,418		33,418	
Common stock, international:				
Consumer goods	2	2		
Industrials	3,070	3,070		
Information technology	7,317	7,317		
Common stock, domestic:				
Consumer goods	261	261		
Energy	50	50		
Financial services	138	138		
Healthcare	1,329	1,329		
Industrials	146	146		
Information technology	30,140	30,140		
Materials	16,256	16,256		
Real estate	8	8		
Telecommunications	4	4		
Utilities	5	5		
Bond mutual funds:				
Corporate bonds and notes	54	54		
Intermediate term	19,992	19,992		
Multisector	642	642		
Municipals	633	633		
Blended mutual funds	9,891	9,891		
Equity mutual funds, domestic:				
Small cap	534	534		
Health care	543	543		
Large cap	32,172	32,172		
Mid cap	766	766		
Equity mutual funds, international:				
Developed markets	55,130	55,130		
Large cap	15,042	15,042		
Small cap	38	38		
Comingled non-exchange traded non U.S. equity funds	93,351			93,351
Private equity funds	156,888			156,888
Private real estate funds	20,593			20,593
Money market mutual funds	78,536	78,536		
Other investments	5			5
Subtotal forward	$ 606,391	272,699	62,855	270,837

URO – Foundation Fair Value Measurements as of June 30, 2018 (continued)

		Fair value	Level 1	Level 2	Level 3
Subtotal forward	$	606,391	272,699	62,855	270,837
Farms		63,113		63,113	
Variable annuity contract - equity		1,911		1,911	
Variable annuity contract - blended		429		429	
Variable annuity contract - fixed income		988		988	
Variable annuity contract - international equity		127		127	
Beneficial interest in trusts		50,758			50,758
Trusts held by others		17,181			17,181
Cash surrender value of life insurance		6,456			6,456
	$	747,354	272,699	129,423	345,232

There have been no changes in valuation techniques used for any assets measured at fair value during the year ended June 30, 2018.

The investments above exclude $8,004,000 of real estate and $12,428,000 of private equities which are carried at cost and $1,364,287,000 of investments where values are based on NAV using the practical expedient.

There were no transfers between Level 1 or 2 of the fair value hierarchy during the year ended June 30, 2018.

The following table presents additional information about investments measured at fair value on a recurring basis for which the URO – Foundation has utilized Level 3 inputs to determine fair value:

URO -Foundation Significant Unobservable Inputs (Level 3) as of June 30, 2018
(In thousands)

		Beginning balance*	Purchases	Sales (distributions)	Total gains or losses**		Ending balance
Other investments	$	1,013		(1,009)	1	$	5
Beneficial interest in trusts		46,821	3,032		905		50,758
Private equity funds		182,270	9,348	(49,808)	15,078		156,888
Private real estate		15,762	5,625	(1,761)	967		20,593
Comingled non-exchange traded - non U.S. equity funds		113,526	50,000	(72,890)	2,715		93,351
Trusts held by others		20,068		(3,671)	784		17,181
Cash surrender value of life insurance		6,100			356		6,456
Total	$	385,560	68,005	(129,139)	20,806	$	345,232

*Certain investments that were previously reported at NAV are now considered level 3 investments.
**Total gains or losses (both realized/unrealized) included in change in net assets.

Gains and losses on Level 3 investments included in change in net position for the period above are reported as net increase (decrease) in fair value of investments.

The following table sets forth additional disclosure of the URO-Foundation's investments whose fair value is estimated using NAV per share (or its equivalent) as of June 30, 2018:

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

	Fair value	Unfunded commitment	Redemption frequency	Redemption notice period
Investments:				
Credit (A)	$ 128,298	$	daily, monthly, quarterly, or annually	5 to 90 days
Developed markets - non U.S. equity (B)	89,340		daily, monthly, quarterly, or annually	5 to 90 days
Emerging markets (C)	138,477		daily, monthly, quarterly, or annually	5 to 90 days
Global bonds (D)	142,475		daily, monthly, quarterly, or annually	5 to 90 days
Global equity (E)	257,512		daily, monthly, quarterly, or annually	5 to 90 days
Natural resources (F)	67,388		daily, monthly, quarterly, or annually	5 to 90 days
Private credit (G)	37,559	30,909	not eligible*	N/A
Private equity (H)	53,197	24,018	not eligible*	N/A
Private equity - global growth (I)	58,524	23,564	not eligible*	N/A
Private equity - venture capital (J)	12,399	15,666	not eligible*	N/A
Private natural resources (K)	69,095	52,689	not eligible*	N/A
Real estate (L)	59,043	36,250	not eligible*	N/A
U.S. equity (M)	250,980		daily, monthly, quarterly, or annually	5 to 90 days
	$ 1,364,287	$ 183,096		

* These investments cannot be redeemed during the life of the fund which can be up to 10 years or more; however some can be transferred to another eligible investor. Distributions will be received as the underlying investments of the funds are liquidated over time.

(A) This category includes investments with both long and short positions in both debt and equity related to leveraged or distressed companies, residential mortgage backed securities, risk arbitrage and financial instruments that are subject to legal or contractual restrictions. These investments include both U.S. and Non-U.S. securities/companies.

(B) This category includes investments with both long and short positions in equity or equity-related securities primarily in Western Europe.

(C) This category includes investments with both long and short positions in equity or equity-related securities in global emerging markets including Latin America and Asia.

(D) This category includes investments in primarily debt or debt-like securities that are globally diversified.

(E) This category includes investments with both long and short positions in equity or equity-related securities listed or traded on an exchange or regulated market on a global basis.

(F) This category includes investments with both long and short positions in both debt and equity or related securities in energy, gas, mining and oil fields. These investments include both public and private companies.

(G) This category includes investment positions in both distressed debt and equity securities and other event driven investments such as broken merger or acquisition deals. These investments include both U.S. and Non-U.S. securities/companies.

(H) This category includes investments in private equity in a variety of industries, which include distressed debt and equity, healthcare and legal & regulatory finance.

(I) This category includes investments in private equity within growth sectors around the global including China, the Nordic Region and Sub-Saharan Africa.

(J) This category includes investments in venture capital private equity.

(K) This category includes investments in both debt and equity positions in the sectors of agriculture, oil and gas exploration and power, utility and energy infrastructure.

(L) This category includes investments in both debt and equity positions in real estate and real estate related securities and businesses.

(M) This category includes investments with both long and short positions in equity or equity-related securities in the U.S. in a range of industries including banking and healthcare.

All URO – Foundation investments are considered noncurrent assets.

(3) Accounts, Notes and Pledges Receivable

The University provides allowances for uncollectible accounts and notes receivable based upon management's best estimate considering type, age, collection history of receivables and any other factors as considered appropriate. Accounts and notes receivable are reported net of allowances at June 30, 2018.

