UNIVERSITY OF ILLINOIS
HEALTH SERVICES FACILITIES SYSTEM

Annual Financial Report

June 30, 2019

(With Independent Auditors' Report Thereon)

THE BOARD OF TRUSTEES

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University System

University of Illinois at Chicago

UNIVERSITY OF ILLINOIS
HEALTH SERVICES FACILITIES SYSTEM

Annual Financial Report

June 30, 2019

Table of Contents

University of Illinois System

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

December 19, 2019

Holders of University of Illinois
Health Services Facilities System Revenue Bonds
and The Board of Trustees of the University of Illinois:

I am pleased to transmit the Annual Financial Report of the University of Illinois Health Services Facilities System for the fiscal year ended June 30, 2019. This report supplements the Annual Financial Report of the University of Illinois.

The Health Services Facilities System continued to have a strong financial position in 2019 with higher revenues and higher income resulting from a higher number of patient visits, better revenue realization and continued support from the State of Illinois. Through effective and efficient utilization of resources, prudent decision-making and a commitment to excellence by medical professionals, administrators and staff, the Health Services Facilities System continued to advance its mission in fiscal year 2019.

The 2019 financial statements and accompanying notes appearing on pages 5 through 33 have been audited by CliftonLarsonAllen LLP, Independent Certified Public Accountants, as special assistants to the Auditor General of the State of Illinois, whose report on the financial statements appears on pages 2 through 4.

CliftonLarsonAllen LLP will also prepare a report for the year ended June 30, 2019, containing special data requested by the Auditor General and another report covering their audit of the compliance of the University with applicable state and federal laws and regulations for the year ended June 30, 2019. These reports, which include some data related to the Health Services Facilities System, are not contained herein and are primarily for the use of the Auditor General and state and federal agencies.

Very truly yours,

SIGNED ORIGINAL ON FILE

Avijit Ghosh,
Vice President, Chief Financial Officer, and Comptroller

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Chicago • 1737 West Polk Street • Chicago, Illinois 60612 • (312) 996-8800

CliftonLarsonAllen LLP
CLAconnect.com

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the business-type activities of the University of Illinois Health Services Facilities System (the System), a segment of the University of Illinois, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities for the System as of June 30, 2019, and the changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1(a), the financial statements of the System are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the business-type activities of University of Illinois that is attributable to the transactions of the System. They do not purport to, and do not, present fairly the financial position of University of Illinois as of June 30, 2019, and its changes in financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Report on Summarized Comparative Information

We have previously audited the Systems' 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 19, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Schedule of University of Illinois Health Services Facilities System Proportionate Share of the Net Pension Liability on page 32 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America required to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report under separate cover dated December 19, 2019, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to solely describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

SIGNED ORIGINAL ON FILE

CliftonLarsonAllen LLP

Peoria, Illinois
December 19, 2019

UNIVERSITY OF ILLINOIS
HEALTH SERVICES FACILITIES SYSTEM

Statement of Net Position

June 30, 2019
(with summarized comparative information for June 30, 2018)

