

From the Vice President for Business and Finance, Comptroller

UNIVERSITY OF ILLINOIS Chicago • Springfield • Urbana-Champaign

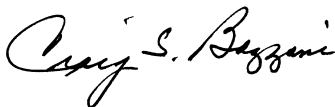
Office of Vice President for Business and Finance, Comptroller
349 Henry Administration Building
506 South Wright Street
Urbana, IL 61801

September 15, 1997

I am pleased to transmit the Annual Financial Report of the University of Illinois for the fiscal year ended June 30, 1997. This report is supplemented by the Annual Financial Report of the University of Illinois Auxiliary Facilities System, the Annual Financial Report of the Construction Engineering Research Laboratory, the Annual Financial Report of the Willard Airport Facility, and the Annual Financial Report of the Health Services Facilities System which are issued under separate cover.

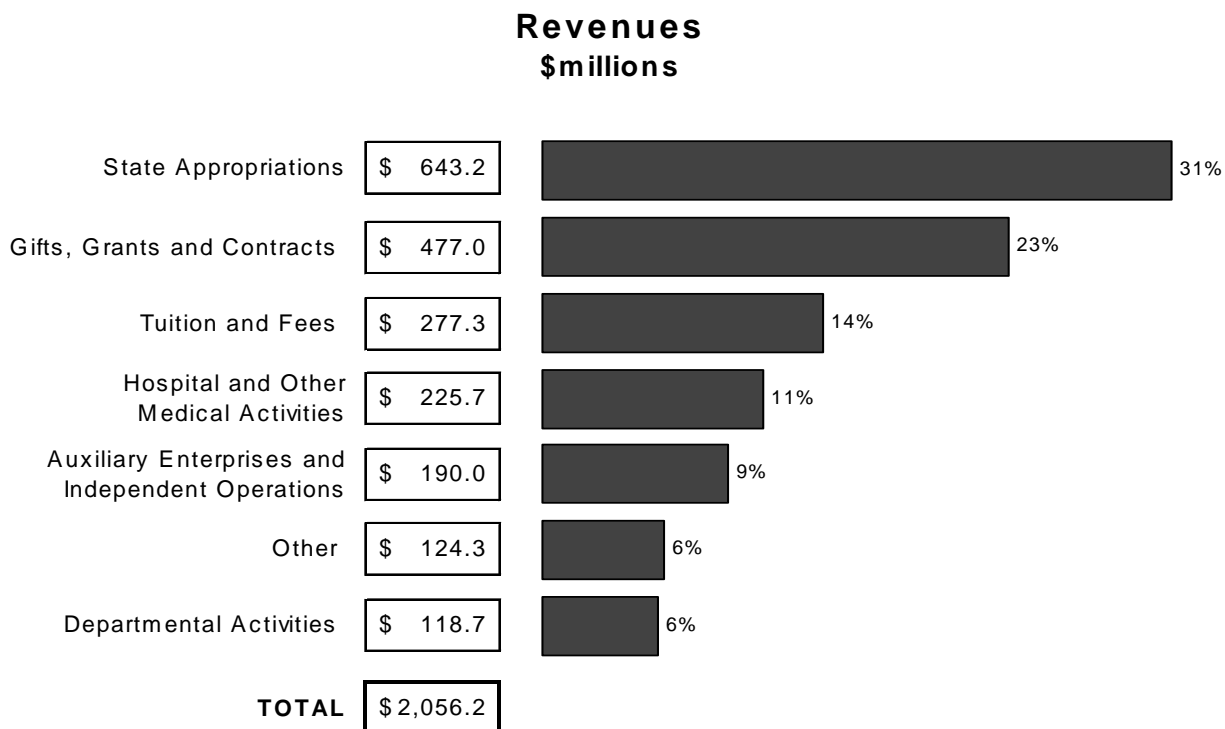
The year 1996-97 marks the 129th year of the operation of the University. Prior to 1911, statements of the financial operations appeared only in the proceedings of The Board of Trustees which since 1909 have contained the annual and biennial budgets. Since July 1, 1911, separate reports have been published showing the financial operations of each year. These reports are intended to form a comprehensive and permanent record of the finances of the University for the periods covered for the information and reference of all persons concerned or interested.

The financial statements of the University for the past year have been audited by Geo. S. Olive & Co. LLC, Independent Public Accountants, as special assistants to the Auditor General, and their report follows. Geo. S. Olive & Co. LLC, will also prepare a report for the year ended June 30, 1997 containing special data requested by the Auditor General of the State of Illinois and other reports covering their audits of the compliance of the University with applicable state and federal laws and regulations for the year ended June 30, 1997. These reports are not contained herein and are primarily for the use of the Auditor General and state and federal agencies.



Craig S. Bazzani
Vice President for
Business and Finance,
Comptroller

Financial Highlights 1996-1997



State Appropriations - \$643.2 million - increased by 3.7% during fiscal year 1997, an increase of approximately \$22.9 million. State Appropriations are primarily state tax support, and is the largest revenue source.

Gifts, Grants and Contracts - \$477.0 million - an increase of \$30.8 million (6.9%) in fiscal year 1997 which includes recovery of indirect costs from grants and contracts.

Tuition and Fees - \$277.3 million - increased by 4.8% during fiscal year 1997, an increase of approximately \$12.6 million. The percentage of tuition and fees to overall revenue remains fairly constant.

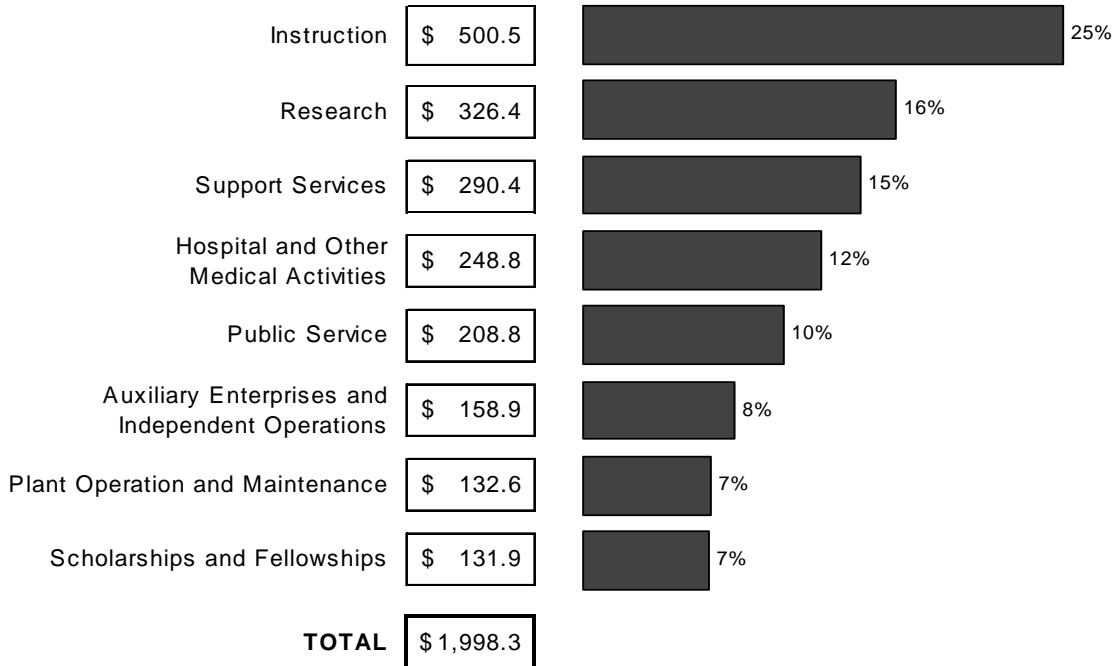
Hospital and Other Medical Activities - \$225.7 million - decreased by \$2.4 million in fiscal year 1997. This was due in part to an organizational reclassification of activities to accommodate the formation of The Health Services Facilities System.