The composition of accounts receivable and notes and pledges receivable at June 30, 2018 is summarized as follows:

University Accounts Receivable, Net of Allowance
(In thousands)

		Gross receivables	Allowance for uncollectible	Net receivables
Receivables from sponsoring agencies	$	173,167	(2,531)	170,636
Hospital and other medical activities		384,064	(211,734)	172,330
Student tuition and fees		53,434	(20,933)	32,501
Auxiliaries		17,590	(6,091)	11,499
Medical service plan		94,020	(30,831)	63,189
Educational activities		56,091	(14,102)	41,989
Other		43,503	(272)	43,231
Total	$	821,869	(286,494)	535,375

Notes and Pledges Receivable
(In thousands)

Student notes receivable – University:		
Student notes outstanding - Perkins loan program*	$	29,679
Student notes outstanding - other programs		28,604
Allowance for uncollectible loans		(3,063)
Total student notes receivable, net	$	55,220

* Perkins loan program expired on September 30, 2017. The University recorded a long-term obligation with a current portion to recognize the federal contribution to the program that will be paid back as loans are paid off.

Gift pledges receivable, URO – Foundation:	$	236,072
Less:		
Allowance for doubtful pledges		(15,188)
Present value discount		(4,884)
Total gift pledges outstanding, net	$	216,000

(4) Capital Assets

Net interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Net interest of $2,161,000 was capitalized during the year ended June 30, 2018.

On December 19, 2017, the University entered into several agreements with private enterprises in order to construct a mixed use facility providing student housing, academic and retail space. The University has partnered with an affiliate of the Collegiate Housing Foundation, CHF - Chicago, LLC (CHF), and its student housing developer, American Campus Communities SC Management, LLC (ACC). Through agreements among the parties, ACC has implemented the design, development, construction, equipment, and operations of the facility. The Illinois Finance Authority (IFA) will provide financing through public bonds. CHF is the owner of the facility and debtor on the IFA bonds issued to finance the project. The IFA bonds have a service period of thirty-two years which includes a two year period for construction. The University provided an up-front equity contribution to the project of $8.5 million and leased the land on which the facility lies to the CHF over a period of forty years. Upon the termination or expiration of the land lease, the facility, any improvements, fixtures, equipment and all personal property attached to or within the facility shall thence forward constitute and belong to and be the absolute property of the University.

Construction has started and completion is anticipated in fiscal year 2020. Once the facility is completed, the University will recognize a capital asset. The day-to-day operations of the student housing portion of the facility will be managed by ACC. In accordance with generally accepted accounting principles, the student housing portion will be reported as a service concession arrangement by the University effective fiscal year 2020. The day-to-day operations of the academic and retail portions of the facility will be managed by the University through a sublease agreement with CHF. The academic and retail portion of the facility will be reported as a capital lease effective fiscal year 2020.

Capital assets activity during the year ended June 30, 2018 is summarized as follows:

University Capital Assets
(In thousands)

	Beginning balance	Additions	Retirements	Transfers	Ending balance
Nondepreciable capital assets:					
Land	$ 136,472	1,904	(2)		$ 138,374
Construction in progress	280,143	180,029		(193,140)	267,032
Inexhaustible collections	23,460	676	(15)		24,121
Total nondepreciable capital assets	440,075	182,609	(17)	(193,140)	429,527
Depreciable capital assets:					
Buildings	4,471,642		(492)	175,736	4,646,886
Improvements and infrastructure	730,771			7,017	737,788
Equipment	1,260,798	63,887	(37,929)	2,543	1,289,299
Software	188,554			7,844	196,398
Exhaustible collections	654,831	21,257	(17,527)		658,561
Total depreciable and amortizable capital assets	7,306,596	85,144	(55,948)	193,140	7,528,932
Less accumulated depreciation and amortization:					
Buildings	1,809,913	118,196	(261)		1,927,848
Improvements and infrastructure	466,978	23,763			490,741
Equipment	1,004,912	84,657	(35,429)		1,054,140
Software	175,856	4,544			180,400
Exhaustible collections	537,712	23,845	(17,520)		544,037
Total accumulated depreciation and amortization	3,995,371	255,005	(53,210)	—	4,197,166
Total net depreciable capital assets	3,311,225	(169,861)	(2,738)	193,140	3,331,766
Total	$ 3,751,300	12,748	(2,755)	—	$ 3,761,293

(5) Accrued Self-Insurance and Loss Contingency

The University's accrued self-insurance liability of $235,048,000, as of June 30, 2018 covers hospital patient liability; hospital and medical professional liability; estimated general and contract liability, and workers' compensation liability related to employees paid from local funds. The accrued self-insurance liability was discounted at rates of 2% to 4.5% at June 30, 2018. Amounts increasing the accrued self-insurance liability are charged as expenses based upon estimates made by actuaries and the University's risk management division. An additional workers' compensation self-insurance liability of $18,942,000 at June 30, 2018 is included in the University's accounts payable. These claims will be paid in the year in which the claims are finalized, rather than from unrestricted net position as of June 30, 2018.

The accrued self-insurance liability includes $167,817,000 at June 30, 2018 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, 2018. Changes in these estimates will be reflected in the Statement of Revenues, Expenses and Changes in Net Position in the period when additional information is available.

Changes in Accrued Self-Insurance

(In thousands)

		2018		2017
Balance, beginning of year	$	239,485	$	219,234
Claims incurred and changes in estimates		53,398		60,984
Claim payments and other deductions		(57,835)		(40,733)
Balance, end of year		235,048		239,485
Less current portion		(41,484)		(45,097)
Balance, end of year – noncurrent portion	$	193,564	$	194,388

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

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

(6) Accrued Compensated Absences

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

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

Changes in Compensated Absences Balance

(In thousands)

Balance, beginning of year	$	202,896
Additions		23,055
Deductions		(19,273)
Balance, end of year		206,678
Less current portion		(19,631)
Balance, end of year – noncurrent portion	$	187,047

(7) Bonds Payable

Bonds payable activity for the year ended June 30, 2018 consists of the following:

Bonds Payable
(In thousands)

	Maturity dates	Beginning balance	Additions	Deductions	Ending balance	Current portion
Auxiliary Facilities System:						
Current interest bonds	2019 – 2046	$ 993,355		(31,025)	$ 962,330	$ 28,270
Capital appreciation bonds	2019 – 2030	100,270		(17,975)	82,295	18,055
Health Services Facilities System	2019 – 2043	112,245		(3,485)	108,760	3,620
UIC South Campus	2019 – 2023	36,130		(6,225)	29,905	6,500
		1,242,000	—	(58,710)	1,183,290	56,445
Unaccreted appreciation		(20,715)	5,364		(15,351)	(4,422)
		1,221,285	5,364	(58,710)	1,167,939	52,023
Unamortized debt premium		64,045		(4,011)	60,034	4,005
Total		$ 1,285,330	5,364	(62,721)	$ 1,227,973	$ 56,028

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

Capital appreciation bonds of $82,295,000 outstanding at June 30, 2018 do not require current interest payments and have a net unappreciated value of $66,944,000. The University records the annual increase in the principal amount of these bonds as interest expense and accretion on bonds payable.

Included in bonds payable is $114,925,000 of variable rate demand bonds. These bonds mature serially through April 2044. These bonds have variable interest rates that are adjusted periodically (e.g., daily, weekly, or monthly), generally with interest paid at the beginning of each month. The bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest on seven days notice and delivery to the University's several remarketing agents. The University pays the remarketing agent fees on the outstanding bond balance. If the remarketing agent is unable to resell any bonds that are "put" to the agent, the University has a standby bond purchase agreement with a liquidity facility entity. The University has several such agreements, with the fees on the Bond Purchase Commitment (formula based on outstanding bonds plus pro forma interest). The University, in the event a liquidity facility is utilized, has reimbursement agreements with associated financial entities. Generally, the payback period is three to five years, at an interest rate initially set at slightly above prime or the federal funds rate. The due date of the initial payment per the reimbursement agreements varies depending upon the variable rate bond issue. Certain reimbursement agreements require an initial payment due date 366 days after the event which caused the liquidity facility to be utilized.