Assets and Deferred Outflow of Resources	2019	2018
Current assets:		
Claim on cash and on pooled investments	$ 299,558,754	$ 226,745,816
Restricted claim on cash and on pooled investments	33,100	1,102,400
Restricted cash and cash equivalents	1,108,058	38,045
Accrued investment income	990,147	801,777
Patient accounts receivable, net	141,988,773	162,101,942
Receivable from the State of Illinois	30,360,686	39,588,800
Other receivables	10,949,519	10,233,948
Inventories	6,092,706	6,247,287
Prepaid expenses, deposits, and other assets	2,525,757	2,450,673
Total current assets	493,607,500	449,310,688
Noncurrent assets:		
Restricted claim on cash and on pooled investments	22,522,931	21,758,266
Restricted cash and cash equivalents	533,288	38,268
Restricted investments		5,504,215
Capital assets, net of accumulated depreciation	221,978,596	203,372,257
Total noncurrent assets	245,034,815	230,673,006
Deferred outflow of resources	3,430,095	3,291,265
Total assets and deferred outflow of resources	$ 742,072,410	$ 683,274,959
Liabilities and Net Position		
Current liabilities:		
Accounts payable	$ 84,203,713	$ 72,268,217
Accrued payroll	15,274,577	14,085,435
Accrued interest payable	1,141,158	1,140,445
Estimated third-party settlements	80,427,689	68,921,214
Current maturities of long-term debt	4,284,626	3,837,115
Current portion of accrued compensated absences	2,182,166	2,137,664
Total current liabilities	187,513,929	162,390,090
Noncurrent liabilities:		
Long-term debt, net of current maturities	103,602,078	105,612,770
Accrued compensated absences, net of current portion	26,080,873	24,366,519
Derivative instrument – swap liability	2,179,959	1,868,697
Total noncurrent liabilities	131,862,910	131,847,986
Total liabilities	319,376,839	294,238,076
Net investment in capital assets	117,750,552	101,825,277
Restricted:		
Expendable for capital projects	22,522,931	19,558,832
Expendable for debt service	536,274	15,641
Unrestricted	281,885,814	267,637,133
Total net position	422,695,571	389,036,883
Total liabilities and net position	$ 742,072,410	$ 683,274,959

See accompanying notes to financial statements.

UNIVERSITY OF ILLINOIS
HEALTH SERVICES FACILITIES SYSTEM

Statement of Revenues, Expenses and Changes in Net Position

Year ended June 30, 2019
(with summarized comparative information for year ended June 30, 2018)

	2019	2018
Operating revenues:		
Net patient service revenues	$ 759,972,059	$ 721,081,781
Revenues recognized on behalf of the System	29,125,628	28,018,039
Other revenues	39,052,898	42,198,886
Total operating revenues	828,150,585	791,298,706
Operating expenses:		
Salaries, wages and benefits	361,049,001	338,744,127
On-behalf for fringe benefits	47,292,472	39,006,366
Special funding situation for fringe benefits	152,506,372	277,865,886
Supplies and general expenses	420,264,217	393,141,666
Administrative services	16,825,800	13,056,116
Depreciation and amortization	21,760,432	21,498,679
Total operating expenses	1,019,698,294	1,083,312,840
Operating loss	(191,547,709)	(292,014,134)
Nonoperating revenues (expenses):		
On-behalf for fringe benefits	47,292,472	39,006,366
Special funding situation for fringe benefits	152,506,372	277,865,886
State appropriations	40,381,600	57,595,400
Transfer of State appropriations to the University of Illinois Hospital Services Fund	(20,000,000)	(20,000,000)
Net increase (decrease) in fair value of investments	3,496,678	(656,800)
Interest on capital asset related debt	(5,498,058)	(4,365,815)
Investment income (net of related expenses)	7,030,700	3,535,130
Loss on disposal of capital assets	(712,475)	(59,105)
Other nonoperating revenues, net	709,108	437,544
Net nonoperating revenues	225,206,397	353,358,606
Increase in net position	33,658,688	61,344,472
Net position, beginning of year	389,036,883	327,692,411
Net position, end of year	$ 422,695,571	$ 389,036,883

See accompanying notes to financial statements.

UNIVERSITY OF ILLINOIS
HEALTH SERVICES FACILITIES SYSTEM

Statement of Cash Flows

Year ended June 30, 2019
(with summarized comparative information for year ended June 30, 2018)