Auxiliary Enterprises and Independent Operations - \$190.0 million - revenues generated through sales of goods and services to student, faculty, and staff and revenue from services provided primarily to external parties. Revenue increased by \$7.3 million during fiscal year 1997, an increase of 4.0% over fiscal year 1996.

Other - \$124.3 million - Includes revenue from federal appropriations, endowment and other investment income, and the medical service plan.

Departmental Activities - \$118.7 million - an increase of \$18.8 million over the prior year. Revenues include sales and services provided by operating units other than auxiliary enterprises.

Expenditures \$millions



Instruction - \$500.5 million - represents the largest use of current funds. This is an increase of \$19.3 million (4.0%) over the prior year.

Research - \$326.4 million - an increase of \$27.9 million over the previous year.

Support Services - \$290.4 million - activities which provide support services for the University including libraries, student services and institutional support.

Hospital and Other Medical Activities - \$248.8 million - cost of operation for The Health Services Facilities System and the related clinics. This was an increase of \$4.3 million (1.8%) in fiscal year 1997.

Public Service - \$208.8 million - activities that primarily benefit individuals outside the University increased by approximately \$15.9 million.

Auxiliary Enterprises and Independent Operations - \$158.9 million - entities which furnish services to students, faculty and staff and operations independent of the University but which enhance the primary mission of the institution.

Plant Operation and Maintenance - \$132.6 million - a decrease of \$2.3 million during fiscal year 1997.

Scholarships and Fellowships - \$131.9 million - cost of financial assistance which offers an opportunity to students who might otherwise not have access to higher education. The \$131.9 million expended in 1997 represents an increase of \$0.9 million.

Staff and Student Data as of October 1996

Staff Full-Time Equivalent

All Funds

	Chicago	Springfield	Urbana-Champaign	University Administration	Total University
Faculty	2,236	174	2,679	24	5,113
Academic Professional	1,967	105	2,170	376	4,618
Support Staff	5,777	269	4,915	717	11,678
Graduate Assistant	1,967	101	2,454	19	4,541
Total	11,947	649	12,218	1,136	25,950

Student Full-Time Equivalent Enrollment¹

Enrollment

	Chicago ²	Springfield	Urbana-Champaign	Total University
Undergraduate	14,278	1,376	26,890	42,544
Graduate and Professional	9,194	1,039	10,758	20,991
Total	23,472	2,415	37,648	63,535

¹ Based on the Illinois Board of Higher Education definition of full-time equivalency. Undergraduate student full-time equivalent is computed as the total number of fall term semester and quarter credit hours divided by 15. Graduate and professional student full-time equivalent is computed as the total number of fall term semester and quarter credit hours divided by 12.

² Regional Nursing enrollments and residents completing internships in Medicine, Dentistry, and Pharmacy are included.

Independent Auditor's Report



GEO. S. OLIVE & CO. LLC

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

As Special Assistant Auditors for the Auditor General, we have audited the accompanying combined balance sheet of the University of Illinois (University) as of June 30, 1997, and the related combined statements of changes in fund balances (deficit) and of current funds revenues, expenditures, and other changes for the year then ended. These combined financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these combined financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the University as of June 30, 1997, and its changes in fund balances (deficit) and the current funds revenues, expenditures, and other changes for the year then ended in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the combined financial statements taken as a whole. The supplemental combining financial statements for University Related Organizations are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have issued a report dated September 15, 1997, on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

Geo. S. Olive & Co. LLC

Springfield, Illinois
September 15, 1997

Combined Balance Sheet

	Current Funds		Loan Funds	Endowment and Similar Funds	Plant Funds
	Unrestricted	Restricted			
Assets					
Cash and cash equivalents	\$ 45,766	\$ 33,279	\$ 1,448	\$ 200	\$ 48,850
Assets held by State Treasurer - University Income Fund					
Investments	156,893	103,791	4,619	91,015	154,043
Accrued investment income	2,780	1,525	73		1,757
Accounts receivable (net)	79,773	61,959			473
Receivable from State of Illinois General Revenue Fund	5,230				
Notes receivable (net)			52,320		
Accrued interest on notes receivable			682		
Inventories and deferred charges	34,790	239			
Prepaid expense	21,951				2,751
Due from related organizations	1,308	218			
Due from other funds	10,911				
Investment in plant -					
Land					66,830
Buildings					1,569,988
Improvements other than buildings					149,300
Equipment					1,202,803
Construction in progress					25,288
Real estate and farm properties		12		10,386	
Other assets			46	649	
Total Assets	\$ 359,402	\$ 201,023	\$ 59,188	\$ 102,250	\$ 3,222,083
Liabilities					
Accounts payable	\$ 45,744	\$ 8,126	\$	\$	\$ 7,834
Accrued payroll	75,979	14,828			
Accrued compensated absences	177,321	8,384			
Deferred revenue and student deposits	27,168				
Accrued interest payable	354				2,545
Accrued self-insurance	50,822				
Bonds payable					368,827
Leaseholds payable and other obligations	25,465				16,353
Notes payable					
Due to related organizations	151				
Due to other funds					10,911
Assets held for others					
Total Liabilities	403,004	31,338			406,470
Fund Balances (Deficit)					
Current funds-unrestricted	127,783				
Amount expected to be financed in future years	(171,385)				
Current funds-restricted		169,685			
Loan funds -					
Federal grants refundable			41,294		
University restricted			13,129		
State matching			4,765		
Endowment-restricted				32,999	
Quasi-endowment				68,460	
Term endowment					
Living trusts-restricted				142	
United States Land Grant-restricted				649	
Annuity					
Life income					
Plant funds-restricted -					
Unexpended					1,642
Renewal and replacement					63,489
Retirement of indebtedness					36,110
Net investment in plant					2,714,372
Total Fund Balances	(43,602)	169,685	59,188	102,250	2,815,613
Total Liabilities & Fund Balances (Deficit)	\$ 359,402	\$ 201,023	\$ 59,188	\$ 102,250	\$ 3,222,083

See accompanying notes to combined financial statements.

as of June 30, 1997 with Comparative Totals for 1996 (in thousands)

Agency Funds	University Totals Memorandum Only		University Related Organizations	Combined Totals Memorandum Only	
	1997	1996		1997	1996
\$ 1,205	\$ 130,748	\$ 53,744	\$ 8,582	\$ 139,330	\$ 85,537
		22,211			22,211
4,317	514,678	431,035	408,193	922,871	759,666
	6,135	6,482	1,258	7,393	7,423
	142,205	144,049	2,586	144,791	147,604
	5,230	23,870		5,230	23,870
	52,320	49,950	1,425	53,745	51,195
	682	636		682	636
	35,029	30,509	25	35,054	30,537
	24,702	26,349	71	24,773	26,448
	1,526	1,256	873	2,399	1,373
	10,911	10,803		10,911	10,803
	66,830	65,222	1,694	68,524	66,205
	1,569,988	1,472,048	329	1,570,317	1,472,917
	149,300	137,008		149,300	137,008
	1,202,803	1,133,491	2,411	1,205,214	1,135,779
	25,288	61,830		25,288	61,830
	10,398	10,408	23,447	33,845	28,031
	695	695	9,485	10,180	10,374
\$ 5,522	\$ 3,949,468	\$ 3,681,596	\$ 460,379	\$ 4,409,847	\$ 4,079,447
\$	\$ 61,704	\$ 57,962	\$ 29,921	\$ 91,625	\$ 84,420
	90,807	55,123	202	91,009	55,293
	185,705	171,877	710	186,415	172,474
	27,168	24,258	3,926	31,094	25,474
	2,899	2,615	60	2,959	2,624
	50,822	57,855		50,822	57,855
	368,827	300,649		368,827	300,649
	41,818	50,196		41,818	50,196
			1,865	1,865	2,705
	151	613	1,308	1,459	2,908
	10,911	10,803		10,911	10,803
5,522	5,522	8,367	3	5,525	8,389
5,522	846,334	740,318	37,995	884,329	773,790
	127,783	121,169	9,862	137,645	130,316
	(171,385)	(159,912)		(171,385)	(159,912)
	169,685	149,691	39,974	209,659	190,544
	41,294	39,840		41,294	39,840
	13,129	12,108		13,129	12,108
	4,765	4,435		4,765	4,435
	32,999	29,391	240,153	273,152	226,733
	68,460	58,870	80,028	148,488	130,637
			1,830	1,830	1,699
	142	141		142	141
	649	649		649	649
			13,943	13,943	12,466
			33,808	33,808	28,621
	1,642	4,979		1,642	4,979
	63,489	53,022		63,489	53,022
	36,110	32,779		36,110	32,779
	2,714,372	2,594,116	2,786	2,717,158	2,596,600
	3,103,134	2,941,278	422,384	3,525,518	3,305,657
\$ 5,522	\$ 3,949,468	\$ 3,681,596	\$ 460,379	\$ 4,409,847	\$ 4,079,447

