

From the Vice President for Business and Finance, Comptroller

UNIVERSITY OF ILLINOIS Chicago • Springfield • Urbana-Champaign

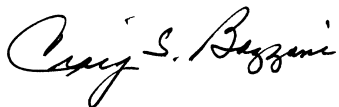
Office of Vice President for Business and Finance, Comptroller
349 Henry Administration Building
506 South Wright Street
Urbana, IL 61801

September 14, 1998

I am pleased to transmit the Annual Financial Report of the University of Illinois for the fiscal year ended June 30, 1998. 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.

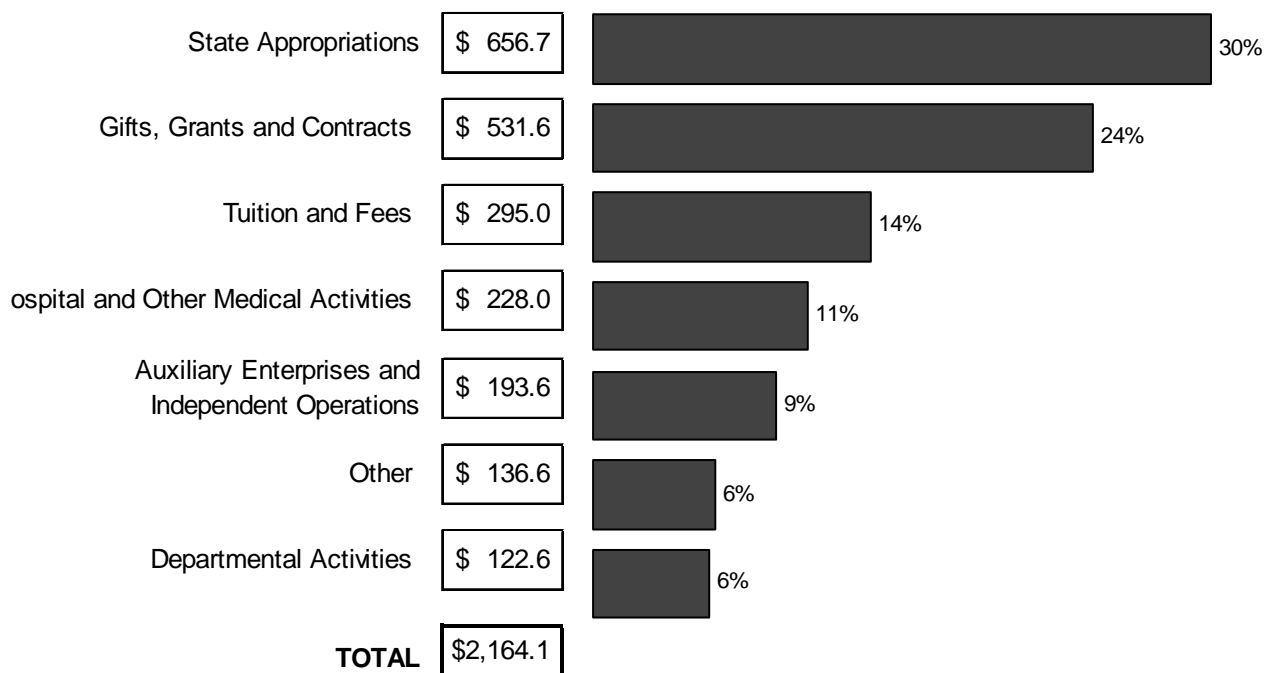
The year 1997-98 marks the 130th year of the operation of the University. Prior to 1911, statements of the financial operations appeared only in the proceedings of The Board of Trustees which since 1909 have contained the annual and biennial budgets. Since July 1, 1911, separate reports have been published 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 Olive LLP, Independent Public Accountants, as special assistants to the Auditor General, and their report follows. Olive LLP, will also prepare a report for the year ended June 30, 1998 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, 1998. 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

Revenues \$millions



State Appropriations - \$656.7 million - increased by 2.1% during fiscal year 1998, an increase of approximately \$13.5 million. State Appropriations are primarily state tax support, and is the largest revenue source.

Gifts, Grants and Contracts - \$531.6 million - an increase of \$54.6 million (11.7%) in fiscal year 1998 which includes recovery of indirect costs from grants and contracts.

Tuition and Fees - \$295.0 million - increased by 6.4% during fiscal year 1998, an increase of approximately \$17.7 million. The percentage of tuition and fees to overall revenue remains fairly constant.