The required future interest payments for these variable rate bonds have been calculated using the current interest rate, based upon short-term rates, or the synthetic fixed rate, as illustrated in the table below. Other outstanding bond issues bear interest at fixed rates ranging from 2.25% to 6.25%.

Bond issues	Interest rate at June 30, 2018	Remarketing agent	Remarketing fee	Liquidity facility Bank	Liquidity facility Expiration	Liquidity facility Insured by	Liquidity fee
UIC South Campus, Series 2008	1.55%	JPMorgan Securities	0.075%	JPMorgan Chase	6/24/2019	Letter of Credit	0.550%
AFS, Series 2008	1.59	Loop Capital	0.075	JPMorgan Chase	5/19/2021	None	0.600
AFS, Series 2014C	1.95	Wells Fargo	0.080	Northern Trust	2/19/2019	Letter of Credit	0.350
HSFS, Series 1997B	1.55	JPMorgan Securities	0.070	Wells Fargo	5/30/2019	Letter of Credit	0.720
HSFS, Series 2008	1.49	Goldman Sachs	0.070	Wells Fargo	5/30/2019	Letter of Credit	0.720

Variable Rate Bonds

(a) *Interest Rate Swap Agreements on Bonds Payable*

The University has entered into three separate pay-fixed/receive-variable interest rate swap agreements. The objective of these swaps was to effectively change the University's variable interest rate on the bonds to a synthetic fixed rate. The notional amount of the interest rate swaps is equal to the par amount of the related bonds, except for HSFS Series 2008, of which $215,000 is not covered by the swap agreement. In addition, the swaps were entered at the same time as the original bonds were issued and terminate with maturity of the existing bonds. No cash was paid or received when the original swap agreements were entered into.

Credit Risk – As of June 30, 2018, 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, 2018 are listed below:

Interest Rate Swaps

Bond issues	Outstanding notional amount	Effective date	Fixed rate paid	Variable rate received	Level 2 Fair value	Swap termination date	Counterparty	Counterparty credit rating (S&P/Moody's)
HSFS 2008	$ 26,360,000	Nov 2008*	3.534%	68% of LIBOR**	$ (1,869,000)	Oct-2026	Loop	BBB+/Baa2
UIC SC 2008	13,340,000	Feb 2006*	4.086	68% of LIBOR**	(662,000)	Jan-2022	Morgan Stanley	BBB+/A3
UIC SC 2008	13,040,000	Feb 2006*	4.092	68% of LIBOR**	(645,000)	Jan-2022	JPMorgan Chase	A+/Aa3

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

The University engaged a third-party consultant to determine the fair value of the swap agreements. The fair values provided by the consultant were derived from proprietary models based upon well-recognized financial principles and reasonable estimates about relevant market conditions. Since these are negative numbers, they represent an approximation of the amount of money that the University may have to pay a swap provider to terminate the swap. The counterparty may have to post collateral in the University's favor in certain conditions, and the University would never be required to post collateral in the counterparty's favor.

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

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

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

Other Risks – Since the swap agreements extend to the maturity of the related bond, the University is not exposed to rollover risk. In addition, the University is not exposed to foreign currency risk or to market access risk as of June 30, 2018. However, if the University decides to issue refunding bonds and credit is more costly at that time, it could be exposed to market access risk.

(b) *Pledged Revenues and Debt Service Requirements*

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

Pledged Revenues

Bond issues	Purpose	Source of revenue pledged	Future revenues pledged [2] (In thousands)	Term of commitment	Debt service to pledged revenues (current year)
AFS	Refunding, various improvements and additions to the System	Net AFS revenue, student tuition and fees	$ 1,563,369	2046	7.78%
HSFS	Additions to System and refunding	Net HSFS revenue, Medical Service Plan revenue net of bad debt expense, College of Medicine net tuition revenue	191,973	2043	2.40
UIC South Campus	South Campus Development Project[1] and refunding	Defined Tax Increment Financing District revenue, student tuition and fees, and sales of certain land in the UIC South Campus project	32,824	2023	2.10
		Total future revenues pledged	$ 1,788,166		

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

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

Future debt service requirements for all bonds outstanding at June 30, 2018 are as follows:

Debt Service Requirements
(In thousands)

	Principal	Interest
2019	$ 56,445	$ 50,050
2020	59,075	48,280
2021	66,510	46,534
2022	69,365	44,428
2023	53,635	41,369
2024 – 2028	262,740	171,198
2029 – 2033	260,450	112,365
2034 – 2038	171,580	61,366
2039 – 2043	152,310	27,888
2044 – 2046	31,180	1,398
Total	$ 1,183,290	$ 604,876

Using the actual rates of 1.55% (UIC South Campus, Series 2008) and 1.49% (Health Services Facilities System, Series 2008), in effect as of June 30, 2018, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, were as follows. As rates vary, variable-rate bond interest payments and net swap payments will also vary.

UIC South Campus Revenue Refunding Bonds, Series 2008
Variable-Rate Debt Service Requirements
(In thousands)

	Variable-rate bonds		Interest rate	
	Principal	Interest	swaps, net	Total
2019	$ 5,855	409	579	$ 6,843
2020	6,520	318	421	7,259
2021	6,845	217	250	7,312
2022	7,160	111	71	7,342
Total	$ 26,380	1,055	1,321	$ 28,756

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

	Variable-rate bonds		Interest rate	
	Principal	Interest	swaps, net	Total
2019	$ 2,520	396	480	$ 3,396
2020	2,655	358	425	3,438
2021	2,700	319	371	3,390
2022	2,845	279	312	3,436
2023	2,900	236	254	3,390
2024 - 2027	12,955	490	363	13,808
Total	$ 26,575	2,078	2,205	$ 30,858

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

(c) ***Advanced Refunded Bonds Payable***

The University has defeased bonds through advanced refunding in the prior years, and accordingly, they are not reflected in the accompanying financial statements. The amount of bonds that have been defeased as of June 30, 2018 consists of the following:

Advanced Refunded Bonds
(In thousands)

Series		Outstanding at June 30, 2018
Auxiliary Facilities System, Series 2009A	$	76,305

(8) Leaseholds Payable and Other Obligations

Leaseholds payable and other obligations activity for the year ended June 30, 2018 consists of the following:

Leaseholds Payable and Other Obligations
(In thousands)

	Beginning balance	Additions	Deductions	Ending balance	Current portion
University:					
Certificates of participation	$ 212,730		(32,480)	$ 180,250	$ 33,510
Unamortized debt premium	16,840		(2,958)	13,882	2,954
	229,570	—	(35,438)	194,132	36,464
Other capital leases	26,798	145	(2,772)	24,171	1,780
Energy services agreement installment payment contracts	37,545		(3,145)	34,400	3,238
Perkins loans	—	31,010		31,010	2,565
Environmental remediation liability	99		(18)	81	20
Total University	$ 294,012	31,155	(41,373)	283,794	44,067
URO – Foundation:					
Annuities payable	$ 46,517	8,063	(5,950)	48,630	6,129
Other liabilities	3,332		(7)	3,325	
Total URO – Foundation	$ 49,849	8,063	(5,957)	$ 51,955	$ 6,129

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.