Combined Statement of Changes in Fund Balances (Deficit)

	Current Funds		Loan Funds	Endowment and Similar Funds
	Unrestricted	Restricted		
Revenues and Other Additions				
Unrestricted current funds revenues	\$ 1,706,671	\$	\$	\$
Federal appropriations		16,219		
Medical service plan		81,206		
Restricted gifts, grants and contracts -				
Private		90,187	82	521
Federal		308,971	677	
State of Illinois		48,574		
Investment income-restricted		12,591	367	
Net realized gains on investments-restricted				10,941
State appropriations-restricted				
Interest and service charges on student loans			1,469	
Internal financing repayments				
Additions to plant facilities -				
From current funds expenditures				
From plant funds expenditures				
From other State of Illinois agencies, principally Capital Development Board				
Acquired through capital leases				
Bond proceeds				
Retirement of indebtedness -				
Bond principal payments				
Bonds defeased				
Increase in equity in capitalized leased assets -				
Adjustment in equity in capitalized leased assets				
Lease principal payments				
Other		2,661	91	
Total Revenues and Other Additions	1,706,671	560,409	2,686	11,462
Expenditures and Other Deductions				
Educational and general expenditures	1,242,409	507,166		
Auxiliary enterprises expenditures	152,990	7		
Hospital and other medical activities expenditures	248,817			
Independent operations expenditures	5,956			
Indirect costs recovered		71,734		
Educational and administrative allowances recovered		1,131		
Refunds to grantors		1,139	2	
Cancellation of loans under terms of gifts and grants			286	
Increase (decrease) in allowance for uncollectible notes			(40)	
Increase in leaseholds payable				
Expended for plant facilities -				
Capitalized expenditures -				
Land				
Buildings				
Improvements other than buildings				
Equipment				
Noncapitalized expenditures				
Retirement of indebtedness				
Interest on indebtedness				
Deposit to advance refunding escrow				
Bonds Issued				
Capital appreciation on bonds payable				
Trade-ins, disposals and property adjustments				
Payments to beneficiaries of life income trusts				24
Amortization of prepaid expense				
Other				22
Total Expenditures and Other Deductions	\$ 1,650,172	\$ 581,177	\$ 248	\$ 46

Year Ended June 30, 1997 with Comparative Totals for 1996 (in thousands)

Plant Funds	University Totals Memorandum Only		University Related Organizations	Combined Totals Memorandum Only	
	1997	1996		1997	1996
\$	\$ 1,706,671	\$ 1,617,378	\$ 18,519	\$ 1,725,190	\$ 1,626,356
	16,219	16,458		16,219	16,458
	81,206	82,380		81,206	82,380
4,105	94,895	78,666	74,049	168,944	140,646
2,252	311,900	294,775		311,900	294,775
	48,574	41,421		48,574	41,421
7,482	20,440	17,957	9,044	29,484	27,543
	10,941	7,088	24,078	35,019	21,159
4,749	4,749	5,943		4,749	5,943
	1,469	1,327		1,469	1,327
3,656	3,656	845		3,656	845
111,436	111,436	87,998		111,436	87,998
50,535	50,535	53,337		50,535	53,337
22,747	22,747	41,220		22,747	41,220
1,814	1,814	9,324		1,814	9,324
72,210	72,210	62,285		72,210	62,285
15,330	15,330	14,775		15,330	14,775
		3,840			3,840
191	191	96		191	96
7,756	7,756	16,932		7,756	16,932
348	3,100	2,822	2,137	5,237	4,069
304,611	2,585,839	2,456,867	127,827	2,713,666	2,552,729
	1,749,575	1,654,565	19,035	1,768,610	1,666,100
	152,997	143,888		152,997	143,888
	248,817	234,506		248,817	234,506
	5,956	5,828		5,956	5,828
	71,734	64,186		71,734	64,186
	1,131	2,486		1,131	2,486
	1,141	629		1,141	629
	286	642		286	642
	(40)	(190)		(40)	(190)
1,814	1,814	9,540		1,814	9,540
849	849	1,914		849	1,914
45,837	45,837	31,223		45,837	31,223
1,327	1,327	11,852		1,327	11,852
2,522	2,522	8,348		2,522	8,348
23,299	23,299	23,182		23,299	23,182
28,987	28,987	34,605	85	29,072	34,816
11,975	11,975	8,980	129	12,104	9,118
		4,139			4,139
72,210	72,210	62,285		72,210	62,285
12,085	12,085	12,293		12,085	12,293
41,842	41,842	31,143		41,842	31,143
	24	23		24	23
159	159	3,319		159	3,319
	22	135	7	29	835
\$ 242,906	\$ 2,474,549	\$ 2,349,521	\$ 19,256	\$ 2,493,805	\$ 2,362,105

Combined Statement of Changes in Fund Balances (Deficit)

	Current Funds		Loan Funds	Endowment and Similar Funds
	Unrestricted	Restricted		
Transfers-Additions (Deductions)				
Mandatory -				
Renewal and replacement	\$ (4,561)	\$	\$	\$
Retirement of indebtedness	(32,388)	(1,368)		
Student loan matching	(212)		212	
Non-mandatory -				
Renewal and replacement	(16,094)	250		
University related organizations	(3,332)	48,735	282	
Other-net	(4,771)	(6,855)	(127)	1,783
Net Transfers	(61,358)	40,762	367	1,783
Increase (Decrease) in Fund Balance	(4,859)	19,994	2,805	13,199
Fund Balances (Deficit) at Beginning of Year	(38,743)	149,691	56,383	89,051
Fund Balances (Deficit) at End of Year	<u>\$ (43,602)</u>	<u>\$ 169,685</u>	<u>\$ 59,188</u>	<u>\$ 102,250</u>

See accompanying notes to combined financial statements.

Year Ended June 30, 1997 with Comparative Totals for 1996 (in thousands) (Cont.)

