Attachment A - Proposed Last Mile Service Offerings

The UC2B Last Mile Services will be the same in all Service Areas

Name of Tier	Advertised Speeds		Average Speeds		Average Latency	Pricing Plan $ Per Month
	Downstream Mbps	Upstream Mbps	Downstream Mbps	Upstream Mbps	@ end-user CPE milliseconds	
Residential						
UC2B Entry Level Speed Internet / CNS	5 / 100	5 / 100	5 / 100	5 / 100	<10 ms	$19.99
UC2B Maximum Speed Internet / CNS	100 / 100	100 / 100	100 / 100	100 / 100	<10 ms	See Note # 3
ISP Entry Level Speed Internet / CNS	5 / 100	5 / 100	5 / 100	5 / 100	<10 ms	To be determined by ISP's
ISP Maximum Speed Internet / CNS	1000 / 1000	1000 / 1000	1000 / 1000	1000 / 1000	<10 ms	To be determined by ISP's
Non-Profit Anchor Institution, School, Library, Church, Senior Center						
UC2B Entry Level Speed Internet / CNS	5 / 100	5 / 100	5 / 100	5 / 100	<10 ms	$19.99
UC2B Maximum Speed Internet / CNS	100 / 100	100 / 100	100 / 100	100 / 100	<10 ms	See Note # 3
ISP Entry Level Speed Internet / CNS	5 / 100	5 / 100	5 / 100	5 / 100	<10 ms	To be determined by ISP's
ISP Maximum Speed Internet / CNS	1000 / 1000	1000 / 1000	1000 / 1000	1000 / 1000	<10 ms	To be determined by ISP's
For-Profit Business						
ISP Entry Level Speed Internet / CNS	5 / 100	5 / 100	5 / 100	5 / 100	<10 ms	To be determined by ISP's
ISP Maximum Speed Internet / CNS	1000 / 1000	1000 / 1000	1000 / 1000	1000 / 1000	<10 ms	To be determined by ISP's

Note # 1 - All subscribers will always have the full speed of their CPE's Ethernet port to the UC2B Community Network Service (CNS)

Note # 2 - Advertised and Average Speeds are indicated by Internet bandwidth / UC2B Community Network Service (CNS) bandwidth.

Note # 3 - Unless there are no commercial ISP's providing services, UC2B does not plan to offer services to for-profit organizations or above entry level for residential or non-profit organizations.

Note # 4 - ISP's will determine their own pricing and service tiers for Internet bandwidth, but their subscribers will have full CPE port speed to the UC2B Community Network Service (CNS) due to local peering.

Statement of Cash Flows

	Historical		Forecast Period				
			Year 1 - 2010	Year 2 - 2011	Year 3 - 2012	Year 4 - 2014	Year 5 - 2015
Beginning Cash	**NA**	**NA**	**$ -**	**$ (141,011)**	**$ 218,958**	**$ 110,140**	**$ 446,843**
CASH FLOWS FROM OPERATING ACTIVITIES:							
Net Income	-	-	(128,418)	283,223	1,165,965	694,821	350,057
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities							
Add: Depreciation	-	-	-	-	254,243	503,541	776,466
Add: Amortization	-	-	-	-	-	-	-
Changes in Current Assets and Liabilities:							
Marketable Securities	-	-	-	-	-	-	-
Accounts Receivable	-	-	(13,519)	(68,468)	(140,736)	(12,951)	(30,011)
Inventory	-	-	-	-	-	-	-
Prepayments	-	-	-	-	-	-	-
Other Current Assets	-	-	-	-	-	-	-
Accounts Payable	-	-	926	4,203	28,255	21,454	24,277
Other Current Liabilities	-	-	-	-	8,461	127,819	259,574
Net Cash Provided (Used) by Operations	**$ -**	**$ -**	**$ (141,011)**	**$ 218,958**	**$ 1,316,188**	**$ 1,334,684**	**$ 1,380,363**
CASH FLOWS FROM FINANCING ACTIVITIES:							
Notes Receivable	-	-	-	-	-	-	-
Notes Payable	-	-	-	-	-	-	-
Principal Payments	-	-	-	-	-	-	-
New Borrowing	-	-	-	141,011	1,989,302	2,336,924	2,137,469
Additional Paid-in Capital	-	-	-	-	-	-	-
Additions to Patronage Capital Credits	-	-	-	-	-	-	-
Payment of Dividends	-	-	-	-	-	-	-
Net Cash Provided by Financing Activities	**$ -**	**$ -**		**$ 141,011**	**$ 1,989,302**	**$ 2,336,924**	**$ 2,137,469**
CASH FLOWS FROM INVESTING ACTIVITIES:							
Capital Expenditures	-	-	-	-	3,414,308	3,334,905	3,652,515
Amortizable Asset (Net of Amortization)	-	-	-	-	-	-	-
Long-Term Investments	-	-	-	-	-	-	-
Net Cash Used by Investing Activities	**$ -**	**$ -**	**$ -**		**$ 3,414,308**	**$ 3,334,905**	**$ 3,652,515**
Net Increase (Decrease) in Cash		**$ -**	**$ (141,011)**	**$ 359,969**	**$ (108,818)**	**$ 336,703**	**$ (134,683)**
Ending Cash	**NA**	**NA**	**$ (141,011)**	**$ 218,958**	**$ 110,140**	**$ 446,843**	**$ 312,160**

Balance Sheet

	Historical		Forecast Period				
Assets			Year 1	Year 2	Year 3	Year 4	Year 5
Current Assets							
Cash	$ -	$ -	$ (141,011)	$ 218,959	$ 110,140	$ 446,843	$ 312,160
Marketable Securities	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Accounts Receivable	$ -	$ -	$ 13,519	$ 81,987	$ 222,723	$ 235,674	$ 265,685
Notes Receivable	$ -	$ -					
Inventory	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Prepayments	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Other Current Assets	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total Current Assets	$ -	$ -	$ (127,492)	$ 300,946	$ 332,863	$ 682,517	$ 577,845
Non-Current Assets							
Long-Term Investments	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Amortizable Asset (Net of Amortization)	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Plant in Service	$ -	$ -	$ -	$ -	$ 3,414,308	$ 6,749,213	$ 10,401,728
Less: Accumulated Depreciation	$ -	$ -	$ -	$ -	$ (254,243)	$ (757,784)	$ (1,534,250)
Net Plant	$ -	$ -	$ -	$ -	$ 3,160,065	$ 5,991,429	$ 8,867,478
Other	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total Non-Current Assets	$ -	$ -	$ -	$ -	$ 3,160,065	$ 5,991,429	$ 8,867,478
Total Assets	$ -	$ -	$ (127,492)	$ 300,946	$ 3,492,928	$ 6,673,946	$ 9,445,323

Liabilities and Owners' Equity			Year 1 - 2010	Year 2 - 2011	Year 3 - 2012	Year 4 - 2103	Year 5 - 2014
Liabilities							
Current Liabilities							
Accounts Payable	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Notes Payable	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Current Portion - Total RUS Debt	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Accrued Expenses	$ -	$ -	$ 926	$ 5,129	$ 33,384	$ 54,838	$ 79,115
Other Current Liabilities	$ -	$ -	$ -	$ -	$ 8,461	$ 136,279	$ 395,853
Total Current Liabilities	$ -	$ -	$ 926	$ 5,129	$ 41,845	$ 191,117	$ 474,968
Long-Term Liabilities							
Existing RUS Debt	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Proposed RUS Debt	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Non-RUS Debt	$ -	$ -	$ -	$ 141,011	$ 2,130,313	$ 4,467,237	$ 6,604,707
Total Long-Term Liabilities	$ -	$ -	$ -	$ 141,011	$ 2,130,313	$ 4,467,237	$ 6,604,707
Total Liabilities	$ -	$ -	$ 926	$ 146,140	$ 2,172,158	$ 4,658,354	$ 7,079,675
Owner's Equity							
Capital Stock	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Additional Paid-In Capital	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Patronage Capital Credits	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Owner Equity	$ -	$ -	$ (128,419)	$ 154,805	$ 1,320,770	$ 2,015,591	$ 2,365,647
Total Equity	$ -	$ -	$ (128,419)	$ 154,805	$ 1,320,770	$ 2,015,591	$ 2,365,647
Total Liabilities and Owner's Equity	$ -	$ -	$ (127,493)	$ 300,945	$ 3,492,928	$ 6,673,945	$ 9,445,322

Income Statement

	Historical		Forecast Period				
			Year 1 - 2010	Year 2 - 2011	Year 3 - 2012	Year 4 - 2014	Year 5 - 2015
Revenues							
Network Services Revenues:							
Local Voice Service	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Broadband Data	$ -	$ -	$ 28,726	$ 536,590	$ 1,047,176	$ 1,359,333	$ 1,629,468
Video Services	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Network Access Service Revenues	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Universal Service Fund	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Toll Service/Long Distance Voice	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Installation Revenues	$ -	$ -	$ 61,000	$ 302,250	$ 1,480,500	$ 1,323,750	$ 1,413,750
Other Operating Revenues	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Other Revenues - IRU Maintenance	$ -	$ -	$ 72,500	$ 145,000	$ 145,000	$ 145,000	$ 145,000
Uncollectible Revenues	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total Revenues	NA	NA	$ 162,226	$ 983,840	$ 2,672,676	$ 2,828,083	$ 3,188,218
Expenses							
Backhaul	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Network Maintenance/Monitoring	$ -	$ -	$ 241,399	$ 326,544	$ 476,634	$ 655,887	$ 848,831
Utilities	$ -	$ -	$ 5,000	$ 15,000	$ 20,000	$ 25,000	$ 30,000
Leasing	$ -	$ -	$ 6,000	$ 24,000	$ 24,000	$ 24,000	$ 24,000
Sales/Marketing	$ -	$ -	$ 8,111	$ 49,192	$ 133,634	$ 141,404	$ 159,411
Customer Care	$ -	$ -	$ 8,111	$ 49,192	$ 133,634	$ 141,404	$ 159,411
Billing	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Corporate G&A	$ -	$ -	$ 7,867	$ 41,875	$ 92,911	$ 97,955	$ 109,153
PCC & SBA Programs	$ -	$ -	$ 10,912	$ 175,127	$ 311,930	$ 360,791	$ 403,559
Bad Debt			$ 3,245	$ 19,677	$ 53,454	$ 56,562	$ 63,764
Total	$ -	$ -	$ 290,645	$ 700,607	$ 1,246,197	$ 1,503,003	$ 1,798,129
EBITDA	$ -	$ -	$ (128,419)	$ 283,233	$ 1,426,479	$ 1,325,080	$ 1,390,089
Depreciation	$ -	$ -	$ -	$ -	$ 254,243	$ 503,541	$ 776,466
Amortization	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Earnings Before Interest and Taxes	$ -	$ -	$ (128,419)	$ 283,233	$ 1,172,236	$ 821,539	$ 613,623
Interest Income	$ -	$ -	$ -	$ -	$ (2,190)	$ (1,101)	$ (4,468)
Interest Expense	$ -	$ -	$ -	$ -	$ 8,461	$ 127,819	$ 268,034
Interest Expense - Other	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Income Before Taxes	$ -	$ -	$ (128,419)	$ 283,233	$ 1,165,965	$ 694,821	$ 350,057
Property Tax	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Income Taxes	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Net Income	**$ -**	**$ -**	**$ (128,419)**	**$ 283,233**	**$ 1,165,965**	**$ 694,821**	**$ 350,057**

Network Design and Implementation Plan Certification (to be complete for projects requesting more than $1 million in federal assistance)

U.S. Department of Agriculture and U.S. Department of Commerce
BIP and BTOP Program

We the undersigned, certify that the proposed broadband system will work as described in the System Design and Network Diagram sections, and can deliver the proposed services outlined in the Service Offerings Section. Moreover, the system, as designed, can meet the proposed build-out timeframe based on the resources designated in Project Viability Section, and will be substantially complete in two years, and complete within three years.

8.13.09
(Date)

Walter K. Knorr
(Authorized Representative's Signature)
Walter K. Knorr, Comptroller

Name:
Comptroller
Title:

August 10, 2009
(Date)

Andrew Afflerbach
(Certifying Engineer's Signature)
Andrew Afflerbach, P.E.
Name:
Director of Engineering/CTO
Title:
CTC

DISCLOSURE OF LOBBYING ACTIVITIES

Complete this form to disclose lobbying activities pursuant to 31 U.S.C. 1352
(See reverse for public burden disclosure.)

Approved by OMB
0348-0046

1. Type of Federal Action: b
a. contract
b. grant
c. cooperative agreement
d. loan
e. loan guarantee
f. loan insurance

2. Status of Federal Action: b
a. bid/offer/application
b. initial award
c. post-award

3. Report Type: a
a. initial filing
b. material change
For Material Change Only:
year ________ quarter ________
date of last report ____________

4. Name and Address of Reporting Entity:
☑ Prime ☐ Subawardee
Tier ______, *if known*:

The Board of Trustees of the University of Illinois
1901 S. First Street, Ste. A
Champaign, IL 61820-7406

Congressional District, *if known*: IL-015

5. If Reporting Entity in No. 4 is a Subawardee, Enter Name and Address of Prime:

Congressional District, *if known*:

6. Federal Department/Agency:
NTIA

7. Federal Program Name/Description:
Broadband Technology Opportunities Program

CFDA Number, *if applicable*: 11.557

8. Federal Action Number, *if known*:

9. Award Amount, *if known*:
$ 24,347,851.00

10. a. Name and Address of Lobbying Registrant (*if individual, last name, first name, MI*):
N/A

b. Individuals Performing Services (*including address if different from No. 10a*) (*last name, first name, MI*):
N/A

11. Information requested through this form is authorized by title 31 U.S.C. section 1352. This disclosure of lobbying activities is a material representation of fact upon which reliance was placed by the tier above when this transaction was made or entered into. This disclosure is required pursuant to 31 U.S.C. 1352. This information will be reported to the Congress semi-annually and will be available for public inspection. Any person who fails to file the required disclosure shall be subject to a civil penalty of not less that $10,000 and not more than $100,000 for each such failure.

Signature: Walter K Knorr
Print Name: Walter K. Knorr
Title: Comptroller
Telephone No.: (217) 333-2187 Date: 8/13/2009

Federal Use Only:

Authorized for Local Reproduction
Standard Form LLL (Rev. 7-97)

INSTRUCTIONS FOR COMPLETION OF SF-LLL, DISCLOSURE OF LOBBYING ACTIVITIES

This disclosure form shall be completed by the reporting entity, whether subawardee or prime Federal recipient, at the initiation or receipt of a covered Federal action, or a material change to a previous filing, pursuant to title 31 U.S.C. section 1352. The filing of a form is required for each payment or agreement to make payment to any lobbying entity for influencing or attempting to influence an officer or employee of any agency, a Member of Congress, an officer or employee of Congress, or an employee of a Member of Congress in connection with a covered Federal action. Complete all items that apply for both the initial filing and material change report. Refer to the implementing guidance published by the Office of Management and Budget for additional information.

1. Identify the type of covered Federal action for which lobbying activity is and/or has been secured to influence the outcome of a covered Federal action.

2. Identify the status of the covered Federal action.

3. Identify the appropriate classification of this report. If this is a followup report caused by a material change to the information previously reported, enter the year and quarter in which the change occurred. Enter the date of the last previously submitted report by this reporting entity for this covered Federal action.

4. Enter the full name, address, city, State and zip code of the reporting entity. Include Congressional District, if known. Check the appropriate classification of the reporting entity that designates if it is, or expects to be, a prime or subaward recipient. Identify the tier of the subawardee, e.g., the first subawardee of the prime is the 1st tier. Subawards include but are not limited to subcontracts, subgrants and contract awards under grants.

5. If the organization filing the report in item 4 checks "Subawardee," then enter the full name, address, city, State and zip code of the prime Federal recipient. Include Congressional District, if known.

6. Enter the name of the Federal agency making the award or loan commitment. Include at least one organizationallevel below agency name, if known. For example, Department of Transportation, United States Coast Guard.

7. Enter the Federal program name or description for the covered Federal action (item 1). If known, enter the full Catalog of Federal Domestic Assistance (CFDA) number for grants, cooperative agreements, loans, and loan commitments.

8. Enter the most appropriate Federal identifying number available for the Federal action identified in item 1 (e.g., Request for Proposal (RFP) number; Invitation for Bid (IFB) number; grant announcement number; the contract, grant, or loan award number; the application/proposal control number assigned by the Federal agency). Include prefixes, e.g., "RFP-DE-90-001."

9. For a covered Federal action where there has been an award or loan commitment by the Federal agency, enter the Federal amount of the award/loan commitment for the prime entity identified in item 4 or 5.

10. (a) Enter the full name, address, city, State and zip code of the lobbying registrant under the Lobbying Disclosure Act of 1995 engaged by the reporting entity identified in item 4 to influence the covered Federal action.

    (b) Enter the full names of the individual(s) performing services, and include full address if different from 10 (a). Enter Last Name, First Name, and Middle Initial (MI).

11. The certifying official shall sign and date the form, print his/her name, title, and telephone number.

FORM CD-511
(REV 1-05)

U.S. DEPARTMENT OF COMMERCE

CERTIFICATION REGARDING LOBBYING

Applicants should also review the instructions for certification included in the regulations before completing this form. Signature on this form provides for compliance with certification requirements under 15 CFR Part 28, "New Restrictions on Lobbying." The certifications shall be treated as a material representation of fact upon which reliance will be placed when the Department of Commerce determines to award the covered transaction, grant, or cooperative agreement.

LOBBYING

As required by Section 1352, Title 31 of the U.S. Code, and implemented at 15 CFR Part 28, for persons entering into a grant, cooperative agreement or contract over $100,000 or a loan or loan guarantee over $150,000 as defined at 15 CFR Part 28, Sections 28.105 and 28.110, the applicant certifies that to the best of his or her knowledge and belief, that:

(1) No Federal appropriated funds have been paid or will be paid, by or on behalf of the undersigned, to any person for influencing or attempting to influence an officer or employee of any agency, a Member of Congress in conncection with the awarding of any Federal contract, the making of any Federal grant, the making of any Federal loan, the entering into of any cooperative agreement, and the extension, continuation, renewal, amendment, or modification of any Federal contract, grant, loan, or cooperative agreement.

(2) If any funds other than Federal appropriated funds have been paid or will be paid to any person for influencing or attempting to influence an officer or employee of any agency, a Member of Congress, an officer or employee of Congress, or an employee of a member of Congress in connection with this Federal contract, grant, loan, or cooperative agreement, the undersigned shall complete and submit Standard Form-LLL, "Disclosure Form to Report Lobbying." in accordance with its instructions.

(3) The undersigned shall require that the language of this certification be included in the award documents for all subawards at all tiers (including subcontracts, subgrants, and contracts under grants, loans, and cooperative agreements) and that all subrecipients shall certify and disclose accordingly.

This certification is a material representation of fact upon which reliance was placed when this transaction was made or entered into. Submission of this certification is a prerequisite for making or entering into this transaction imposed by section 1352, title 31, U.S. Code. Any person who fails to file the required certification shall be subject to a civil penalty of not less than $10,000 and not more than $100,000 for each such failure occurring on or before October 23, 1996, and of not less than $11,000 and not more than $110,000 for each such failure occurring after October 23, 1996.

Statement for Loan Guarantees and Loan Insurance

The undersigned states, to the best of his or her knowledge and belief, that:

In any funds have been paid or will be paid to any person for influencing or attempting to influence an officer or employee of any agency, a Member of Congress, an officer or employee of Congress, or an employee of a Member of Congress in connection with this commitment providing for the United States to insure or guarantee a loan, the undersigned shall complete and submit Standard Form-LLL, "Disclosure Form to Report Lobbying," in accordance with its instructions.

Submission of this statement is a prerequisite for making or entering into this transaction imposed by section 1352, title 31, U.S. Code. Any person who fails to file the required statement shall be subject to a civil penalty of not less than $10,000 and not more than $100,000 for each such failure occurring on or before October 23, 1996, and of not less than $11,000 and not more than $110,000 for each such failure occurring after October 23, 1996.

As the duly authorized representative of the applicant, I hereby certify that the applicant will comply with the above applicable certification.

NAME OF APPLICANT	AWARD NUMBER AND/OR PROJECT NAME
Board of Trustees of the University of Illinois	UC2B-Infrastructure
PRINTED NAME AND TITLE OF AUTHORIZED REPRESENTATIVE	
Walter K. Knorr, Comptroller	
SIGNATURE	DATE
Walter K Knorr	August 10, 2009

ASSURANCES - CONSTRUCTION PROGRAMS

Public reporting burden for this collection of information is estimated to average 15 minutes per response, including time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding the burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to the Office of Management and Budget, Paperwork Reduction Project (0348-0042), Washington, DC 20503.

PLEASE DO NOT RETURN YOUR COMPLETED FORM TO THE OFFICE OF MANAGEMENT AND BUDGET. SEND IT TO THE ADDRESS PROVIDED BY THE SPONSORING AGENCY.

NOTE: Certain of these assurances may not be applicable to your project or program. If you have questions, please contact the Awarding Agency. Further, certain Federal assistance awarding agencies may require applicants to certify to additional assurances. If such is the case, you will be notified.

As the duly authorized representative of the applicant, I certify that the applicant:

1. Has the legal authority to apply for Federal assistance, and the institutional, managerial and financial capability (including funds sufficient to pay the non-Federal share of project costs) to ensure proper planning, management and completion of the project described in this application.

2. Will give the awarding agency, the Comptroller General of the United States and, if appropriate, the State, the right to examine all records, books, papers, or documents related to the assistance; and will establish a proper accounting system in accordance with generally accepted accounting standards or agency directives.

3. Will not dispose of, modify the use of, or change the terms of the real property title, or other interest in the site and facilities without permission and instructions from the awarding agency. Will record the Federal awarding agency directives and will include a covenant in the title of real property acquired in whole or in part with Federal assistance funds to assure non-discrimination during the useful life of the project.

4. Will comply with the requirements of the assistance awarding agency with regard to the drafting, review and approval of construction plans and specifications.

5. Will provide and maintain competent and adequate engineering supervision at the construction site to ensure that the complete work conforms with the approved plans and specifications and will furnish progress reports and such other information as may be required by the assistance awarding agency or State.

6. Will initiate and complete the work within the applicable time frame after receipt of approval of the awarding agency.

7. Will establish safeguards to prohibit employees from using their positions for a purpose that constitutes or presents the appearance of personal or organizational conflict of interest, or personal gain.

8. Will comply with the Intergovernmental Personnel Act of 1970 (42 U.S.C. §§4728-4763) relating to prescribed standards for merit systems for programs funded under one of the 19 statutes or regulations specified in Appendix A of OPM's Standards for a Merit System of Personnel Administration (5 C.F.R. 900, Subpart F).

9. Will comply with the Lead-Based Paint Poisoning Prevention Act (42 U.S.C. §§4801 et seq.) which prohibits the use of lead-based paint in construction or rehabilitation of residence structures.

10. Will comply with all Federal statutes relating to non-discrimination. These include but are not limited to: (a) Title VI of the Civil Rights Act of 1964 (P.L. 88-352) which prohibits discrimination on the basis of race, color or national origin; (b) Title IX of the Education Amendments of 1972, as amended (20 U.S.C. §§1681 1683, and 1685-1686), which prohibits discrimination on the basis of sex; (c) Section 504 of the Rehabilitation Act of 1973, as amended (29 U.S.C. §794), which prohibits discrimination on the basis of handicaps; (d) the Age Discrimination Act of 1975, as amended (42 U.S.C. §§6101-6107), which prohibits discrimination on the basis of age; (e) the Drug Abuse Office and Treatment Act of 1972 (P.L. 92-255), as amended, relating to nondiscrimination on the basis of drug abuse; (f) the Comprehensive Alcohol Abuse and Alcoholism Prevention, Treatment and Rehabilitation Act of 1970 (P.L. 91-616), as amended, relating to nondiscrimination on the basis of alcohol abuse or alcoholism; (g) §§523 and 527 of the Public Health Service Act of 1912 (42 U.S.C. §§290 dd-3 and 290 ee 3), as amended, relating to confidentiality of alcohol and drug abuse patient records; (h) Title VIII of the Civil Rights Act of 1968 (42 U.S.C. §§3601 et seq.), as amended, relating to nondiscrimination in the sale, rental or financing of housing; (i) any other nondiscrimination provisions in the specific statute(s) underwhich application for Federal assistance is being made; and, (j) the requirements of any other nondiscrimination statute(s) which may apply to the application.

11. Will comply, or has already complied, with the requirements of Titles II and III of the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 (P.L. 91-646) which provide for fair and equitable treatment of persons displaced or whose property is acquired as a result of Federal and federally-assisted programs. These requirements apply to all interests in real property acquired for project purposes regardless of Federal participation in purchases.