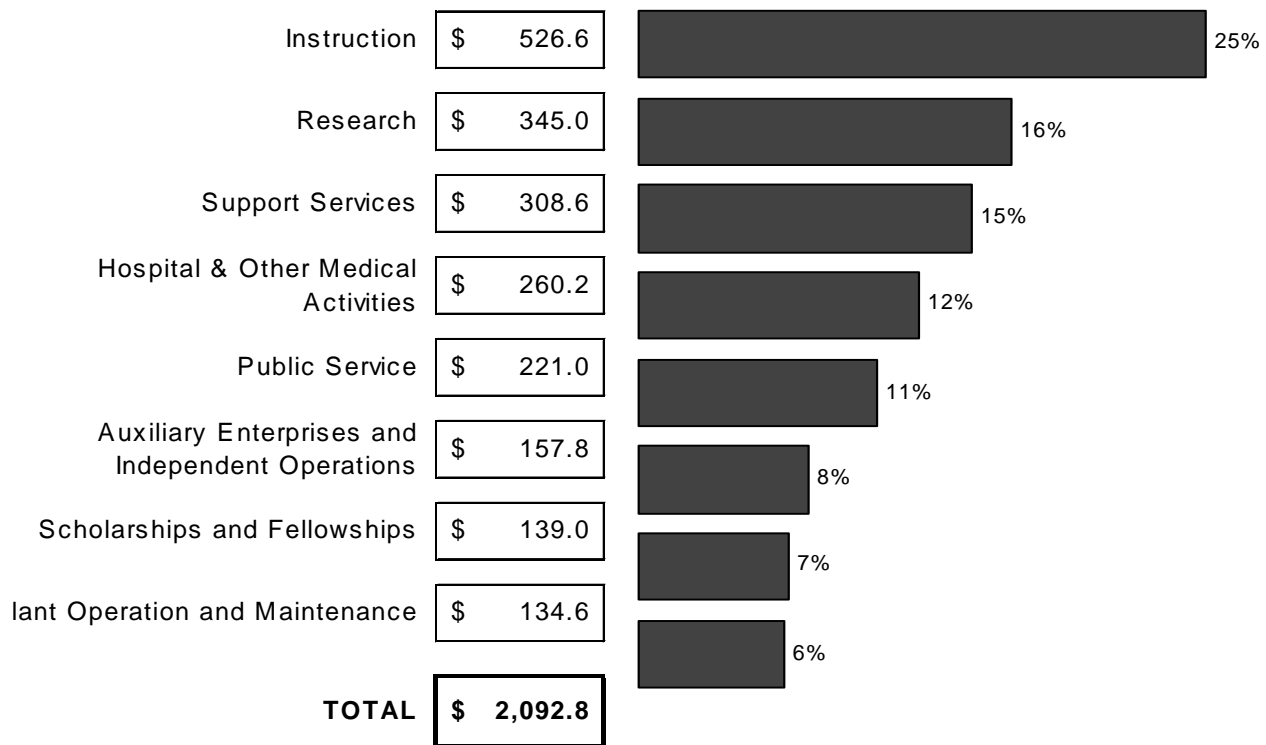
Hospital and Other Medical Activities - \$228.0 million - increased by \$2.3 million in fiscal year 1998, an increase of approximately 1.0%.

Auxiliary Enterprises and Independent Operations - \$193.6 million - revenues generated through sales of goods and services to students, faculty, and staff and revenue from services provided primarily to external parties. Revenue increased by \$3.6 million during fiscal year 1998, an increase of 1.9% over fiscal year 1997.

Other - \$136.6 million - Includes revenue from federal appropriations, endowment and other investment income, and the medical service plan.

Departmental Activities - \$122.6 million - an increase of \$3.9 million over the prior year. Revenues include sales and services provided by operating units other than auxiliary enterprises.

Expenditures \$millions



Instruction - \$526.6 million - represents the largest use of current funds. This is an increase of \$26.1 million (5.2%) over the prior year.

Research - \$345.0 million - an increase of \$18.6 million over the previous year.

Support Services - \$308.6 million - activities which provide support services for the University including libraries, student services and institutional support.

Hospital and Other Medical Activities - \$260.2 million - cost of operation for The Health Services Facilities System and the related clinics. This was an increase of \$11.4 million (4.6%) in fiscal year 1998.

Public Service - \$221.0 million - activities that primarily benefit individuals outside the University increased by approximately \$12.2 million.

Auxiliary Enterprises and Independent Operations - \$157.8 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.

Scholarships and Fellowships - \$139.0 million - cost of financial assistance which offers an opportunity to students who might otherwise not have access to higher education. This was an increase of \$7.1 million (5.4%) in fiscal year 1998.

Plant Operation and Maintenance - \$134.6 million - an increase of \$2.0 million during fiscal year 1998.

Staff and Student Data as of October 1997

Staff Full-Time Equivalent

All Funds

	Chicago	Springfield	Urbana- Champaign	University Administration	Total University
Faculty	2,251	177	2,695	21	5,144
Academic Professional	2,118	115	2,257	402	4,892
Support Staff	5,639	268	4,949	701	11,557
Graduate Assistant	2,002	112	2,430	11	4,555
Total	12,010	672	12,331	1,135	26,148

Student Full-Time Equivalent Enrollment¹

Enrollment

	Chicago ²	Springfield	Urbana- Champaign	Total University
Undergraduate	14,518	1,376	26,927	42,821
Graduate and Professional	9,258	1,012	10,548	20,818
Total	23,776	2,388	37,475	63,639

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



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, 1998, and the related combined statements of changes in fund balances (deficit) and 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, 1998, 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.

As further discussed in the notes to University combined financial statements, during the year ended June 30, 1998, the University changed its method of accounting to comply with Governmental Accounting Standards Board Statement No. 31.

In accordance with *Government Auditing Standards*, we have issued a report dated September 14, 1998, 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.

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 combined financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic combined financial statements taken as a whole.

A handwritten signature in dark ink that reads "Olive LLP".