Plant Funds	University Totals Memorandum Only		University Related Organizations	Combined Totals Memorandum Only	
	1997	1996		1997	1996
\$ 4,561	\$	\$	\$	\$	\$
33,756					
15,844					
4,881	50,566	43,080	(50,566)		
9,970					
69,012	50,566	43,080	(50,566)		
130,717	161,856	150,426	58,005	219,861	190,624
2,684,896	2,941,278	2,790,852	364,379	3,305,657	3,115,033
\$ 2,815,613	\$ 3,103,134	\$ 2,941,278	\$ 422,384	\$ 3,525,518	\$ 3,305,657

Combined Statement of Current Funds Revenues, Expenditures, and Other Changes

	Unrestricted		
	State Appropriated and Student Tuition	Other	Total
Revenues			
Educational and general -			
Student tuition and fees	\$ 277,273	\$	\$ 277,273
State appropriations	598,184		598,184
Federal appropriations			
Federal grants and contracts		62,511	62,511
State of Illinois grants and contracts		2,742	2,742
Private gifts, grants and contracts		7,774	7,774
Endowment and other investment income	32		32
Net realized gain on investments			
Educational activities		118,750	118,750
Other sources	8,185	11,488	19,673
Payments on behalf of the University	159,020		159,020
Total Educational and General Revenue	1,042,694	203,265	1,245,959
Auxiliary enterprises		183,694	183,694
Hospital and other medical activities	44,567	225,695	270,262
Independent operations	462	6,294	6,756
Total Revenues	1,087,723	618,948	1,706,671
Expenditures and Mandatory Transfers			
Educational and general -			
Instruction	371,863	13,383	385,246
Research	45,944	39,354	85,298
Public service	47,449	62,596	110,045
Academic support	93,645	25,512	119,157
Student services	25,953	25,764	51,717
Institutional support	89,819	15,614	105,433
Operation and maintenance of plant	124,136	7,751	131,887
Scholarships and fellowships	92,585	2,021	94,606
Payments on behalf of the University	159,020		159,020
Total Educational and General Expenditures	1,050,414	191,995	1,242,409
Mandatory transfers for -			
Retirement of indebtedness	1,169	11,135	12,304
Student loan matching grant	51	161	212
Total Educational and General	1,051,634	203,291	1,254,925
Auxiliary Enterprises			
Expenditures		152,990	152,990
Mandatory transfers for -			
Renewal and replacement		4,561	4,561
Retirement of indebtedness		16,989	16,989
Total Auxiliary Enterprises		174,540	174,540
Hospital and Other Medical Activities			
Expenditures	44,567	204,250	248,817
Mandatory transfers for retirement of indebtedness		2,602	2,602
Total Hospital and Other Medical Activities	44,567	206,852	251,419
Independent Operations			
Expenditures	462	5,494	5,956
Mandatory transfers for retirement of indebtedness		493	493
Total Independent Operations	462	5,987	6,449
Total Expenditures and Mandatory Transfers	\$ 1,096,663	\$ 590,670	\$ 1,687,333

Year Ended June 30, 1997 with Comparative Totals for 1996 (in thousands)

Restricted	University Totals Memorandum Only		University Related Organizations	Combined Totals Memorandum Only	
	1997	1996		1997	1996
\$	\$ 277,273	\$ 264,724	\$	\$ 277,273	\$ 264,724
	598,184	576,468		598,184	576,468
16,262	16,262	16,421		16,262	16,421
246,210	308,721	287,953		308,721	287,953
44,726	47,468	41,679		47,468	41,904
113,031	120,805	116,620	40,235	161,040	158,089
4,965	4,997	4,089	10,117	15,114	14,517
			543	543	583
	118,750	109,273		118,750	99,863
83,347	103,020	97,014	17,675	120,695	104,890
	159,020	139,796		159,020	139,796
508,541	1,754,500	1,654,037	68,570	1,823,070	1,705,208
	183,694	177,446		183,694	177,446
	270,262	262,014		270,262	271,424
	6,756	5,698		6,756	5,698
508,541	2,215,212	2,099,195	68,570	2,283,782	2,159,776
115,243	500,489	481,265		500,489	481,265
241,067	326,365	298,487		326,365	298,487
98,727	208,772	202,874		208,772	202,874
9,883	129,040	120,479		129,040	120,479
2,011	53,728	47,163		53,728	47,163
2,166	107,599	98,595	18,963	126,562	110,071
751	132,638	134,869		132,638	134,869
37,318	131,924	131,037	72	131,996	131,096
	159,020	139,796		159,020	139,796
507,166	1,749,575	1,654,565	19,035	1,768,610	1,666,100
1,368	13,672	17,063	15	13,687	17,103
	212	248		212	248
508,534	1,763,459	1,671,876	19,050	1,782,509	1,683,451
7	152,997	143,888		152,997	143,888
	4,561	4,540		4,561	4,540
	16,989	16,444		16,989	16,444
7	174,547	164,872		174,547	164,872
	248,817	234,506		248,817	234,506
	2,602	5		2,602	5
	251,419	234,511		251,419	234,511
	5,956	5,828		5,956	5,828
	493	331		493	331
	6,449	6,159		6,449	6,159
\$ 508,541	\$ 2,195,874	\$ 2,077,418	\$ 19,050	\$ 2,214,924	\$ 2,088,993

Combined Statement of Current Funds Revenues, Expenditures, and Other Changes

	Unrestricted		
	State Appropriated and Student Tuition	Other	Total
Other Transfers and Additions (Deductions)			
Excess (deficiency) of restricted receipts compared to restricted expenditures	\$	\$	\$
Refunds to grantors			
Inter-fund transfers -			
Current funds		2,855	2,855
Loan funds		269	269
Endowment and similar funds		(963)	(963)
Annuity and life income			
Plant funds -			
Unexpended		(6,932)	(6,932)
Renewal and replacement		(16,094)	(16,094)
University related organizations		(3,332)	(3,332)
Net Other Transfers and Additions (Deductions)		(24,197)	(24,197)
Total Increase (Decrease) in Fund Balances	\$	(8,940)	\$
		\$	4,081
			\$
			(4,859)

See accompanying notes to combined financial statements.

Year Ended June 30, 1997 with Comparative Totals for 1996 (in thousands) (Cont.)

Restricted	University Totals Memorandum Only		University Related Organizations	Combined Totals Memorandum Only	
	1997	1996		1997	1996
\$ (20,997)	\$ (20,997)	\$ (28,636)	\$	\$ (20,997)	\$ (28,636)
(1,139)	(1,139)	(625)		(1,139)	(625)
(2,855)					
(142)	127	580		127	580
(820)	(1,783)	(213)	1,012	(771)	772
(3,038)	(9,970)	(24,426)	(129)	(10,099)	(24,476)
250	(15,844)	(17,247)		(15,844)	(17,247)
48,735	45,403	39,218	(50,566)	(5,163)	(3,862)
19,994	(4,203)	(31,349)	(49,683)	(53,886)	(73,494)
\$ 19,994	\$ 15,135	\$ (9,572)	\$ (163)	\$ 14,972	\$ (2,711)

Notes to Combined Financial Statements

THE FINANCIAL REPORTING ENTITY AND COMPONENT UNIT DISCLOSURES

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

As required by generally accepted accounting principles, these financial statements present the financial position and financial activities of the University (the primary unit) and its component units as well as certain activities and expenditures 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' column in the combined financial statements includes the financial data of the University's component units. The University of Illinois Foundation (Foundation), the University of Illinois Alumni Association (Alumni Association), and the University of Illinois HMO (UIHMO) are reported in a separate column to emphasize that they are Illinois non-profit organizations legally separate from the University. These entities are University related organizations as defined under *University Guidelines* adopted by the State of Illinois Legislative Audit Commission in 1982.

The Foundation was formed for the purpose of providing fund raising and other assistance to the University in order to attract private gifts to support the University's instructional, research and public service activities. In this capacity, the Foundation solicits, receives, holds and administers gifts for the benefit of the University. Complete financial statements for the Foundation may be obtained by writing the Director of Business and Administration, 414C Harker Hall, 1305 W. Green Street, Urbana, IL 61801.

The Alumni Association was formed to promote the general welfare of the University and to encourage and stimulate interest among students, former students and others in the University's programs. In this capacity, the Alumni Association offers memberships in the Alumni Association to former students, conducts various activities for students and alumni, and publishes periodicals for the benefit of alumni. Complete financial statements for the Alumni

Association may be obtained by writing the Director of Administration and Business Affairs, 227 Illini Union, 1401 W. Green Street, Urbana, IL 61801.