(a) ***Capital Leases (includes Certificates of Participation)***

Assets held under capital leases are included in capital assets at June 30, 2018 as follows:

Assets Held Under Capital Lease
(In thousands)

Land	$	6,471
Buildings		140,486
Improvements		181,919
Equipment		1,688
Subtotal		330,564
Less accumulated depreciation		149,385
Total	$	181,179

The net present value of outstanding capital leases at June 30, 2018 is as follows:

Outstanding Capital Leases
(In thousands)

Certificates of participation:		
Series 2007A	$	15,300
Series 2007B		14,235
Series 2014A		18,520
Series 2014B		7,565
Series 2014C		24,410
Series 2016A		70,810
Series 2016B		4,495
Series 2016C		15,400
Series 2016D		9,515
Other capital leases		24,171
Net present value	$	204,421

As of June 30, 2018, future minimum lease payments under capital leases are as follows:

Future Minimum Lease Payments Under Capital Leases
(In thousands)

2019	$	44,046
2020		43,524
2021		43,163
2022		31,275
2023		14,407
2024 – 2028		56,691
2029 – 2033		9,270
Total minimum lease payments		242,376
Amount representing interest		(37,955)
Net present value	$	204,421

(b) *Other Obligations*

As part of energy services agreements, the University has entered into installment payment contracts to finance energy conservation measures. As of June 30, 2018, future minimum lease payments under installment payment contracts are as follows:

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

2019	$	4,215
2020		4,215
2021		4,216
2022		4,216
2023		4,215
2024 – 2028		17,216
2029		1,336
Total minimum lease payments		39,629
Amount representing interest		(5,229)
Net present value	$	34,400

The University monitors environmental matters and records an estimated liability for identified environmental remediation costs. The estimated liability at June 30, 2018 is $81,000.

At June 30, 2018, the URO – Foundation had annuities payable outstanding of $48,630,000. The Foundation recalculates the present value of these payments through the use of Internal Revenue Service (IRS) discount rates and IRS life expectancy tables.

(c) *Operating Leases*

The University also leases various buildings and equipment under operating lease agreements. Total rental expense under these agreements was $14,478,000 for the year ended June 30, 2018. The future minimum lease payments (excluding those leases renewed on an annual basis) are as follows:

Future Minimum Operating Lease Payments
(In thousands)

2019	$	10,870
2020		7,501
2021		4,612
2022		3,337
2023		2,539
2024 – 2028		7,437
Total	$	36,296

(9) Net Position

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

University Net Position
(In thousands)

Net investment in capital assets	$	2,386,445
Restricted – nonexpendable:		
Invested in perpetuity to produce income expendable for – scholarships, academic programs, fellowships and research		116,654
Restricted – expendable for:		
Scholarships, academic programs, fellowships and research		264,580
Auxilary Facilities System		32,202
Loans		43,411
Service plans		127,815
Retirement of indebtedness		28,691
Capital projects		149,846
Unrestricted:		
Designated		263,621
Total	$	3,413,265

URO – Foundation Net Position
(In thousands)

Net investment in capital assets	$	8,918
Restricted – nonexpendable:		
Invested in perpetuity to produce income expendable for academic programs, scholarships, fellowships and research		1,185,833
Restricted – expendable for:		
Academic programs, scholarships, fellowships and research		1,071,972
Unrestricted		41,036
Total	$	2,307,759

(10) Funds Held in Trust by Others

The University and URO-Foundation are income beneficiaries of several irrevocable trusts which are held and administered by outside trustees. The University and URO-Foundation have no control over these funds as to either investment decisions or income distributions. In accordance with GASB and FASB standards, $18,874,000 and $17,181,000, respectively, have been recorded in the accompanying financial statements. The fair value of these funds at June 30, 2018 and the amount of income received from the trusts during the year then ended were as follows:

Funds Held in Trust by Others
(In thousands)

		University		URO – Foundation
Fair value of funds held in trust by others	$	55,739	$	67,939
Income received from funds held in trust by others		1,078		2,300

(11) State Universities Retirement System

(a) *General Information about the Pension Plan*

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

Benefits Provided: A traditional benefit plan was established in 1941. Public Act 90-0448 enacted effective January 1, 1998, established an alternative defined benefit program known as the portable benefit package. The traditional and portable plan Tier 1 refers to members that began participation prior to January 1, 2011. Public Act 96-0889 revised the traditional and portable benefit plans for members who begin participation on or after January 1, 2011, and who do not have other eligible Illinois reciprocal system services. The revised plan is referred to as Tier 2. New employees are allowed 6 months after their date of hire to make an irrevocable election. A summary of the benefit provisions as of June 30, 2017 can be found in the SURS' comprehensive annual financial report (CAFR) Notes to the Financial Statements.

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

Contributions: The State is primarily responsible for funding SURS on behalf of the individual employers at an actuarially determined amount. Public Act 88-0593 provides a Statutory Funding Plan consisting of two parts: (i) a ramp-up period from 1996 to 2010 and (ii) a period of contributions equal to a level percentage of the payroll of active members of SURS to reach 90% of the total Actuarial Accrued Liability by the end of Fiscal Year 2045. Employer contributions from "trust, federal, and other funds" are provided under Section 15-155(b) of the Illinois Pension Code and require employers to pay contributions which are sufficient to cover the accruing normal costs on behalf of applicable employees. The employer normal cost for fiscal year 2017 and 2018 respectively, was 12.53% and 12.46% of employee payroll. The normal cost is equal to the value of current year's pension benefit and does not include any allocation for the past unfunded liability or interest on the unfunded liability. Plan members are required to contribute 8.0% of their annual covered salary. The contribution requirements of plan members and employers are established and may be amended by the Illinois General Assembly.

Participating employers make contributions toward separately financed specific liabilities under Section 15-139.5(e) of the Illinois Pension Code (relating to contributions payable due to the employment of "affected annuitants" or specific return to work annuitants) and Section 15-155(g) (relating to contributions payable due to earning increases exceeding 6% during the final rate of earnings period).

(b) ***Pension Liabilities, Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

Net Pension Liability: The net pension liability was measured as of June 30, 2017. At June 30, 2017, SURS reported a net pension liability of $25,481,106,000.

Employer Proportionate Share of Net Pension Liability: The amount of the proportionate share of the net pension liability to be recognized for the University is $0. The proportionate share of the State's net pension liability associated with the University is $10,990,307,000. This amount should not be recognized in the financial statement. The net pension liability and total pension liability as of June 30, 2017 was determined based on the June 30, 2016 actuarial valuation rolled forward. The basis of allocation used in the proportionate share of net pension liability is the actual reported pensionable contributions made to SURS during fiscal year 2017.

Pension Expense: At June 30, 2017 SURS reported a collective net pension expense of $2,412,918,000.