12. Will comply with the provisions of the Hatch Act (5 U.S.C. §§1501-1508 and 7324-7328) which limit the political activities of employees whose principal employment activities are funded in whole or in part with Federal funds.

13. Will comply, as applicable, with the provisions of the Davis-Bacon Act (40 U.S.C. §§276a to 276a-7), the Copeland Act (40 U.S.C. §276c and 18 U.S.C. §874), and the Contract Work Hours and Safety Standards Act (40 U.S.C. §§327-333) regarding labor standards for federally-assisted construction subagreements.

14. Will comply with flood insurance purchase requirements of Section 102(a) of the Flood Disaster Protection Act of 1973 (P.L. 93-234) which requires recipients in a special flood hazard area to participate in the program and to purchase flood insurance if the total cost of insurable construction and acquisition is $10,000 or more.

15. Will comply with environmental standards which may be prescribed pursuant to the following: (a) institution of environmental quality control measures under the National Environmental Policy Act of 1969 (P.L. 91-190) and Executive Order (EO) 11514; (b) notification of violating facilities pursuant to EO 11738; (c) protection of wetlands pursuant to EO 11990; (d) evaluation of flood hazards in floodplains in accordance with EO 11988; (e) assurance of project consistency with the approved State management program developed under the Coastal Zone Management Act of 1972 (16 U.S.C. §§1451 et seq.); (f) conformity of Federal actions to State (Clean Air) implementation Plans under Section 176(c) of the Clean Air Act of 1955, as amended (42 U.S.C. §§7401 et seq.); (g) protection of underground sources of drinking water under the Safe Drinking Water Act of 1974, as amended (P.L. 93-523); and, (h) protection of endangered species under the Endangered Species Act of 1973, as amended (P.L. 93-205).

16. Will comply with the Wild and Scenic Rivers Act of 1968 (16 U.S.C. §§1271 et seq.) related to protecting components or potential components of the national wild and scenic rivers system.

17. Will assist the awarding agency in assuring compliance with Section 106 of the National Historic Preservation Act of 1966, as amended (16 U.S.C. §470), EO 11593 (identification and protection of historic properties), and the Archaeological and Historic Preservation Act of 1974 (16 U.S.C. §§469a-1 et seq).

18. Will cause to be performed the required financial and compliance audits in accordance with the Single Audit Act Amendments of 1996 and OMB Circular No. A-1 33, "Audits of States, Local Governments, and Non-Profit Organizations."

19. Will comply with all applicable requirements of all other Federal laws, executive orders, regulations, and policies governing this program.

*SIGNATURE OF AUTHORIZED CERTIFYING OFFICIAL	*TITLE
Walter Knorr	Comptroller
*APPLICANT ORGANIZATION	*DATE SUBMITTED
Board of Trustees of the Univ. of Illinois	08-10-2009

Broadband Infrastructure Application
Submission to RUS (BIP) and NTIA (BTOP)

Certification Requirements BTOP

U.S. Department of Commerce
Broadband Technology Opportunities Program

(i) I certify that I am authorized to submit this grant application on behalf of the eligible entity(ies) listed on this application, that I have examined this application, that all of the information and responses in this application, including certifications, and forms submitted, all of which are part of this grant application, are material representations of fact and true and correct to the best of my knowledge, that the entity(ies) that is requesting grant funding pursuant to this application and any subgrantees and subcontractors will comply with the terms, conditions, purposes, and federal requirements of the grant program; that no kickbacks were paid to anyone; and that a false, fictitious, or fraudulent statements or claims on this application are grounds for denial or termination of a grant award, and/or possible punishment by a fine or imprisonment as provided in 18 U.S.C. § 1001 and civil violations of the False Claims Act.

(ii) I certify that the entity(ies) I represent have and will comply with all applicable federal, state, and local laws, rules, regulations, ordinances, codes, orders and programmatic rules and requirements relating to the project. I acknowledge that failure to do so may result in rejection or deobligation of the grant or loan award. I acknowledge that failure to comply with all federal and program rules could result in civil or criminal prosecution by the appropriate law enforcement authorities.

(iii) If requesting BTOP funding, I certify that the entity(ies) I represent has and will comply with all applicable administrative and federal statutory, regulatory, and policy requirements set forth in the DOC Pre-Award Notification, published in the Federal Register on February 11, 2008 (73 FR 7696), as amended; DOC Financial Assistance Standard Terms and Conditions (Mar. 8, 2009); DOC American Recovery and Reinvestment Act Award Terms (April 9, 2009); and any Special Award Terms and Conditions that are included by the Grants Officer in the award."

08-10-2009
(Date)

(Authorized Representative's Signature)

Walter K. Knorr
Name:

Comptroller
Title:

Attachment C
Existing Middle Mile Broadband Providers

UC2B

Provider	Technology	Service Tier	Point-to-Point	Minimum Peak Load Network Bandwidth Capacity	Pricing	Comments
AT&T	Ethernet	bronze	100MB	N/A	$ 475.00	port charge
			1GB	N/A	$ 850.00	port charge
			CIR - 100MB	100MB	$ 700.70	
			CIR - 1GB	1GB	$ 1,004.25	
		silver	100MB	N/A	$ 475.00	port charge
			1GB	N/A	$ 850.00	port charge
			CIR - 100MB	100MB	$ 818.26	
			CIR - 1GB	1GB	$ 1,189.68	
Paetec	Ethernet	1 YR	100MB	100MB	$ 600.00	Install fees not included
			1GB	1GB	$ 2,000.00	
		3 YR	100MB	100MB	$ 500.00	Install fees not included
			1GB	1GB	$ 1,800.00	
		5YR	100MB	100MB	$ 425.00	Install fees not included
			1GB	1GB	$ 1,530.00	

Attachment C
Existing Last Mile Broadband Service Providers

			residential		business		
Provider	Technology	Service Tier	downstream /upstream	price	downstream/ upstream	price	comments
Volo	wireless	basic	250MB/day	$ 32.00	250	$ 32.00	$300 installation fee
		advanced	500MB/day	$ 50.00	500MB/day	$ 50.00	$350 installation fee
Comcast	cable	Economy	1MB/384K	$ 24.95	6MB/1MB	$ 59.95	
		Performance	12MB/2MB	$ 42.95			
		Blast!	16MB/2MB	$ 52.95	16MB/2MB	$ 89.95	
AT&T	DSL	basic	768K/384K	$ 19.95			
		express	1.5MB/384K	$ 25.00	1.5MB/384K	$ 35.00	
		pro	3MB/512K	$ 30.00	3MB/512K	$ 40.00	
		elite	6MB/768K	$ 35.00			

Question 50 - Business Plan Assumptions

Assumption	Value	What it Means	Why it is reasonable
Project Start Date	2010	Operations start 45 days after notice of funding by NTIA	It will take a while to get the paperwork finalized and it is easier to track on a calendar year basis rather than Nov 7th through Nov 6th.
Borrowing required in 2011	$141,011	Only 3 months of actual operations in 2010	It will take 9 months to do the detailed engineering and the construction necessary to be able to turn up the first customers.
Borrowing required in 2012	$2,000,000	The ARRA grant funded constriction will be finished by October of 2011	This allows for the steady continued addition of last-mile service areas
Borrowing required in 2013	$2,500,000	More borrowing to fund expansion	This allows for the steady continued addition of last-mile service areas
Borrowing required in 2014	$2,500,000	More borrowing to fund expansion	This allows for the steady continued addition of last-mile service areas
Cost of capital	6.00%	UC2B will need to borrow money to expand	This is probably a conservative rate, given that the partners in UC2B have a variety of long-term bonding options available to them.
Amortization of borrowed funds	10 years	Municipalities qualify for long-term financing	This is a 20-year project, so a 10-year loan is reasonable.
Inflation Factor	3.00%	- General price increase (decrease) - proxy for CPI	Reflects current economic conditions
Wage Inflation	3.00%	- for specific jobs and wages (HEADCOUNT section below)	Reflects current economic conditions
Labor Overhead	30.00%	- assumed load for labor (insurance, FICA, taxes, etc)	Reflects current economic conditions
Bad Debt	2.00%	- percent of total revenue	Reflects current economic conditions

Depreciation Life	**Years**		
FTTP	20	- fiber set equal to useful life	Typical industry numbers
Buildings	30	- all else set equal to useful life, with replacement	Typical industry numbers
Inside Plant	5	made at end of useful life at the same cost	Typical industry numbers
Electronics	5	as the original cost.	Typical industry numbers
New Sites	20		Typical industry numbers
Vehicles	5		Typical industry numbers
Network Mgt Gear	5		Typical industry numbers
Office 2	5		Typical industry numbers
Misc. Other	5		Typical industry numbers
Salvage Value	10%	- of cost (residual value)	Typical industry numbers

Soft Costs	**% of Total Cap-ex**		
Engineering	2.00%		Typical industry numbers for the size of the contemplated project
OSP const. Mgt	1.00%		Typical industry numbers for the size of the contemplated project
Start-up	2.00%		Typical industry numbers for the size of the contemplated project
Other	1.00%		Typical industry numbers for the size of the contemplated project
Project Mgt Fee	5.00%		Typical industry numbers for the size of the contemplated project
Training	1.00%		Typical industry numbers for the size of the contemplated project

Amortization Life	Years		
Engineering	20	- set equal to life of the project	Typical industry numbers
OSP const. Mgt	10		Typical industry numbers
Start-up	5	- arbitrary amortization term	Typical industry numbers
Other	5		Typical industry numbers
Project Mgt Fee	20	- set equal to life of the project	Typical industry numbers
Training	5		Typical industry numbers
Salvage Value - Amort	10%	- % of cost	nominal value, typical for electronics at end of useful life

Operating Cost Assumptions

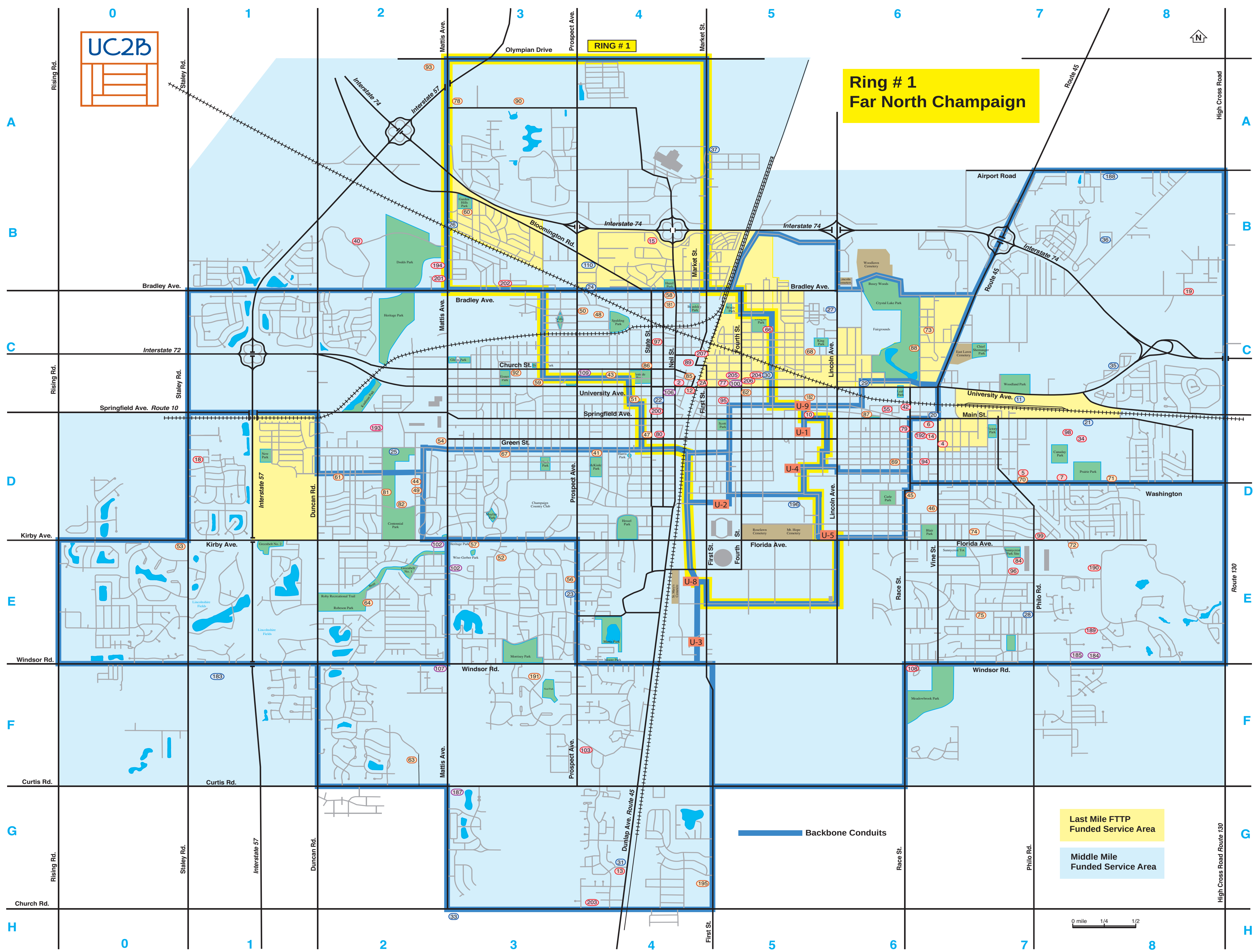
Network Maintenance

Backbone Network	$1,500	- per route mile per year	covers all maintenance, locates, repairs; typical for urban area
Cost to install a new FTTH or VLAN customer	$1,500	Includes fiber from curb, electronics on both ends and inside wiring.	typical industry number

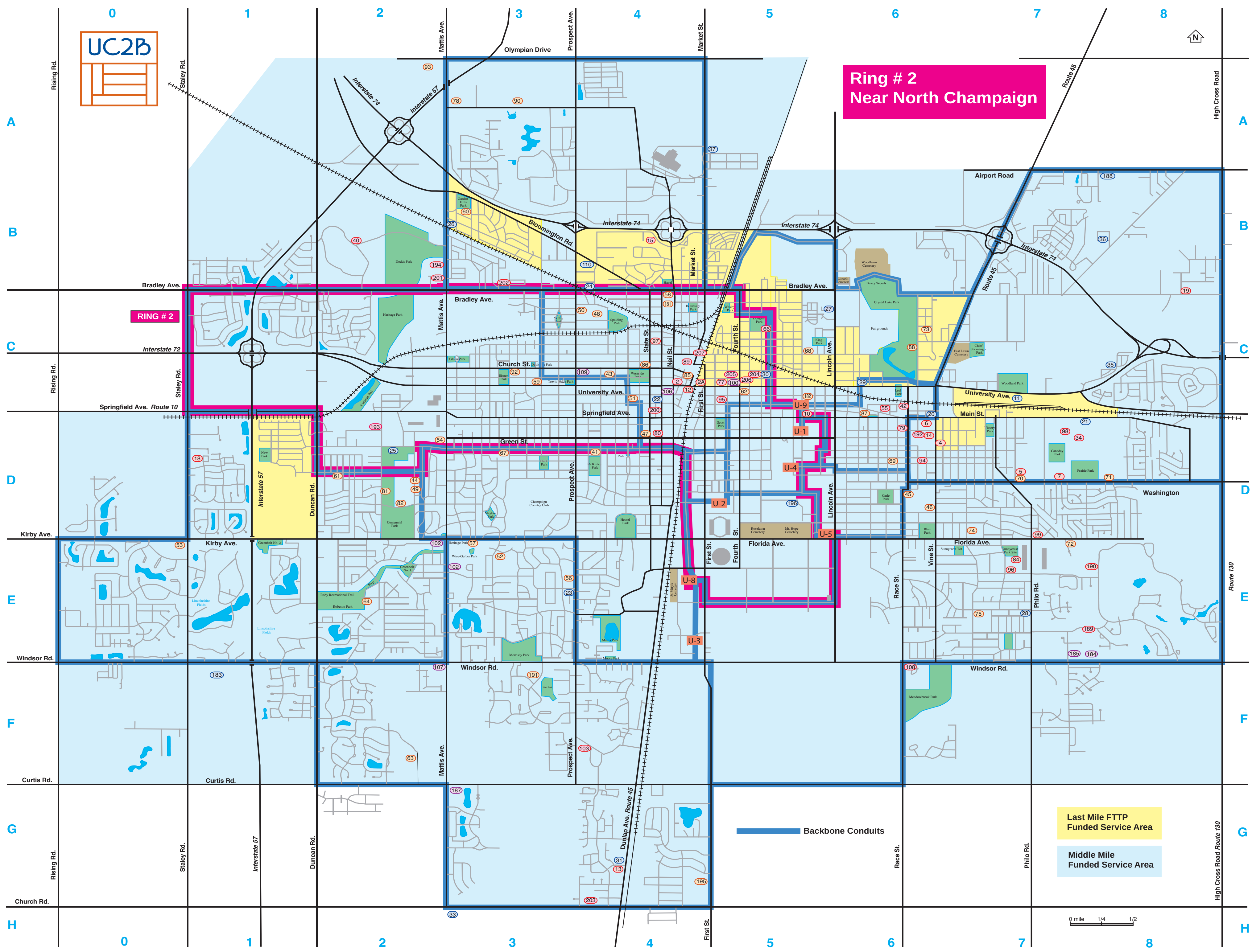
UC2B

Urbana-Champaign Big Broadband

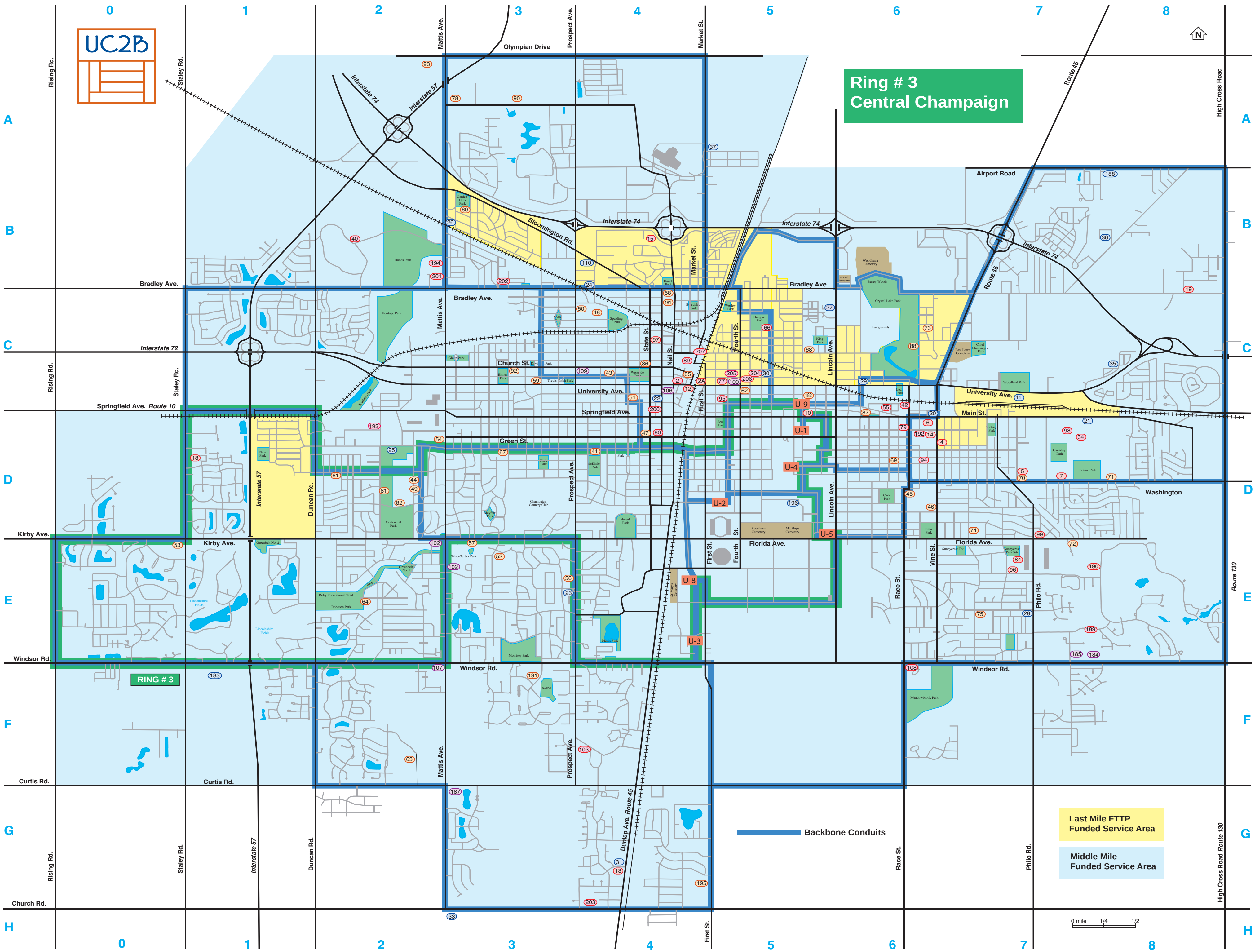
Middle Mile Fiber Ring Locations



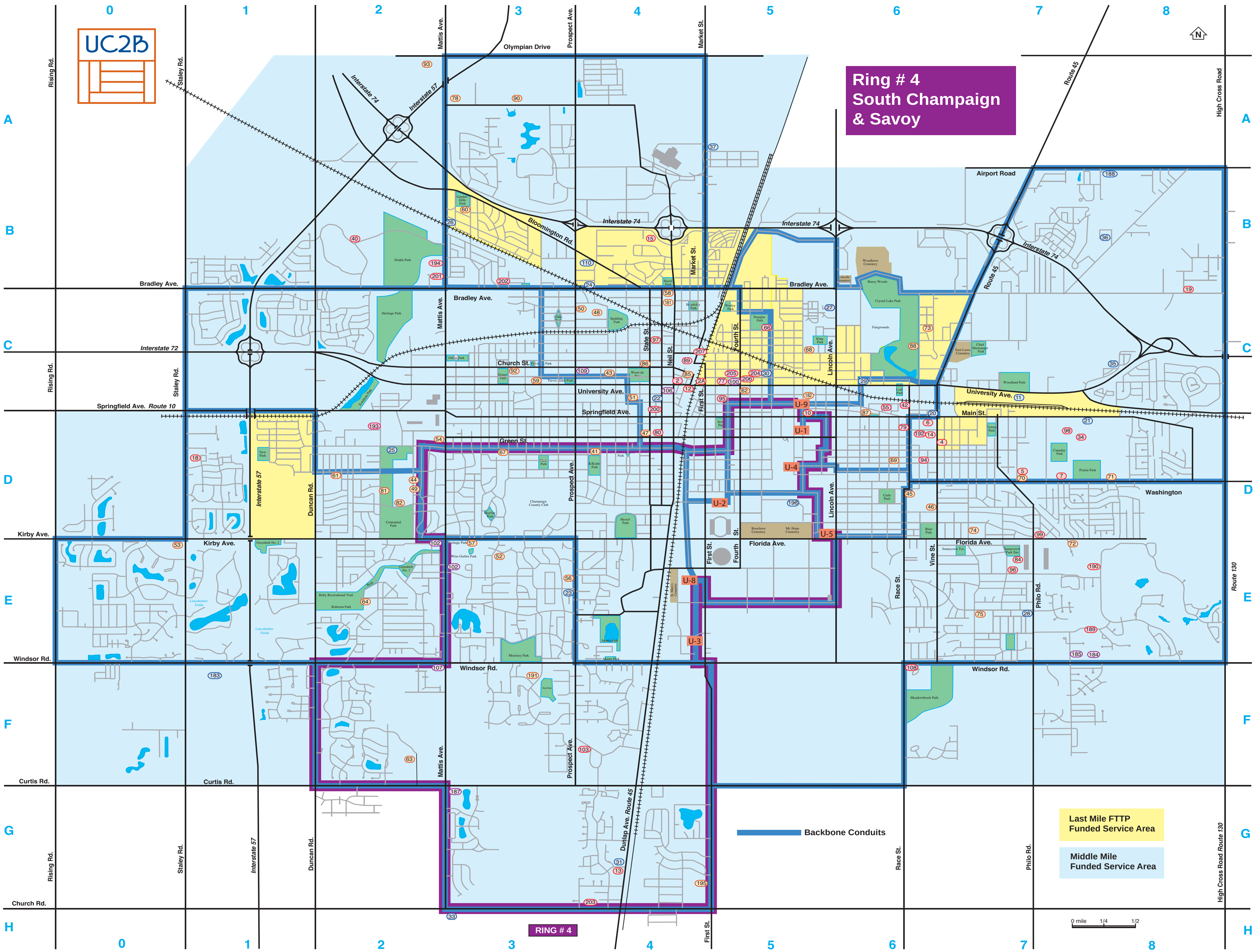
UC2B
RING # 1
Ring # 1
Far North Champaign
Olympian Drive
Airport Road
Bradley Ave.
Interstate 72
Interstate 74
Interstate 57
Springfield Ave. Route 10
Kirby Ave.
Windsor Rd.
Curtis Rd.
Church Rd.
Bloomington Rd.
Church St.
University Ave.
Springfield Ave.
Green St.
Main St.
Florida Ave.
Washington
Rising Rd.
Staley Rd.
Duncan Rd.
Mattis Ave.
Prospect Ave.
Market St.
State St.
Neil St.
First St.
Fourth St.
Lincoln Ave.
Race St.
Vine St.
Philo Rd.
Route 45
Dunlap Ave. Route 45
Route 130
High Cross Road
High Cross Road Route 130
U-1
U-2
U-3
U-4
U-5
U-8
U-9
Backbone Conduits
Last Mile FTTP Funded Service Area
Middle Mile Funded Service Area
0 mile 1/4 1/2