The UIHMO was formed as a replacement for the former University of Illinois Health Maintenance Organization Plan Trust to provide health insurance to students at the Chicago campus. In addition, it enables the University to provide health insurance programs to the medically indigent. The financial statements included for the UIHMO are as of December 31, 1996. Complete financial statements for the UIHMO may be obtained by writing the Vice President for Finance, Suite 205, 2023 West Ogden Avenue, Chicago, IL 60612-3741.

On April 10, 1996, the University formed a not-for-profit University Related Organization, Lincolnland Energy, Inc., for the purpose of providing support for the University through the delivery of comprehensive economic utility services to all campuses of the University. The company had no activity during 1997.

On November 19, 1996, the University formed a for-profit, wholly-owned subsidiary, Prairieland Energy, Inc., for the purpose of providing support for the University through delivery of comprehensive economic utility services to all campuses of the University. Activity for the current fiscal year has been minimal; therefore, this subsidiary is not reflected in the Entity's financial statements.

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The combined financial statements are prepared on the accrual basis of accounting applicable to public colleges and universities.

The accounts of the Entity are maintained in accordance with the principles of fund accounting. Under fund accounting, resources are classified for accounting and reporting purposes into funds according to specified activities or objectives. Separate accounts are maintained for each fund;

however, funds with similar characteristics are combined into fund groups in the accompanying combined financial statements.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds. Restricted resources may only be used for the purposes established by the source of such funds.

The Combined Statement of Current Funds Revenues, Expenditures, and Other Changes is a statement of financial activities of the Current Funds. It does not purport to present the overall results of operations as would a statement of revenues and expenses. In the accompanying combined financial statements, the use of Current Funds to acquire or finance assets of the Plant Funds is accounted for as (a) expenditures in the case of the normal replacement of equipment and ordinary repairs and maintenance and (b) mandatory and other transfers when providing for debt service, repair and replacement reserves, and all other cases.

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

Certain reclassifications have been made in the 1996 comparative totals to conform to the 1997 presentation.

Cash And Cash Equivalents

Cash and cash equivalents include bank accounts and investments with original maturities of ninety days or less at the time of purchase. Such investments consist primarily of U.S. Treasury bills, commercial paper, and money market funds. Total cash and cash equivalents of the University included net cash overdraft book balances of \$17,980,107 and \$21,167,587 at June 30, 1997 and 1996, respectively. The total bank account balances at June 30, 1997, of the University, the Foundation and the Alumni Association and the bank account balance of the UIHMO at December 31, 1996, aggregated \$5,292,853, \$2,076,558, \$4,147,086, and \$995,077, respectively, of which \$5,292,853, \$2,076,558, \$4,147,086, and \$995,077, respectively, was covered by federal depository insurance or by collateral held by an agent in the Entity's name; and \$42,204 was uninsured and uncollateralized for the Foundation.

Investments

Investments, including real estate and farm properties, are stated at cost or, when donated, at the fair market value at the date of donation. Investment income, including gains and losses resulting from the sale or other disposition of investments, is recognized in the fund which owned such investments, except for income derived from investments of the Endowment and Similar Funds which is recognized in the funds to which the income is restricted.

Illinois Statutes and Board policy authorize the University to invest in obligations of the U. S. Treasury, agencies, and instrumentalities (U.S. Government securities); bank and savings and loan time deposits; corporate bonds, stock and commercial paper; repurchase agreements; and mutual funds. No repurchase agreements were entered into during the year ended June 30, 1997.

Nearly all of the Entity's investments are managed by external professional investment managers. Many of these investments are made through commingled investment vehicles such as common trust funds and mutual funds. A number of the investment managers utilize derivatives in the execution of their investment strategies. In general, managers utilize derivatives to reduce or eliminate undesirable risks, to increase portfolio liquidity and flexibility or to increase investment return within the level of risk defined in the manager's investment guidelines. Examples of authorized derivative transactions would be the hedging of foreign currency exposure through the use of currency forwards, owning mortgage securities with embedded prepayment options or utilizing treasury futures to change the duration of a fixed income portfolio. The Entity did not engage in any significant derivative transactions.

The University increases its investment income by lending the University's securities, through its custodian, to independent third parties. Such loans are secured by collateral consisting of cash, cash equivalents or U.S. Government securities in an amount at least equal to 102% of the fair value of the securities loaned. As of June 30, 1997, approximately \$86,871,000 of the University's investments reported on the combined balance sheet were on loan, secured by collateral of approximately \$88,504,000.

Investments, including cash equivalents but excluding real estate and farm properties, have been categorized to give an indication of the level of risk assumed by the University, Foundation or Alumni Association at June 30, 1997. Category 1 includes investments that are insured or registered

or for which the securities are held by the Entity or an agent in its name. Category 2 includes uninsured and unregistered investments for which the securities are held by the financial institution's trust department or agent in the Entity's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the financial institution, or by its trust department or agent but not in the Entity's name. Investments at the UIHMO as of December 31, 1996 were not significant.

University (in thousands)					
	Category			Carrying Amount	Fair Value
	1	2	3		
Certificates of Deposit	\$ 4,855	\$	\$	\$ 4,855	\$ 4,855
U.S. Gov. Securities	208,603			208,603	208,564
Commercial Paper	73,495	948		74,443	74,675
Corporate Bonds	180,032			180,032	179,407
Corporate Stock	62	194		256	586
Total	\$ 467,047	\$ 1,142	\$	468,189	468,087
Mutual Funds					
Bonds				45,965	47,210
Stocks				58,032	68,752
Money Market				85,261	85,261
Real Estate				3,173	3,157
Illinois Public Treas.					
Investment Pool				2,786	2,786
TOTAL INVESTMENTS				\$ 663,406	\$ 675,253

Foundation (in thousands)					
	Category			Carrying Amount	Fair Value
	1	2	3		
U.S. Gov. Securities	\$ 19,358	\$ 4,076	\$	\$ 23,434	\$ 23,717
Municipal Bonds		2,045		2,045	2,293
Corp. Bonds/Notes	8,046	5,178		13,224	13,417
Preferred Stock		17		17	16
Corporate Stock	44,546	1,634		46,180	61,077
Total	\$ 71,950	\$ 12,950	\$	84,900	100,520
Real Estate					
Trusts/Partnerships				22,518	24,389
Bond Index Fund				61,937	61,085
Equity Index Funds				86,121	129,764
Intern'l Equity Funds				46,850	61,161
Other Mutual Funds				97,196	101,157
Other				1,084	1,165
TOTAL INVESTMENTS				\$ 400,606	\$ 479,241

Alumni Association (in thousands)					
	Category			Carrying Amount	Fair Value
	1	2	3		
U.S. Gov. Securities	\$ 2,119	\$	\$	\$ 2,119	\$ 2,089
Corporate Stock	4,763			4,763	7,053
Total	\$ 6,882	\$	\$	6,882	9,142
Real Estate Partnerships				705	648
TOTAL INVESTMENTS				\$ 7,587	\$ 9,790

Allowance for Uncollectibles

The University provides allowances for uncollectible accounts and notes receivable based upon management's best estimate of uncollectible accounts and notes at the balance sheet date, considering type, age, collection history of receivables, and any other factors as considered appropriate. Accounts receivable are reported net of allowances of \$151,942,789 and \$134,354,243 at June 30, 1997 and 1996, respectively. Notes receivable are reported net of allowances of \$1,867,932 and \$1,908,493 at June 30, 1997 and 1996, respectively.

Inventories

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

Student Financial Assistance

During the years ended June 30, 1997 and 1996, the Urbana-Champaign and Chicago campuses participated in the U.S. Department of Education Direct Student Loan Program. The Urbana-Champaign campus awarded approximately \$74.4 million and \$69.0 million for the years ended June 30, 1997 and 1996, respectively. The Chicago Campus awarded approximately \$67.6 million and \$61.1 million for the years ended June 30, 1997 and 1996, respectively. The University classified this loan program as Noncash Federal Awards in the Office of Management and Budget (OMB) Circular A-133 Schedule of Federal Expenditures. Accordingly, no revenue or expenditures are included in the financial statements of the University.