Employer Proportionate Share of Pension Expense: The employer proportionate share of collective pension expense should be recognized similarly to on-behalf payments as both revenue and matching expenditure in the financial statements. The basis of allocation used in the proportionate share of collective pension expense is the actual reported pensionable contributions made to SURS during fiscal year 2017. As a result, the University recognized on-behalf revenue and pension expense of $1,040,721,000 for fiscal year ended June 30, 2018.

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

SURS Collective Deferred Outflows and Deferred Inflows of Resources by Sources

		Deferred Outflows of Resources		Deferred Inflows of Resources
Difference between expected and actual experience	$	139,193,000	$	1,171,000
Changes in assumption		205,004,000		259,657,000
Net difference between projected and actual earnings on pension plan investments		94,621,000		
Total	$	438,818,000	$	260,828,000

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

Year Ending June 30		Net Deferred Outflows of Resources
2018	$	55,590,000
2019		187,874,000
2020		90,476,000
2021		(155,950,000)
2022		
Thereafter		
Total	$	177,990,000

(c) *Employer Deferral of Fiscal Year 2018 Pension Expense*

The University paid $37,139,000 in federal, trust or grant contributions for fiscal year ended June 30, 2018. These contributions were made subsequent to the pension liability date of June 30, 2017 and are recognized as Deferred Outflows of Resources as of June 30, 2018.

(d) *Assumptions and Other Inputs*

Actuarial assumptions: The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period June 30, 2010 – 2014. The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Salary increases	3.75 to 15.00 percent, including inflation
Investment rate of return	7.25 percent beginning with the actuarial valuation as of June 30, 2014

Mortality rates were based on the RP2014 Combined Mortality Table with projected generational mortality and a separate mortality assumption for disabled participants.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return were adopted by the plan's trustees after considering input from the plan's investment consultant(s) and actuary(s). For each major asset class that is included in the pension plan's target asset allocation as of June 30, 2017, these best estimates are summarized in the following table:

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return
U.S. Equity	23%	6.08%
Private Equity	6%	8.73%
Non-U.S. Equity	19%	7.34%
Global Equity	8%	6.85%
Fixed Income	19%	1.38%
Treasury-Inflation Protected Securities	4%	1.17%
Emerging Market Debt	3%	4.14%
Real Estate REITS	4%	5.75%
Direct Real Estate	6%	4.62%
Commodities	2%	4.23%
Hedged Strategies	5%	3.95%
Opportunity Fund	1%	6.71%
Total	100%	5.20%
Inflation		2.75%
Expected Arithmetic Return		**7.95%**

Discount Rate: A single discount rate of 7.09% was used to measure the total pension liability. This single discount rate was based on an expected rate of return on pension plan investments of 7.25% and a municipal bond rate of 3.56% (based on the weekly rate closest to but not later than the measurement date of the 20-Year Bond Buyer Index as published by the Federal Reserve). The projection of cash flows used to determine this single discount rate were the amounts of contributions attributable to current plan members and assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the statutory contribution rates under SURS' funding policy. Based on these assumptions, the pension plan's fiduciary net position and future contributions were sufficient to finance the benefit payments through the year 2073. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2073, and the municipal bond rate was applied to all benefit payments after that date.

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

1% Decrease 6.09%	Current Single Discount Rate Assumption 7.09%	1% Increase 8.09%
$30,885,146,000	$25,481,106,000	$20,997,458,000

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

(12) Other Postemployment Benefits

(a) *Plan Description*

The State Employees Group Insurance Act of 1971 (Act), as amended, authorizes the Illinois State Employees Group Insurance Program (SEGIP) to provide health, dental, vision, and life insurance benefits for certain retirees and their dependents. Substantially all of the University's full-time employees are members of SEGIP. Members receiving monthly benefits from the General Assembly Retirement System (GARS), Judges Retirement System (JRS), State Employees' Retirement System of Illinois (SERS), Teachers' Retirement System (TRS), and SURS are eligible for these other post-employment benefits (OPEB). The eligibility provisions for SURS are defined within Note 11.

The Department of Central Management Services administers these benefits for annuitants with the assistance of the public retirement systems sponsored by the State (GARS, JRS, SERS, TRS and SURS). The State recognizes SEGIP OPEB benefits as a single-employer defined benefit plan. The plan does not issue a stand-alone financial report.

(b) *Benefits Provided*

The health, dental, and vision benefits provided to and contribution amounts required from annuitants are the result of collective bargaining between the State and the various unions representing the State's and the university component units' employees in accordance with limitations established in the Act. Therefore, the benefits provided and contribution amounts are subject to periodic change. Coverage through SEGIP becomes secondary to Medicare after Medicare eligibility has been reached. Members must enroll in Medicare Parts A and B to receive the subsidized SEGIP premium available to Medicare eligible participants. 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.

(c) *Funding Policy and Annual Other Postemployment Benefit Cost*

OPEB offered through SEGIP are financed through a combination of retiree premiums, State contributions and Federal government subsidies from the Medicare Part D program. Contributions are deposited in the Health Insurance Reserve Fund, which covers both active State employees and retiree members. Annuitants may be required to contribute towards health and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, 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 the State Employee's Retirement System do not contribute toward health 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 and vision benefits. All annuitants are required to pay for dental benefits regardless of retirement date. The Director of Central Management Services shall, on an annual basis, determine the amount the State shall contribute toward the basic program of group health benefits. State contributions are made primarily from the General Revenue Fund on a pay-as-you-go basis. No assets are accumulated or dedicated to funding the retiree health insurance benefit and a separate trust has not been established for the funding of OPEB.

For fiscal year 2018, the annual cost of the basic program of group health, dental, and vision benefits before the State's contribution was $10,926.24 ($6,145.92 if Medicare eligible) if the annuitant chose benefits provided by a health maintenance organization and $14,939.04 ($5,165.04 if Medicare eligible) if the annuitant chose other benefits. The State is not required to fund the plan other than the pay-as-you-go amount necessary to provide the current benefits to retirees.

(d) *Total OPEB Liability, Deferred Outflows of Resources, Deferred Inflows of Resources and Expense Related to OPEB*

The total OPEB liability, as reported at June 30, 2018, was measured as of June 30, 2017, with an actuarial valuation as of June 30, 2016. At June 30, 2018, the University recorded a liability of $1,315 million for its proportionate share of the State's total OPEB liability. The University's portion of the OPEB liability was based on the University's proportion of employer contributions relative to all employer contributions made to the plan during the year ended June 30, 2017. As of the current year measurement date of June 30, 2017, the University's proportion was 3.18%, which was a decrease of 0.57% from its proportion measured as of the prior year measurement date of June 30, 2016.

The University recognized OPEB expense for the year ended June 30, 2018, of $12 million. At June 30, 2018, the University reported deferred outflows and deferred inflows of resources, as of the measurement date of June 30, 2017, from the following sources (amounts expressed in thousands):

Deferred outflows of resources		
Differences between expected and actual experience		421
University contributions subsequent to the measurement date		30,222
Total deferred outflows of resources	$	30,643
Deferred inflows of resources		
Changes of assumptions		124,835
Changes in proportion and differences between employer contributions and proportionate share of contributions		202,830
Total deferred inflows of resources	$	327,665

The amounts reported as deferred outflows of resources related to OPEB resulting from University contributions subsequent to the measurement date will be recognized as a reduction to the OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows (amounts expressed in thousands):

Year ended June 30,		
2019	$	(73,563)
2020		(73,563)
2021		(73,563)
2022		(73,563)
2023		(32,992)
Total	$	(327,244)

(e) *Actuarial Methods and Assumptions*

The total OPEB liability was determined by an actuarial valuation using the following actuarial assumptions, applied to all periods included in the measurement unless otherwise specified. The actuarial valuation for the SEGIP was based on GARS, JRS, SERS, TRS, and SURS active, inactive, and retiree data as of June 30, 2016, for eligible SEGIP employees, and SEGIP retiree data as of June 30, 2016.