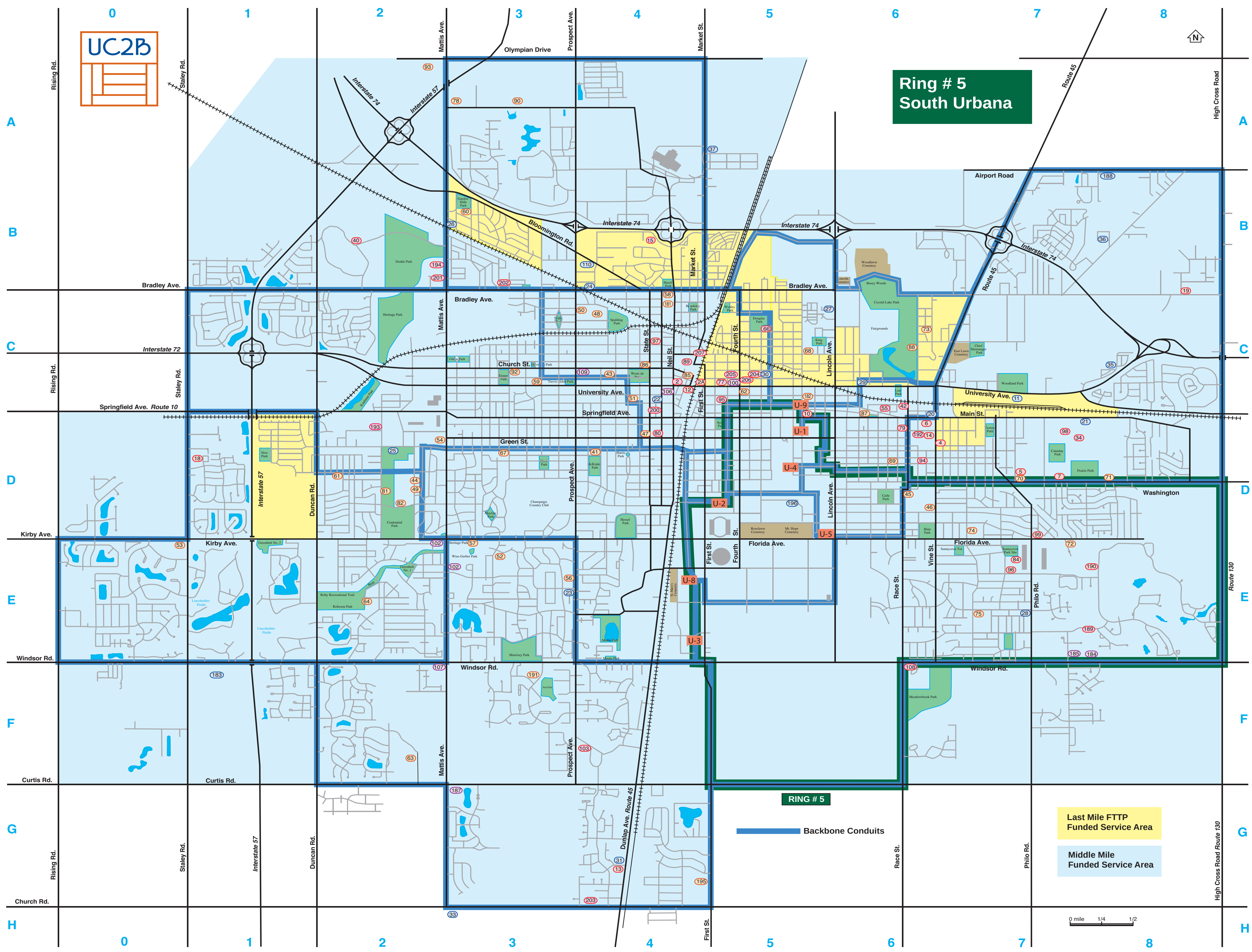
UC2B
Ring # 2
Near North Champaign
RING # 2
Backbone Conduits
Last Mile FTTP Funded Service Area
Middle Mile Funded Service Area
0 mile 1/4 1/2
Olympian Drive
Interstate 74
Interstate 57
Interstate 72
Bloomington Rd.
Bradley Ave.
Church St.
University Ave.
Springfield Ave.
Green St.
Kirby Ave.
Florida Ave.
Windsor Rd.
Curtis Rd.
Church Rd.
Airport Road
Main St.
Washington
Rising Rd.
Staley Rd.
Duncan Rd.
Mattis Ave.
Prospect Ave.
Market St.
State St.
Neil St.
First St.
Fourth St.
Lincoln Ave.
Race St.
Vine St.
Philo Rd.
Route 45
Dunlap Ave. Route 45
High Cross Road Route 130
Springfield Ave. Route 10
U-1
U-2
U-3
U-4
U-5
U-8
U-9

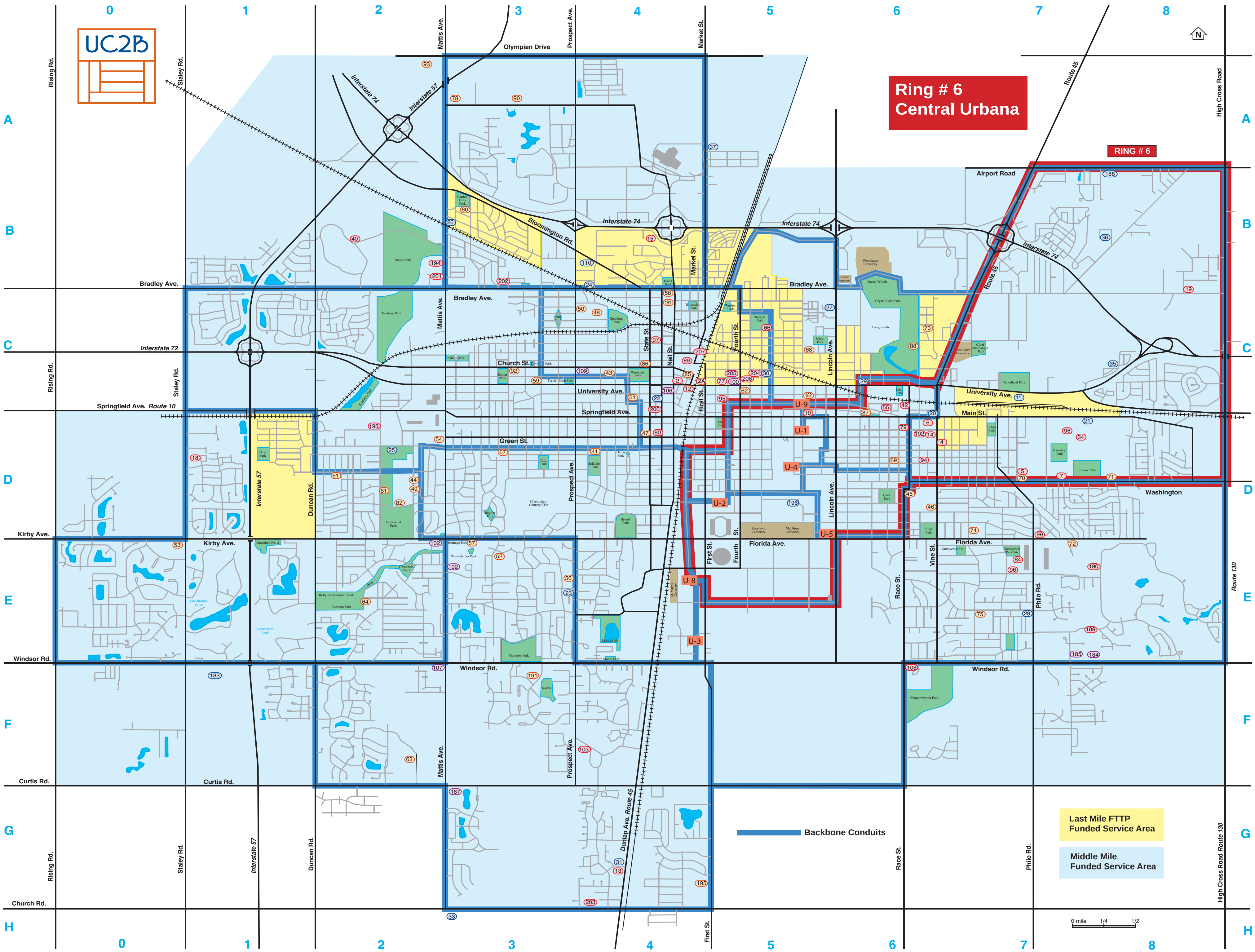


UC2B
Ring # 3
Central Champaign
RING # 3
Backbone Conduits
Last Mile FTTP Funded Service Area
Middle Mile Funded Service Area
0 mile 1/4 1/2
Olympian Drive
Interstate 74
Interstate 57
Interstate 72
Bloomington Rd.
Bradley Ave.
Church St.
University Ave.
Springfield Ave.
Springfield Ave. Route 10
Green St.
Kirby Ave.
Florida Ave.
Windsor Rd.
Curtis Rd.
Church Rd.
Airport Road
Main St.
Washington
Rising Rd.
Staley Rd.
Duncan Rd.
Mattis Ave.
Prospect Ave.
Market St.
State St.
Neil St.
First St.
Fourth St.
Lincoln Ave.
Vine St.
Race St.
Philo Rd.
Route 45
Dunlap Ave. Route 45
Route 130
High Cross Road
High Cross Road Route 130
U-1
U-2
U-3
U-4
U-5
U-8
U-9

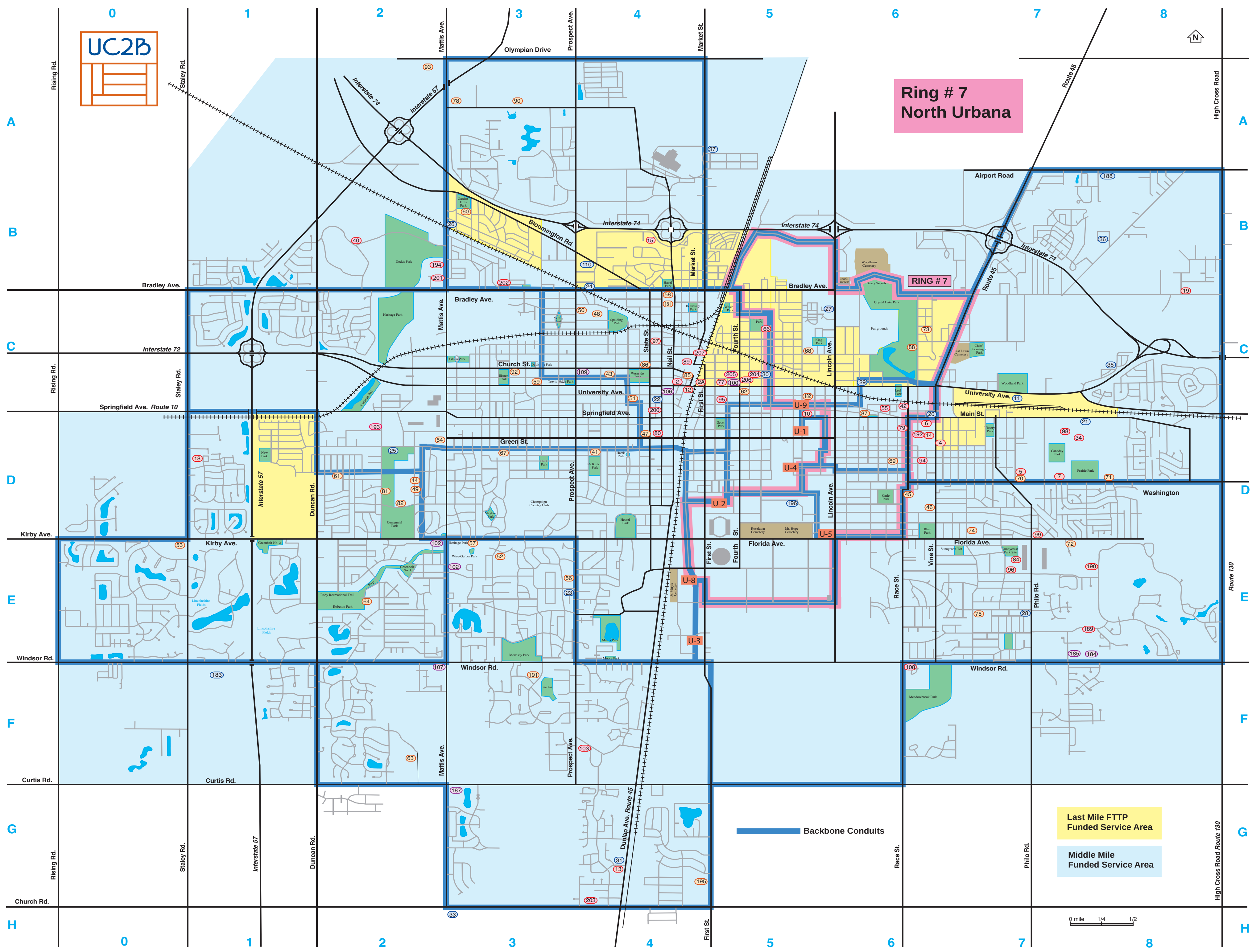


Ring # 4
South Champaign
& Savoy
UC2B
Last Mile FTTP
Funded Service Area
Middle Mile
Funded Service Area
Backbone Conduits
RING # 4
Olympian Drive
Interstate 74
Interstate 57
Interstate 72
Airport Road
Bradley Ave.
Bloomington Rd.
Church St.
University Ave.
Springfield Ave.
Springfield Ave. Route 10
Main St.
Green St.
Kirby Ave.
Florida Ave.
Windsor Rd.
Curtis Rd.
Church Rd.
Washington
Rising Rd.
Staley Rd.
Duncan Rd.
Mattis Ave.
Prospect Ave.
Market St.
State St.
Neil St.
First St.
Fourth St.
Lincoln Ave.
Race St.
Vine St.
Philo Rd.
Route 45
Dunlap Ave. Route 45
High Cross Road
Route 130
High Cross Road Route 130
U-1
U-2
U-3
U-4
U-5
U-8
U-9
0 mile
1/4
1/2


UC2B
Ring # 5
South Urbana
Olympian Drive
Airport Road
Interstate 74
Interstate 57
Interstate 72
Bloomington Rd.
Bradley Ave.
Church St.
University Ave.
Springfield Ave.
Springfield Ave. Route 10
Main St.
Green St.
Kirby Ave.
Florida Ave.
Windsor Rd.
Curtis Rd.
Church Rd.
Washington
Rising Rd.
Staley Rd.
Duncan Rd.
Mattis Ave.
Prospect Ave.
Market St.
State St.
Neil St.
First St.
Fourth St.
Lincoln Ave.
Vine St.
Race St.
Philo Rd.
Route 45
Route 130
High Cross Road
High Cross Road Route 130
Dunlap Ave. Route 45
U-1
U-2
U-3
U-4
U-5
U-8
U-9
RING # 5
Backbone Conduits
Last Mile FTTP
Funded Service Area
Middle Mile
Funded Service Area
0 mile
1/4
1/2
N



UC2B
Ring # 6
Central Urbana
RING # 6
Backbone Conduits
Last Mile FTTP
Funded Service Area
Middle Mile
Funded Service Area
0 mile 1/4 1/2
Olympian Drive
Airport Road
Bradley Ave.
Interstate 72
Springfield Ave. Route 10
Kirby Ave.
Windsor Rd.
Curtis Rd.
Church Rd.
Interstate 74
Interstate 57
Bloomington Rd.
Church St.
University Ave.
Springfield Ave.
Green St.
Florida Ave.
Main St.
Washington
Rising Rd.
Staley Rd.
Duncan Rd.
Mattis Ave.
Prospect Ave.
Market St.
State St.
Neil St.
First St.
Fourth St.
Lincoln Ave.
Race St.
Vine St.
Philo Rd.
Route 45
Dunlap Ave. Route 45
High Cross Road
High Cross Road Route 130
Route 130
U-1
U-2
U-3
U-4
U-5
U-8
U-9



UC2B
Ring # 7
North Urbana
RING # 7
Backbone Conduits
Last Mile FTTP
Funded Service Area
Middle Mile
Funded Service Area
0 mile 1/4 1/2
Olympian Drive
Airport Road
Interstate 74
Interstate 57
Interstate 72
Bloomington Rd.
Bradley Ave.
Church St.
University Ave.
Springfield Ave.
Springfield Ave. Route 10
Green St.
Main St.
Washington
Kirby Ave.
Florida Ave.
Windsor Rd.
Curtis Rd.
Church Rd.
Rising Rd.
Staley Rd.
Duncan Rd.
Mattis Ave.
Prospect Ave.
Market St.
State St.
Neil St.
First St.
Fourth St.
Lincoln Ave.
Race St.
Vine St.
Philo Rd.
Route 45
Dunlap Ave. Route 45
High Cross Road
High Cross Road Route 130
Route 130
U-1
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U-3
U-4
U-5
U-8
U-9
A
B
C
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UNIVERSITY OF ILLINOIS
AT URBANA-CHAMPAIGN

Office of the Provost and Vice Chancellor
for Academic Affairs

Swanlund Administration Building
601 East John Street
Champaign, IL 61820

August 10, 2009

Broadband Technology Opportunities Program
National Telecommunications and Information Administration
U.S. Department of Commerce
1401 Constitution Avenue, NW
HCHB, Room 4812
Washington, DC 20230

Dear Sir/Madam;

I am writing in regard to the University of Illinios at Urbana-Champaign's involvement in the Urbana-Champaign Big Broadband Consortium. While this critical infrastructure project will provide a great benefit to the campus and local community, it would have been impossible for the university to pursue this project without federal support. During four of the last five years, the Urbana-Champaign campus fully expended its unrestricted operating funds. As the campus budget officer, I certify that without federal grant assistance, it would be impossible for the campus to implement this project.

Please let me know if you require additional information.

Cordially,

Michael Andrechak

Michael Andrechak
Associate Provost for Budgets
and Resource Planning

47. Historical Financial Statements:

The Urbana-Champaign Big Broadband (UC2B) Consortium was specifically formed for the purpose of seeking ARRA funding and implementing the three UC2B proposals. There are no historical or current financial statements. Those working on the Consortium have either been doing so within the context of their employment with one of the two cities or the University of Illinois, or have been community volunteers.

The University has been in business since 1867 and the two cities even longer, but their financial statements would not be relevant to the BTOP proposals being considered by NTIA. As a public entity, the UC2B Consortium will have public financial statements available once operations commence.

As the University of Illinois is the lead agency for the consortium, appended here are the University's last two years of financial statements. If this document is truncated upon uploading to easygrants, the full documents are online at:

http://www.obfs.uillinois.edu/obfshome.cfm?level=2&path=aboutobfs&xmldata=annualreports

University of Illinois
Urbana-Champaign · Chicago · Springfield

ANNUAL FINANCIAL REPORT
Fiscal Year 2007

AUDITED FINANCIAL STATEMENTS

Statement of Net Assets as of June 30, 2007
with Comparative Totals for 2006 (in thousands)

	University		University Related Organizations	
	2007	2006	2007	2006
ASSETS				
Current Assets:				
Cash and cash equivalents	$ 281,621	$ 206,549	$ 3,724	$ 4,746
Cash and cash equivalents, restricted	365,395	180,516	2,346	1,157
Investments	4,490	21,274		
Investments, restricted	48,851	70,978		
Accrued investment income	5,091	5,228	2,033	1,800
Accounts receivable, net of allowance for uncollectible	335,262	326,248	33,905	15,284
Receivable from State of Illinois General Revenue Fund	1,577	929		
Pledges receivable, net of allowance			4,591	5,447
Notes receivable, net of allowance for uncollectible	10,998	14,062		
Accrued interest on notes receivable	2,895	3,011		
Inventories	27,542	25,232	4	3
Prepaid expenses and deferred charges	21,046	16,741	373	371
Due from related organizations	3,054	2,898		
Other assets			4,183	3,896
Total Current Assets	1,107,822	873,666	51,159	32,704
Noncurrent Assets:				
Cash and cash equivalents, restricted			1,447	591
Investments	339,340	353,934	152,774	143,122
Investments, restricted	235,904	262,184	1,095,925	923,111
Pledges receivable, net of allowance			20,656	17,769
Notes receivable, net of allowance for uncollectible	50,349	42,086		
Real estate and farm properties	14,060	13,468	24,406	26,021
Prepaid expenses	10,349	8,849		
Due from related organizations	3,577	6,774		
Irrevocable trust held by other trustees			8,617	9,562
Capital assets, net of accumulated depreciation	3,109,396	2,969,989	9,201	9,164
Other assets	12,851	6,137	15,289	14,777
Total Noncurrent Assets	3,775,826	3,663,421	1,328,315	1,144,117
TOTAL ASSETS	$ 4,883,648	$ 4,537,087	$ 1,379,474	$ 1,176,821
LIABILITIES AND NET ASSETS				
Current Liabilities:				
Accounts payable and accrued liabilities	$ 195,080	$ 158,681	$ 57,584	$ 41,196
Accrued payroll	119,267	115,608	564	457
Accrued compensated absences, current portion	16,761	16,671	984	922
Accrued self insurance, current portion	39,761	34,105		
Deferred revenue and student deposits	148,277	141,275	41	761
Accrued interest payable	17,191	13,648		
Notes payable			6,402	6,657
Annuities payable			6,700	7,331
Bonds payable, current portion	31,243	29,133		
Due to related organizations, current portion			3,054	2,898
Leaseholds payable and other obligations, current portion	34,285	32,691		
Assets held for others	32,530	28,634	89	
Total Current Liabilities	634,395	570,446	75,418	60,222
Noncurrent Liabilities:				
Bonds payable	1,060,804	805,579		
Leaseholds payable and other obligations	463,755	492,332		
Due to related organizations			3,577	6,774
Accrued compensated absences	192,421	190,636		
Accrued self-insurance	116,417	108,109		
Annuities payable			44,408	44,359
Remainder interest due to others			7,360	6,660
Deferred distributions			61	46
Total Noncurrent Liabilities	1,833,397	1,596,656	55,406	57,839
Total Liabilities	2,467,792	2,167,102	130,824	118,061
NET ASSETS				
Invested in capital assets, net of related debt	1,842,039	1,834,372	2,799	2,507
Restricted:				
Nonexpendable	51,345	45,520	838,362	703,487
Expendable	392,651	364,599	377,944	328,947
Unrestricted	129,821	125,494	29,545	23,819
Total Net Assets	2,415,856	2,369,985	1,248,650	1,058,760
TOTAL LIABILITIES AND NET ASSETS	$ 4,883,648	$ 4,537,087	$ 1,379,474	$ 1,176,821

See accompanying notes to financial statements.