Springfield, Illinois
September 14, 1998

Combined Balance Sheet

	Current Funds		Loan Funds	Endowment and Similar Funds	Plant Funds
	Unrestricted	Restricted			
Assets					
Cash and cash equivalents	\$ 33,562	\$ 27,282	\$ 1,134	\$ 5,221	\$ 37,782
Investments	166,237	115,617	4,941	120,944	134,130
Accrued investment income	3,443	2,104	88		2,037
Accounts receivable (net)	86,671	80,766			239
Receivable from State of Illinois					
General Revenue Fund	24,131				
Notes receivable (net)			54,984		
Accrued interest on notes receivable			780		
Inventories and deferred charges	33,282	409			
Prepaid expense	19,274				1,353
Due from related organizations	1,245				
Due from other funds	11,658				
Investment in plant -					
Land					67,779
Buildings					1,630,673
Improvements other than buildings					160,253
Equipment					1,284,125
Construction in progress					89,969
Real estate and farm properties		12		10,360	
Other assets			46	649	
Total Assets	\$ 379,503	\$ 226,190	\$ 61,973	\$ 137,174	\$ 3,408,340
Liabilities					
Accounts payable	\$ 46,933	\$ 7,944	\$	\$	\$ 10,760
Accrued payroll	81,706	16,870			
Accrued compensated absences	186,608	8,797			
Deferred revenue and student deposits	26,700				
Accrued interest payable	264				3,404
Accrued self-insurance	54,070				
Bonds payable					364,226
Leaseholds payable and other obligations	23,115				56,837
Notes payable					
Due to related organizations	167	671			
Due to other funds					11,658
Assets held for others					
Total Liabilities	419,563	34,282			446,885
Fund Balances (Deficit)					
Current funds-unrestricted	140,252				
Amount expected to be financed in future years	(180,312)				
Current funds-restricted		191,908			
Loan funds -					
Federal grants refundable			43,403		
University restricted			13,609		
State matching			4,961		
Endowment-restricted				41,988	
Quasi-endowment				94,409	
Term endowment				128	
Living trusts-restricted				649	
United States Land Grant-restricted					
Annuity					
Life income					
Plant funds-restricted -					
Unexpended					7,528
Renewal and replacement					65,400
Retirement of indebtedness					32,184
Net investment in plant					2,856,343
Total Fund Balances	(40,060)	191,908	61,973	137,174	2,961,455
Total Liabilities & Fund Balances (Deficit)	\$ 379,503	\$ 226,190	\$ 61,973	\$ 137,174	\$ 3,408,340

See accompanying notes to combined financial statements.

as of June 30, 1998 with Comparative Totals for 1997 (in thousands)

Agency Funds	University Totals Memorandum Only		University Related Organizations	Combined Totals Memorandum Only	
	1998	1997		1998	1997
\$ 1,936	\$ 106,917	\$ 130,748	\$ 6,966	\$ 113,883	\$ 139,330
7,649	549,518	526,532	582,288	1,131,806	1,015,563
	7,672	6,135	1,186	8,858	7,393
	167,676	142,205	1,630	169,306	144,791
	24,131	5,230		24,131	5,230
	54,984	52,320	1,468	56,452	53,745
	780	682		780	682
	33,691	35,029	30	33,721	35,054
	20,627	24,702	80	20,707	24,773
	1,245	1,526	167	1,412	2,399
	11,658	10,911		11,658	10,911
	67,779	66,830	2,146	69,925	68,524
	1,630,673	1,569,988	329	1,631,002	1,570,317
	160,253	149,300		160,253	149,300
	1,284,125	1,202,803	2,337	1,286,462	1,205,214
	89,969	25,288		89,969	25,288
	10,372	10,398	22,891	33,263	33,845
	695	695	10,002	10,697	10,180
\$ 9,585	\$ 4,222,765	\$ 3,961,322	\$ 631,520	\$ 4,854,285	\$ 4,502,539
\$	\$ 65,637	\$ 61,704	\$ 37,364	\$ 103,001	\$ 91,625
	98,576	90,807	171	98,747	91,009
	195,405	185,705	780	196,185	186,415
	26,700	27,168	3,266	29,966	31,094
	3,668	2,899		3,668	2,959
	54,070	50,822		54,070	50,822
	364,226	368,827		364,226	368,827
	79,952	41,818		79,952	41,818
			2,278	2,278	1,865
	838	151	1,540	2,378	1,459
	11,658	10,911		11,658	10,911
9,585	9,585	5,522		9,585	5,525
9,585	910,315	846,334	45,399	955,714	884,329
	140,252	127,477	14,816	155,068	139,511
	(180,312)	(171,385)		(180,312)	(171,385)
	191,908	169,686	44,268	236,176	209,807
	43,403	41,294		43,403	41,294
	13,609	13,129		13,609	13,129
	4,961	4,765		4,961	4,765
	41,988	36,980	343,508	385,496	331,148
	94,409	76,453	118,783	213,192	175,479
	128		1,769	1,897	2,271
	649	142		649	142
		649			649
			22,218	22,218	17,281
			37,661	37,661	35,535
	7,528	1,744		7,528	1,744
	65,400	63,489		65,400	63,489
	32,184	36,193		32,184	36,193
	2,856,343	2,714,372	3,098	2,859,441	2,717,158
	3,312,450	3,114,988	586,121	3,898,571	3,618,210
\$ 9,585	\$ 4,222,765	\$ 3,961,322	\$ 631,520	\$ 4,854,285	\$ 4,502,539

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	\$ 1,790,477	\$	\$	\$
Federal appropriations		16,051		
Medical service plan		83,939		
Restricted gifts, grants and contracts -				
Private		96,561	4	431
Federal		333,016	1,224	
State of Illinois		58,893		
Investment income-restricted		15,302	403	
Net increase in fair value of investments-restricted				15,713
State appropriations-restricted				
Interest and service charges on student loans			1,359	
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				
Increase in equity in capitalized leased assets -				
Adjustment in equity in capitalized leased assets				
Lease principal payments				
Other		2,358	179	
Total Revenues and Other Additions	1,790,477	606,120	3,169	16,144
Expenditures and Other Deductions				
Educational and general expenditures	1,302,672	557,015		
Auxiliary enterprises expenditures	151,152	22		
Hospital and other medical activities expenditures	260,272			
Independent operations expenditures	6,632			
Indirect costs recovered		77,251		
Educational and administrative allowances recovered		1,825		
Refunds to grantors		1,055	92	
Cancellation of loans under terms of gifts and grants			266	
Increase (decrease) in allowance for uncollectible notes			(105)	
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				
Bonds Issued				
Capital appreciation on bonds payable				
Trade-ins, disposals and property adjustments				
Payments to beneficiaries of life income trusts				19
Amortization of prepaid expense				
Other			1	26
Total Expenditures and Other Deductions	\$ 1,720,728	\$ 637,168	\$ 254	\$ 45