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry Age Normal
Inflation Rate	2.75%
Projected Salary Increases*	3.00% - 15.00%
Discount Rate	3.56%
Healthcare Cost Trend Rate:	
Medical (Pre-Medicare)	8.0% grading down 0.5% in the first year to 7.5%, then grading down 0.01% in the second year to 7.49%, followed by grading down of 0.5% per year over 5 years to 4.99% in year 7
Medical (Post-Medicare)	9.0% grading down 0.5% per year over 9 years to 4.5%
Dental	7.5% grading down 0.5% per year over 6 years to 4.5%
Vision	3.00%
Retirees' share of benefit-related costs	Healthcare premium rates for members depend on the date of retirement and the years of service earned at retirement. Members who retired before January 1, 1998, are eligible for single coverage at no cost to the member. Members who retire after January 1, 1998, are eligible for single coverage provided they pay a portion of the premium equal to 5 percent for each year of service under 20 years. Eligible dependents receive coverage provided they pay 100 percent of the required dependent premium. Premiums for plan year 2017 and 2018 are based on actual premiums. Premiums after 2018 were projected based on the same healthcare cost trend rates applied to per capita claim costs but excluding the additional trend rate that estimates the impact of the Excise Tax.

*Dependent upon service and participation in the respective retirement systems. Includes inflation rate listed.

Additionally, the demographic assumptions used in this OPEB valuation are identical to those used in the June 30, 2016 valuations for GARS, JRS, SERS, TRS, and SURS as follows:

	Retirement age experience study^	Mortality^^
GARS	July 2012 - June 2015	RP-2014 White Collar Total Healthy Annuitant mortality table, sex distinct, set forward 1 year for males and set back 1 year for females and generational mortality improvements using MP-2014 two-dimensional mortality improvement scales
JRS	July 2012 - June 2015	RP-2014 White Collar Total Healthy Annuitant mortality table, sex distinct, set forward 1 year for males and set back 1 year for females and generational mortality improvements using MP-2014 two-dimensional mortality improvement scales
SERS	July 2009 - June 2013	105 percent of the RP 2014 Healthy Annuitant mortality table, sex distinct, with rates projected to 2015; generational mortality improvement factors were added
TRS	July 2011 - June 2014	RP-2014 with future mortality improvements on a fully generational basis using projection table MP-2014
SURS	July 2010 - June 2014	RP-2014 White Collar, gener distinct, projected using MP-2014 two dimensional mortality improvement scale, set forward one year for male and female annuitants

^ The actuarial assumptions used in the respective actuarial valuations are based on the results of actuarial experience studies for the periods defined. A modified experience review was completed for SERS for the 3-year period ending June 30, 2015. Changes were made to the assumptions regarding investment rate of return, projected salary increases, inflation rate, and mortality based on this review. All other assumptions remained unchanged.

^^ Mortality rates are based on mortality tables published by the Society of Actuaries' Retirement Plans Experience Committee.

(f) ***Discount Rate***

Retirees contribute a percentage of the premium rate based on service at retirement. The State contributes additional amounts to cover claims and expenses in excess of retiree contributions. Because plan benefits are financed on a pay-as-you-go basis, the single discount rate is based on a tax-exempt municipal bond rate index of 20-year general obligation bonds with an average AA credit rating as of the measurement date. A single discount rate of 2.85% at June 30, 2016, and 3.56% at June 30, 2017, was used to measure the total OPEB liability.

(g) ***Sensitivity of total OPEB liability to changes in the single discount rate***

The following presents the plan’s total OPEB liability, calculated using a Single Discount Rate of 3.56%, as well as what the plan’s total OPEB liability would be if it were calculated using a Single Discount rate that is one percentage point higher (4.56%) or lower (2.56%) than the current rate (amounts expressed in thousands):

	1% Decrease (2.56%)	Current Single Discount Rate Assumption (3.56%)	1% Increase (4.56%)
University's proportionate share of total OPEB liability	1,491,584	1,314,760	1,138,931

(h) ***Sensitivity of Total OPEB Liability to Changes in the Healthcare Cost Trend Rate***

The following presents the plans total OPEB liability, calculated using the healthcare cost trend rates as well as what the plan's total OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point higher or lower, than the current healthcare cost trend rates (amounts in table expressed in thousands). The key trend rates are 8.0% in 2018 decreasing to an ultimate trend rate of 4.99% in 2025, for non-Medicare coverage, and 9.0% decreasing to an ultimate trend rate of 4.5% in 2027 for Medicare coverage.

	1% Decrease	Current Healthcare Cost Trend Rates Assumption	1% Increase
University's proportionate share of total OPEB liability	1,123,451	1,314,760	1,472,699

(13) Commitments and Contingencies

At June 30, 2018, the University had commitments on various construction projects and contracts for repairs and renovation of facilities of $306,875,000.

The University purchases the majority of natural gas and electricity from Prairieland and guarantees payment by Prairieland to its energy suppliers. Unconditional guaranty agreements are in place with Prairieland's energy suppliers for an aggregate amount not to exceed $46,000,000. The exposure related to Prairieland at June 30, 2018 is $5,090,000 for all energy suppliers. This exposure includes the mark-to-market positions on forward contracts and the accounts payable accrued for each vendor.

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

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

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

In 2004, the Office of the Inspector General of the U.S. Department of Health and Human Services (OIG) conducted an audit of the Medicaid disproportionate share hospital (DSH) programs in ten states for the years 1997 through 2000, including the State of Illinois. The OIG's audit report indicated that the State of Illinois' Medicaid DSH payments exceeded hospital-specific limits, and that the Federal share of those overpayments was $145.8 million, of which $140.3 million related to payments made to the University's hospital. The Illinois Department of Healthcare and Family Services (IDHFS) believes it followed guidelines published by the U. S. Centers for Medicare and Medicaid Services (CMMS) and that its methodology for calculating the hospital-specific limit had consistently been approved by CMMS. However, on July 25, 2016, CMMS issued a formal notice to IDHFS that it had adopted the OIG's recommendation and was requesting repayment by IDHFS of the $140.3 million associated with the University's hospital. In January 2017, IDHFS filed an appeal notice with the U.S. Department of Health and Human Services Departmental Appeals Board. On April 2, 2018, the Departmental Appeals Board rendered a decision in favor of CMMS, sustaining the disallowance of DSH payments to the State as calculated by OIG. In June 2018, IDHFS filed a motion with the Departmental Appeals Board to reconsider its decision. Please refer to note 17 for activity subsequent to June 30, 2018 related to the audit and its appeals process.