Investment in Plant

Investment in plant is carried at cost or, when donated, at the fair market value at the date of donation. In accordance with generally accepted accounting principles for public colleges and universities, the Entity does not record depreciation on these assets.

Additions to the University's investment in plant financed by the State of Illinois Capital Development Board (CDB) are recorded by the University as the funds are expended by the CDB. Expenditures of the CDB for University-related repair and maintenance projects are recorded as expenditures from and additions to the University's Plant Funds.

Accrued Self-Insurance and Loss Contingency

The University's accrued self-insurance liability of \$50,821,728 and \$57,855,288 at June 30, 1997 and 1996, respectively, covers hospital patient liability; hospital and medical professional liability; estimated general and contract liability; and workers' compensation liability related to employees paid from local funds. The accrued self-insurance liability was discounted at a rate of 7.0% at June 30, 1997 and 1996. Amounts increasing the accrued self-insurance liability are charged to Current Funds expenditures based upon estimates made by actuaries and the University's risk management division. The workers' compensation self-insurance liability of \$8,894,545 and \$8,837,090 at June 30, 1997 and 1996, related to employees who are paid from State appropriations is included in the University's accounts payable. These claims will be paid from State appropriations in the year in which the claims are finalized, rather than from current unrestricted funds at June 30, 1997 and 1996.

Accrued self-insurance includes \$31,994,650 and \$40,557,322 at June 30, 1997 and 1996, respectively, for the most probable and reasonably estimable ultimate cost of uninsured medical malpractice liabilities. Ultimate cost consists of amounts estimated by the University's risk management division and 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, 1997. Changes in these estimates will be reflected in the Statement of Current Funds Revenues, Expenditures, and Other Changes in the period when additional information is available.

The University has contracted with several commercial car-

riers to provide varying levels and upper limits of excess indemnity coverage. These coverages have been considered in determining the required accrued self-insurance liability. Currently, the financial stability is uncertain for various commercial carriers providing excess indemnity coverage to the University. The University has determined that \$.5 million and \$.46 million of undiscounted insurance claims would be ultimately recoverable by the University under the insurance coverage arrangements with these insurance companies at June 30, 1997 and 1996, respectively. However, because of the uncertainty of the ability of these carriers to pay claims, the actuarially determined accrued self-insurance liability reflects recoverability of \$.2 million and \$1.7 million at June 30, 1997 and 1996, respectively.

Changes in Accrued Self-Insurance

	1997	1996
	(in thousands)	
Accrued self-insurance liability at beginning of year	\$ 57,855	\$ 54,812
Current year claims and changes in estimates	13,789	14,268
Claim payments and other costs	(20,822)	(11,225)
Accrued self-insurance liability at end of year	\$ 50,822	\$ 57,855

Revenue Recognition

Appropriations made from the State of Illinois General Revenue and Education Assistance Funds for the benefit of the University are recognized as revenues to the extent expended, limited to available appropriations.

Tuition and fees, except for the Summer Session, are recognized as revenues as they are assessed. The portion of Summer Session tuition and fees applicable to the following fiscal year is deferred. The value of tuition and fee exemptions awarded to graduate assistants, staff members and others is included in both revenues from student tuition and fees and in expenditures for scholarships and fellowships. These exemptions amounted to \$84,194,507 and \$85,671,958 in 1997 and 1996, respectively.

Current Restricted Funds which are received or receivable from external sources are recognized as revenues to the extent of related expenditures on the accrual basis and as additions or deductions to fund balances to the extent of an excess or deficiency, respectively, of restricted receipts compared to restricted expenditures.

In accordance with GASB 24, "Accounting and Financial Reporting for Certain Grants and Other Financial Assistance", the University reported on-behalf payments of

\$159,020,058 and \$139,796,400 for health care and retirement costs for the years ended June 30, 1997 and 1996, respectively. These costs are reflected as both revenues and expenditures and are reported in Payments made on behalf of the University.

With respect to the Hospital, net patient service revenue is reported at the estimated net realizable amounts due from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Approximately 81% and 79% of the Hospital's net patient service revenues were derived from Medicare, Medicaid, Blue Cross and managed care programs for the years ended June 30, 1997 and 1996, respectively. Payments under these programs are based on established program rates or costs, as defined, of rendering services to program beneficiaries. The Hospital provides contractual allowances on a current basis for the differences between charges for services rendered and the expected payments under these programs.

Expenditure Recognition

Employment contracts for certain academic personnel provide for twelve monthly salary payments, although the contracted services are rendered during a nine month period. The liability for those employees who have completed their contracted services, but have not yet received final payment, was approximately \$31,086,000 and \$29,308,306 at June 30, 1997 and 1996, respectively, and is recorded in the accompanying financial statements. These amounts were subsequently paid from amounts specifically included in State of Illinois General Revenue Fund appropriations to the University for fiscal years 1998 and 1997, respectively, rather than from the Current Unrestricted Funds available at June 30, 1997 and 1996.

Substantially all employees participate in group health insurance plans administered by the State of Illinois. The employer contributions to these plans on behalf of University employees paid by State appropriations and auxiliary enterprises are paid by the State on behalf of the University. The on-behalf payments are \$95,138,656 and \$90,252,721 for 1997 and 1996, respectively and are reflected in Payments on behalf of the University. The employer contributions to these plans on behalf of employees paid from other University-held funds are paid by the University.

Accrued compensated absences for University personnel are charged to Current Funds based on earned but unused vacation and sick leave days including the University's share of social security and medicare taxes. At June 30, 1997 and 1996, the University estimates that \$131,404,533 and \$121,766,444 respectively, of the accrued compensated absences liability will be paid out of State of Illinois General Revenue Fund appropriations to the University in years subsequent to June 30, 1997 and 1996, respectively, rather than from Current Unrestricted Funds available at June 30, 1997 and 1996.

Total Columns of Statements

Total columns on the statements are captioned "Memorandum Only" to indicate that data are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. The statements are not intended to represent consolidated statements as certain transactions between funds have not been eliminated.

FUNDS HELD IN TRUST BY OTHERS

The University and Foundation are income beneficiaries of several irrevocable trusts which are held and administered by outside fiscal agents. The University and Foundation have no control over these funds as to either investment decisions or income distributions, thus the principal is not recorded in the accompanying financial statements. The fair value of these funds at June 30, 1997 and 1996 and the amount of income received from these trusts during the years then ended were as follows:

Funds Held in Trust by Others				
	University		Foundation	
	<u>1997</u>	<u>1996</u>	<u>1997</u>	<u>1996</u>
Market value of funds held in trust by others				
	\$ 13,539,179	\$ 11,589,690	\$ 13,852,144	\$ 13,454,239
Income received from funds held in trust by others				
	\$ 484,836	\$ 343,375	\$ 516,057	\$ 459,718

BONDS AND NOTES PAYABLE

At June 30, 1997, bonds payable consist of University of Illinois Auxiliary Facilities System (Auxiliary System), Revenue Bonds, Series 1979 (formerly Sangamon State Housing Bonds), Series 1985, Series 1986, Series 1991, Series 1993, and Series 1996; University of Illinois Revenue Bonds, Series 1985A related to the Construction Engineering Research Laboratory (CERL); University of Illinois Willard Airport Project Revenue Bonds (Airport), Series 1987; and University of Illinois Health Services Facilities System (Health System) Revenue Bonds, Series 1997A and Series 1997B, as seen in the table.