Statement of Revenues, Expenses and Changes in Net Assets

Year Ended June 30, 2007 with Comparative Totals for 2006 (in thousands)

	University		University Related Organizations	
	2007	2006	2007	2006
OPERATING REVENUES:				
Student tuition and fees, net	$ 608,780	$ 554,856	$	$
Fee for services - state appropriation	46,207	44,626		
Federal appropriations	18,183	15,805		
Federal grants and contracts	585,981	593,144		
State of Illinois grants and contracts	82,382	68,646		
Private gifts, grants, and contracts	115,210	108,159	111,520	114,954
Educational activities	215,348	197,089		
Auxiliary enterprises, net	304,094	282,321		
Hospital and other medical activities, net	424,211	408,406		
Medical service plan	144,303	141,336		
Independent operations	10,620	11,786		
Interest and service charges on student loans	1,100	2,913		
On behalf - hospital and other medical activities	71,610	61,221		
Allocation from the University			12,324	8,642
Other sources			34,502	30,968
TOTAL OPERATING REVENUES	2,628,029	2,490,308	158,346	154,564
OPERATING EXPENSES:				
Instruction	703,540	666,200		
Research	561,876	556,874		
Public service	326,348	300,990		
Academic support	236,561	218,043		
Student services	88,374	82,656		
Institutional support	167,172	150,572	41,381	35,213
Operation and maintenance of plant	218,028	229,038		
Scholarships and fellowships	198,016	185,155		
Auxiliary enterprises	234,751	229,935		
Hospital and medical activites	431,762	406,466		
Independent operations	10,023	9,639		
Depreciation	191,679	185,105	510	328
On behalf payments for fringe benefits	376,657	327,927		
Distributions on behalf of the University			128,731	127,279
TOTAL OPERATING EXPENSES	3,744,787	3,548,600	170,622	162,820
Operating loss	(1,116,758)	(1,058,292)	(12,276)	(8,256)
NONOPERATING REVENUES (EXPENSES):				
State appropriations	665,752	655,521		
Private gifts	127,907	116,111		
On behalf payments for fringe benefits	305,047	266,706	1,540	1,770
Net investment income (net of investment expense of $2,124 in 2007)	63,733	38,992	10,336	7,499
Net increase in the fair value of investments	36,429	3,200	162,440	85,957
Interest on capital asset related debt	(71,768)	(61,657)	(541)	(465)
Loss on sale/disposal of capital assets	(1,834)	(1,063)		
Other nonoperating revenues	15,590	35,575	38	
Other nonoperating expenses				(6,950)
Net nonoperating revenues (expenses)	1,140,856	1,053,385	173,813	87,811
Income (loss) before other revenues, expenses, gains, or losses	24,098	(4,907)	161,537	79,555
Capital state appropriations	12,287	53,961		
Capital gifts and grants	8,541	11,639		
Private gifts for endowment purposes	945	208	28,353	31,397
INCREASE IN NET ASSETS	45,871	60,901	189,890	110,952
NET ASSETS, BEGINNING OF YEAR	2,369,985	2,309,084	1,058,760	947,808
NET ASSETS, END OF YEAR	$ 2,415,856	$ 2,369,985	$ 1,248,650	$ 1,058,760

See accompanying notes to financial statements.

Statement of Cash Flows

Year Ended June 30, 2007 with Comparative Totals for 2006 (in thousands)

	University		University Related Organizations	
	2007	2006	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:				
Student tuition and fees	$ 609,257	$ 559,611	$	$
Medical fees for service - state appropriations	46,207	44,626		
Federal, state, and local grants and contracts	686,489	680,459		
Private gifts, grants, and contracts	111,556	101,775	2,799	3,336
Sales and services of educational and other departmental activities	216,315	202,755		
Contributions and gifts			98,304	97,889
Service fee revenue			19,561	16,233
Auxiliary activities and independent operations	313,872	293,345		
Hospital and other medical activities	420,791	407,355		
Medical service plan	149,117	131,910		
Distributions on behalf of the University			(119,352)	(116,802)
Allocation from the University			8,376	8,226
Payments to employees and benefits	(2,036,192)	(1,947,205)	(18,866)	(16,800)
Payments to suppliers	(1,058,408)	(1,025,991)	(13,064)	(11,039)
Payments to annuitants	(40,991)	(39,086)	(7,853)	(8,088)
Student loans issued	(18,209)	(13,807)		
Student loans collected	11,297	13,071		
Student loan interest and fees collected	1,258	1,303		
Other operating revenue			11,715	8,193
NET CASH USED BY OPERATING ACTIVITIES	(587,641)	(589,879)	(18,380)	(18,852)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
State appropriations	665,104	655,838		
Gifts transferred from University of Illinois Foundation	127,907	116,111		
Private gifts for endowment purposes	14	663	28,353	31,397
Advances and repayments to related organizations, net	3,041	(4,611)	(1,772)	(400)
Other, net	11,106	28,135	(191)	(78)
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	807,172	796,136	26,390	30,919
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Proceeds from issuance of capital debt	330,171	198,746		
Capital state appropriations	659	9,004		
Capital gifts and grants	2,872	9,634		
Proceeds from the sale of capital assets		9,845		3,084
Purchase of capital assets	(297,769)	(226,475)	(764)	(713)
Principal payments on bonds and capital leases	(115,840)	(100,707)		
Interest payments on bonds and capital leases	(57,089)	(49,869)	(325)	(396)
Payment on notes payable and due to related organizations			(1,398)	(4,803)
Payments of bond issuance costs	(2,667)	(1,330)		
Other, net			(309)	(323)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(139,663)	(151,152)	(2,796)	(3,151)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest and dividends on investments, net	56,759	37,820	13,218	9,789
Proceeds from sales and maturities of investments	13,681,316	10,966,314	1,247,304	1,004,680
Purchase of investments	(13,557,992)	(10,938,945)	(1,264,713)	(1,023,412)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	180,083	65,189	(4,191)	(8,943)
Net increase (decrease) in cash and cash equivalents	259,951	120,294	1,023	(27)
Cash and Cash Equivalents, Beginning of Year	387,065	266,771	6,494	6,521
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 647,016	$ 387,065	$ 7,517	$ 6,494

Statement of Cash Flows

Year Ended June 30, 2007 with Comparative Totals for 2006 (in thousands) - (continued)

	University		University Related Organizations	
	2007	2006	2007	2006
Reconciliation of operating loss to net cash used by operating activities:				
Operating loss	$ (1,116,758)	$ (1,058,292)	$ (12,276)	$ (8,256)
Adjustments to reconcile operating loss to net cash used by operating activities:				
On behalf payments for reimbursement of hospital and medical activities	(71,610)	(61,221)		
On behalf payments for fringe benefits expense	376,657	327,927	1,540	1,770
Depreciation expense	191,679	185,105	510	328
Changes in assets and liabilities:				
Accounts receivable, net	(8,674)	(14,042)	(214)	633
Notes receivable, net	(5,198)	(2,149)		
Accrued interest on notes receivable	116	(1,610)		
Inventories	(2,310)	(2,330)	(1)	2
Prepaid expenses and deferred charges	(3,038)	1,671	(4)	(90)
Pledges receivable			(2,000)	(5,000)
Noncurrent assets other			(5,814)	(8,289)
Accounts payable	21,101	10,674	387	(79)
Accrued payroll	3,659	10,768	61	4
Deferred revenue and student deposits	7,001	9,703	(720)	15
Accrued compensated absences	1,874	1,232	62	110
Accrued self insurance	13,964	11,238		
Assets held for others	3,896	(8,553)	89	
Net cash used by operating activities	$ (587,641)	$ (589,879)	$ (18,380)	$ (18,852)
Noncash investing, capital, and financing activities:				
On behalf payments for fringe benefits	$ 305,047	$ 266,706	$ 1,574	$ 1,770
Gifts in kind	5,669	2,005	12,291	19,406
Capital assets in accounts payable	64,258	48,961	50	49
Capital asset acquisitions by CDB	11,628	44,957		
Capital asset acquisitions via leaseholds payable	2,644	11,096		
Capital appreciation on bonds payable	10,763	10,662		
Net interest capitalized	676	1,263		
Other capital asset adjustments	763	1,329		
Loss on sale/disposal of capital assets	1,834	1,063		

See accompanying notes to financial statements.

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Basis of Presentation

The University of Illinois (University), a federal land grant institution and a component unit of the State of Illinois, conducts education, research, public service and related activities principally at its three campuses in Urbana-Champaign, 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 accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB), these financial statements present the financial position and financial activities of the University (the primary government) and its component units as well as certain activities and expenses funded by other State agencies on behalf of the University or its employees. The component units discussed below are included in the University's financial reporting entity (Entity) because of the significance of their financial relationship with the University.

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

The Foundation was formed for the purpose of providing fund raising and other assistance to the University in order to attract private gifts to support the University's instructional, research and public service activities. In this capacity, the Foundation solicits, receives, holds and administers gifts for the benefit of the University. Complete financial statements for the Foundation may be obtained by writing the 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, Alice Campbell Alumni Center, 601 S. Lincoln Avenue, Urbana, IL 61801.

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

Prairieland Energy, Inc. (Prairieland), a for profit, wholly-owned subsidiary, was formed for the purpose of providing support for the University through delivery of comprehensive economical utility services to all campuses of the University.

Illinois Ventures, LLC, (Illinois Ventures), a for profit, wholly-owned subsidiary, exists to facilitate the development of new companies commercializing technology originated or developed by faculty, staff and/or students of the University. The University desires Illinois Ventures to foster technology commercialization and economic development in accordance with the teaching, research, and public service missions of the University.

The University of Illinois Research Park, LLC, (Research Park), a for profit, wholly-owned subsidiary, was formed to aid and assist the University by establishing and operating a research park on the University's Urbana-Champaign campus. The Research Park was designed to promote the development of new companies which commercialize University technologies.

Activities of Prairieland, Illinois Ventures, and the Research Park for the current fiscal year, which were minimal, have been incorporated in the University's financial statements using the blended method.

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

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

The basic financial statements include prior year comparative information, which has been derived from the University's 2006 financial statements. Such information does not include all of the information required to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the University's financial statements for the year ended June 30, 2006.

Certain items in the June 30, 2006 financial statements have been reclassified to correspond to the June 30, 2007 presentation.

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

Significant Accounting Policies

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

The Statement of Revenues, Expenses, and Changes in Net Assets classifies the Entity's fiscal year activity as operating and nonoperating. Operating revenues generally result from exchange transactions such as payments received for providing goods and services, including tuition and fees, net of scholarships and fellowships, certain grants and contracts, sales and services of educational activities, hospital, and auxiliary enterprise revenues.

Scholarships and fellowships of $144,313,000 and $2,707,000 are netted against student tuition and fees and auxiliary enterprises revenues, respectively. Stipends and other payments made directly to students are reported as scholarship and fellowship expense. Net tuition and fees, except for Summer Session, are recognized as revenues as they are assessed. The portion of Summer Session tuition and fees applicable to the following fiscal year is deferred.

Grant and contract revenues which are received or receivable from external sources are recognized as revenues to the extent of related expenses or satisfaction of eligibility requirements on the accrual basis. Advances are classified as deferred revenue.

Certain revenue sources that the Entity relies on to provide funding for operations including State appropriations, gifts, and investment income are defined by GASB Statement No. 35 as nonoperating. In addition, transactions related to capital and financing activities are components of nonoperating revenues.

Appropriations made from the State of Illinois General Revenue Fund for the benefit of the University are recognized as nonoperating revenues when eligibility requirements are satisfied.

In accordance with GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, the University reported payments made to the State Universities Retirement System on behalf of the Entity for contributions to retirement programs for Entity employees of approximately $107,982,000 for the year ended June 30, 2007. Substantially all employees participate in group health insurance plans administered by the State of Illinois. The employer contributions to these plans for University employees paid by State appropriations and auxiliary enterprises are paid to Central Management Services on behalf of the University. The employer contributions to these plans on behalf of employees paid from other University-held funds are paid by the University. The on behalf payments are approximately $268,675,000 for 2007. The cost of these benefits paid on behalf of the Hospital are reflected as operating revenues as the result of certain contractual agreements. All other on behalf payments are reflected as nonoperating revenues. In all cases, the corresponding on behalf expense is reflected as operating and reported in on behalf payments for fringe benefits.

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 93% 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, 2007. 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. For the year ended June 30, 2007, the contractual allowances totalled $801,308,000.

The Entity first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

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

Employment contracts 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 $49,087,000 at June 30, 2007 and is recorded in the accompanying financial statements. This amount will be paid from amounts specifically included in State of Illinois General Revenue Fund appropriations to the University for fiscal year 2008 rather than from the unrestricted net assets available at June 30, 2007.

Accrued compensated absences for Entity personnel are charged as an operating expense, using the vesting method, based on earned but unused vacation and sick leave days including the Entity's share of social security and medicare taxes. At June 30, 2007, the University estimates that $119,892,000 of the accrued compensated absences liability will be paid out of State of Illinois General Revenue Fund appropriations to the University in subsequent years, rather than from unrestricted net assets available at June 30, 2007.

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

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

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

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

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. A material estimate that is particularly susceptible to significant change in the near term relates to the determination of the allowance for doubtful accounts and contractual allowances.

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

NOTE 2 - CASH AND DEPOSITS

The carrying amount of the University's and the UROs' cash totalled $(17,072,000) and $6,666,000 at June 30, 2007, respectively.

The total bank account balances at June 30, 2007, of the University and the UROs, aggregated $8,272,000, and $5,733,000, respectively, of which $8,272,000, and $4,349,000, respectively, was covered by federal depository insurance or by collateral held by an agent in the Entity's name.

Certificates of Deposit, which are reported as investments per GASB Statement No. 9, for the University and the UROs totaled $400,000 and $33,000, respectively, at June 30, 2007 and were covered by federal depository insurance or collateral held by an agent in the Entity's name.

NOTE 3 - CASH EQUIVALENTS AND INVESTMENTS

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

- Obligations of the U.S. Treasury, other federal agencies, and instrumentalities
- Bank and savings and loan time deposits
- Corporate bonds and stocks
- Commercial paper
- Repurchase agreements
- Mutual funds

Additionally, the University has investments in real estate and farm properties that are carried at cost, or when donated, at the fair value at the date of donation. All other investments are carried at their fair value, as determined by quoted market prices when available, and otherwise by generally accepted valuation principles. 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 University Endowment Fund which is recognized in the fund to which the income is restricted.

Illinois Statutes require a third party custodian to perfect the University's security interest under repurchase agreements. The University follows industry standards and requires that securities underlying repurchase agreements must have a fair value of at least 102% of the cost of the repurchase agreement. At June 30, 2007, the University and the UROs had repurchase agreements of $291,943,000 and $851,000, respectively and the market value of securities underlying these repurchase agreements was $307,321,000 and $851,000, respectively, at June 30, 2007.

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

Distributions are made from the University Endowment Fund to the University entities that benefit from the endowment funds. The endowment spending rule provides for an annual distribution of 4.75% of the two-quarter lagged, seven-year moving average market value of fund units. At June 30, 2007 net appreciation of $12,986,000 is available to be spent, of which $11,841,000 is restricted to specific purposes.

The Board develops University policy on investments and delegates the execution of those policies to its administrative agents. The University follows the State of Illinois Uniform Management of Institutional Funds Act when investing its endowment and operating funds. The State of Illinois Public Funds Investment Act provides the context and framework for plant fund investments. The following details the carrying value of the University's and the UROs' investment portfolio as of June 30, 2007:

UNIVERSITY CASH EQUIVALENTS AND INVESTMENTS (in thousands)	
Certificates of Deposit	$ 400
U.S. Treasury Put	4,345
U.S.Treasury Bonds and Bills	100,391
U.S. Government Agencies	66,103
Commercial Paper	36,910
Corporate Bonds	115,086
Bond Mutual Funds	67,036
Non Government Mortgage Backed Securities	73,842
Non U.S. Government Bonds	3,355
Repurchase Agreements	291,943
Money Market Funds	320,589
Illinois Public Treasurer's Investment Pool	3,947
Subtotal before equities and other investments	1,083,947
US Equities	27,249
International Equities	45,966
U.S. Equity Mutual Funds	128,454
Limited Partnerships	7,056
Real Estate	1
TOTAL	$ 1,292,673

URO CASH EQUIVALENTS AND INVESTMENTS (in thousands)	
Certificates of Deposit	$ 33
U.S. and Other Government Securities	65,401
Municipal Bonds	271
Corporate Bonds and Notes	61,949
Mutual Funds - Bonds	120,973
Mutual Funds - Municipal Bonds	2,268
Mutual Funds - Blended Bonds	4,951
Mutual Funds - Money Market	32,245
Repurchase Agreements	851
Subtotal before equities and other investments	288,942
U.S. Equities	306,777
International Equities	197,938
Preferred Stock	3
Mutual Funds - Stocks	213,486
Real Estate Trust and Partnerships	238,539
Other	3,865
TOTAL	$ 1,249,550

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University employs multiple investment managers, of which each has specific maturity assignments related to the operating funds. The funds are structured with different layers of liquidity. Funds expected to be used within one year are invested in money market instruments. Core operating funds are invested in longer maturity investments. Core operating funds investment manager's performance benchmarks are Lehman Brothers 1-3 year Government Credit Bond Index and the Lehman Brothers Intermediate Aggregate Bond Index. The University's manager guidelines provide that the average weighted duration of the portfolio, including option positions, not vary from that of their respective performance benchmarks by more than +/-20 percent. The University's and the UROs' investments and maturities at June 30, 2007 are illustrated below:

UNIVERSITY INVESTMENT MATURITIES
(in thousands)

	Total	Less than 1	1 - 5	6 - 10	Greater than 10
Certificates of Deposit	$ 400	$ 400	$	$	$
U.S. Treasury Put	4,345				4,345
U.S.Treasury Bonds and Bills	100,391	50,774	27,339	20,701	1,577
U.S. Government Agencies	66,103		11,618	5,409	49,076
Commercial Paper	36,910	36,910			
Corporate Bonds	115,086	7,636	65,272	15,741	26,437
Bond Mutual Funds	67,036	1,130	11,440	44,395	10,071
Non Government Mortgage Backed Securities	73,842		633	892	72,317
Non U.S. Government Bonds	3,355	186	2,847	322	
Repurchase Agreements	291,943	291,943			
Money Market Funds	320,589	320,589			
Illinois Public Treasurer's Investment Pool	3,947	3,947			
TOTAL	$ 1,083,947	$ 713,515	$ 119,149	$ 87,460	$ 163,823

At June 30, 2007, the University's operating funds pool portfolio had an effective duration of 1.8 years.

URO INVESTMENT MATURITIES
(in thousands)

	Total	Less than 1	1 - 5	6 - 10	Greater than 10
Certificates of Deposit	$ 33	$ 33	$	$	$
U.S. and Other Government Securities	65,401	1,498		225	63,678
Municipal Bonds	271			271	
Corporate Bonds and Notes	61,949		2,533	1,985	57,431
Mutual Funds - Bonds	120,973	3,051	84,950	32,725	247
Mutual Funds - Municipal Bonds	2,268	186	742	1,043	297
Mutual Funds - Blended Bonds	4,951		4,052	899	
Mutual Funds - Money Markets	32,245	32,223	22		
Repurchase Agreements	851	851			
TOTAL	$ 288,942	$ 37,842	$ 92,299	$ 37,148	$ 121,653

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The University's policy requires that operating funds be invested in fixed income securities and money market instruments. Fixed income securities shall be rated investment grade or better by one or more nationally recognized statistical rating organizations. Securities not covered by the investment grade standard are allowed if, in the manager's judgment, those instruments are of comparable credit quality. Securities which fall below the stated minimum credit requirements subsequent to initial purchase may be held at the manager's discretion. It is expected that the average credit quality of the operating funds will not fall below Standard & Poor's AA- or equivalent. At June 30, 2007 the University and the UROs had debt securities and quality ratings as shown in the charts below:

UNIVERSITY INVESTMENTS QUALITY RATINGS
(in thousands)

	Total	AAA/Aaa	AA/Aa	A/BA	BBB/Baa	BB/Ba	Less than BB or Not Rated
Certificates of Deposit	$ 400	$	$	$	$	$	$ 400
U.S. Treasury Put	4,345						4,345
U.S.Treasury Bonds and Bills	100,391	100,391					
U.S. Government Agencies	66,103	66,103					
Commercial Paper	36,910	36,910					
Corporate Bonds	115,086	27,906	9,640	27,382	33,269	8,308	8,581
Bond Mutual Funds	67,036	49,687	1,041	1,092	7,304	7,565	347
Non Government Mortgage Backed Securities	73,842	71,438	855	154			1,395
Non U.S. Government Bonds	3,355	1,275	356	677	1,047		
Repurchase Agreements	291,943						291,943
Money Market Funds	320,589	316,638					3,951
Illinois Public Treasurer's Investment Pool	3,947						3,947
TOTAL	$ 1,083,947	$ 670,348	$ 11,892	$ 29,305	$ 41,620	$ 15,873	$ 314,909

URO INVESTMENTS QUALITY RATINGS
(in thousands)

	Total	AAA/Aaa	AA/Aa	A/BA	BBB/Baa	BB/Ba	Less than BB or Not Rated
Certificates of Deposit	$ 33	$	$	$	$	$	$ 33
U.S. and Other Government Securities	65,401	64,914		105	382		
Municipal Bonds	271	148	21				102
Corporate Bonds and Notes	61,949	23,820	4,090	2,945	8,000	5,528	17,566
Mutual Funds - Bonds	120,973	88,203	12,351	14,588	2,796	842	2,193
Mutual Funds - Municipal Bonds	2,268	1,622	441	97	105		3
Mutual Funds - Blended Bonds	4,951	250	4,333	263	83		22
Mutual Funds - Money Market	32,245	32,245					
Repurchase Agreements	851						851
TOTAL	$ 288,942	$ 211,202	$ 21,236	$ 17,998	$ 11,366	$ 6,370	$ 20,770

Custodial Credit Risk: Custodial credit risk is the risk that in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Exposure to custodial credit risk relates to investment securities that are held by someone other than the University and are not registered in the University's name. The University investment policy does not limit the value of investments that may be held by an outside party. At June 30, 2007, the University's investments and deposits had no custodial credit risk exposure.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the University's investment in a single issuer. The University's policy provides that the total operating funds portfolio will be broadly diversified across securities in a manner that is consistent with fiduciary standards of diversification. This diversification is achieved by employing multiple investment managers and imposing maximum position limits for each manager. The University's manager guidelines for operating investments provide that non-U.S. government obligations may not exceed 10% per issuer and private mortgage-backed and asset-backed securities may not exceed 10% per issuer (unless collateral is credit independent of the issuer and the security's credit enhancement is generated internally, in which case the limit is 25% per issuer). Obligations with other issuers, other than the U.S. government, U.S. agencies, or U.S. government sponsored corporations and agencies, may not exceed 5%. As of June 30, 2007, not more than 5% of the University's total investments were invested in securities of any one issuer, excluding securities issued or guaranteed by the U.S. government, mutual funds, and external investment pools or other pooled investments.

Foreign Currency Risk: Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The University's operating fund investments generally are not exposed to foreign currency risk. The University does not have an overarching policy related to foreign currency risk; however, under the investment manager's guidelines, the portfolio's foreign currency exposure may be unhedged or hedged back into U.S. dollars. Cross hedging is not permitted. The U.S. dollar balances of the University's and the UROs' cash equivalents and investments exposed to foreign currency risk as of June 30, 2007 are categorized by currency below:

UNIVERSITY INVESTMENTS FOREIGN CURRENCY EXPOSURE
(in thousands)

	Total	Cash Equivalents	Equity Investments
European Euro	$ 18,519	$ 529	$ 17,990
British Pound	11,636	249	11,387
Swiss Franc	2,640	3	2,637
Japanese Yen	1,634		1,634
Hong Kong Dollar	1,597		1,597
Swedish Krona	1,114		1,114
All other currency	9,651	44	9,607
TOTAL	$ 46,791	$ 825	$ 45,966

URO INVESTMENTS FOREIGN CURRENCY EXPOSURE
(in thousands)

	Total	Cash Equivalents	Equity Investments	International Mutual Funds
European Euro	$ 55,597	$ 576	$ 46,405	$ 8,616
British Pound	57,979	331	52,875	4,773
Japanese Yen	36,138	343	33,140	2,655
Swiss Franc	16,633	9	15,319	1,305
Swedish Krona	7,592	(227)	7,104	715
Australian Dollar	7,951	9	7,406	536
Canadian Dollar	10,869	9	10,552	308
All other currency	51,934	16,374	25,137	10,423
TOTAL	$ 244,693	$ 17,424	$ 197,938	$ 29,331

Securities Lending: To enhance the return on investment, the Board of Trustees of the University has authorized participation in a securities lending program. Through its custodian bank, the University loans securities to independent third parties. Such loans are secured by collateral consisting of cash, cash equivalents or U.S. Government securities and irrevocable bank letters of credit in an amount not less than 102% of the fair value of the securities loaned. Any collateral securities cannot be pledged or sold by the University unless the borrower defaults. The University receives interest and dividends during the loan period as well as a fee from the custodian. At June 30, 2007, the University has no credit risk exposure to borrowers because the amounts the University owes the borrowers exceed the amounts the borrowers owe the University. As of June 30, 2007, approximately $136,983,000 of the investments reported on the University's Statement of Net Assets were on loan, secured by collateral with a fair value of approximately $140,889,000.

NOTE 4 - ACCOUNTS, NOTES, AND PLEDGES RECEIVABLE

The Entity provides allowances for uncollectible accounts and notes receivable based upon management's best estimate of uncollectible accounts and notes at the Statement of Net Assets date, considering type, age, collection history of receivables, and any other factors as considered appropriate. Accounts receivable are reported net of allowances of $263,311,000 at June 30, 2007. Notes receivable are reported net of allowances of $3,005,000 at June 30, 2007.