(14) Operating Expenses by Natural Classification

Operating expenses by natural classification for the year ended June 30, 2018 for the University and the URO – Foundation are summarized as follows:

University Operating Expenses by Natural Classification
(In thousands)

	Compensation and benefits	Supplies and services	Student aid	Depreciation	Total
Instruction	$ 1,475,651	99,558	8,179		$ 1,583,388
Research	515,850	230,620	9,562		756,032
Public service	306,952	168,805	1,534		477,291
Academic support	464,711	132,498	16,406		613,615
Student services	177,130	51,390	7,155		235,675
Institutional support	273,008	34,644	17		307,669
Operation and maintenance of plant	88,552	235,380	6,830		330,762
Scholarships and fellowships	235,235	1,596	52,303		289,134
Auxiliary enterprises	192,243	197,702	16,355		406,300
Hospital and medical activities	639,974	404,850			1,044,824
Independent operations	2,205	9,965			12,170
Depreciation				255,005	255,005
Total	$ 4,371,511	1,567,008	118,341	255,005	$ 6,311,865

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

	Distributions on behalf of the University	Institutional support	Depreciation	Total
Fund-raising	$	19,536		$ 19,536
Distributions on behalf of the University	208,413			208,413
General and administrative		15,373		15,373
Actuarial adjustments		4,306		4,306
Depreciation			1,551	1,551
Total	$ 208,413	39,215	1,551	$ 249,179

(15) Segment Information

The following information represents identifiable activities within the University financial statements for which one or more revenue bonds are outstanding.

(a) The Auxiliary Facilities System (AFS)

AFS financial activity mainly comprises housing, parking and student activities, which span across the three campuses of the University. The operating revenues of the AFS largely consist of student service fees, various user fees, room and board charges, sales from merchandise/vending and rental of certain facilities. Facilities primarily consist of buildings and other structures that have been constructed or remodeled with funding provided from issuance of related revenue bonds. AFS facilities include Memorial Stadium, the State Farm Center, student unions, housing residence halls, parking and other structures. Operating expenses of the AFS include all necessary current maintenance charges, expenses of reasonable upkeep and repairs, allocations of a share of certain charges for insurance and other expenses incidental to the operations of all of the various activities and facilities of the AFS in accordance with the bond indentures.

(b) *The Health Services Facilities System (HSFS)*

HSFS is comprised of the University of Illinois Hospital and associated clinical facilities providing patient care at, but not limited to, the University of Illinois at Chicago Medical Center. HSFS is a tertiary care facility located primarily in Chicago, Illinois offering a full range of clinical services. HSFS does not include the operations of the University Medical Service Plans or Colleges of Medicine. Management of the HSFS is the responsibility of the University.

Condensed Statements of Net Position

June 30, 2018

(In thousands)

		AFS	HSFS		Total
Assets and deferred outflow of resources:					
Current assets	$	224,503	449,311	$	673,814
Noncurrent assets:					
Capital assets, net of accumulated depreciation		1,120,803	203,372		1,324,175
Other noncurrent assets		21,583	27,301		48,884
Deferred outflow of resources		21,043	3,291		24,334
Total assets and deferred outflow of resources	$	1,387,932	683,275	$	2,071,207
Liabilities:					
Current liabilities	$	101,865	162,390	$	264,255
Noncurrent liabilities:					
Long-term debt		1,043,008	105,613		1,148,621
Other liabilities		12,061	26,235		38,296
Total liabilities		1,156,934	294,238		1,451,172
Net position:					
Net investment in capital assets		60,180	101,825		162,005
Restricted:					
Expendable		27,461	19,575		47,036
Unrestricted		143,357	267,637		410,994
Total net position		230,998	389,037		620,035
Total liabilities and net position	$	1,387,932	683,275	$	2,071,207

Condensed Statement of Revenues, Expenses and Changes in Net Position

Year ended June 30, 2018

(In thousands)

		AFS	HSFS		Total
Operating revenues	$	363,940	791,299	$	1,155,239
Operating expenses		337,978	1,061,814		1,399,792
Depreciation expense		43,128	21,499		64,627
Operating loss		(17,166)	(292,014)		(309,180)
Nonoperating revenues, net		20,281	353,358		373,639
Increase in net position		3,115	61,344		64,459
Net position, beginning of year		227,883	327,693		555,576
Net position, end of year	$	230,998	389,037	$	620,035

(Continued)

Condensed Statement of Cash Flows

Year ended June 30, 2018

(In thousands)

	AFS	HSFS	Total
Net cash flows provided by operating activities	$ 93,443	52,634	$ 146,077
Net cash flows provided by noncapital financing activities	873	18,078	18,951
Net cash flows used in capital and related financing activities	(113,248)	(35,197)	(148,445)
Net cash flows provided by investing activities	11,572	14,522	26,094
Net (decrease) increase in cash and cash equivalents	(7,360)	50,037	42,677
Cash and cash equivalents, beginning of year	214,515	199,646	414,161
Cash and cash equivalents, end of year	$ 207,155	249,683	$ 456,838

(16) University Related Organizations

The Entity's financial statements include the activities of the University Related Organizations, which are presented as discretely presented component units in the accompanying financial statements. Since these component units are discretely presented, the activities between them and the University are not eliminated on the Entity's financial statements. Conversely, the University and its component units are consolidated on the State's comprehensive annual financial report, therefore, the following disclosure is presented.

University and University Related Organizations Transactions Presented to Facilitate State of Illinois Reporting

(In thousands)

	Distributions on behalf of University	Advances from (Repayments to) University, net	Services/Goods Provided to University	Services/Goods Provided by University	Total
Foundation	$ 208,413		(10,810)	10,810	$ 208,413
Alumni Alliance			(2,586)	2,586	-
WWT			(17,473)	17,473	-
Illinois Ventures			(2,019)	2,019	-
Research Park			(781)	781	-
Prairieland			(39,237)	39,237	-
Singapore Research		(2,819)	(1,196)	1,196	(2,819)
Total	$ 208,413	(2,819)	(74,102)	74,102	$ 205,594

The transactions disclosed in the table above are not all inclusive and represent those transactions the University deemed significant. Additional details regarding these transactions are provided on the financial statements of each related organization.

Below are condensed financial statements by organization:

Condensed Statements of Net Position
June 30, 2018
(In thousands)

		Foundation	Alumni Alliance	WWT	Illinois Ventures
Assets and deferred outflow of resources:					
Current assets	$	41,259	2,062	1,632	3,118
Noncurrent assets:					
Capital assets, net of accumulated depreciation		10,636	2,906	89	
Other noncurrent assets		2,317,761	14,821		3,500
Deferred outflow of resources					
Total assets and deferred outflow of resources	$	2,369,656	19,789	1,721	6,618
Liabilities and deferred inflow of resources:					
Current liabilities	$	15,913	285	1,699	192
Due to related organizations		37	1,928		
Noncurrent liabilities		45,947	9		
Deferred inflow of resources					
Total liabilities and deferred inflow of resources		61,897	2,222	1,699	192
Net position:					
Net investment in capital assets		8,918	2,906	89	
Restricted:					
Nonexpendable		1,185,833			15
Expendable		1,071,972			
Unrestricted		41,036	14,661	(67)	6,411
Total net position		2,307,759	17,567	22	6,426
Total liabilities, deferred inflow of resources and net position	$	2,369,656	19,789	1,721	6,618