Bonds and Notes Payable				
Series	Yield on Outstanding Debt	Maturity Dates	Outstanding at June 30, 1997	Outstanding at June 30, 1996
1979	3%	1996-2018	\$ 1,345,000	\$ 1,395,000
1985	5% - 8%	1995-2009	3,845,000	4,020,000
1985A	9.70%	1996-2003	2,395,000	2,700,000
1986	7.2% - 8.1%	1996-2009	77,995,304	83,940,738
1987	7.37% - 8.4%	1995-2009	3,830,000	4,430,000
1991	5.25% - 6.4%	1995-2022	26,935,000	28,400,000
1991	5.95% - 7.35%	1996-2021	72,079,588	67,135,484
1993	3.5% - 5.875%	1995-2021	30,430,000	30,875,000
1993	5.7% - 5.95%	2006-2009	18,403,033	17,376,563
1996	4.0% - 5.60%	1996-2022	62,055,000	62,285,000
1997A	4.9% - 5.75%	2000-2026	47,210,000	
1997B	4.9% - 5.75%	2000-2026	25,000,000	
Total Principal Payable			371,522,925	302,557,785
Unamortized Debt Discount			2,696,419	1,908,460
TOTAL BONDS PAYABLE			\$ 368,826,506	\$ 300,649,325

The \$77,995,304, \$72,079,588 and \$18,403,033 of Series 1986, Series 1991, and Series 1993 Bonds, respectively, outstanding at June 30, 1997, are capital appreciation bonds which do not require current interest payments. The University records the annual increase in the principal amount of these bonds as capital appreciation on bonds payable.

Costs associated with the issuance of the Series 1991 and Series 1993 bonds have been recorded as a prepaid expense and are being amortized over the life of the related bond issue.

The Foundation has the following notes outstanding: demand note, interest at 6.0% with principal of \$1,786,000; installment note due in January 2000, interest at 9.0% with principal of \$53,000; and mortgage note, payable by donor in December 1997, with principal of \$26,000.

Advance Refunded Bonds

The University has defeased bonds through advance refunding in prior years and, accordingly, they are not reflected in the accompanying combined financial statements. The amount of bonds which have been defeased as of June 30, 1997 are seen in the table.

Advance Refunded Bonds	
Series	Outstanding at June 30, 1997
1959-C	\$ 500,000
1960-A	820,000
1962-A	460,000
1962-B	720,000
1964-A	410,000
1964	1,220,000
1965-A	2,900,000
1978-M	43,865,000
1978-N	27,765,000
UIF Bonds Series I	457,000
UIF Bonds Series II	84,000
1986	15,918,829
1992	3,750,000
Total Advance Refunded Bonds	\$ 98,869,829

Debt Service Requirements and Security

Future debt service requirements for all bonds outstanding are seen in the table.

Debt Service Requirements			
	Principal	Interest and Capital Appreciation	
1998	\$ 16,554,933	\$	11,260,961
1999	16,619,789		12,009,567
2000	16,879,283		12,459,360
2001	17,479,605		12,785,551
2002	16,142,259		14,083,039
2003-2026	287,847,056		316,562,786
TOTAL	\$ 371,522,925	\$	379,161,264

The Maximum Annual Net Debt Service, as defined, for all outstanding debt is \$23,394,799.

None of the bonds described above constitute obligations of the State of Illinois. Series 1979, 1985, 1986, 1991, 1993, and 1996 Bonds are payable solely by the Board from net revenues of the Auxiliary System, student tuition and fees and certain restricted plant funds. Series 1985A Bonds are payable solely from the net revenues of CERL and, under certain circumstances, the net revenues of the Auxiliary System, student tuition and fees, and certain restricted plant funds. Series 1987 Bonds are payable solely from the net revenues of the Airport and related restricted plant funds. Series 1997A and 1997B Bonds are payable solely from net revenues of the Health System, Medical Service Plan revenue net of bad debt expense, and College of Medicine net tuition revenue.

LEASES AND OTHER OBLIGATIONS

The University leases various plant facilities and equipment under capital leases. Assets held under capital leases are included in investment in plant as follows:

Assets Held Under Capital Lease		
	1997	1996
Land	\$ 681,416	\$ 681,416
Equipment	15,695,344	20,175,932
Buildings	21,839,641	21,839,541
Total	<u>\$38,216,401</u>	<u>\$ 42,696,889</u>
As of June 30, 1997, future minimum lease payments under capital leases are as follows:		
1998	<u>\$ 7,290,597</u>	
1999	<u>6,244,718</u>	
2000	<u>1,190,385</u>	
2001	<u>1,259,762</u>	
2002	<u>15,526</u>	
Later years	<u>1,767,304</u>	
Total minimum lease payments	<u>17,768,292</u>	
Amount representing interest	<u>1,415,456</u>	
NET PRESENT VALUE	<u>\$16,352,836</u>	

The University leases various properties from the Foundation under capital lease obligations amounting to \$557,305 at June 30, 1997 and 1996. No principal payments were made in 1997.

The University also leases various buildings and equipment under operating lease agreements. Total rental expense un-

der these agreements was \$7,972,125 and \$8,612,100 for the years ended June 30, 1997 and 1996, respectively. In future years, the University expects to incur annual rental expense in amounts similar to 1997. The future minimum lease payments (excluding those leases renewed on an annual basis) are as follows:

As of June 30, 1997, future minimum lease payments under operating leases are as follows:	
1998	<u>\$ 4,547,246</u>
1999	<u>3,456,806</u>
2000	<u>2,618,880</u>
2001	<u>2,077,495</u>
2002	<u>933,065</u>
Total	<u>\$ 13,633,492</u>

The University entered into a purchase contract during fiscal year 1995 to purchase a firm supply of natural gas over the next ten years. The outstanding liability is classified as other obligations on the balance sheet and the future minimum payments under the contract are as follows:

Future Minimum Payments under the Natural Gas Contract	
1998	<u>\$ 3,628,705</u>
1999	<u>3,635,045</u>
2000	<u>3,633,155</u>
2001	<u>3,627,795</u>
2002	<u>3,629,255</u>
Later years	<u>13,874,457</u>
Total minimum lease payments	<u>32,028,412</u>
Amount representing interest	<u>6,563,412</u>
NET PRESENT VALUE	<u>\$ 25,465,000</u>

Interest of \$1,384,285 was paid on this purchase contract during 1997.

The University engages in interfund borrowing to finance campus projects. These borrowings paid interest of \$776,557 to the consolidated group fund during 1997 at rates ranging from 5.0% to 6.8%. All outstanding interfund borrowings at June 30, 1997 will mature between 1998 and 2009.

STATE UNIVERSITIES RETIREMENT SYSTEM

The University contributes to the state Universities Retirement System of Illinois (SURS), a cost-sharing multiple-employer defined-benefit pension plan with a special funding situation whereby the State of Illinois makes substantially all actuarially determined required contributions on behalf of the participating employers. SURS was established July 21, 1941, to provide retirement annuities and other benefits for staff members and employees of the state universities, certain affiliated organizations, and certain other state educational and scientific agencies and for survivors, dependents, and other beneficiaries of such employees. SURS is considered a component unit of the State of Illinois' financial reporting entity and is included in the state's financial reports as a pension trust fund. SURS is governed by Section 5/15, Chapter 40, of the *Illinois Compiled Statutes*. SURS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to SURS, 1901 Fox Drive, Champaign, IL 61820 or by calling 1-800-275-7877.

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

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

Plan members are required to contribute 8.0% of their annual covered salary and substantially all employer contributions are made by the State of Illinois on behalf of the individual employers at an actuarially determined rate. The current rate is 7.321% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the Illinois General Assembly. The University's contributions to SURS for the years ended June 30, 1997, 1996, and 1995 were \$78,853,522, \$64,205,319, and \$46,461,952, respectively, equal to the required contributions for each year.

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

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

POSTEMPLOYMENT BENEFITS

In addition to providing pension benefits, the State provides certain health, dental and life insurance benefits to annuitants who are former State employees. This includes annuitants of the Entity. Substantially, all State employees, including the employees of the Entity, may become eligible for postemployment benefits if they eventually become annuitants. Health and dental benefits include basic benefits for annuitants under the State's self-insurance plan and insurance contracts currently in force. Life insurance benefits for annuitants under age 60 are equal to their annual salary at the time of retirement; life insurance benefits for annuitants age 60 and older are limited to five thousand dollars per annuitant.