	2019	2018
Cash flows from operating activities:		
Patient services	$ 791,591,702	$ 721,341,257
Payments to suppliers	(396,589,876)	(375,326,575)
Payments for administrative services	(16,825,800)	(13,056,116)
Payments to employees and for benefits	(341,376,003)	(321,327,576)
Other receipts	38,337,327	41,002,939
Net cash provided by operating activities	75,137,350	52,633,929
Cash flows from noncapital financing activities:		
State appropriations	29,609,714	18,006,600
Other receipts	103,330	71,636
Net cash provided by noncapital financing activities	29,713,044	18,078,236
Cash flows from capital and related financing activities:		
Purchases of capital assets	(37,086,177)	(25,523,432)
Principal paid on capital debt and leases	(4,188,859)	(4,285,066)
Interest paid on capital debt and leases	(5,345,246)	(5,388,700)
Net cash used in capital and related financing activities	(46,620,282)	(35,197,198)
Cash flows from investing activities:		
Interest on investments	6,842,330	3,365,269
Pooled cash allocated from (to) University related to unrealized gains (losses)	3,497,483	(671,509)
Purchases of investments		(2,972,270)
Sales of investments	5,503,411	14,800,537
Net cash provided by investing activities	15,843,224	14,522,027
Net increase in cash and cash equivalents	74,073,336	50,036,994
Cash and cash equivalents, beginning of year	249,682,795	199,645,801
Cash and cash equivalents, end of year	$ 323,756,131	$ 249,682,795

(Continued)

UNIVERSITY OF ILLINOIS
HEALTH SERVICES FACILITIES SYSTEM

Statement of Cash Flows

Year ended June 30, 2019
(with summarized comparative information for year ended June 30, 2018)

	2019	2018
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$ (191,547,709)	$ (292,014,134)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization expense	21,760,432	21,498,679
Provision for uncollectible accounts	5,984,937	26,308,488
On-behalf for fringe benefits	47,292,472	39,006,366
Special funding situation for fringe benefits	152,506,372	277,865,886
Changes in assets and liabilities:		
Patient account receivables	14,128,231	(33,450,058)
Other receivables	(715,571)	(1,098,131)
Inventories	154,581	(74,738)
Prepaid expenses, deposits, and other assets	(75,084)	(946,766)
Accounts payable and accrued expenses	12,383,358	6,734,643
Estimated third-party settlements	11,506,475	7,401,046
Accrued compensated absences	1,758,856	1,500,464
Unearned revenues		(97,816)
Net cash provided by operating activities	$ 75,137,350	$ 52,633,929
Noncash investing, capital, and financing activities:		
On-behalf for fringe benefits	$ 47,292,472	$ 39,006,366
Special funding situation for fringe benefits	152,506,372	277,865,886
State appropriation	20,000,000	20,000,000
Transfers to University of Illinois Hospital Services Fund	(20,000,000)	(20,000,000)
(Decrease) increase of other capital asset adjustments	(144,223)	21,620
Net interest capitalized		1,173,769
Increase (decrease) of capital assets obligations in accounts payable	741,280	(3,408,217)
Loss on disposal of capital assets	$ (712,475)	$ (59,105)

See accompanying notes to financial statements.

(1) Organization and Summary of Significant Accounting Policies

Organization

The University of Illinois Health Services Facilities System (System) comprises the University of Illinois Hospital (Hospital) and associated clinical facilities providing patient care at, but not limited to, the University of Illinois at Chicago (UIC) Medical Center. The System is a tertiary care facility located in Chicago, Illinois offering a full range of clinical services. Management of the System is the responsibility of the University of Illinois (University).

The System was established by a Bond Resolution (Resolution) of the Board of Trustees (Board) of the University of Illinois adopted on January 22, 1997. These financial statements have been prepared to satisfy the requirements of the 1997B, 2008 and 2013 bond indentures. The financial balances and activities of the System are also included in the University's financial statements. The financial statements of the System are prepared in accordance with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The System is not a separate legal entity and has not presented management's discussion and analysis.

The financial statements include certain prior year comparative information that has been derived from the System's 2018 financial statements. Such information does not include all of the information required to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the System's financial statements for the year ended June 30, 2018.

Certain items in the June 30, 2018 comparative information have been reclassified to correspond to the June 30, 2019 financial statement presentation.

Significant Accounting Policies

(a) Financial Statement Presentation and Basis of Accounting

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

Under the accrual basis, revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

(b) Cash and Cash Equivalents

The Statement of Cash Flows details the change in the cash and cash equivalents balance for the fiscal year. Cash and all liquid investments with original maturities of ninety days or less are defined as cash and cash equivalents.

(c) Investments

Investments are reported at fair value in accordance with guidelines defined by GASB Statement No. 72. Fair value is determined for the System's investments based upon a framework described in Note 2(f). Bank deposits and money market funds are recorded at cost.