The composition of accounts receivable and notes and pledges receivable at June 30, 2007 is summarized as follows:

ACCOUNTS RECEIVABLE (in thousands)		
Receivables from sponsoring agencies	$	170,238
Hospital and other medical activities		84,262
Student tuition and fees, net of allowances		22,280
Auxiliaries, net of discounts and allowances		10,734
Medical service plan		32,956
Educational activities		13,531
Other		1,261
TOTAL	$	335,262

NOTES AND PLEDGES RECEIVABLE (in thousands)		
Student notes - University:		
Student notes outstanding	$	64,352
Allowance for uncollectible loans		(3,005)
Total student notes, net	$	61,347
Gift pledges outstanding - UROs:		
Operations	$	28,465
Capital		10,948
Total gift pledges outstanding		39,413
Less:		
Allowance and unamortized discount to present value		(14,166)
Total pledges receivable, net	$	25,247

NOTE 5 - CAPITAL ASSETS

Net interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Net interest of $676,000 was capitalized during the year ended June 30, 2007.

Capital assets activity for the University and the UROs for the year ended June 30, 2007 is summarized as follows:

UNIVERSITY CAPITAL ASSETS
(in thousands)

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Nondepreciable Capital Assets:					
Land	$ 121,851	$ 3,919	$ (113)	$ 644	$ 126,301
Construction in progress	262,974	240,890		(214,347)	289,517
Inexhaustible collections	14,019	794			14,813
Total nondepreciable capital assets	398,844	245,603	(113)	(213,703)	430,631
Depreciable Capital Assets:					
Buildings	2,638,408		(179)	145,148	2,783,377
Improvements and infrastructure	552,060	50		68,555	620,665
Equipment and software	1,083,158	67,618	(47,222)		1,103,554
Library materials	405,287	22,080			427,367
Total depreciable capital assets	4,678,913	89,748	(47,401)	213,703	4,934,963
Less: accumulated depreciation					
Buildings	860,090	64,461	(165)		924,386
Improvements and infrastructure	215,446	20,299			235,745
Equipment and software	730,797	87,460	(43,084)		775,173
Library materials	301,435	19,459			320,894
Total accumulated depreciation	2,107,768	191,679	(43,249)		2,256,198
Total net depreciable capital assets	2,571,145	(101,931)	(4,152)	213,703	2,678,765
TOTAL	$ 2,969,989	$ 143,672	$ (4,265)	$	$ 3,109,396

URO CAPITAL ASSETS
(in thousands)

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Nondepreciable Capital Assets:					
Land	$ 934	$	$ (295)	$	$ 639
Farmland	647	2,497	(647)		2,497
Buildings held for the University's future use	1,709		(1,709)		
Total nondepreciable capital assets	3,290	2,497	(2,651)		3,136
Depreciable Capital Assets:					
Buildings	4,663				4,663
Leasehold improvements	92				92
Equipment and software	3,659	714	(153)		4,220
Total depreciable capital assets	8,414	714	(153)		8,975
Less: accumulated depreciation					
Buildings	31	74			105
Leasehold improvements	76	7			83
Equipment and software	2,433	428	(139)		2,722
Total accumulated depreciation	2,540	509	(139)		2,910
Total net depreciable capital assets	5,874	205	(14)		6,065
TOTAL	$ 9,164	$ 2,702	$ (2,665)	$	$ 9,201

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

The University's accrued self-insurance liability of $156,178,000 at June 30, 2007 covers hospital patient liability; hospital and medical professional liability; estimated general and contract liability; and workers' compensation liability related to employees paid from local funds. The accrued self-insurance liability was discounted at a rate of 5.5% at June 30, 2007. Amounts increasing the accrued self-insurance liability are charged as expenses based upon estimates made by actuaries and the University's risk management division. The workers' compensation self-insurance liability of $12,599,000 at June 30, 2007 related to employees who are paid from State appropriations is included in the University's accounts payable. These claims will be paid from State appropriations in the year in which the claims are finalized, rather than from unrestricted net assets as of June 30, 2007.

Accrued self-insurance includes $105,036,000 at June 30, 2007 for the currently estimated ultimate cost of uninsured medical malpractice liabilities. Ultimate cost consists of amounts estimated by the University's risk management division and independent actuaries for asserted claims, unasserted claims arising from reported incidents, expected litigation expenses, and amounts determined by actuaries using relevant industry data and Hospital specific data to cover projected losses for claims incurred but not reported. Because the amounts accrued are estimates, the aggregate claims actually incurred could differ significantly from the accrued self-insurance liability at June 30, 2007. Changes in these estimates will be reflected in the Statement of Revenues, Expenses and Changes in Net Assets in the period when additional information is available.

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

CHANGES IN ACCRUED SELF-INSURANCE
(in thousands)

	2007	2006
Balance, beginning of year	$ 142,214	$ 130,976
Claims incurred and changes in estimates	63,188	45,563
Claim payments	(49,224)	(34,325)
Balance, end of year	156,178	142,214
Less: current portion	(39,761)	(34,105)
Balance, end of year - noncurrent portion	$ 116,417	$ 108,109

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

CHANGES IN COMPENSATED ABSENCES BALANCE
(in thousands)

Balance, beginning of year	$ 207,307
Additions/(Deductions)	1,875
Balance, end of year	209,182
Less: current portion	(16,761)
Balance, end of year - noncurrent portion	$ 192,421

NOTE 7 - BONDS AND NOTES PAYABLE

On October 5, 2006 the University issued Auxiliary Facilities System Revenue Bonds Series 2006 in the amount of $318,155,000. Series 2006 Bonds were issued to fund various improvements to the System, provide for the refunding of portions of the outstanding System bonds, Series 1996 and Series 2001B, to pay debt service during construction, and to pay all costs incidental to the issuance of the bonds. This resulted in savings of $3,820,000 over the life of the issue at a present value of approximately $2,226,000. The difference between the reacquisition price and net carrying amount of the old debt, loss on refunding was $2,026,000. This loss is deferred and amortized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter.

BONDS PAYABLE
(in thousands)

	Maturity Dates	Beginning Balance	New Debt	Principal Paid/Debt Refunded	Ending Balance	Current Portion
AUXILIARY FACILITIES SYSTEM -						
Current Interest Bonds	2008-2036	$ 526,220	$ 318,155	$ 63,155	$ 781,220	$ 12,120
Capital Appreciation Bonds	2008-2030	280,055		15,015	265,040	15,005
WILLARD AIRPORT	2008-2009	745		235	510	250
HEALTH SERVICES FACILITIES SYSTEM	2008-2027	63,230		1,755	61,475	1,834
UIC SOUTH CAMPUS	2008-2023	80,490		3,190	77,300	2,255
		$ 950,740	$ 318,155	$ 83,350	1,185,545	31,464
Unaccreted appreciation					(109,966)	(458)
					1,075,579	31,006
Unamortized debt premium					34,085	1,231
Unamortized loss on refunding					(17,617)	(994)
TOTAL					$ 1,092,047	$ 31,243

Capital appreciation bonds of $265,040,000 outstanding at June 30, 2007 do not require current interest payments and have a net unappreciated value of $155,074,000. The University records the annual increase in the principal amount of these bonds as interest expense and accretion on bonds payable.

On April 2, 2007 the University entered into a variable-to-fixed interest rate swap agreement with Lehman Brothers Commercial Bank. The purpose of this interest rate swap was to hedge variable rate demand Health Services Facility System revenue refunding bonds planned to be issued in July 2007. The notional amount of the interest rate swap was $40,875,000 and equal to the planned par amount of the bonds. The University will make monthly payments to the counterparty equal to 3.534% times the notional amount and will receive monthly payments from the counterparty equal to 68% of one-month LIBOR, commencing October 1, 2007.

The University engaged a third-party consultant to calculate the "mark to market" or "market value" of the swap transaction. On June 30, 2007, the mark to market value of the swap was $896,000. Since this is a positive number, it represents an approximation of the amount of money that a swap provider may have been willing to pay the University to terminate the swap. In accordance with governmental accounting standards, this amount is not required to be included in the accompanying financial statements.

The University has the option to terminate the swap early. The University or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. The University may terminate the swap if both credit ratings of the counterparty fall below BBB+ as issued by Standard & Poor's and Baa1 as issued by Moody's Investors Service. The counterparty credit rating by Standard & Poor's was A+ and by Moody's Investors Service was A1. If at the time of termination the swap has a negative fair value, the University would be liable to the counterparty for a payment equal to the swap's fair value.

The UIC South Campus Series 2006A Bonds, the Auxiliary Facilities System Series 2005B Bonds, and the Health Services Facilities System Series 1997B Bonds are variable rate bonds which bear interest at a defined weekly rate and are paid monthly. The required future interest payments for the Series 2006A, Series 2005B, and Series 1997B Bonds have been calculated using the current interest rate, based upon short term tax exempt rates, of 3.77%, 3.73%, and 3.77%, respectively, over the life of the bonds. Other outstanding bond issues bear interest at fixed rates ranging from 3.00% to 7.96%.

To facilitate the advance refunding of the UIC South Campus Development Project Series 1999 Bonds and, as a means to lower its borrowing costs, when compared against fixed-rate bonds at the time of issuance in February 2006, the University entered into two interest rate swaps in connection with its $53,700,000 variable-rate Bonds (UIC South Campus Development Project) Series 2006A. The intention of the swaps was to effectively change the University's variable interest rate on the Bonds to a synthetic fixed rate of 1.030% through August 1, 2007 and 4.292% thereafter, which includes the Bonds' current liquidity facility fee of 0.200%. In addition, there is a 0.080% current remarketing fee.

The Bonds and related swap agreements mature on January 15, 2022, and the swaps' initial notional amount of $53,700,000 matches the $53,700,000 variable-rate Bonds. The swaps were entered at the same time as the Bonds were issued (February 2006). Starting in fiscal year 2011, the notional value of the swaps and the principal amount of the associated bonds decline. Under the swaps, the University pays the counterparties a fixed payment of 0.830% through August 1, 2007 and 4.092% thereafter and receives a variable payment equal to its cost-of-funds through February 3, 2010 and thereafter receives a variable payment equal to 68% of one-month LIBOR. The credit ratings for the first counterparty by Standard & Poor's and Moody's Investors Service were AA- and Aa2, respectively. The credit ratings for the second counterparty by Standard & Poor's and Moody's Investors Service were A+ and Aa3, respectively.

The University engaged a third-party consultant to calculate the "mark to market" or "market value" of the swap transaction. On June 30, 2007, the combined mark to market value of the two swaps was ($785,000). Since this is a negative number it represents an approximation of the amount of money that the University may have have to pay a swap provider to terminate the swap. In accordance with governmental accounting standards, this amount is not required to be included in the accompanying financial statements.

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

Using the actual rate of 3.77% in effect as of June 30, 2007, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, were as follows. As rates vary, variable-rate bond interest payments and net swap payments will also vary.

UIC SOUTH CAMPUS BONDS SERIES 2006A
VARIABLE-RATE DEBT SERVICE REQUIREMENTS
(in thousands)

	Variable-Rate Bonds		Interest Rate	
	Principal	Interest	Swaps, Net	Total
2008	$	$ 2,030	$ (125)	$ 1,905
2009		2,024	173	2,197
2010		2,024	173	2,197
2011	215	2,021	173	2,409
2012	540	2,014	166	2,720
2013-2017	21,290	8,329	705	30,324
2018-2022	31,655	3,280	275	35,210
TOTAL	$ 53,700	$ 21,722	$ 1,540	$ 76,962

None of the University's bonds described above constitute obligations of the State of Illinois. Series 1979, 1991, 1993, 1996, 1999A, 1999B, 2000, 2001A, 2001B, 2001C, 2003A, 2005A, 2005B, and 2006 Auxiliary Facilities System Bonds are payable solely from net revenues of the Auxiliary Facilities 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. Series 2000, 2003, and 2006A Bonds are payable from revenue derived from the defined tax increment financing (TIF) district, student tuition and fees, and funds on deposit in the Bond and Interest Sinking Fund. In addition, the Series 2000 Bonds are payable from the sales proceeds derived from the sale of certain land in the University of Illinois UIC South Campus Development Project. During fiscal year 2007, the debt service payments related to the Series 2000, 2003, and 2006A Bonds were $5,406,000. Proceeds from the sale of land of $2,928,000 and revenue from other legally available sources of $2,478,000 funded these payments.

Costs associated with the issuance of the Series 1991, 1993, 1996, 1999A, 1999B, 2000, 2001A, 2001B, 2001C, 2003A, 2005A, 2005B, and 2006 Auxiliary Facilities System Bonds; Series 1997 Willard Airport Bonds; Series 1997A and 1997B Health Services Facilities Bonds; and Series 2000, 2003, and 2006A UIC South Campus Bonds have been recorded as deferred charges and are being amortized over the life of the related bond issue.

The Foundation has a demand note outstanding with interest at 5.82% and principal outstanding of $6,402,000. The change in the balance for fiscal year 2007 is as follows:

CHANGE IN NOTES PAYABLE
(in thousands)

Balance, beginning of year	$ 6,657
Payments	(255)
Balance, end of year	$ 6,402

The University has defeased bonds through advanced funding in prior years and, accordingly, they are not reflected in the accompanying statements. The amount of bonds which have been defeased as of June 30, 2007 consists of the following:

ADVANCE REFUNDED BONDS
(in thousands)

Series	Outstanding at June 30, 2007
1978-M	$ 35,030
1999	49,365
1999A	85,300
2000	10,785
2001B	55,315
TOTAL	$ 235,795

Future debt service requirements for all bonds outstanding at June 30, 2007 are as follows:

DEBT SERVICE REQUIREMENTS
(in thousands)

	Principal	Interest
2008	$ 31,464	$ 45,560
2009	33,475	44,803
2010	34,105	43,818
2011	36,005	42,814
2012	37,805	41,723
2013-2017	214,940	190,158
2018-2022	261,230	153,479
2023-2027	204,215	104,593
2028-2032	209,345	55,032
2033-2036	122,961	11,895
TOTAL	$ 1,185,545	$ 733,875

Certain bonds of the University have debt service reserve requirements. The Maximum Annual Net Debt Service for those bonds, as defined, is $15,388,000.

NOTE 8 - LEASEHOLDS AND OTHER OBLIGATIONS

Leaseholds payable and other obligations activity for the year ended June 30, 2007 consist of the following:

LEASEHOLDS AND OTHER OBLIGATIONS
(in thousands)

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
University:					
Certificates of Participation	$ 467,300	$	$ (26,530)	$ 440,770	$ 26,970
Unamortized debt premium	13,200		(1,487)	11,713	1,487
Unamortized deferred loss on refunding	(15,586)		1,222	(14,364)	(1,222)
	464,914		(26,795)	438,119	27,235
Other capital leases	55,385	5,579	(5,883)	55,081	6,675
Environmental remediation liability	4,724	300	(184)	4,840	375
Total University	$ 525,023	$ 5,879	$ (32,862)	$ 498,040	$ 34,285
UROs:					
Annuities payable	$ 51,690	$	$ (582)	$ 51,108	$ 6,700
Other liabilities	6,660	700		7,360	
Total UROs	$ 58,350	$ 700	$ (582)	$ 58,468	$ 6,700

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

On June 6, 2006 the University issued Certificates of Participation (Academic Facilities Projects) Series 2006A in the amount of $81,930,000. The Series 2006A Certificates were issued to acquire, construct and install, and equip a business instructional facility on the Urbana campus and to finance various improvements to buildings on the University's three campuses.

To facilitate the advance refunding of the Certificates of Participation (Utility Infrastructure Projects) Series 2001 A & B; and, as a means to lower its borrowing costs, when compared against fixed-rate bonds at the time of issuance in March 2004, the University entered into an interest rate swap in connection with its $143,665,000 variable-rate Certificates of Participation (Utility Infrastructure Projects) Series 2004. The intention of the swap was to effectively change the University's variable interest rate on the Certificates to a synthetic fixed rate of 3.855%, which includes the Certificates' current liquidity facility fee of 0.09%. In addition, there is a 0.05% current remarketing fee.

The Certificates and related swap agreement mature on August 15, 2021, and the swap's initial notional amount of $143,665,000 matches the $143,665,000 variable-rate Certificates. The swap was entered at the same time as the Certificates were issued (March 2004). Starting in fiscal year 2006, the notional value of the swap and the principal amount of the associated Certificates began to decline. Under the swap, the University pays the counterparty a fixed payment of 3.765% and receives a variable payment computed as 100% of the Securities Industry & Financial Market Association Index (SISMA). Conversely, the Certificates' variable interest rates are expected to approximate SISMA. For FY 2007, the Certificates' average variable interest rate has been equal to SISMA. The counterparty credit rating by Standard & Poor's was A+ and by Moody's Investors Service was Aa3.

The University engaged a third-party consultant to calculate the "mark to market" or "market value" of the swap transaction. On June 30, 2007, the mark to market value of the swap was $2,348,000. Since this is a positive number, it represents an approximation of the amount of money that a swap provider may have been willing to pay the University to terminate the swap. In accordance with governmental accounting standards, this amount is not required to be included in the accompanying financial statements.

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

Using the actual rate of 3.74% in effect as of June 30, 2007, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, were as follows. As rates vary, variable-rate bond interest payments and net swap payments will also vary.

VARIABLE-RATE DEBT SERVICE REQUIREMENTS
(in thousands)

	Variable-Rate Certificates		Interest Rate	
	Principal	**Interest**	**Swaps, Net**	**Total**
2008	$ 995	$ 5,285	$ 35	$ 6,315
2009	1,035	5,261	20	6,316
2010	1,075	5,207	35	6,317
2011	6,570	5,065	33	11,668
2012	6,840	4,814	31	11,685
2013-2017	38,600	19,960	106	58,666
2018-2022	86,680	8,377	41	95,098
TOTAL	$ 141,795	$ 53,969	$ 301	$ 196,065

Assets held under capital leases are included in capital assets at June 30, 2007 as follows:

ASSETS HELD UNDER CAPITAL LEASE
(in thousands)

Land	$ 8,423
Buildings	73,952
Improvements	263,249
Equipment	165,348
Subtotal	510,972
Less: accumulated depreciation	115,370
TOTAL	$ 395,602

The net present value of outstanding capital leases at June 30, 2007 is:

OUTSTANDING CAPITAL LEASES
(in thousands)

Certificates of Participation:	
Series 1997 Utility Infrastructure	$ 15,335
Series 2001 UI Integrate	74,665
Series 2003 South Farms	22,285
Series 2003 UI Integrate	31,700
Series 2003 Utility Infrastructure	57,200
Series 2004 Utility Infrastructure	141,795
Series 2005 College of Medicine	19,220
Series 2006A Academic Facilities	78,570
Other capital leases	55,081
NET PRESENT VALUE	$ 495,851

As of June 30, 2007, future minimum lease payments under capital leases is as follows:

FUTURE MINIMUM LEASE PAYMENTS UNDER CAPITAL LEASES (in thousands)		
2008	$	54,768
2009		53,517
2010		52,738
2011		51,963
2012		49,164
2013-2017		197,559
2018-2022		154,880
2023-2027		54,981
Total minimum lease payments		669,570
Amount representing interest		(173,719)
NET PRESENT VALUE	$	495,851

The University monitors environmental matters and records an estimated liability for identified environmental remediation costs. The estimated liability at June 30, 2007 is $4,840,000.

The University also leases various buildings and equipment under operating lease agreements. Total rental expense under these agreements was $10,826,000 for the year ended June 30, 2007. The future mininum lease payments (excluding those leases renewed on an annual basis) are as follows:

FUTURE MINIMUM OPERATING LEASE PAYMENTS (in thousands)		
2008	$	9,478
2009		6,405
2010		4,241
2011		2,394
2012		1,349
2013-2017		3,702
2018-2022		620
2023-2025		372
TOTAL	$	28,561

At June 30, 2007, the Foundation had annuities payable outstanding of $51,108,000. Annuities payable represent an actuarial computation of the present value of future payments to annuitants.

NOTE 9 - NET ASSETS

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

UNIVERSITY NET ASSETS (in thousands)	
Invested in capital assets, net of related debt	$ 1,842,039
Restricted - nonexpendable	
Invested in perpetuity to produce income expendable for -	
Scholarships, fellowships and research	51,345
Restricted - expendable for -	
Scholarships, fellowships and research	233,151
Loans	78,171
Service plans	47,723
Retirement of indebtedness	20,642
Capital projects	12,964
Unrestricted -	
Designated for:	
Auxiliary	18,123
Hospital	62,364
Capital projects	68,236
Self supporting activities	18,092
Institutional support	42,574
Quasi endowments	99,908
Amount expected to be financed in future years	(197,400)
Undesignated	17,924
TOTAL	$ 2,415,856

URO NET ASSETS (in thousands)	
Invested in capital assets, net of related debt	$ 2,799
Restricted - nonexpendable	
Invested in perpetuity to produce income expendable for -	
Scholarships, fellowships and research	838,362
Restricted - expendable for -	
Scholarships, fellowships and research	377,944
Unrestricted	29,545
TOTAL	$ 1,248,650

NOTE 10 - FUNDS HELD IN TRUST BY OTHERS

The University and Foundation are income beneficiaries of several irrevocable trusts which are held and administered by outside trustees. The University and Foundation have no control over these funds as to either investment decisions or income distributions, thus the principal is not recorded in the accompanying financial statements. The fair value of these funds at June 30, 2007 and the amount of income received from these trusts during the year then ended were as follows:

FUNDS HELD IN TRUST BY OTHERS
(in thousands)

	University	Foundation
Fair value of funds held in trust by others	$ 42,946	$ 28,431
Income received from funds held in trust by others	$ 1,149	$ 945

NOTE 11 - STATE UNIVERSITIES RETIREMENT SYSTEM

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

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

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

Plan members are required to contribute 8.0% of their annual covered salary and substantially all employer contributions are made by the State of Illinois on behalf of the individual employers at an actuarially determined rate. The current rate is 10.61% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the Illinois General Assembly. The University's contributions to SURS for the years ended June 30, 2007, 2006, and 2005 were $138,499,000, $101,570,000 and $145,752,000 respectively, equal to the required contributions for each year. The URO's contributions to SURS for the years ended June 30, 2007, 2006, and 2005 were $719,000, $573,000 and $520,000 respectively.

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

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

NOTE 12 - 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 $5,000 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. These costs are funded by the State except for certain non-appropriated funds funded by the University.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

At June 30, 2007 the University had commitments on various construction projects and contracts for repairs and renovation of facilities of approximately $158,357,000.

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

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

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

The University's hospital and clinics are involved in regulatory audits arising in the normal course of business. On June 8, 2007, a notice was received from the Office of Inspector General on behalf of the Illinois Department of Healthcare and Family Services indicating that the University received an overpayment of $14.8 million on behalf of Medicaid patients. University management is in the process of contesting this overpayment and estimates its probable liability regarding this overpayment is approximately $4.8 million, of which $3.3 million and $1.5 million could be paid by the Hospital and the UIC College of Pharmacy, respectively. This liability of $4.8 million has been reflected in the University's financial position and results from operations as of June 30, 2007.

NOTE 14 - OPERATING EXPENSES BY NATURAL CLASSIFICATION

Operating expenses by natural classification for the year ended June 30, 2007 for the University and the UROs are summarized as follows:

UNIVERSITY OPERATING EXPENSES BY NATURAL CLASSIFICATION (in thousands)

	Compensation and benefits	Supplies and services	Student aid	Depreciation	Total
Instruction	$ 583,428	$ 116,907	$ 3,205	$	$ 703,540
Research	367,139	192,947	1,790		561,876
Public service	190,541	133,967	1,840		326,348
Academic support	150,023	80,805	5,733		236,561
Student services	56,855	29,683	1,836		88,374
Institutional support	131,035	36,129	8		167,172
Operations and maintenance of plant	68,244	148,214	1,570		218,028
Scholarships and fellowships	177,625	1,365	19,026		198,016
Auxiliary enterprises	80,045	147,011	7,695		234,751
Hospital and medical activities	239,250	192,509	3		431,762
Independent operations	1,437	8,586			10,023
Depreciation				191,679	191,679
On behalf payments for fringe benefits	376,657				376,657
TOTAL	$ 2,422,279	$ 1,088,123	$ 42,706	$ 191,679	$ 3,744,787

URO OPERATING EXPENSES BY NATURAL CLASSIFICATION (in thousands)

	Distribution on behalf of the University	Institutional support	Depreciation	Total
Salaries and benefits	$	$ 18,654	$	$ 18,654
Distributions on behalf of the University	128,731			128,731
Marketing and communications		6,539		6,539
Travel		1,005		1,005
Equipment		540		540
Meeting, conferences and special events		1,456		1,456
Supplies and other		13,188		13,188
Depreciation			509	509
TOTAL	$ 128,731	$ 41,382	$ 509	$ 170,622

NOTE 15 - SEGMENT INFORMATION

The following financial information represents identifiable activities for which one or more revenue bonds is outstanding. The Auxiliary Facilities System is comprised of University owned housing units, student unions, recreation and athletic facilities, and similar auxiliary service units including parking. The Health Services Facilities System is comprised of the University of Illinois Hospital and associated clinical facilities providing patient care. The Willard Airport Facility is comprised of land, hangars, a terminal building, parking lots, runways, and related apron areas.