Condensed Statement of Revenues, Expenses and Changes in Net Position
Year ended June 30, 2018
(In thousands)

		Foundation	Alumni Alliance	WWT	Illinois Ventures
Operating revenues	$	200,623	4,592	16,814	2,621
Operating expenses		247,628	5,389	16,791	2,231
Depreciation expense		1,551	2	19	1
Operating income (loss)		(48,556)	(799)	4	389
Nonoperating revenues (expenses), net		148,687	1,378		45
Contributions to endowments		138,413			
Increase in net position		238,544	579	4	434
Net position, beginning of year		2,069,215	16,988	18	5,992
Net position, end of year	$	2,307,759	17,567	22	6,426

Condensed Statements of Net Position
June 30, 2018
(In thousands)

	Research Park	Prairieland	Singapore Research	Total
Assets and Deferred Outflow of Resources:				
Current assets	$ 645	7,230	3,863	$ 59,809
Noncurrent assets:				
Capital assets, net of accumulated depreciation	1,965	6	96	15,698
Other noncurrent assets				2,336,082
Deferred outflow of resources		461		461
Total assets and deferred outflow of resources	$ 2,610	7,697	3,959	$ 2,412,050
Liabilities and Deferred Inflow of Resources:				
Current liabilities	$ 59	5,365	1,507	$ 25,020
Due to related organizations			2,143	4,108
Noncurrent liabilities		378		46,334
Deferred inflow of resources		83		83
Total liabilities and deferred inflow of resources	59	5,826	3,650	75,545
Net position:				
Net investment in capital assets	1,965	6	96	13,980
Restricted:				
Nonexpendable				1,185,848
Expendable				1,071,972
Unrestricted	586	1,865	213	64,705
Total net position	2,551	1,871	309	2,336,505
Total liabilities, deferred inflow of resources, and net position	$ 2,610	7,697	3,959	$ 2,412,050

Condensed Statement of Revenues, Expenses and Changes in Net Position
Year ended June 30, 2018
(In thousands)

	Research Park	Prairieland	Singapore Research	Total
Operating revenues	$ 1,442	39,403	4,736	$ 270,231
Operating expenses	846	39,326	4,534	316,745
Depreciation expense	90	3	150	1,816
Operating income (loss)	506	74	52	(48,330)
Nonoperating revenues (expenses), net		8	(37)	150,081
Contributions to endowments				138,413
Increase in net position	506	82	15	240,164
Net position, beginning of year	2,045	1,789	294	2,096,341
Net position, end of year	$ 2,551	1,871	309	$ 2,336,505

(17) Subsequent Events

In September 2018, IDHFS notified the Hospital that it will not seek recovery of the $140.3 million disallowance from the Hospital or University in the event any further administrative or legal challenges by IDHFS are unsuccessful in whole or in part, settled or exhausted without a favorable decision. The University has agreed to continue to take any actions or steps requested by IDHFS in support of IDHFS's further appeals of this matter.

On October 17, 2018, the University issued Auxiliary Facilities System Revenue Bonds, Series 2018A and Series 2018B, in the amount of $142,110,000 and $20,030,000, respectively. The proceeds from the Series 2018A and the Series 2018B Bonds will be used, together with other lawfully available moneys, to (i) refund certain outstanding obligations of the Board, (ii) finance the construction of a football performance center and a soccer and track complex, the renovation and addition of a residence hall dining facility and the reorientation and replacement of certain track and field facilities on the University's campus in Urbana, and (iii) pay costs of issuing the Series 2018 Bonds.

UNIVERSITY OF ILLINOIS

Required Supplementary Information
Year Ended June 30, 2018
(In thousands)

Schedule of Share of the Net Pension Liability	Fiscal Year 2017	Fiscal Year 2016	Fiscal Year 2015	Fiscal Year 2014
(a) Proportion percentage of the collective net pension liability	0%	0%	0%	0%
(b) Proportion amount of the collective net pension liability	$ -	$ -	$ -	$ -
(c) Portion of nonemployer contributing entities' total proportion of collective net pension liability associated with the Employer	10,990,307	10,996,379	9,957,590	8,995,845
Total (b) + (c)	10,990,307	10,996,379	9,957,590	8,995,845
Employer defined benefit covered payroll*	$ 1,206,774	$ 1,220,867	$ 1,232,504	$ 1,198,958
Proportion of collective net pension liability associated with Employer as a percentage of defined benefit covered payroll	910.72%	900.70%	807.92%	750.31%
SURS plan net position as a percentage of total pension liability	42.04%	39.57%	42.37%	44.39%

* GASB Statement No. 82 amended GASB Statements No. 67 & No. 68 to require the presentation of covered payroll, defined as payroll on which contributions to a pension plan are based, and ratios that use that measure. For the SURS plans, the covered payroll are those employees within the defined benefit plan.

Schedule of Contributions	Fiscal Year 2018	Fiscal Year 2017	Fiscal Year 2016	Fiscal Year 2015	Fiscal Year 2014
Federal, trust, grant and other contribution	$ 37,139	$ 35,483	$ 34,753	$ 33,473	$ 34,200
Contribution in relation to required contribution	37,139	35,483	34,753	33,473	34,200
Contribution deficiency (excess)	-	-	-	-	-
Employer covered payroll	$ 1,694,154	$ 1,644,234	$ 1,631,938	$ 1,619,472	$ 1,540,278
Contributions as a percentage of covered payroll	2.19%	2.16%	2.13%	2.07%	2.22%

(Continued)

Changes of benefit terms. There were no benefit changes recognized in the Total Pension Liability as of June 30, 2017.

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

- Mortality rates. Change from the RP 2000 Mortality table projected to 2017, sex distinct, to the RP-2014 mortality tables with projected generational mortality improvement. Change to a separate mortality assumption for disabled participants.

- Salary increases. Change assumption to service-based rates, ranging from 3.75 percent to 15.00 percent based on years of service, with underlying wage inflation of 3.75 percent.

- Normal retirement rates. Change to retirement rates at ages younger than 60, age 66, and ages 70-79 to reflect observed experiences.

- Early retirement rates. Change to a slight increase to the rates at ages 55 and 56.

- Turnover rates. Change to produce lower expected turnover for members with less than 10 years of service and higher turnover for members with more than 10 years of service than the currently assumed rates.

- Disability rates. Decrease rates and have separate rates for males and females to reflect observed experience.

- Dependent assumption. Maintain the current assumption on marital status that varies by age and sex and the assumption that males are three years older than their spouses.

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

UNIVERSITY OF ILLINOIS

Required Supplementary Information
Year Ended June 30, 2018
(in thousands)

Schedule of the University's Proportionate Share of the Net OPEB Liability
For the Plan Year Ended June 30

		Fiscal Year 2017
Proportion of the net OPEB liability		3.18%
Proportionate share of the net OPEB liability	$	1,314,760
Covered employee payroll	$	2,023,794
Proportionate share of the net OPEB liability as a percentage of its covered employee payroll		64.97%

*Note: The University implemented GASB No. 75 in fiscal year 2018; however, the amount reported for fiscal year 2018 was based on an actuarial date as of June 30, 2017. The information above is presented for as many years as available. The Schedule is intended to show information for 10 years.