Year Ended June 30, 1998 with Comparative Totals for 1997 (in thousands)

Plant Funds	University Totals Memorandum Only		University Related Organizations	Combined Totals Memorandum Only	
	1998	1997		1998	1997
\$	\$ 1,790,477	\$ 1,706,365	\$ 29,008	\$ 1,819,485	\$ 1,726,001
	16,051	16,219		16,051	16,219
	83,939	81,206		83,939	81,206
1,627	98,623	94,895	83,364	181,987	168,944
2,034	336,274	311,900		336,274	311,900
	58,893	48,574		58,893	48,574
10,500	26,205	20,626	9,587	35,792	29,670
651	16,364	18,833	58,300	74,664	73,946
2,470	2,470	4,749		2,470	4,749
	1,359	1,469		1,359	1,469
5,946	5,946	3,656		5,946	3,656
109,868	109,868	111,436		109,868	111,436
74,814	74,814	50,535		74,814	50,535
21,151	21,151	22,747		21,151	22,747
46,479	46,479	1,814		46,479	1,814
4,155	4,155	72,210		4,155	72,210
20,945	20,945	15,330		20,945	15,330
117	117	191		117	191
6,949	6,949	7,756		6,949	7,756
1,202	3,739	3,100	1,879	5,618	5,237
308,908	2,724,818	2,593,611	182,138	2,906,956	2,753,590
	1,859,687	1,749,575	29,347	1,889,034	1,768,610
	151,174	152,997		151,174	152,997
	260,272	248,817		260,272	248,817
	6,632	5,956		6,632	5,956
	77,251	71,734		77,251	71,734
	1,825	1,131		1,825	1,131
	1,147	1,141		1,147	1,141
	266	286		266	286
	(105)	(40)		(105)	(40)
47,550	47,550	1,814		47,550	1,814
1,142	1,142	849		1,142	849
64,187	64,187	45,837		64,187	45,837
4,203	4,203	1,327		4,203	1,327
5,282	5,282	2,522		5,282	2,522
13,508	13,508	23,299		13,508	23,299
36,190	36,190	28,987	154	36,344	29,072
15,536	15,536	11,975	122	15,658	12,104
4,155	4,155	72,210		4,155	72,210
12,094	12,094	12,085		12,094	12,085
29,600	29,600	41,842		29,600	41,842
	19	24		19	24
138	138	159		138	159
1,417	1,444	22	3,775	5,219	29
\$ 235,002	\$ 2,593,197	\$ 2,474,549	\$ 33,398	\$ 2,626,595	\$ 2,493,805

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	\$ (4,845)	\$	\$	\$
Retirement of indebtedness	(36,238)	(1,540)		
Student loan matching	(257)		257	
Non-mandatory -				
Renewal and replacement	(6,841)	62		
University related organizations	(3,523)	62,358	298	
Other-net	(14,197)	(7,610)	(685)	6,851
Net Transfers	(65,901)	53,270	(130)	6,851
Increase in Fund Balance	3,848	22,222	2,785	22,950
Fund Balances (Deficit) at Beginning of Year, as Previously Reported				
Cummulative Effect of Accounting Change				
Fund Balances (Deficit) at Beginning of Year, as Restated	(43,908)	169,686	59,188	114,224
Fund Balances (Deficit) at End of Year	<u>\$ (40,060)</u>	<u>\$ 191,908</u>	<u>\$ 61,973</u>	<u>\$ 137,174</u>

See accompanying notes to combined financial statements.

Year Ended June 30, 1998 with Comparative Totals for 1997 (in thousands) (Cont.)

Plant Funds	University Totals Memorandum Only		University Related Organizations	Combined Totals Memorandum Only	
	1998	1997		1998	1997
\$ 4,845	\$	\$	\$	\$	\$
37,778					
6,779					
6,708	65,841	50,566	(65,841)		
15,641					
71,751	65,841	50,566	(65,841)		
145,657	197,462	169,628	82,899	280,361	259,785
		2,941,278			3,305,657
		4,082			52,768
2,815,798	3,114,988	2,945,360	503,222	3,618,210	3,358,425
\$ 2,961,455	\$ 3,312,450	\$ 3,114,988	\$ 586,121	\$ 3,898,571	\$ 3,618,210