(in thousands)	AUXILIARY FACILITIES SYSTEM	HEALTH SERVICES FACILITIES SYSTEM	WILLARD AIRPORT FACILITY	TOTAL
Condensed Statement of Net Assets				
ASSETS:				
Current assets	$ 384,325	$ 155,680	$ 2,250	$ 542,255
Noncurrent assets				
Capital assets, net of accumulated depreciation	735,298	170,685	33,441	939,424
Other noncurrent assets	20,906	2,948	4	23,858
TOTAL ASSETS	$ 1,140,529	$ 329,313	$ 35,695	$ 1,505,537
LIABILITIES:				
Current liabilities	$ 93,857	$ 72,427	$ 1,387	$ 167,671
Noncurrent liabilities				
Long term debt	938,211	73,679	260	1,012,150
Other liabilities	5,195	20,472		25,667
TOTAL LIABILITIES	1,037,263	166,578	1,647	1,205,488
NET ASSETS:				
Invested in capital assets, net of related debt	8,084	96,293	32,650	137,027
Restricted				
Expendable	16,295	2,350	507	19,152
Unrestricted	78,887	64,092	891	143,870
TOTAL NET ASSETS	103,266	162,735	34,048	300,049
TOTAL LIABILITIES AND NET ASSETS	$ 1,140,529	$ 329,313	$ 35,695	$ 1,505,537
Condensed Statement of Revenues, Expenses and Changes in Net Assets				
Operating revenues	$ 246,018	$ 533,911	$ 2,484	$ 802,806
Operating expenses	203,591	507,109	2,747	733,840
Depreciation expense	16,583	20,066	1,807	38,456
Operating income (loss)	25,844	6,736	(2,070)	30,510
Nonoperating revenues (expenses)	(14,127)	(3,611)	592	(17,146)
Capital and endowment additions			3,979	3,979
Increase in net assets	11,717	3,125	2,501	17,343
Net assets, beginning of year	91,549	159,610	31,547	282,706
NET ASSETS, END OF YEAR	$ 103,266	$ 162,735	$ 34,048	$ 300,049
Condensed Statement of Cash Flows				
Net cash flows provided (used) by operating activities	$ 57,417	$ 33,189	$ (250)	$ 90,356
Net cash flows (used) provided by noncapital financing activities	(1,822)	238	869	(715)
Net cash flows provided (used) by capital and related financing activities	58,705	(20,579)	(427)	37,699
Net cash flows provided by investing activities	91,300	2,080	67	93,447
Net increase in cash and cash equivalents	205,600	14,928	259	220,787
Cash and cash equivalents, beginning of year	144,442	46,804	1,899	193,145
Cash and cash equivalents, end of year	$ 350,042	$ 61,732	$ 2,158	$ 413,932

NOTE 16 - UNIVERSITY RELATED ORGANIZATIONS

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

(in thousands)	FOUNDATION	ALUMNI ASSOCIATION	WWT	TOTAL
Condensed Statement of Net Assets				
Assets:				
Current assets	$ 47,757	$ 1,248	$ 2,154	$ 51,159
Noncurrent assets				
Capital assets, net of accumulated depreciation	8,022	750	429	9,201
Other noncurrent assets	1,302,398	16,716		1,319,114
Total assets	$ 1,358,177	$ 18,714	$ 2,583	$ 1,379,474
Liabilities:				
Current liabilities	$ 71,404	$ 1,759	$ 2,255	$ 75,418
Noncurrent liabilities				
Long term debt		2,630	947	3,577
Other noncurrent liabilities	51,820	9		51,829
Total liabilities	123,224	4,398	3,202	130,824
Net assets:				
Invested in capital assets, net of related debt	1,620	750	429	2,799
Restricted				
Nonexpendable	838,362			838,362
Expendable	377,944			377,944
Unrestricted	17,027	13,566	(1,048)	29,545
Total net assets	1,234,953	14,316	(619)	1,248,650
Total liabilities and net assets	$ 1,358,177	$ 18,714	$ 2,583	$ 1,379,474
Condensed Statement of Revenues, Expenses and Changes in Net Assets				
Operating revenues	$ 140,436	$ 9,611	$ 8,299	$ 158,346
Operating expenses	154,536	9,631	5,946	170,113
Depreciation expense	244	60	205	509
Operating income (loss)	(14,344)	(80)	2,148	(12,276)
Nonoperating revenues (expenses)	170,413	3,501	(101)	173,813
Contributions to endowments	28,353			28,353
Increase in net assets	184,422	3,421	2,047	189,890
Net assets, beginning of year	1,050,531	10,895	(2,666)	1,058,760
Net assets, end of year	$ 1,234,953	$ 14,316	$ (619)	$ 1,248,650
Condensed Statement of Cash Flows				
Net cash flows (used) provided by operating activities	$ (20,656)	$ (131)	$ 2,407	$ (18,380)
Net cash flows provided (used) by noncapital financing activities	28,353		(1,963)	26,390
Net cash flows used by capital and related financing activities	(831)	(1,621)	(344)	(2,796)
Net cash flows (used) provided by investing activities	(4,857)	576	90	(4,191)
Net increase (decrease) in cash and cash equivalents	2,009	(1,176)	190	1,023
Cash and cash equivalents, beginning of year	2,904	1,867	1,723	6,494
Cash and cash equivalents, end of year	$ 4,913	$ 691	$ 1,913	$ 7,517

NOTE 17 - SUBSEQUENT EVENTS

On July 12, 2007, the University sold Variable Rate Demand Health Services Facilities System Revenue Refunding Bonds Series 2007 in the amount of $40,875.000. The closing date for these bonds was July 19, 2007. The proceeds of the Series 2007 Bonds will be used, together with certain other available monies, to defease the Health Services Facilities System Series 1997A Bonds and to pay all costs incidental to the issuance of the Series 2007 bonds.

On January 4, 2008, the University issued Certificates of Participations Series 2007A, 2007B, 2007C, and Taxable 2007D for the amounts of $72,725,000, $45,625,000, $31,340,000, and $81,500,000, respectively. The proceeds from the Series 2007A Certificates will be used to fund various improvements at all three University campuses and additions at the Urbana-Champaign campus, to refund the Series 1997 Certificates, and to pay all costs incidental to the issuance of the bonds. The proceeds from the Series 2007B Certificates will be used to refund a portion of the Series 2001 Certificates and to pay all costs incidental to the issuance of the bonds. The proceeds from the Series 2007C Certificates will be used to fund an addition at the University's health profession site in Rockford, Illinois. The proceeds from the Taxable Series 2007D Certificates will be used to fund a portion of the costs for the construction of a petascale computing facility.

This information is an integral part of the accompanying financial statement.

University of Illinois
Urbana-Champaign • Chicago • Springfield

Annual Financial Report

FISCAL YEAR 2008



AUDITED FINANCIAL STATEMENTS

Statement of Net Assets as of June 30, 2008
with Comparative Totals for 2007 (in thousands)

	University		University Related Organizations	
	2008	2007	2008	2007
ASSETS				
Current Assets:				
Cash and cash equivalents	$ 327,503	$ 281,621	$ 2,003	$ 3,724
Cash and cash equivalents, restricted	289,811	365,395	2,859	2,346
Investments	7,450	4,490	54	
Investments, restricted	141,698	48,851		
Accrued investment income	5,039	5,091	1,921	2,033
Accounts receivable, net of allowance for uncollectible	368,459	356,959	12,002	33,905
Receivable from State of Illinois General Revenue Fund	1,355	1,577		
Pledges receivable, net of allowance			6,580	4,591
Notes receivable, net of allowance for uncollectible	7,489	10,998	93	
Accrued interest on notes receivable	2,931	2,895		
Inventories	28,795	27,542	13	4
Prepaid expenses and deferred charges	25,934	21,046	398	373
Due from related organizations	1,325	3,054		
Other assets			4,366	4,183
Total Current Assets	1,207,789	1,129,519	30,289	51,159
Noncurrent Assets:				
Cash and cash equivalents, restricted			445	1,447
Investments	340,524	339,340	148,157	152,774
Investments, restricted	261,281	235,904	1,062,546	1,095,925
Pledges receivable, net of allowance			20,681	20,656
Notes receivable, net of allowance for uncollectible	55,305	50,349		
Real estate and farm properties	13,766	14,060	27,504	24,406
Prepaid expenses	10,364	10,349		
Due from related organizations	1,232	3,577		
Irrevocable trust held by other trustees			8,591	8,617
Capital assets, net of accumulated depreciation	3,240,155	3,109,396	9,553	9,201
Other assets	12,777	12,851	15,596	15,289
Total Noncurrent Assets	3,935,404	3,775,826	1,293,073	1,328,315
TOTAL ASSETS	$ 5,143,193	$ 4,905,345	$ 1,323,362	$ 1,379,474
LIABILITIES AND NET ASSETS				
Current Liabilities:				
Accounts payable and accrued liabilities	$ 271,804	$ 216,777	$ 35,570	$ 57,584
Accrued payroll	132,453	119,267	479	564
Accrued compensated absences, current portion	17,048	16,761	1,254	984
Accrued self insurance, current portion	48,591	39,761		
Deferred revenue and student deposits	156,521	148,277	60	41
Accrued interest payable	17,248	17,191		
Notes payable			7,214	6,402
Annuities payable			6,904	6,700
Bonds payable, current portion	126,807	31,243		
Due to related organizations, current portion			1,325	3,054
Leaseholds payable and other obligations, current portion	25,942	34,285		
Assets held for others	35,646	32,530	1	89
Total Current Liabilities	832,060	656,092	52,807	75,418
Noncurrent Liabilities:				
Bonds payable	1,005,489	1,060,804		
Leaseholds payable and other obligations	625,458	463,755		
Due to related organizations			1,232	3,577
Accrued compensated absences	196,260	192,421		
Accrued self-insurance	128,577	116,417		
Annuities payable			46,987	44,408
Remainder interest due to others			6,491	7,360
Deferred distributions			55	61
Total Noncurrent Liabilities	1,955,784	1,833,397	54,765	55,406
Total Liabilities	2,787,844	2,489,489	107,572	130,824
NET ASSETS				
Invested in capital assets, net of related debt	1,822,522	1,830,995	2,339	2,799
Restricted:				
Nonexpendable	46,743	51,345	807,506	838,362
Expendable	396,220	392,651	375,852	377,944
Unrestricted	89,864	140,865	30,093	29,545
Total Net Assets	2,355,349	2,415,856	1,215,790	1,248,650
TOTAL LIABILITIES AND NET ASSETS	$ 5,143,193	$ 4,905,345	$ 1,323,362	$ 1,379,474

See accompanying notes to financial statements.

Statement of Revenues, Expenses and Changes in Net Assets

Year Ended June 30, 2008 with Comparative Totals for 2007 (in thousands)

	University		University Related Organizations	
	2008	2007	2008	2007
OPERATING REVENUES:				
Student tuition and fees, net	$ 662,464	$ 617,812	$	$
Medical fees for services - state appropriation	45,523	46,207		
Federal appropriations	20,276	18,183		
Federal grants and contracts	587,189	585,981		
State of Illinois grants and contracts	94,651	82,382		
Private gifts, grants, and contracts	126,386	115,210	124,553	111,520
Educational activities	234,549	206,316		
Auxiliary enterprises, net	330,309	304,094		
Hospital and other medical activities, net	463,209	424,211		
Medical service plan	185,499	144,303		
Independent operations	10,924	10,620		
Interest and service charges on student loans	1,494	1,100		
On behalf - hospital and other medical activities	83,843	71,610		
Allocation from the University			12,273	12,324
Other sources			38,888	34,502
TOTAL OPERATING REVENUES	2,846,316	2,628,029	175,714	158,346
OPERATING EXPENSES:				
Instruction	758,676	703,540		
Research	568,946	561,876		
Public service	342,840	326,348		
Academic support	249,000	236,561		
Student services	99,314	88,374		
Institutional support	178,572	167,172	43,598	41,381
Operation and maintenance of plant	259,068	218,028		
Scholarships and fellowships	199,197	198,016		
Auxiliary enterprises	261,408	234,751		
Hospital and medical activites	470,345	431,762		
Independent operations	9,963	10,023		
Depreciation	199,609	191,679	491	510
On behalf payments for fringe benefits	441,480	376,657		
Distributions on behalf of the University			136,866	128,731
TOTAL OPERATING EXPENSES	4,038,418	3,744,787	180,955	170,622
Operating loss	(1,192,102)	(1,116,758)	(5,241)	(12,276)
NONOPERATING REVENUES (EXPENSES):				
State appropriations	680,503	665,752		
Private gifts	129,948	127,907		
On behalf payments for fringe benefits	357,637	305,047	1,591	1,540
Net investment income (net of investment expense of $2,181 in 2008)	66,682	63,733	6,489	10,336
Net increase (decrease) in the fair value of investments	(60,508)	36,429	(72,562)	162,440
Interest on capital asset related debt	(68,091)	(71,768)	(448)	(541)
Loss on sale/disposal of capital assets	(3,552)	(1,834)		
Other nonoperating revenues, net	20,329	15,590	203	38
Net nonoperating revenues (expenses)	1,122,948	1,140,856	(64,727)	173,813
Income (loss) before other revenues, expenses, gains, or losses	(69,154)	24,098	(69,968)	161,537
Capital state appropriations	5,981	12,287		
Capital gifts and grants	2,412	8,541		
Private gifts for endowment purposes	254	945	37,108	28,353
INCREASE (DECREASE) IN NET ASSETS	(60,507)	45,871	(32,860)	189,890
NET ASSETS, BEGINNING OF YEAR	2,415,856	2,369,985	1,248,650	1,058,760
NET ASSETS, END OF YEAR	$ 2,355,349	$ 2,415,856	$ 1,215,790	$ 1,248,650

See accompanying notes to financial statements.

Statement of Cash Flows

Year Ended June 30, 2008 with Comparative Totals for 2007 (in thousands)

	University		University Related Organizations	
	2008	2007	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:				
Student tuition and fees	$ 668,651	$ 618,289	$	$
Medical fees for service - state appropriations	45,523	46,207		
Federal, state, and local grants and contracts	697,470	686,489		
Private gifts, grants, and contracts	123,471	111,556	3,775	2,799
Sales and services of educational and other departmental activities	230,619	207,283		
Contributions and gifts			108,441	98,304
Service fee revenue			22,181	19,561
Auxiliary activities and independent operations	342,343	313,872		
Hospital and other medical activities	472,136	420,791		
Medical service plan	177,844	149,117		
Distributions on behalf of the University			(125,203)	(119,352)
Allocation from the University			8,223	8,376
Payments to employees and benefits	(2,112,381)	(2,036,192)	(20,954)	(18,866)
Payments to suppliers	(1,152,862)	(1,058,408)	(13,443)	(13,064)
Payments for scholarships and fellowships	(45,851)	(40,991)		
Payments to annuitants			(7,138)	(7,853)
Student loans issued	(10,133)	(18,209)		
Student loans collected	7,722	11,297		
Student loan interest and fees collected	1,416	1,258		
Other operating revenue			13,107	11,715
NET CASH USED BY OPERATING ACTIVITIES	(554,032)	(587,641)	(11,011)	(18,380)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
State appropriations	680,725	665,104		
Gifts transferred from University of Illinois Foundation	129,948	127,907		
Private gifts for endowment purposes	254	14	37,108	28,353
Advances and repayments to related organizations, net	4,073	3,041	(3,762)	(2,915)
Other, net	22,263	11,106	(103)	(191)
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	837,263	807,172	33,243	25,247
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Proceeds from issuance of capital debt	339,872	330,171		
Capital state appropriations	339	659		
Capital gifts and grants	858	2,872		
Purchase of capital assets	(303,067)	(297,769)	(278)	(764)
Principal payments on bonds and capital leases	(163,640)	(115,840)		
Interest payments on bonds and capital leases	(69,560)	(57,089)	(300)	(325)
Payment on notes payable			(471)	(255)
Payments of bond issuance costs	(1,867)	(2,667)		
Other, net			482	(309)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(197,065)	(139,663)	(567)	(1,653)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest and dividends on investments, net	55,483	56,759	9,638	13,218
Proceeds from sales and maturities of investments	3,855,986	1,091,517	1,270,275	1,247,304
Purchase of investments	(4,027,337)	(968,193)	(1,303,788)	(1,264,713)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(115,868)	180,083	(23,875)	(4,191)
Net increase (decrease) in cash and cash equivalents	(29,702)	259,951	(2,210)	1,023
Cash and Cash Equivalents, Beginning of Year	647,016	387,065	7,517	6,494
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 617,314	$ 647,016	$ 5,307	$ 7,517

Statement of Cash Flows

Year Ended June 30, 2008 with Comparative Totals for 2007 (in thousands) - (continued)

	University		University Related Organizations	
	2008	2007	2008	2007
Reconciliation of operating loss to net cash used by operating activities:				
Operating loss	$ (1,192,102)	$ (1,116,758)	$ (5,241)	$ (12,276)
Adjustments to reconcile operating loss to net cash used by operating activities:				
On behalf payments for reimbursement of hospital and medical activities	(83,843)	(71,610)		
On behalf payments for fringe benefits expense	441,480	376,657	1,591	1,540
Depreciation expense	199,609	191,679	491	510
Changes in assets and liabilities:				
Accounts receivable, net	(11,208)	(8,674)	(404)	(214)
Notes receivable, net	(1,448)	(5,198)	(93)	
Accrued interest on notes receivable	(36)	116		
Inventories	(1,253)	(2,310)	(9)	(1)
Prepaid expenses and deferred charges	(3,533)	(3,038)	(25)	(4)
Pledges receivable			(2,000)	(2,000)
Other assets			(5,967)	(5,814)
Accounts payable	48,639	21,101	531	387
Accrued payroll	13,186	3,659	(85)	61
Deferred revenue and student deposits	8,245	7,001	19	(720)
Accrued compensated absences	4,126	1,874	269	62
Accrued self insurance	20,990	13,964		
Assets held for others	3,116	3,896	(88)	89
Net cash used by operating activities	$ (554,032)	$ (587,641)	$ (11,011)	$ (18,380)
Noncash investing, capital, and financing activities:				
On behalf payments for fringe benefits	$ 357,637	$ 305,047	$ 1,591	$ 1,574
Gifts in kind	957	5,669	22,599	12,291
Capital assets in accounts payable	70,647	64,258		50
Capital asset acquisitions by CDB	6,238	11,628		
Capital asset acquisitions via leaseholds payable	7,856	2,644		
Capital appreciation on bonds payable	10,597	10,763		
Net interest capitalized	7,423	676		
Other capital asset adjustments	1,990	763		
Loss on sale/disposal of capital assets	3,552	1,834		

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Basis of Presentation

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

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

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

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

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

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

Prairieland Energy, Inc. (Prairieland), a for profit, wholly-owned subsidiary, was formed for the purpose of providing support for the University through delivery of comprehensive economical utility services to the University.

Illinois Ventures, LLC, (Illinois Ventures), a for profit, wholly-owned subsidiary, exists to facilitate the development of new companies commercializing technology originated or developed by faculty, staff and/or students of the University. The University desires Illinois Ventures to foster technology commercialization and economic development in accordance with the teaching, research, and public service missions of the University.

The University of Illinois Research Park, LLC, (Research Park), a for profit, wholly-owned subsidiary, was formed to aid and assist the University by establishing and operating a research park on the University's Urbana-Champaign campus. The Research Park was designed to promote the development of new companies which commercialize University technologies.

Activities of Prairieland, Illinois Ventures, and the Research Park for the current fiscal year, which were minimal, have been incorporated in the University's financial statements using the blended method.

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

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

The basic financial statements include prior year comparative information, which has been derived from the University's 2007 financial statements. Such information does not include all of the information required to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the University's financial statements for the year ended June 30, 2007.

Certain items in the June 30, 2007 financial statements have been reclassified to correspond to the June 30, 2008 presentation.

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

Significant Accounting Policies

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

The Statement of Revenues, Expenses, and Changes in Net Assets classifies the Entity's fiscal year activity as operating and nonoperating. Operating revenues generally result from exchange transactions such as payments received for providing goods and services, including tuition and fees, net of scholarships and fellowships, certain grants and contracts, sales and services of educational activities, hospital, and auxiliary enterprise revenues.

Scholarships and fellowships of $160,201,000 and $2,123,000 are netted against student tuition and fees and auxiliary enterprises revenues, respectively. Stipends and other payments made directly to students are reported as scholarship and fellowship expense. Net tuition and fees, except for Summer Session, are recognized as revenues as they are assessed. The portion of Summer Session tuition and fees applicable to the following fiscal year is deferred.

Grant and contract revenues which are received or receivable from external sources are recognized as revenues to the extent of related expenses or satisfaction of eligibility requirements on the accrual basis. Advances are classified as deferred revenue.

Certain revenue sources that the Entity relies on to provide funding for operations including State appropriations, gifts, and investment income are defined by GASB Statement No. 35 as nonoperating. In addition, transactions related to capital and financing activities are components of nonoperating revenues.

Appropriations made from the State of Illinois General Revenue Fund for the benefit of the University are recognized as nonoperating revenues when eligibility requirements are satisfied.

In accordance with GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance,* the University reported payments made to the State Universities Retirement System on behalf of the Entity for contributions to retirement programs for Entity employees of approximately $144,642,000 for the year ended June 30, 2008. Substantially all employees participate in group health insurance plans administered by the State of Illinois. The employer contributions to these plans for University employees paid by State appropriations and auxiliary enterprises are paid to Central Management Services on behalf of the University. The employer contributions to these plans on behalf of employees paid from other University-held funds are paid by the University. The on behalf payments are approximately $296,838,000 for 2008. The cost of these benefits paid on behalf of the Hospital are reflected as operating revenues as the result of certain contractual agreements. All other on behalf payments are reflected as nonoperating revenues. In all cases, the corresponding on behalf expense is reflected as operating and reported in on behalf payments for fringe benefits.

With respect to the Hospital, net patient service revenue is reported at the estimated net realizable amounts due from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Approximately 96% of the Hospital's net patient service revenues were derived from Medicare, Medicaid, Blue Cross and managed care programs for the year ended June 30, 2008. 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. For the year ended June 30, 2008, the contractual allowances totalled $888,714,000.

The Entity first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

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

Employment contracts 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 $53,295,000 at June 30, 2008 and is recorded in the accompanying financial statements. This amount will be paid from amounts specifically included in State of Illinois General Revenue Fund appropriations to the University for fiscal year 2009 rather than from the unrestricted net assets available at June 30, 2008.

Accrued compensated absences for Entity personnel are charged as an operating expense, using the vesting method, based on earned but unused vacation and sick leave days including the Entity's share of social security and medicare taxes. At June 30, 2008, the University estimates that $119,876,000 of the accrued compensated absences liability will be paid out of State of Illinois General Revenue Fund appropriations to the University in subsequent years, rather than from unrestricted net assets available at June 30, 2008.

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

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

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

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

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. A material estimate that is particularly susceptible to significant change in the near term relates to the determination of the allowance for doubtful accounts and contractual allowances.

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

NOTE 2 – CASH AND DEPOSITS

The carrying amount of the University's and the UROs' cash totalled $(9,647,000) and $5,282,000 at June 30, 2008, respectively.

The total bank account balances at June 30, 2008, of the University and the UROs, aggregated $11,557,000, and $5,034,000, respectively, of which $11,557,000, and $4,337,000, respectively, was covered by federal depository insurance or by collateral held by an agent in the Entity's name.

Certificates of Deposit, which are reported as investments per GASB Statement No. 9, for the University and the URO's totaled $ 400,000 and $54,000 at June 30, 2008 and were covered by federal depository insurance or collateral held by an agent in the Entity's name.

NOTE 3 – CASH EQUIVALENTS AND INVESTMENTS

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

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

Additionally, the University has investments in real estate and farm properties that are carried at cost, or when donated, at the fair value at the date of donation. All other investments are carried at their fair value, as determined by quoted market prices when available, and otherwise by generally accepted valuation principles. 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 University Endowment Fund which is recognized in the fund to which the income is restricted.

Illinois Statutes require a third party custodian to perfect the University's security interest under repurchase agreements. The University follows industry standards and requires that securities underlying repurchase agreements must have a fair value of at least 102% of the cost of the repurchase agreement. At June 30, 2008, the University and the UROs had repurchase agreements of $140,398,000 and $25,000, respectively and the market value of securities underlying these repurchase agreements was $155,865,000 and $25,000, respectively, at June 30, 2008.

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

Distributions are made from the University Endowment Fund to the University entities that benefit from the endowment funds. The endowment spending rule provides for an annual distribution of 4.75% of the two-quarter lagged, three-year moving average market value of fund units. At June 30, 2008 net appreciation of $16,812,000 is available to be spent, of which $14,126,000 is restricted to specific purposes.