Currently, the State does not segregate payments made to annuitants from those made to current employees for health, dental and life insurance benefits. The cost of health, dental and life insurance benefits is recognized on a pay-as-you-go basis. These costs are funded by the State except for certain non-appropriated funds funded by the University.

COMMITMENTS AND CONTINGENCIES

Encumbrances

Encumbrances which represent goods or services that have been ordered for which delivery has not been made or the services have not been rendered at June 30, 1997 are not recorded in the accompanying financial statements. Encumbrances of the Current Funds were approximately \$20,425,000 at June 30, 1997.

Grants and Contracts

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

The University also receives monies from federal and state government agencies for reimbursement of medical services rendered at its hospital and clinics. Management is currently reviewing its prior billings under the Medicare reimbursement program. At this time the University is unable to quantify the financial impact of such a review.

Legal Actions

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.

Contingencies

In order to participate in the Medicare and Medicaid programs, a hospital is required to meet and maintain certain standards called conditions of participation. The Health Care Financing Administration (HCFA) of the United States Department of Health and Human Services is re-

sponsible for ensuring that hospitals meet the conditions of participation and does so by requesting the state licensing agency to conduct a survey to confirm compliance. On January 30, 1997, HCFA issued a letter to the Hospital outlining certain noncompliance with the conditions of participation. The Hospital submitted a plan of correction which was accepted and a follow-up survey was performed. Based on the follow-up survey, the Hospital was determined to be in compliance with the conditions of participation except for certain deficiencies noted in an April 7, 1997, HCFA letter. Until such deficiencies are corrected to the satisfaction of HCFA, the Hospital will continue to be subject to further state agency follow-up surveys. In accordance with the April 7, 1997 HCFA letter, if the deficiencies are not corrected by February 17, 1998, in accordance with the Hospital's plan of correction, the Hospital's participation in the Medicare program would terminate on March 30, 1998. If termination were to occur, the Hospital would not be eligible to receive payment for inpatient hospital services rendered to patients admitted after the termination date. However, the Hospital's management anticipates the deficiencies revealed in the follow-up survey will be corrected within the time frame required by HCFA and, therefore, such deficiencies will not have an adverse effect on the Hospital's operations or financial condition.

Combining Balance Sheet for University Related Organizations as of June 30, 1997 (in thousands)

Supplemental Schedule I

	University Related Organizations			University Related Organizations Combined Totals	
	Foundation	Alumni Association	UIHMO	1997	1996
Assets					
Cash and cash equivalents	\$ 3,501	\$ 4,086	\$ 995	\$ 8,582	\$ 31,793
Investments	400,606	7,587		408,193	328,631
Accrued investment income	1,207	42	9	1,258	941
Accounts receivable (net)	1,518	129	939	2,586	3,555
Notes receivable (net)	1,425			1,425	1,245
Inventories and deferred charges		25		25	28
Prepaid expense	44	27		71	99
Due from related organizations	114	37	722	873	117
Investment in plant -					
Land	1,694			1,694	983
Buildings	329			329	869
Equipment	2,058	295	58	2,411	2,288
Real estate and farm properties	23,447			23,447	17,623
Other assets	9,099	63	323	9,485	9,679
Total Assets	\$ 445,042	\$ 12,291	\$ 3,046	\$ 460,379	\$ 397,851
Liabilities					
Accounts payable	\$ 29,386	\$ 127	\$ 408	\$ 29,921	\$ 26,458
Accrued payroll		202		202	170
Accrued compensated absences	710			710	597
Deferred revenue and student deposits	436	3,153	337	3,926	1,216
Accrued interest payable			60	60	9
Leaseholds payable and other obligations					
Notes payable	1,865			1,865	2,705
Due to related organizations	305	3	1,000	1,308	2,295
Assets held for others	3			3	22
Total Liabilities	32,705	3,485	1,805	37,995	33,472
Fund Balances					
Current funds-unrestricted	510	8,111	1,241	9,862	9,147
Current funds-restricted	39,574	400		39,974	40,853
Endowment-restricted	240,153			240,153	197,342
Quasi-endowment	80,028			80,028	71,767
Term endowment	1,830			1,830	1,699
Annuity	13,943			13,943	12,466
Life income	33,808			33,808	28,621
Plant funds	2,491	295		2,786	2,484
Total Fund Balances	412,337	8,806	1,241	422,384	364,379
Total Liabilities and Fund Balances	\$ 445,042	\$ 12,291	\$ 3,046	\$ 460,379	\$ 397,851

Combining Statement of Changes in Fund Balances for University Related Organizations for Year Ended June 30, 1997 (in thousands)

Supplemental Schedule II

	University Related Organizations			University Related Organizations Combined Totals	
	Foundation	Alumni Association	UIHMO	1997	1996
Revenues and Other Additions					
Unrestricted current funds revenues	\$ 6,366	\$ 2,972	\$ 9,181	\$ 18,519	\$ 8,978
Restricted gifts, grants and contracts - Private	74,049			74,049	61,980
Investment income-restricted	9,044			9,044	9,586
Net realized gains on investments-restricted	24,078			24,078	14,071
Other	1,969	168		2,137	1,247
Total Revenues and Other Additions	115,506	3,140	9,181	127,827	95,862
Expenditures and Other Deductions					
Educational and general expenditures	6,522	3,966	8,547	19,035	11,535
Retirement of indebtedness	85			85	211
Interest on indebtedness	129			129	138
Other		7		7	700
Total Expenditures and Other Deductions	6,736	3,973	8,547	19,256	12,584
Transfers-Additions (Deductions)					
University related organizations	(51,713)	1,147		(50,566)	(43,080)
Net Transfers	(51,713)	1,147		(50,566)	(43,080)
Increase in Fund Balance	57,057	314	634	58,005	40,198
Fund Balances at Beginning of Year	355,280	8,492	607	364,379	324,181
Fund Balances at End of Year	\$ 412,337	\$ 8,806	\$ 1,241	\$ 422,384	\$ 364,379

Combining Statement of Current Funds Revenues, Expenditures, and Other Changes for University Related Organizations for Year Ended June 30, 1997 (in thousands)

Supplemental Schedule III

	University Related Organizations			University Related Organizations Combined Totals	
	Foundation	Alumni Association	UIHMO	1997	1996
Revenues					
Educational and general -					
State of Illinois grants and contracts	\$	\$	\$	\$	\$ 225
Private gifts, grants and contracts	40,235			40,235	41,469
Endowment and other investment income	9,545	392	180	10,117	10,428
Net realized gain (loss) on investments	(39)	582		543	583
Other sources	6,508	2,166	9,001	17,675	7,876
Total Educational and General Revenue	56,249	3,140	9,181	68,570	60,581
Total Revenues	56,249	3,140	9,181	68,570	60,581
Expenditures and Mandatory Transfers					
Educational and general -					
Institutional support	6,522	3,894	8,547	18,963	11,476
Scholarships and fellowships		72		72	59
Total Educational and General Expenditures	6,522	3,966	8,547	19,035	11,535
Mandatory transfers for -					
Retirement indebtedness	15			15	40
Total Educational and General	6,537	3,966	8,547	19,050	11,575
Total Expenditures and Mandatory Transfers	6,537	3,966	8,547	19,050	11,575
Other Transfers and Additions (Deductions)					
Inter-fund transfers -					
Endowment and similar funds	1,012			1,012	985
Plant funds	(118)	(11)		(129)	(50)
University related organizations	(51,713)	1,147		(50,566)	(43,080)
Net Other Transfers and Additions (Deductions)	(50,819)	1,136		(49,683)	(42,145)
Total Increase (Decrease) in Fund Balances	\$ (1,107)	\$ 310	\$ 634	\$ (163)	\$ 6,861