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	\$ 295,016	\$	\$ 295,016
State appropriations	611,356		611,356
Federal appropriations			
Federal grants and contracts		67,419	67,419
State of Illinois grants and contracts		2,990	2,990
Private gifts, grants and contracts		8,725	8,725
Endowment and other investment income	32		32
Net increase (decrease) in fair value of investments		2,243	2,243
Educational activities		122,555	122,555
Other sources	9,372	18,800	28,172
Payments on behalf of the University	184,968		184,968
Total Educational and General Revenue	1,100,744	222,732	1,323,476
Auxiliary enterprises		187,328	187,328
Hospital and other medical activities	44,845	228,039	272,884
Independent operations	509	6,280	6,789
Total Revenues	1,146,098	644,379	1,790,477
Expenditures and Mandatory Transfers			
Educational and general -			
Instruction	384,278	14,144	398,422
Research	49,208	37,733	86,941
Public service	39,468	69,667	109,135
Academic support	98,535	26,075	124,610
Student services	25,070	27,444	52,514
Institutional support	93,216	19,547	112,763
Operation and maintenance of plant	128,580	5,569	134,149
Scholarships and fellowships	97,661	1,509	99,170
Payments on behalf of the University	184,968		184,968
Total Educational and General Expenditures	1,100,984	201,688	1,302,672
Mandatory transfers for -			
Retirement of indebtedness	556	13,209	13,765
Student loan matching grant	51	206	257
Total Educational and General	1,101,591	215,103	1,316,694
Auxiliary Enterprises			
Expenditures		151,152	151,152
Mandatory transfers for -			
Renewal and replacement		4,845	4,845
Retirement of indebtedness		20,144	20,144
Total Auxiliary Enterprises		176,141	176,141
Hospital and Other Medical Activities			
Expenditures	44,845	215,427	260,272
Mandatory transfers for retirement of indebtedness		1,882	1,882
Total Hospital and Other Medical Activities	44,845	217,309	262,154
Independent Operations			
Expenditures	509	6,123	6,632
Mandatory transfers for retirement of indebtedness		447	447
Total Independent Operations	509	6,570	7,079
Total Expenditures and Mandatory Transfers	\$ 1,146,945	\$ 615,123	\$ 1,762,068

Year Ended June 30, 1998 with Comparative Totals for 1997 (in thousands)

Restricted	University Totals Memorandum Only		University Related Organizations	Combined Totals Memorandum Only	
	1998	1997		1998	1997
\$	\$ 295,016	\$ 277,273	\$	\$ 295,016	\$ 277,273
	611,356	598,184		611,356	598,184
16,054	16,054	16,262		16,054	16,262
266,319	333,738	308,721		333,738	308,721
55,366	58,356	47,468		58,356	47,468
130,780	139,505	120,805	56,535	196,040	161,040
4,618	4,650	4,997	10,843	15,493	15,114
	2,243	(304)	2,220	4,463	1,664
	122,555	118,750		122,555	118,750
85,440	113,612	103,020	27,189	140,801	120,695
	184,968	159,020		184,968	159,020
558,577	1,882,053	1,754,196	96,787	1,978,840	1,824,191
	187,328	183,694		187,328	183,694
	272,884	270,262		272,884	270,262
	6,789	6,756		6,789	6,756
558,577	2,349,054	2,214,908	96,787	2,445,841	2,284,903
128,169	526,591	500,489		526,591	500,489
258,018	344,959	326,365		344,959	326,365
111,930	221,065	208,772		221,065	208,772
13,674	138,284	129,040		138,284	129,040
2,469	54,983	53,728		54,983	53,728
2,522	115,285	107,599	29,294	144,579	126,562
425	134,574	132,638		134,574	132,638
39,808	138,978	131,924	53	139,031	131,996
	184,968	159,020		184,968	159,020
557,015	1,859,687	1,749,575	29,347	1,889,034	1,768,610
1,540	15,305	13,672	11	15,316	13,687
	257	212		257	212
558,555	1,875,249	1,763,459	29,358	1,904,607	1,782,509
22	151,174	152,997		151,174	152,997
	4,845	4,561		4,845	4,561
	20,144	16,989		20,144	16,989
22	176,163	174,547		176,163	174,547
	260,272	248,817		260,272	248,817
	1,882	2,602		1,882	2,602
	262,154	251,419		262,154	251,419
	6,632	5,956		6,632	5,956
	447	493		447	493
	7,079	6,449		7,079	6,449
\$ 558,577	\$ 2,320,645	\$ 2,195,874	\$ 29,358	\$ 2,350,003	\$ 2,214,924

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	(5,500)	9,346	3,846
Loan funds		874	874
Endowment and similar funds		(5,000)	(5,000)
Annuity and life income			
Plant funds -			
Unexpended		(13,917)	(13,917)
Renewal and replacement		(6,841)	(6,841)
University related organizations		(3,523)	(3,523)
Net Other Transfers and Additions (Deductions)	(5,500)	(19,061)	(24,561)
Total Increase (Decrease) in Fund Balances	\$ (6,347)	\$ 10,195	\$ 3,848

See accompanying notes to combined financial statements.

Year Ended June 30, 1998 with Comparative Totals for 1997 (in thousands) (Cont.)

Restricted	University Totals Memorandum Only		University Related Organizations	Combined Totals Memorandum Only	
	1998	1997		1998	1997
\$ (31,533)	\$ (31,533)	\$ (20,997)	\$	\$ (31,533)	\$ (20,997)
(1,055)	(1,055)	(1,139)		(1,055)	(1,139)
(3,846)					
(189)	685	127		685	127
(1,851)	(6,851)	(1,783)	5,656	(1,195)	(771)
(1,724)	(15,641)	(9,970)	(316)	(15,957)	(10,099)
62	(6,779)	(15,844)		(6,779)	(15,844)
62,358	58,835	45,403	(65,841)	(7,006)	(5,163)
22,222	(2,339)	(4,203)	(60,501)	(62,840)	(53,886)
\$ 22,222	\$ 26,070	\$ 14,831	\$ 6,928	\$ 32,998	\$ 16,093

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, as amended in 1997.

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, 1997. 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 1998.

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 1997 comparative totals to conform to the 1998 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 a net cash overdraft book balance of \$16,182,000 at June 30, 1998. The total bank account balances at June 30, 1998, of the University, the Foundation and the Alumni Association and the bank account balance of the UIHMO at December 31, 1997, aggregated \$8,041,000, \$2,977,000, \$1,140,000, and \$2,849,000 respectively, of which \$8,041,000, \$2,729,000, \$1,140,000, and \$2,849,000, respectively, was covered by federal depository insurance or by collateral held by an agent in the Entity's name; and \$248,000 was uninsured and uncollateralized for the Foundation.