The Board develops University policy on investments and delegates the execution of those policies to its administrative agents. The University follows the State of Illinois Uniform Management of Institutional Funds Act when investing its endowment and operating funds. The State of Illinois Public Funds Investment Act provides the context and framework for plant fund investments. The following details the carrying value of the University's and the UROs' investment portfolio as of June 30, 2008:

UNIVERSITY CASH EQUIVALENTS AND INVESTMENTS (in thousands)	
Certificates of Deposit	$ 400
U.S. Treasury Put	4,345
U.S. Treasury Bonds and Bills	122,965
U.S. Government Agencies	207,900
Commercial Paper	72,577
Corporate Bonds	104,097
Bond Mutual Funds	61,776
Non Government Mortgage Backed Securities	65,005
Non U.S. Government Bonds	3,511
Repurchase Agreements	140,398
Money Market Funds	413,820
Illinois Public Treasurer's Investment Pool	2,628
Subtotal before equities and other investments	1,199,422
US Equities	20,046
International Equities	37,186
U.S. Equity Mutual Funds	110,578
Limited Partnerships	9,801
Preferred Stock	880
Real Estate	1
TOTAL	$ 1,377,914

URO CASH EQUIVALENTS AND INVESTMENTS (in thousands)	
U.S. and Other Government Securities	$ 40,200
International Government Securities	228
Municipal Bonds	223
Corporate Bonds and Notes	57,037
Mutual Funds - Bonds	94,168
Mutual Funds - Municipal Bonds	2,154
Mutual Funds - Blended Bonds	4,613
Mutual Funds - Money Market	42,417
Certificates of Deposit	54
Repurchase Agreements	25
Subtotal before equities and other investments	241,119
U.S. Equities	235,000
International Equities	171,837
Preferred Stock	484
Mutual Funds - Stocks	181,523
Real Estate Trust and Partnerships	377,496
Other	3,323
TOTAL	$ 1,210,782

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University employs multiple investment managers, of which each has specific maturity assignments related to the operating funds. The funds are structured with different layers of liquidity. Funds expected to be used within one year are invested in money market instruments. Core operating funds are invested in longer maturity investments. Core operating funds investment manager's performance benchmarks are Lehman Brothers 1-3 year Government Credit Bond Index and the Lehman Brothers Intermediate Aggregate Bond Index. The University's manager guidelines provide that the average weighted duration of the portfolio, including option positions, not vary from that of their respective performance benchmarks by more than +/-20 percent. The University's and the UROs' investments and maturities at June 30, 2008 are illustrated below:

UNIVERSITY INVESTMENT MATURITIES
(in thousands)

	Total	Less than 1	1 - 5	6 - 10	Greater than 10
Certificates of Deposit	$ 400	$ 400	$	$	$
U.S. Treasury Put	4,345				4,345
U.S. Treasury Bonds and Bills	122,965	53,945	55,536	13,051	433
U.S. Government Agencies	207,900	82,017	62,555	7,587	55,741
Commercial Paper	72,577	72,577			
Corporate Bonds	104,097	6,646	47,002	25,353	25,096
Bond Mutual Funds	61,776		669	61,107	
Non Government Mortgage Backed Securities	65,005		2,134	4,064	58,807
Non U.S. Government Bonds	3,511		3,511		
Repurchase Agreements	140,398	140,398			
Money Market Funds	413,820	413,820			
Illinois Public Treasurer's Investment Pool	2,628	2,628			
TOTAL	$ 1,199,422	$ 772,431	$ 171,407	$ 111,162	$ 144,422

At June 30, 2008, the University's operating funds pool portfolio had an effective duration of 1.6 years.

URO INVESTMENT MATURITIES
(in thousands)

	Total	Less than 1	1 - 5	6 - 10	Greater than 10
U.S. and Other Government Securities	$ 40,200	$	$ 3,079	$ 223	$ 36,898
International Government Securities	228		105		123
Municipal Bonds	223			223	
Corporate Bonds and Notes	57,037		2,496	1,795	52,746
Mutual Funds - Bonds	94,168	9,204	39,295	45,623	46
Mutual Funds - Municipal Bonds	2,154	159	672	907	416
Mutual Funds - Blended Bonds	4,613		3,764	849	
Mutual Funds - Money Markets	42,417	42,417			
Repurchase Agreements & Certificates of Deposit	79	79			
TOTAL	$ 241,119	$ 51,859	$ 49,411	$ 49,620	$ 90,229

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The University's policy requires that operating funds be invested in fixed income securities and money market instruments. Fixed income securities shall be rated investment grade or better by one or more nationally recognized statistical rating organizations. Securities not covered by the investment grade standard are allowed if, in the manager's judgment, those instruments are of comparable credit quality. Securities which fall below the stated minimum credit requirements subsequent to initial purchase may be held at the manager's discretion. It is expected that the average credit quality of the operating funds will not fall below Standard & Poor's AA- or equivalent. At June 30, 2008 the University and the UROs had debt securities and quality ratings as shown in the charts below:

UNIVERSITY INVESTMENTS QUALITY RATINGS
(in thousands)

	Total	AAA/Aaa	AA/Aa	A/BA	BBB/Baa	BB/Ba	Less than BB or Not Rated
Certificates of Deposit	$ 400	$	$	$	$	$	$ 400
U.S. Treasury Put	4,345						4,345
U.S.Treasury Bonds and Bills	122,965	122,965					
U.S. Government Agencies	207,900	207,900					
Commercial Paper	72,577	72,577					
Corporate Bonds	104,097	21,899	15,054	26,404	30,038	2,995	7,707
Bond Mutual Funds	61,776	1,822	59,285	669			
Non Government Mortgage Backed Securities	65,005	62,099	702	643	178	182	1,201
Non U.S. Government Bonds	3,511	2,322	388	439	362		
Repurchase Agreements	140,398						140,398
Money Market Funds	413,820	411,171					2,649
Illinois Public Treasurer's Investment Pool	2,628	2,628					
TOTAL	$ 1,199,422	$ 905,383	$ 75,429	$ 28,155	$ 30,578	$ 3,177	$ 156,700

URO INVESTMENTS QUALITY RATINGS
(in thousands)

	Total	AAA/Aaa	AA/Aa	A/BA	BBB/Baa	BB/Ba	Less than BB or Not Rated
U.S. and Other Government Securities	$ 40,200	$ 40,200	$	$	$	$	$
International Government Securities	228			105	123		
Municipal Bonds	223	111	80				32
Corporate Bonds and Notes	57,037	21,321	5,911	3,399	7,472	3,704	15,230
Mutual Funds - Bonds	94,168	60,393	14,778	9,113	2,728	4,596	2,560
Mutual Funds - Municipal Bonds	2,154	788	1,019	249	92		6
Mutual Funds - Blended Bonds	4,613	210	3,999	280	121		3
Mutual Funds - Money Market	42,417	42,417					
Repurchase Agreements and Certificates of Deposit	79						79
TOTAL	$ 241,119	$ 165,440	$ 25,787	$ 13,146	$ 10,536	$ 8,300	$ 17,910

Custodial Credit Risk: Custodial credit risk is the risk that in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Exposure to custodial credit risk relates to investment securities that are held by someone other than the University and are not registered in the University's name. The University investment policy does not limit the value of investments that may be held by an outside party. At June 30, 2008, the University's investments and deposits had no custodial credit risk exposure.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the University's investment in a single issuer. The University's policy provides that the total operating funds portfolio will be broadly diversified across securities in a manner that is consistent with fiduciary standards of diversification. This diversification is achieved by employing multiple investment managers and imposing maximum position limits for each manager. The University's manager guidelines for operating investments provide that non-U.S. government obligations may not exceed 10% per issuer and private mortgage-backed and asset-backed securities may not exceed 10% per issuer (unless collateral is credit independent of the issuer and the security's credit enhancement is generated internally, in which case the limit is 25% per issuer). Obligations with other issuers, other than the U.S. government, U.S. agencies, or U.S. government sponsored corporations and agencies, may not exceed 5%. As of June 30, 2008, not more than 5% of the University's and the URO's total investments were invested in securities of any one issuer, excluding securities issued or guaranteed by the U.S. government, mutual funds, and external investment pools or other pooled investments.

Foreign Currency Risk: Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The University's operating fund investments generally are not exposed to foreign currency risk. The University does not have an overarching policy related to foreign currency risk; however, under the investment manager's guidelines, the portfolio's foreign currency exposure may be unhedged or hedged back into U.S. dollars. Cross hedging is not permitted. The U.S. dollar balances of the University's and the UROs' cash equivalents and investments exposed to foreign currency risk as of June 30, 2008 are categorized by currency below:

UNIVERSITY INVESTMENTS FOREIGN CURRENCY EXPOSURE
(in thousands)

	Total	Cash Equivalents	Equity Investments
European Euro	$ 13,737	$ 318	$ 13,419
British Pound	9,217	245	8,972
Swiss Franc	2,697	3	2,694
Japanese Yen	1,581		1,581
Hong Kong Dollar	1,548		1,548
Norwegian Krone	858		858
Singapore Dollar	715		715
Australian Dollar	664		664
South Korean Won	614		614
All other currency	6,155	34	6,121
TOTAL	$ 37,786	$ 600	$ 37,186

URO INVESTMENTS FOREIGN CURRENCY EXPOSURE
(in thousands)

	Total	Cash Equivalents	Equity Investments	International Mutual Funds	Real Estate Trusts and Partnerships
European Euro	$ 52,571	$ 709	$ 36,599	$ 7,384	$ 7,879
British Pound	51,022	480	46,827	3,715	
Swiss Franc	16,812	578	14,869	1,365	
Japanese Yen	29,184	165	25,009	2,180	1,830
Hong Kong Dollar	6,803	32	5,268	1,217	286
Norwegian Krone	5,614	751	4,715	148	
Canadian Dollar	10,685	34	10,269	382	
Australian Dollar	6,631	114	6,070	447	
Swedish Krona	7,467	38	6,837	592	
All other currency	46,948	12,732	15,374	9,504	9,338
TOTAL	$ 233,737	$ 15,633	$ 171,837	$ 26,934	$ 19,333

Securities Lending: To enhance the return on investment, the Board of Trustees of the University has authorized participation in a securities lending program. Through its custodian bank, the University loans securities to independent third parties. Such loans are secured by collateral consisting of cash, cash equivalents or U.S. Government securities and irrevocable bank letters of credit in an amount not less than 102% of the fair value of the securities loaned. Any collateral securities cannot be pledged or sold by the University unless the borrower defaults. The University receives interest and dividends during the loan period as well as a fee from the custodian. At June 30, 2008, the University has no credit risk exposure to borrowers because the amounts the University owes the borrowers exceed the amounts the borrowers owe the University. As of June 30, 2008, approximately $129,527,000 of the investments reported on the University's Statement of Net Assets were on loan, secured by collateral with a fair value of approximately $132,774,000.

NOTE 4 – ACCOUNTS, NOTES, AND PLEDGES RECEIVABLE

The Entity provides allowances for uncollectible accounts and notes receivable based upon management's best estimate of uncollectible accounts and notes at the Statement of Net Assets date, considering type, age, collection history of receivables, and any other factors as considered appropriate. Accounts receivable are reported net of allowances of $283,369,000 at June 30, 2008. Notes receivable are reported net of allowances of $2,877,000 at June 30, 2008.

The composition of accounts receivable and notes and pledges receivable at June 30, 2008 is summarized as follows:

ACCOUNTS RECEIVABLE, NET OF ALLOWANCE (in thousands)	
Receivables from sponsoring agencies	$ 174,931
Hospital and other medical activities	75,335
Student tuition and fees, net of allowances	23,392
Auxiliaries, net of discounts and allowances	10,364
Medical service plan	40,844
Educational activities	18,383
Other	25,210
TOTAL	$ 368,459

NOTES AND PLEDGES RECEIVABLE (in thousands)	
Student notes - University:	
Student notes outstanding	$ 65,671
Allowance for uncollectible loans	(2,877)
Total student notes, net	$ 62,794
Gift pledges outstanding - UROs:	
Operations	$ 15,913
Capital	22,544
Total gift pledges outstanding	38,457
Less:	
Allowance and unamortized discount to present value	(11,196)
Total pledges receivable, net	$ 27,261

NOTE 5 – CAPITAL ASSETS

Net interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Net interest of $7,423,000 was capitalized during the year ended June 30, 2008.

Capital assets activity for the University and the UROs for the year ended June 30, 2008 is summarized as follows:

CAPITAL ASSETS FOR THE UNIVERSITY
(in thousands)

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Nondepreciable Capital Assets:					
Land	$ 126,301	$	$ (1)	$	$ 126,300
Construction in progress	289,517	244,401		(200,207)	333,711
Inexhaustible collections	14,813	661			15,474
Total nondepreciable capital assets	430,631	245,062	(1)	(200,207)	475,485
Depreciable Capital Assets:					
Buildings	2,783,377		(470)	193,964	2,976,871
Improvements and infrastructure	620,665		(48)	6,243	626,860
Equipment and software	1,103,554	65,267	(45,567)		1,123,254
Exhaustible collections	427,367	23,640			451,007
Total depreciable capital assets	4,934,963	88,907	(46,085)	200,207	5,177,992
Less: accumulated depreciation					
Buildings	924,386	69,209	(436)		993,159
Improvements and infrastructure	235,745	21,832			257,577
Equipment and software	775,173	88,235	(42,049)		821,359
Exhaustible collections	320,894	20,333			341,227
Total accumulated depreciation	2,256,198	199,609	(42,485)		2,413,322
Total net depreciable capital assets	2,678,765	(110,702)	(3,600)	200,207	2,764,670
TOTAL	$ 3,109,396	$ 134,360	$ (3,601)	$	$ 3,240,155

URO CAPITAL ASSETS
(in thousands)

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Nondepreciable Capital Assets:					
Land	$ 639	$	$ (458)	$	$ 181
Farmland	2,497	1,283			3,780
Total nondepreciable capital assets	3,136	1,283	(458)		3,961
Depreciable Capital Assets:					
Buildings	4,663		(260)		4,403
Leasehold improvements	92				92
Equipment and software	4,220	283	(87)		4,416
Total depreciable capital assets	8,975	283	(347)		8,911
Less: accumulated depreciation					
Buildings	105	42			147
Leasehold improvements	83				83
Equipment and software	2,722	449	(82)		3,089
Total accumulated depreciation	2,910	491	(82)		3,319
Total net depreciable capital assets	6,065	(208)	(265)		5,592
TOTAL	$ 9,201	$ 1,075	$ (723)	$	$ 9,553

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

The University's accrued self-insurance liability of $177,168,000 at June 30, 2008 covers hospital patient liability; hospital and medical professional liability; estimated general and contract liability; and workers' compensation liability related to employees paid from local funds. The accrued self-insurance liability was discounted at a rate of 5.5% at June 30, 2008. Amounts increasing the accrued self-insurance liability are charged as expenses based upon estimates made by actuaries and the University's risk management division. The workers' compensation self-insurance liability of $16,757,000 at June 30, 2008 related to employees who are paid from State appropriations is included in the University's accounts payable. These claims will be paid from State appropriations in the year in which the claims are finalized, rather than from unrestricted net assets as of June 30, 2008.

Accrued self-insurance includes $124,287,000 at June 30, 2008 for the currently estimated ultimate cost of uninsured medical malpractice liabilities. Ultimate cost consists of amounts estimated by the University's risk management division and independent actuaries for asserted claims, unasserted claims arising from reported incidents, expected litigation expenses, and amounts determined by actuaries using relevant industry data and Hospital specific data to cover projected losses for claims incurred but not reported. Because the amounts accrued are estimates, the aggregate claims actually incurred could differ significantly from the accrued self-insurance liability at June 30, 2008. Changes in these estimates will be reflected in the Statement of Revenues, Expenses and Changes in Net Assets in the period when additional information is available.

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

CHANGES IN ACCRUED SELF-INSURANCE
(in thousands)

Balance, beginning of year	$ 156,178
Claims incurred and changes in estimates	65,165
Claim payments and other deductions	(44,175)
Balance, end of year	177,168
Less: current portion	(48,591)
Balance, end of year - noncurrent portion	$ 128,577

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

CHANGES IN COMPENSATED ABSENCES BALANCE
(in thousands)

Balance, beginning of year	$ 209,182
Additions/(Deductions)	4,126
Balance, end of year	213,308
Less: current portion	(17,048)
Balance, end of year - noncurrent portion	$ 196,260

NOTE 7 – BONDS AND NOTES PAYABLE

On June 18, 2008 the University issued Variable Rate Demand Auxiliary Facilities System Revenue Bonds, Series 2008 in the amount of $20,800,000. Proceeds from the Bonds will be used to fund various improvements to the Auxiliary Facilities System and to pay costs incidental to the issuance of the Bonds.

On July 19, 2007 the University issued $40,875,000 Variable Rate Demand Health Services Facilities System Revenue Bonds, Series 2007. Proceeds from the bonds funded the redemption of the Variable Rate Demand Health Services Facilities System Revenue Bonds, Series 1997A and paid cost incidental to the issuance of the bonds. This resulted in projected savings of $6,858,800 over the life of the issue at present value of approximately $6,062,800. The difference between the reacquisition price and net carrying amount of the old debt, loss on refunding, was $2,664,300. This loss is deferred and amortized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter.

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

BONDS PAYABLE
(in thousands)

	Maturity Dates	Beginning Balance	New Debt	Principal Paid/Debt Refunded	Ending Balance	Current Portion
AUXILIARY FACILITIES SYSTEM -						
Current Interest Bonds	2008-2036	$ 781,220	$ 20,800	$ 12,120	$ 789,900	$ 13,920
Capital Appreciation Bonds	2008-2030	265,040		15,005	250,035	14,975
WILLARD AIRPORT	2008-2009	510		250	260	260
HEALTH SERVICES FACILITIES SYSTEM	2008-2027	61,475	82,090	41,375	102,190	41,575
UIC SOUTH CAMPUS	2008-2023	77,300		2,255	75,045	56,410
		$ 1,185,545	$ 102,890	$ 71,005	1,217,430	127,140
Unaccreted appreciation					(99,369)	(461)
					1,118,061	126,679
Unamortized debt premium					33,388	1,261
Unamortized loss on refunding					(19,153)	(1,133)
TOTAL					$ 1,132,296	$ 126,807

Capital appreciation bonds of $250,035,000 outstanding at June 30, 2008 do not require current interest payments and have a net unappreciated value of $150,666,000. The University records the annual increase in the principal amount of these bonds as interest expense and accretion on bonds payable.

None of the University's bonds described above constitute obligations of the State of Illinois. Costs associated with the issuance of the Series 1991, 1993, 1996, 1999A, 1999B, 2000, 2001A, 2001B, 2001C, 2003A, 2005A, 2005B, 2006, and 2008 Auxiliary Facilities System Bonds; Series 1997 Willard Airport Bonds; Series 1997B, 2007, and 2008 Health Services Facilities Bonds; and Series 2000, 2003, and 2006A UIC South Campus Bonds have been recorded as deferred charges and are being amortized over the life of the related bond issue.

The UIC South Campus Series 2006A Bonds, the Auxiliary Facilities System Series 2005B and 2008 Bonds, and the Health Services Facilities System Series 1997B, 2007, and 2008 Bonds are variable rate bonds which bear interest at a defined weekly rate determined by the remarketing agents and are paid monthly. The required future interest payments for these variable rate bonds have been calculated using the current interest rate, based upon short term tax exempt rates, as illustrated on the table below. Other outstanding bond issues bear interest at fixed rates ranging from 3.00% to 7.96%.

VARIABLE RATES BONDS SHORT TERM TAX EXEMPT RATES AT JUNE 30, 2008 (in thousands)	
Bond Issue	**Interest Rate at June 30, 2008**
UIC South Campus, Series 2006A	5.00%
Auxiliary Facilities System, Series 2005B	1.52%
Auxiliary Facilities System, Series 2008	1.50%
Health Services Facilities System, Series 1997B	1.60%
Health Services Facilities System, Series 2007	7.00%
Health Services Facilities System, Series 2008	1.60%

Health Services Facilities System Variable Rate Debt and Interest Rate Swap Agreement

On April 2, 2007 the University entered into a variable-to-fixed interest rate swap agreement. The purpose of this interest rate swap was to hedge variable rate demand Health Services Facility System revenue refunding bonds planned to be issued in July 2007. The notional amount of the interest rate swap was $40,875,000 and equal to the planned par amount of the bonds. The University makes monthly payments to the counterparty equal to 3.534% times the notional amount and receives monthly payments from the counterparty equal to 68% of one-month LIBOR, commencing October 1, 2007. In the third and fourth quarters of Fiscal Year 2008, there was an unfavorable increase in the basis between the interest paid on the Series 2007 bonds and the variable payment received from the swap counterparty. This was primarily due to reduced demand for the bonds resulting from financial troubles encountered by the bond insurer, Ambac.

The University engaged a third-party consultant to calculate the "mark to market" or "market value" of the swap transaction. On June 30, 2008, the mark to market value of the swap was ($1,471,476). Since this is a negative number, it represents an approximation of the amount of money that the University would be required to pay the swap provider to terminate the swap. In accordance with governmental accounting standards, this amount is not required to be included in the accompanying financial statements.

The University has the option to terminate the swap early. The University or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. The University may terminate the swap if both credit ratings of the counterparty fall below BBB+ as issued by Standard & Poor's and Baa1 as issued by Moody's Investors Service. The counterparty credit rating by Standard & Poor's was A and by Moody's Investors Service was A2. If at the time of termination the swap has a negative fair value, the University would be liable to the counterparty for a payment equal to the swap's fair value.

The interest rate swap agreement with Lehman Brothers Commercial Bank transferred to the Series 2008 bonds on July 28, 2008.

UIC South Campus Variable Rate Debt and Interest Rate Swap Agreement

To facilitate the advance refunding of the UIC South Campus Development Project Series 1999 Bonds and, as a means to lower its borrowing costs, when compared against fixed-rate bonds at the time of issuance in February 2006, the University entered into two interest rate swaps in connection with its $53,700,000 variable-rate Bonds (UIC South Campus Development Project) Series 2006A. The intention of the swaps was to effectively change the University's variable interest rate on the Bonds to a synthetic fixed rate of 1.030% through August 1, 2007 and 4.292% thereafter, which includes the Bonds' current liquidity facility fee of 0.200%. In addition, there is a 0.080% current remarketing fee. In the third and fourth quarters of Fiscal Year 2008, there was an unfavorable increase in the basis between the interest paid on the Series 2006A bonds and the variable payment received from the swap counterparties. This was primarily due to reduced demand for the bonds due to the financial troubles encountered by the bond insurer, Financial Guaranty Insurance Company (FGIC).

The Bonds and related swap agreements mature on January 15, 2022, and the swaps' initial notional amount of $53,700,000 matches the $53,700,000 variable-rate Bonds. The swaps were entered at the same time as the Bonds were issued (February 2006). Starting in fiscal year 2011, the notional value of the swaps and the principal amount of the associated bonds decline. Under the swaps, the University pays the counterparties a fixed payment of 0.830% through August 1, 2007 and 4.092% thereafter and receives a variable payment equal to its cost-of-funds through February 3, 2010 and thereafter receives a variable payment equal to 68% of one-month LIBOR. On February 19, 2008, the variable payment that the University receives changed from its cost-of-funds to Securities Industry & Financial Market Association Index (SIFMA) plus 0.05% through February 3, 2010. On June 30, 2008, SIFMA plus 0.05% increased to 1.60%. This change occurred because the monoline bond insurance company FGIC was downgraded below AA. The credit ratings for the first counterparty by Standard & Poor's and Moody's Investors Service were AA and Aa2, respectively. The credit ratings for the second counterparty by Standard & Poor's and Moody's Investors Service were A+ and Aa3, respectively.

The University engaged a third-party consultant to calculate the "mark to market" or "market value" of the swap transaction. On June 30, 2008, the combined mark to market value of the two swaps was ($4,065,712). Since this is a negative number it represents an approximation of the amount of money that the University may have to pay the swap provider, JP Morgan, to terminate the swap. In accordance with governmental accounting standards, this amount is not required to be included in the accompanying financial statements.

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

Pledged Revenues and Debt Service Requirements

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

PLEDGED REVENUES
(in thousands)

Bond Issue(s)	Purpose	Source of Revenue Pledged	Future Revenues Pledged [2]	Term of Commitment	Debt Service To Pledged Revenues (Current Year)
Auxiliary Facilities System (AFS)	Refundings, various improvements and additions to the System	Net AFS revenue, student tuition and fees	$ 1,645,240	2036	9.63%
Willard Airport	Refunding of Series 1987	Net Willard Airport revenue	273	2009	100.0%
Health Services Facilities System (HSFS)	Additions to System and Refunding	Net HSFS, Medical Service Plan revenue net of bad debt expense, College of Medicine net tuition revenue	122,900	2027	1.14%
UIC South Campus	South Campus Development Project[1] and Refunding	Defined Tax Increment Financing District (TIF) revenue, student tuition and fees, and sales of certain land in the UIC South Campus project	82,037	2023	2.94%
		Total Future Revenues Pledged	$ 1,850,450		

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

[2]Total future principal and interest payments on debt (in thousands)

Future debt service requirements for all bonds outstanding at June 30, 2008 are as follows:

DEBT SERVICE REQUIREMENTS (in thousands)		
	Principal	Interest
2009	$ 127,140	$ 40,915
2010	33,250	39,421
2011	34,850	38,540
2012	37,370	37,568
2013	38,155	36,455
2014-2018	204,400	166,264
2019-2023	231,660	134,793
2024-2028	210,440	90,059
2029-2033	205,040	42,078
2034-2038	95,125	6,927
TOTAL	$ 1,217,430	$ 633,020

Using the actual rates of 5.0% and 7.0%, respectively in effect as of June 30, 2008, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, were as follows. As rates vary, variable-rate bond interest payments and net swap payments will also vary.