Investments

Investments in real estate and farm properties and those held by Agency Funds, are carried at cost, or when donated, at the fair market value at the date of donation. All other investments are carried at their fair market value, as determined by quoted market price. Investment income and the change in fair value 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, 1998.

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, 1998, approximately \$67,550,000 of the University's investments reported on the combined balance sheet were on loan, secured by collateral of approximately \$68,759,000.

Investments, including cash equivalents but excluding real estate and farm properties, have been categorized to give an indication of the level of credit risk assumed by the University, Foundation or Alumni Association at June 30, 1998.

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, 1997 were not significant.

The following details the entity's investments at June 30, 1998:

University (in thousands)				
1998				
	Category			Carrying Amount
	1	2	3	
Certificates of Deposit	\$ 4,855	\$	\$	\$ 4,855
U.S. Gov. Securities	84,120	61,187		145,307
Commercial Paper	45,565			45,565
Corporate Bonds	173,007	6,351		179,358
Corporate Stock	120	545		665
Total	\$ 307,667	\$ 68,083	\$	\$ 375,750
Mutual Funds				
Bonds				129,159
Stocks				80,724
Money Market				81,517
Real Estate				3,204
Illinois Public Treas.				
Investment Pool				2,263
TOTAL INVESTMENTS				\$ 672,617

Foundation (in thousands)				
1998				
	Category			Carrying Amount
	1	2	3	
U.S. Gov. Securities	\$ 25,560	\$ 4,140	\$	\$ 29,700
Int'l Gov. Bonds	3,680			3,680
Municipal Bonds		2,015		2,015
Corp. Bonds/Notes	23,391	5,469		28,860
Preferred Stock	427	4		431
Corporate Stock	132,104	4,934		137,038
Total	\$185,162	\$ 16,562	\$	201,724
Real Estate				
Trusts/Partnerships				21,573
Bond Index Fund				11,191
Equity Index Funds				113,702
Intern'l Equity Funds				75,910
Other Mutual Funds				143,021
Other				1,313
TOTAL INVESTMENTS				\$ 568,434

Alumni Association (in thousands)				
1998				
	Category			Carrying Amount
	1	2	3	
U.S. Gov. Securities	\$ 3,282	\$	\$	\$ 3,282
Corp. Bonds/Notes	201			201
Corporate Stock	9,603			9,603
Total	\$ 13,086	\$	\$	13,086
Real Estate Partnerships				768
TOTAL INVESTMENTS				\$ 13,854

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 \$140,175,000 at June 30, 1998. Notes receivable are reported net of allowances of \$1,762,000 at June 30, 1998.

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 year ended June 30, 1998, the Urbana-Champaign and Chicago campuses participated in the U.S. Department of Education Direct Student Loan Program. The Urbana-Champaign campus awarded approximately \$79.4 million for the year ended June 30, 1998. The Chicago Campus awarded approximately \$69.6 million for the year ended June 30, 1998. The University classified this loan program as Noncash Federal Awards in the Office of Management and Budget (OMB) Circular A-133 Schedule of Expenditure of Federal Awards. Accordingly, no revenue or expenditures are included in the combined financial statements of the Entity.

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.

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 \$1,219,000 was capitalized during the year ended June 30, 1998.

Accrued Self-Insurance and Loss Contingency

The University's accrued self-insurance liability of \$54,070,000 at June 30, 1998 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, 1998. 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 \$8,642,000 at June 30, 1998 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, 1998.

Accrued self-insurance includes \$30,933,000 at June 30, 1998 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, 1998. 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 carriers to provide varying levels and upper limits of excess indemnity coverage. These coverages have been considered in determining the required accrued self-insurance liability.

Changes in Accrued Self-Insurance (in thousands)

	1998	1997
Accrued self-insurance liability at beginning of year	\$ 50,822	\$ 57,855
Current year claims and changes in estimates	18,805	13,789
Claim payments and other costs	(15,557)	(20,822)
Accrued self-insurance liability at end of year	\$ 54,070	\$ 50,822

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 \$88,255,000 in 1998.

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 \$184,968,000 for health care and retirement costs for the year ended June 30, 1998. These costs are reflected as both revenues and expenditures and are reported in Payments 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 84% of the Hospital's net patient service revenues were derived from Medicare, Medicaid, Blue Cross and managed care programs for the year ended June 30, 1998. 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 \$33,033,000 at June 30, 1998 and is recorded in the accompanying combined financial statements. This amount will be paid from amounts specifically included in State of Illinois General Revenue Fund appropriations to the University for fiscal year 1999 rather than from the Current Unrestricted Funds available at June 30, 1998.

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 \$103,342,000 for 1998, 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, 1998,

the University estimates that \$138,636,000 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, 1998, rather than from Current Funds available at June 30, 1998.

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.

Accounting Change

Governmental Accounting Standards Board Statement No. 31, "Accounting and Financial Reporting for Certain Investments and External Investment Pools", establishes standards for accounting for investments held by governmental entities. It requires that investments with readily determinable fair values be reported at their fair value, with gains and losses included as part of current year activity. This change has been retroactively applied to the beginning of fiscal year 1997, which resulted in an increase of \$52,768,000 in the Entity's July 1, 1996 combined fund balance.

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, 1998 and the amount of income received from these trusts during the year then ended were as follows:

Funds Held in Trust by Others (in thousands)

	University	Foundation
Market value of funds held in trust by others	\$ 15,948	\$ 15,591
Income received from funds held in trust by others	\$ 524	\$ 424

BONDS AND NOTES PAYABLE

At June 30, 1998, 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 1997; and University of Illinois Health Services Facilities System (Health System) Revenue Bonds, Series 1997A and Series 1997B, as seen in the table.

Bonds Payable (in thousands)			
Series	Yield on Outstanding Debt	Maturity Dates	Outstanding at June 30, 1998
1979	3%	1998-2018	\$ 1,295
1985	5%	1998-2009	3,660
1985A	9.70%	1998-2003	2,060
1986	7.4% - 8.125%	1998-2006	71,634
1991	5.75% - 6.4%	1998-2022	25,020
1991	6.8% - 7.35%	2002-2021	77,388
1993	4.4% - 5.875%	1998-2022	29,970
1993	5.7% - 5.95%	2006-2009	19,490
1996	4.0% - 5.60%	1998-2022	60,725
1997	3.95% - 5%	1998-2009	3,375
1997A	4.8% - 5.875%	2001-2026	47,210
1997B	Variable - 4%	2001-2026	25,000
Total Principal Payable			366,827
Unamortized Debt Discount			(2,601)
TOTAL BONDS PAYABLE			<u>\$ 364,226</u>

The \$71,634,000, \$77,388,000, and \$19,490,000 of Series 1986, Series 1991, and Series 1993 Bonds, respectively, outstanding at June 30, 1998, 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.

Series 1997B Bonds are variable rate bonds which bear interest at a defined weekly rate and interest is paid monthly. The required debt service for the Series 1997B Bonds has been estimated using a 4% interest rate over the life of the bonds.

Costs associated with the issuance of the Series 1991, Series 1993, Series 1996, Series 1997, Series 1997A, and Series 1997B 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 6.16% with principal of \$2,243,000 and installment note due in January 2000, interest at 9.0% with principal of \$35,000.

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, 1998 are seen in the table.

Advance Refunded Bonds (in thousands)	
Series	Outstanding at June 30, 1998
1959-C	\$ 340
1960-A	420
1962-A	380
1962-B	620
1964-A	370
1964	1,085
1965-A	2,530
1978-M	43,865
1978-N	26,255
UIF Bonds Series I	211
UIF Bonds Series II	45
1986	17,239
1992	3,655
TOTAL ADVANCE REFUNDED BONDS	<u>\$ 97,015</u>

Debt Service Requirements and Security

Future debt service requirements for all bonds outstanding are as follows:

Debt Service Requirements (in thousands)			
	Principal	Interest and Capital Appreciation	
1999	\$ 17,512	\$	11,087
2000	17,707		11,603
2001	18,240		11,994
2002	17,047		13,146
2003	15,915		13,793
2004-2026	280,406		294,073
TOTAL	<u>\$ 366,827</u>	<u>\$</u>	<u>355,696</u>

The Maximum Annual Net Debt Service, as defined, for all outstanding debt is \$23,385,000.

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 1997 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 (in thousands)

Land	\$ 573
Equipment	10,280
Buildings	45,181
Improvements	22,975
Total	<u>\$ 79,009</u>

As of June 30, 1998, future minimum lease payments under capital leases are as follows:

1999	\$ 9,435
2000	7,055
2001	6,899
2002	5,646
2003	5,587
Later years	40,512
Total minimum lease payments	<u>75,134</u>
Amount representing interest	<u>(18,297)</u>
NET PRESENT VALUE	<u>\$ 56,837</u>

The University leases various properties from the Foundation under capital lease obligations amounting to \$376,000 at June 30, 1998.

The University also leases various buildings and equipment under operating lease agreements. Total rental expense under these agreements was \$8,595,000 for the year ended June

30, 1998. In future years, the University expects to incur annual rental expense in amounts similar to 1998. The future minimum lease payments (excluding those leases renewed on an annual basis) are as follows:

Future Minimum Operating Lease Payments

(in thousands)

1999	\$ 4,000
2000	2,953
2001	2,256
2002	1,422
2003	592
Total	<u>\$ 11,223</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 combined balance sheet and the future minimum payments under the contract are as follows:

Future Minimum Payments under the Natural Gas Contract

(in thousands)

1999	\$ 3,635
2000	3,633
2001	3,628
2002	3,629
2003	3,631
Later years	10,244
Total minimum lease payments	<u>28,400</u>
Amount representing interest	<u>(5,285)</u>
NET PRESENT VALUE	<u>\$ 23,115</u>

Interest of \$1,279,000 was paid on this purchase contract during the year ended June 30, 1998.

The University engages in interfund borrowing to finance campus projects. These borrowings paid interest of \$879,000 to the consolidated group fund during 1998 at rates ranging from 5.0% to 6.8%. All outstanding interfund borrowings at June 30, 1998 will mature between 1999 and 2009.

STATE UNIVERSITIES RETIREMENT SYSTEM

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

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

Plan members are required to contribute 8.0% of their annual covered salary and substantially all employer contributions are made by the State of Illinois on behalf of the individual employers at an actuarially determined rate. The current rate is 8.582% 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, 1998, 1997, and 1996 were \$97,496,000, \$78,854,000, and \$64,205,000, respectively, equal to the required contributions for each year.

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

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

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, 1998 are not recorded in the accompanying combined financial statements. Encumbrances of the Current Funds were approximately \$21,825,000 at June 30, 1998.

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 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.