UIC SOUTH CAMPUS BONDS, SERIES 2006A
VARIABLE-RATE DEBT SERVICE REQUIREMENTS
(in thousands)

	Variable-Rate Bonds			
	Principal	**Interest**	**Interest Rate Swaps, Net**	**Total**
2009	$ 53,700	$ 336	$	$ 54,036
TOTAL	$ 53,700	$ 336	$	$ 54,036

HEALTH SERVICES FACILITIES SYSTEM REVENUE BONDS, SERIES 2007
VARIABLE-RATE DEBT SERVICE REQUIREMENTS
(in thousands)

	Variable-Rate Certificates			
	Principal	**Interest**	**Interest Rate Swaps, Net**	**Total**
2009	$ 40,875	$ 448	$	$ 41,323
TOTAL	$ 40,875	$ 448	$	$ 41,323

Certain bonds of the University have debt service reserve requirements. The Maximum Annual Net Debt Service for those bonds, as defined, is $15,388,900.

Advanced Refunded Bonds

The University has defeased bonds through advanced funding in prior years and, accordingly, they are not reflected in the accompanying statements. The amount of bonds which have been defeased as of June 30, 2008 consists of the following:

ADVANCE REFUNDED BONDS
(in thousands)

Series	Outstanding at June 30, 2008
1978-M	$ 6,245
1999	49,365
1999A	85,300
2000	10,785
2001B	55,315
TOTAL	$ 207,010

The Foundation has a demand note outstanding with interest at 2.98% and principal outstanding of $7,214,000. The change in the balance for fiscal year 2008 is as follows:

URO NOTES PAYABLE
(in thousands)

Balance, beginning of year	$ 6,402
Proceeds	1,283
Payments	(471)
Balance, end of year	$ 7,214

NOTE 8 – LEASEHOLDS AND OTHER OBLIGATIONS

Leaseholds payable and other obligations activity for the year ended June 30, 2008 consist of the following:

LEASEHOLDS AND OTHER OBLIGATIONS
(in thousands)

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
University:					
Certificates of Participation	$ 440,770	$ 231,210	$ (83,290)	$ 588,690	$ 18,560
Unamortized debt premium	11,713	5,971	(1,612)	16,072	1,737
Unamortized deferred loss on refunding	(14,364)	(2,027)	1,586	(14,805)	(1,950)
	438,119	235,154	(83,316)	589,957	18,347
Other capital leases	55,081	8,164	(7,243)	56,002	7,499
Environmental remediation liability	4,840	608	(7)	5,441	96
Total University	$ 498,040	$ 243,926	$ (90,566)	$ 651,400	$ 25,942
UROs:					
Annuities payable	$ 51,108	$ 2,783	$	$ 53,891	$ 6,904
Other liabilities	7,360		(869)	6,491	
Total UROs	$ 58,468	$ 2,783	$ (869)	$ 60,382	$ 6,904

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

On January 4, 2008, the University issued Certificates of Participation Series 2007A, 2007B, 2007C, and 2007D. The 2007A Certificates were issued to acquire, construct, equip, and install certain facilities of the University of Illinois, as well as to refund the Series 1997 Certificates. The 2007B Certificates were issued to partially refund outstanding Certificates of Participation, Series 2001. The 2007C Certificates were issued to finance a portion of the cost of the College of Medicine Rockford National Center for Rural Health Professionals Facility. The taxable 2007D Certificates were issued to finance a portion of the cost of a Petascale Computing Facility, and related infrastructure costs. A portion of the proceeds from each of the Series 2007 Certificates was used to pay costs incidential to issuing the certificates. The refundings resulted in a projected cost of $20,203,000 over the life of the issue at a present value loss of $1,228,000. The difference between the reacquisition price and the net carrying amount of the old debt, loss on refunding, was $2,208,000. This loss is deferred and amortized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter.

Series 2007C and 2007D are variable rate certificates which bear interest at a defined weekly rate and are paid monthly. The required future interest payments for these variable rate certificates have been calculated using the current interest rate, based upon short term rates of 1.45% and 2.58% respectively, over the life of the certificates.

Certificates of Participation Variable Rate Debt and Interest Rate Swap Agreement

To facilitate the advance refunding of the Certificates of Participation (Utility Infrastructure Projects) Series 2001 A & B; and, as a means to lower its borrowing costs, when compared against fixed-rate bonds at the time of issuance in March 2004, the University entered into an interest rate swap agreement in connection with its $143,665,000 variable-rate Certificates of Participation (Utility Infrastructure Projects) Series 2004. The intention of the swap was to effectively change the University's variable interest rate on the certificates to a synthetic fixed rate of 3.855%, which includes the certificates' current liquidity facility fee of 0.09%. In addition, there is a 0.05% current remarketing fee.

The certificates and related swap agreement mature on August 15, 2021, and the swap's initial notional amount of $143,665,000 matches the $143,665,000 variable-rate certificates. The swap was entered at the same time as the certificates were issued (March 2004). Starting in fiscal year 2006, the notional value of the swap and the principal amount of the associated certificates began to decline. Under the swap, the University pays the counterparty a fixed payment of 3.765% and receives a variable payment computed as 100% of the SIFMA. Conversely, the certificates' variable interest rates are expected to approximate SIFMA. For fiscal year 2008, the certificates' average variable interest rate was approximately .06% below the SIFMA. The counterparty credit rating by Standard & Poor's was A+ and by Moody's Investors Service was Aa3.

The University engaged a third-party consultant to calculate the "mark to market" or "market value" of the swap transaction. On June 30, 2008, the mark to market value of the swap was ($4,070,918). Since this is a negative number, it represents an approximation of the amount of money that the University may have to pay a swap provider to terminate the swap. In accordance with governmental accounting standards, this amount is not required to be included in the accompanying financial statements.

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

Using the actual rate of 1.45% in effect as of June 30, 2008, debt service requirements of the Series 2004 variable-rate certificates and net swap payments, assuming current interest rates remain the same for their term, were as follows. As rates vary, variable-rate interest payments and net swap payments will also vary.

UTILITY INFRASTRUCTURE CERTIFICATES OF PARTICIPATION, SERIES 2004 VARIABLE-RATE DEBT SERVICE REQUIREMENTS (in thousands)	Variable-Rate Certificates		Interest Rate	
	Principal	Interest	Swaps, Net	Total
2009	$ 1,035	$ 2,040	$ 3,242	$ 6,317
2010	1,075	2,019	3,223	6,317
2011	6,570	1,964	3,134	11,668
2012	6,840	1,867	2,979	11,686
2013	7,120	1,770	2,813	11,703
2014-2018	47,470	7,110	11,335	65,915
2019-2023	70,690	2,106	3,349	76,145
TOTAL	$ 140,800	$ 18,876	$ 30,075	$ 189,751

Assets held under capital leases are included in capital assets at June 30, 2008 as follows:

ASSETS HELD UNDER CAPITAL LEASE (in thousands)	
Land	$ 8,423
Buildings	111,975
Improvements	263,250
Equipment	170,173
Subtotal	553,821
Less: accumulated depreciation	144,310
TOTAL	$ 409,511

The net present value of outstanding capital leases at June 30, 2008 is:

OUTSTANDING CAPITAL LEASES (in thousands)	
Certificates of Participation:	
Series 2001 UI Integrate	$ 16,625
Series 2003 South Farms	21,270
Series 2003 UI Integrate	31,700
Series 2003 Utility Infrastructure	52,625
Series 2004 Utility Infrastructure	140,800
Series 2005 College of Medicine	18,510
Series 2006A Academic Facilities	75,950
Series 2007A	72,725
Series 2007B	45,645
Series 2007C	31,340
Series 2007D	81,500
Other capital leases	56,002
NET PRESENT VALUE	$ 644,692

As of June 30, 2008, future minimum lease payments under capital leases is as follows:

FUTURE MINIMUM LEASE PAYMENTS UNDER CAPITAL LEASES (in thousands)	
2009	$ 52,284
2010	50,726
2011	46,726
2012	46,756
2013	51,735
2014-2018	270,113
2019-2023	231,608
2024-2028	153,727
2029-2033	9,270
Total minimum lease payments	912,945
Amount representing interest	(268,253)
NET PRESENT VALUE	$ 644,692

Advanced Refunded Certificates of Participation

The University has defeased certificates through advanced funding in prior years and, accordingly, they are not reflected in the accompanying statements. The amount of certificates which have been defeased as of June 30, 2008 consists of the following:

ADVANCE REFUNDED CERTIFICATES (in thousands)

Series	Outstanding at June 30, 2008
1977 Utility	$ 10,510
1996 Utility	51,485
2001A Utility	74,080
2001B Utility	56,900
2001 UI - Integrate	45,810
TOTAL	$ 238,785

The University monitors environmental matters and records an estimated liability for identified environmental remediation costs. The estimated liability at June 30, 2008 is $5,441,000.

The University also leases various buildings and equipment under operating lease agreements. Total rental expense under these agreements was $11,046,000 for the year ended June 30, 2008. The future minimum lease payments (excluding those leases renewed on an annual basis) are as follows:

FUTURE MINIMUM OPERATING LEASE PAYMENTS (in thousands)	
2009	$ 7,773
2010	5,105
2011	3,479
2012	2,203
2013	1,721
2014-2018	5,265
2019-2023	128
2024-2026	47
TOTAL	$ 25,721

At June 30, 2008, the Foundation had annuities payable outstanding of $53,891,000. Annuities payable represent an actuarial computation of the present value of future payments to annuitants.

NOTE 9 – NET ASSETS

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

UNIVERSITY NET ASSETS
(in thousands)

Invested in capital assets, net of related debt	$ 1,822,522
Restricted - nonexpendable	
Invested in perpetuity to produce income expendable for -	
Scholarships, fellowships and research	46,743
Restricted - expendable for -	
Scholarships, fellowships and research	232,410
Loans	77,089
Service plans	61,431
Retirement of indebtedness	23,028
Capital projects	2,262
Unrestricted -	
Designated for:	
Auxiliary	23,360
Hospital	68,908
Capital projects	56,114
Self supporting activities	10,030
Institutional support	28,538
Quasi endowments	101,435
Amount expected to be financed in future years	(202,308)
Undesignated	3,787
TOTAL	$ 2,355,349

URO NET ASSETS
(in thousands)

Invested in capital assets, net of related debt	$ 2,339
Restricted - nonexpendable	
Invested in perpetuity to produce income expendable for -	
Scholarships, fellowships and research	807,506
Restricted - expendable for -	
Scholarships, fellowships and research	375,852
Unrestricted	30,093
TOTAL	$ 1,215,790

NOTE 10 – FUNDS HELD IN TRUST BY OTHERS

The University and Foundation are income beneficiaries of several irrevocable trusts which are held and administered by outside trustees. The University and Foundation have no control over these funds as to either investment decisions or income distributions, thus the principal is not recorded in the accompanying financial statements. The fair value of these funds at June 30, 2008 and the amount of income received from these trusts during the year then ended were as follows:

FUNDS HELD IN TRUST BY OTHERS
(in thousands)

	University	Foundation
Fair value of funds held in trust by others	$ 40,383	$ 26,287
Income received from funds held in trust by others	$ 1,283	$ 1,577

NOTE 11 – STATE UNIVERSITIES RETIREMENT SYSTEM

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

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

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

Plan members are required to contribute 8.0% of their annual covered salary and substantially all employer contributions are made by the State of Illinois on behalf of the individual employers at an actuarially determined rate. The current rate is 12.88% 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, 2008, 2007, and 2006 were $174,318,000, $138,499,000 and $101,570,000 respectively, equal to the required contributions for each year. The URO's contributions to SURS for the years ended June 30, 2008, 2007, and 2006 were $800,000, $719,000 and $573,000, respectively.

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

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

NOTE 12 – POSTEMPLOYMENT BENEFITS

The State provides health, dental, vision, and life insurance benefits for retirees and their dependents in a program administered by the Department of Healthcare and Family Services along with the Department of Central Management Services. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State sponsored pension plans. Health, dental, and vision benefits include basic benefits for annuitants and dependents under the State's self-insurance plan and insurance contracts currently in force. Annuitants may be required to contribute towards health, dental, and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants who retired prior to January 1, 1998, and who are vested in the State Employee's Retirement System do not contribute towards health, dental, and vision benefits. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced five percent for each year of credited service with the State allowing those annuitants with twenty or more years of credited service to not have to contribute towards health, dental, and vision benefits. Annuitants also receive life insurance coverage equal to the annual salary of the last day of employment until age 60, at which time the benefit becomes $5,000.

The State pays the Entity's portion of employer costs for the benefits provided. The total cost of the State's portion of health, dental, vision, and life insurance benefits of all members, including post-employment health, dental, vision, and life insurance benefits, is recognized as an expenditure by the State in the Illinois Comprehensive Annual Financial Report. The State finances the costs on a pay-as-you-go basis. The total costs incurred for health, dental, vision, and life insurance benefits are not separated by department or component unit for annuitants and their dependents nor active employees and their dependents.

A summary of post-employment benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the financial statements of the Department of Healthcare and Family Services. A copy of the financial statements of the Department of Healthcare and Family Services may be obtained by writing to the Department of Healthcare and Family Services, 201 South Grand Ave., Springfield, Illinois, 62763-3838.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

At June 30, 2008 the University had commitments on various construction projects and contracts for repairs and renovation of facilities of approximately $135,775,000.

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

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

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

The University's hospital and clinics are involved in regulatory audits arising in the normal course of business. On June 8, 2007, a notice was received from the Office of Inspector General on behalf of the Illinois Department of Healthcare and Family Services (HFS) indicating that the University received an overpayment of $14.8 million on behalf of Medicaid patients. During fiscal year 2008, the University submitted additional documentation and evidence of its positions. HFS conducted a reaudit and on June 18, 2008 issued a revised notice of audit findings reducing the overpayment from $14.8 million to $8.6 million. University management is in the process of contesting this overpayment and estimates its probable liability regarding this overpayment is approximately $8.0 million. This liability has been reflected in the University's financial position and results from operations. Please refer to Note 17 for subsequent events regarding this liability.

NOTE 14 – OPERATING EXPENSES BY NATURAL CLASSIFICATION

Operating expenses by natural classification for the year ended June 30, 2008 for the University and the UROs are summarized as follows:

UNIVERSITY OPERATING EXPENSES BY NATURAL CLASSIFICATION
(in thousands)

	Compensation and benefits	Supplies and services	Student aid	Depreciation	Total
Instruction	$ 613,575	$ 141,145	$ 3,956	$	$ 758,676
Research	371,610	195,403	1,933		568,946
Public service	198,349	142,316	2,175		342,840
Academic support	156,020	87,291	5,689		249,000
Student services	61,306	37,110	898		99,314
Institutional support	130,539	47,834	199		178,572
Operations and maintenance of plant	74,175	181,098	3,795		259,068
Scholarships and fellowships	178,744	1,659	18,794		199,197
Auxiliary enterprises	87,878	164,157	9,373		261,408
Hospital and medical activities	259,075	211,270			470,345
Independent operations	1,540	8,423			9,963
Depreciation				199,609	199,609
On behalf payments for fringe benefits	441,480				441,480
TOTAL	$ 2,574,291	$ 1,217,706	$ 46,812	$ 199,609	$ 4,038,418

URO OPERATING EXPENSES BY NATURAL CLASSIFICATION
(in thousands)

	Distribution on behalf of the University	Institutional support	Depreciation	Total
Salaries and benefits	$	$ 21,065	$	$ 21,065
Distributions on behalf of the University	136,866			136,866
Marketing and communications		7,084		7,084
Travel		1,159		1,159
Equipment		531		531
Meeting, conferences and special events		1,196		1,196
Supplies and other		12,563		12,563
Depreciation			491	491
TOTAL	$ 136,866	$ 43,598	$ 491	$ 180,955

NOTE 15 – SEGMENT INFORMATION

The following financial information represents identifiable activities for which one or more revenue bonds is outstanding. The Auxiliary Facilities System is comprised of University owned housing units, student unions, recreation and athletic facilities, and similar auxiliary service units, including parking. The Health Services Facilities System is comprised of the University of Illinois Hospital and associated clinical facilities providing patient care. The Willard Airport Facility is comprised of land, hangars, a terminal building, parking lots, runways, and related apron areas.

(in thousands)

	AUXILIARY FACILITIES SYSTEM	HEALTH SERVICES FACILITIES SYSTEM	WILLARD AIRPORT FACILITY	TOTAL
Condensed Statement of Net Assets				
ASSETS:				
Current assets	$ 244,687	$ 217,757	$ 1,643	$ 464,087
Noncurrent assets				
Capital assets, net of accumulated depreciation	883,986	161,507	32,666	1,078,159
Other noncurrent assets	23,090	2,684		25,774
TOTAL ASSETS	$ 1,151,763	$ 381,948	$ 34,309	$ 1,568,020
LIABILITIES:				
Current liabilities	$ 97,547	$ 124,690	$ 421	$ 222,658
Noncurrent liabilities				
Long term debt	940,734	71,529	134	1,012,397
Other liabilities	5,597	21,949	740	28,286
TOTAL LIABILITIES	1,043,878	218,168	1,295	1,263,341
NET ASSETS:				
Invested in capital assets, net of related debt	9,580	90,433	32,248	132,261
Restricted				
Expendable	21,744	2,286	528	24,558
Unrestricted	76,561	71,061	238	147,860
TOTAL NET ASSETS	107,885	163,780	33,014	304,679
TOTAL LIABILITIES AND NET ASSETS	$ 1,151,763	$ 381,948	$ 34,309	$ 1,568,020
Condensed Statement of Revenues, Expenses and Changes in Net Assets				
Operating revenues	$ 266,216	$ 578,475	$ 2,668	$ 847,359
Operating expenses	229,038	551,011	2,879	782,928
Depreciation expense	20,056	21,258	1,955	43,269
Operating income (loss)	17,122	6,206	(2,166)	21,162
Nonoperating revenues (expenses)	(12,503)	(5,161)	585	(17,079)
Capital and endowment additions			547	547
Increase (decrease) in net assets	4,619	1,045	(1,034)	4,630
Net assets, beginning of year	103,266	162,735	34,048	300,049
NET ASSETS, END OF YEAR	$ 107,885	$ 163,780	$ 33,014	$ 304,679
Condensed Statement of Cash Flows				
Net cash flows provided (used) by operating activities	$ 56,731	$ 51,528	$ (69)	$ 108,190
Net cash flows (used) provided by noncapital financing activities	(833)	38,556	635	38,358
Net cash flows used by capital and related financing activities	(205,125)	(16,999)	(1,250)	(223,374)
Net cash flows provided (used) by investing activities	4,144	(2,615)	54	1,583
Net (decrease) increase in cash and cash equivalents	(145,083)	70,470	(630)	(75,243)
Cash and cash equivalents, beginning of year	350,042	61,732	2,158	413,932
Cash and cash equivalents, end of year	$ 204,959	$ 132,202	$ 1,528	$ 338,689

NOTE 16 – UNIVERSITY RELATED ORGANIZATIONS

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

(in thousands)	FOUNDATION	ALUMNI ASSOCIATION	WWT	TOTAL
Condensed Statement of Net Assets				
ASSETS:				
Current assets	$ 27,569	$ 2,185	$ 535	$ 30,289
Noncurrent assets				
Capital assets, net of accumulated depreciation	8,551	723	279	9,553
Other noncurrent assets	1,268,479	15,041		1,283,520
TOTAL ASSETS	$ 1,304,599	$ 17,949	$ 814	$ 1,323,362
LIABILITIES:				
Current liabilities	$ 49,873	$ 2,043	$ 891	$ 52,807
Noncurrent liabilities				
Long term debt				
Other noncurrent liabilities	53,524	1,241		54,765
TOTAL LIABILITIES	103,397	3,284	891	107,572
NET ASSETS:				
Invested in capital assets, net of related debt	1,337	723	279	2,339
Restricted				
Nonexpendable	807,506			807,506
Expendable	375,852			375,852
Unrestricted	16,507	13,942	(356)	30,093
TOTAL NET ASSETS	1,201,202	14,665	(77)	1,215,790
TOTAL LIABILITIES AND NET ASSETS	$ 1,304,599	$ 17,949	$ 814	$ 1,323,362
Condensed Statement of Revenues, Expenses and Changes in Net Assets				
Operating revenues	$ 156,139	$ 10,934	$ 8,641	$ 175,714
Operating expenses	162,260	10,292	7,912	180,464
Depreciation expense	218	73	200	491
Operating income (loss)	(6,339)	569	529	(5,241)
Nonoperating revenues (expenses)	(64,520)	(220)	13	(64,727)
Contributions to endowments	37,108			37,108
Increase (decrease) in net assets	(33,751)	349	542	(32,860)
Net assets (deficits), beginning of year	1,234,953	14,316	(619)	1,248,650
NET ASSETS (DEFICITS), END OF YEAR	$ 1,201,202	$ 14,665	$ (77)	$ 1,215,790
Condensed Statement of Cash Flows				
Net cash flows (used) provided by operating activities	$ (13,489)	$ 1,428	$ 1,050	$ (11,011)
Net cash flows provided (used) by noncapital financing activities	37,108	(975)	(2,890)	33,243
Net cash flows used by capital and related financing activities	(235)	(281)	(51)	(567)
Net cash flows (used) provided by investing activities	(24,482)	599	8	(23,875)
Net increase (decrease) in cash and cash equivalents	(1,098)	771	(1,883)	(2,210)
Cash and cash equivalents, beginning of year	4,913	691	1,913	7,517
Cash and cash equivalents, end of year	$ 3,815	$ 1,462	$ 30	$ 5,307

NOTE 17 – SUBSEQUENT EVENTS

On July 16, 2008, the University issued Variable Rate Demand UIC South Campus Development Project Revenue Refunding Bonds, Series 2008, in the amount of $54,245,000. The proceeds from these Series 2008 bonds will be used to refund and redeem all of the $53,700,000 aggregate outstanding principal amount of the Variable Rate UIC South Campus Series 2006A Bonds and to pay costs incidental to the issuance of the Series 2008 Bonds.

On July 28, 2008, the University refunded Variable Rate Demand Health Services Facilities System Revenue Refunding Bonds Series 2007 in the amount of $40,875,000. The proceeds from Series 2008 bonds were used to retire the Series 2007 debt. Please refer to Note 7 for details regarding this debt refunding.

Lehman Brothers Commerical Bank is the counterparty for the variable-to-fixed interest rate swap agreement which was transferred to the Health Services Facilities System (HSFS) Series 2008 on July 28, 2008. Lehman Brothers Holdings, Inc. filed for Chapter 11 bankruptcy protection on September 15th, 2008. Lehman Brothers Commerical Bank is a subsidiary of Lehman Brothers Holdings, Inc. Lehman Brothers Commerical Bank did not file for bankruptcy. Lehman Brothers Commerical Bank was downgraded to B3 by Moody's on September 15, 2008 and to D by Standard & Poor's on September 16, 2008. This downgrade gave the University the option to terminate the HSFS Series 2008 interest swap agreement. The mark to market value of the swap on September 17, 2008 was ($2,915,000). This is approximately the amount that the University would have to pay to terminate the interest rate swap.

The University has outstanding bonds and certificates of participation that have variable interest rates. These interest rates are tied to various indexes which reset on a weekly basis. Subsequent to year-end, the interest rates on these variable rate bonds and certificates of participation fluctuated upward due to volatile market conditions. After September 2008, except for Certificates of Participation Series 2007 C and D, these fluctuations in interest rates have trended downward to rates similar to those disclosed at June 30, 2008. The interest that was paid, after year-end and prior to issuance of this report, due to these fluctuations did not have a material impact on the overall financial position of the University.

On August 22, 2008, the University received a letter from the Office of Inspector General relating to the audit by the Illinois Department of Healthcare and Family Services mentioned in Note 13. The letter stated the overpayment owed by the University was reduced to approximately $5 million dollars.

During fiscal year 2008, financial markets as a whole have incurred declines in values. Subsequent to fiscal year end, the University's investment portfolio has also incurred a decline in the values reported in the accompanying financial statements. However, because the values of individual investments fluctuate with market conditions, the amount of investment losses that the University will recognize in its future financial statements, if any, cannot be determined.

This information is an integral part of the accompanying financial statements.