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. By letter dated August 27, 1998 from HCFA, the Hospital's original deadline for correction of these deficiencies has been extended to September 30, 1998. The Hospital's participation in the Medicare program will terminate on October 30, 1998 if this deadline is not met. 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, 1998 (in thousands)

Supplemental Schedule I

	University Related Organizations			University Related Organizations Combined Totals	
	Foundation	Alumni Association	UIHMO	1998	1997
Assets					
Cash and cash equivalents	\$ 2,977	\$ 1,140	\$ 2,849	\$ 6,966	\$ 8,582
Investments	568,434	13,854		582,288	489,031
Accrued investment income	1,118	68		1,186	1,258
Accounts receivable (net)	1,296	238	96	1,630	2,586
Notes receivable (net)	1,468			1,468	1,425
Inventories and deferred charges		30		30	25
Prepaid expense	14	27	39	80	71
Due from related organizations	167			167	873
Investment in plant -					
Land	2,146			2,146	1,694
Buildings	329			329	329
Equipment	1,935	301	101	2,337	2,411
Real estate and farm properties	22,891			22,891	23,447
Other assets	9,687	5	310	10,002	9,485
Total Assets	\$ 612,462	\$ 15,663	\$ 3,395	\$ 631,520	\$ 541,217
Liabilities					
Accounts payable	\$ 36,916	\$ 215	\$ 233	\$ 37,364	\$ 29,921
Accrued payroll		171		171	202
Accrued compensated absences	780			780	710
Deferred revenue and student deposits	433	2,500	333	3,266	3,926
Accrued interest payable					60
Leaseholds payable and other obligations					
Notes payable	2,278			2,278	1,865
Due to related organizations	10	90	1,440	1,540	1,308
Assets held for others					3
Total Liabilities	40,417	2,976	2,006	45,399	37,995
Fund Balances					
Current funds-unrestricted	1,507	11,920	1,389	14,816	12,034
Current funds-restricted	43,802	466		44,268	40,121
Endowment-restricted	343,508			343,508	294,168
Quasi-endowment	118,783			118,783	99,026
Term endowment	1,769			1,769	2,271
Annuity	22,218			22,218	17,281
Life income	37,661			37,661	35,535
Plant funds	2,797	301		3,098	2,786
Total Fund Balances	572,045	12,687	1,389	586,121	503,222
Total Liabilities and Fund Balances	\$ 612,462	\$ 15,663	\$ 3,395	\$ 631,520	\$ 541,217

Combining Statement of Changes in Fund Balances for University Related Organizations for the Year Ended June 30, 1998 (in thousands)

Supplemental Schedule II

	University Related Organizations			University Related Organizations Combined Totals	
	Foundation	Alumni Association	UIHMO	1998	1997
Revenues and Other Additions					
Unrestricted current funds revenues	\$ 7,293	\$ 4,874	\$ 16,841	\$ 29,008	\$ 19,636
Restricted gifts, grants and contracts - Private	83,364			83,364	74,049
Investment income-restricted	9,587			9,587	9,044
Net increase in fair value of investments	58,299	1		58,300	55,113
Other	1,694	185		1,879	2,137
Total Revenues and Other Additions	160,237	5,060	16,841	182,138	159,979
Expenditures and Other Deductions					
Educational and general expenditures	8,008	4,646	16,693	29,347	19,035
Retirement of indebtedness	154			154	85
Interest on indebtedness	122			122	129
Other	3,775			3,775	7
Total Expenditures and Other Deductions	12,059	4,646	16,693	33,398	19,256
Transfers-Additions (Deductions)					
University related organizations	(67,105)	1,264		(65,841)	(50,566)
Net Transfers	(67,105)	1,264		(65,841)	(50,566)
Increase in Fund Balance	81,073	1,678	148	82,899	90,157
Fund Balances at Beginning of Year, as Previously Reported					364,379
Cummulative Effect of Accounting Change					48,686
Fund Balances at Beginning of Year, as Restated	490,972	11,009	1,241	503,222	413,065
Fund Balances at End of Year	\$ 572,045	\$ 12,687	\$ 1,389	\$ 586,121	\$ 503,222

Combining Statement of Current Funds Revenues, Expenditures, and Other Changes for University Related Organizations for the Year Ended June 30, 1998 (in thousands)

Supplemental Schedule III

	University Related Organizations			University Related Organizations Combined Totals	
	Foundation	Alumni Association	UIHMO	1998	1997
Revenues					
Educational and general -					
Private gifts, grants and contracts	\$ 56,535	\$	\$	\$ 56,535	\$ 40,235
Endowment and other investment income	10,185	498	160	10,843	10,117
Net increase in fair value of investments	246	1,974		2,220	1,968
Other sources	7,920	2,588	16,681	27,189	17,675
Total Educational and General Revenue	74,886	5,060	16,841	96,787	69,995
Total Revenues	74,886	5,060	16,841	96,787	69,995
Expenditures and Mandatory Transfers					
Educational and general -					
Institutional support	8,008	4,593	16,693	29,294	18,963
Scholarships and fellowships		53		53	72
Total Educational and General Expenditures	8,008	4,646	16,693	29,347	19,035
Mandatory transfers for -					
Retirement of indebtedness	11			11	15
Total Educational and General	8,019	4,646	16,693	29,358	19,050
Total Expenditures and Mandatory Transfers	8,019	4,646	16,693	29,358	19,050
Other Transfers and Additions (Deductions)					
Inter-fund transfers -					
Endowment and similar funds	5,656			5,656	1,012
Plant funds	(310)	(6)		(316)	(129)
University related organizations	(67,105)	1,264		(65,841)	(50,566)
Net Other Transfers and Additions (Deductions)	(61,759)	1,258		(60,501)	(49,683)
Total Increase in Fund Balances	\$ 5,108	\$ 1,672	\$ 148	\$ 6,928	\$ 1,262