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

(d) Inventories

Inventories of pharmaceutical and other supplies are stated at the lower of cost, determined using the first-in, first-out method, or market.

(e) Capital Assets

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

Estimated useful lives for capital assets are as follows:

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

(f) Deferred Outflow of Resources

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

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

Deferred Outflow of Resources

	Beginning balance	Additions	Deductions	Change in fair value	Ending balance
Interest rate swap agreement that hedges Series 2008	$ 1,222,828	78,300		311,262	$ 1,612,390
Unamortized deferred loss on refunding	2,068,437		(250,732)		1,817,705
Total deferred outflow of resources	$ 3,291,265	78,300	(250,732)	311,262	$ 3,430,095

(g) *Compensated Absences*

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

(h) *Premiums*

Premiums for the System's bonds are reported within long-term debt and amortized over the life of the debt issue using the straight-line method.

(i) *Net Position*

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

(j) *Classification of Revenues*

The Statement of Revenues, Expenses and Changes in Net Position classifies the System's fiscal year activity as operating and nonoperating. Operating revenues generally result from exchange transactions such as payments received for providing goods and services.

Certain revenue sources that the System relies on for operations including on-behalf for fringe benefits, special funding situation for fringe benefits and investment income are defined by GASB Statement No. 35 as nonoperating. In addition, transactions related to capital and financing activities are components of net nonoperating revenues.

In fiscal year 2019, the System designated $20,000,000 of State of Illinois (State) appropriations for transfer to the University of Illinois Hospital Services Fund, which is a special fund established in the State Treasury pursuant to the State Finance Act, 30 ILCS 105/6z-30. This fund is owned and operated by the Illinois Department of Healthcare and Family Services. It is not part of or a related organization of the University.

Other operating revenues of the System include capitation payments from Health Maintenance Organizations (HMOs) to provide medical services to subscribers, revenues from laboratory services provided to external organizations, cafeteria/gift shop sales and other sources.

(k) Patient Services Revenue

The System has agreements with third-party payors that provide for payments to the System at amounts different from its established rates. Payment arrangements include prospectively determined rates, discounted charges and per diem payments. Patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated adjustments under reimbursement agreements with third-party payors, some of which are subject to audit by administrating agencies. These adjustments are accrued on an estimated basis and are adjusted in future periods.

The System provides allowances for uncollectible accounts receivable based upon management's best estimate of uncollectible accounts, considering type, age, collection history, and other appropriate factors.

(l) Charity Care

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

The System maintains records to identify and monitor the level of charity care provided. These records include the amount of estimated costs for services rendered and supplies furnished under its charity care policy. The estimated cost of charity care using the System's cost-to-charge ratio was $18,283,000 for fiscal year 2019. The ratio of costs to charges is calculated based on the System's total operating expenses. Unreimbursed costs of providing care to Medicare and Medicaid patients are not included as charity care.

(m) Classification of Expenses

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

(n) On-Behalf for Fringe Benefits

In accordance with GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, the System has reported outside sources of financial assistance provided by other entities on behalf of the System during the year ended June 30, 2019, as described below.

Substantially all active employees participate in group health insurance plans provided by the State and administered by the Illinois Department of Central Management Services (CMS). The State contributed, on-behalf of the System, an estimated $47,292,472, which is reflected as nonoperating revenues and operating expenses within the System's financial statements.

(o) Pensions and Other Postemployment Benefits (OPEB)

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

For financial reporting purposes, the State and its public universities and community colleges are under a special funding situation. A special funding situation exists when a non-employer entity (the State) is legally responsible for making contributions directly to a pension plan that is used to provide pensions to the employees of another entity (the University, including the System) and the non-employer (the State) is the only entity with a legal obligation to make contributions directly to a pension plan. The System recognizes its proportionate share of the State's pension expense relative to the System's employees as nonoperating revenue and special funding situation for fringe benefits operating expense.

The State Employees Group Insurance Act of 1971 (Act) (5 ILCS 375) authorizes the State Employees Group Insurance Program (SEGIP), which includes activity for both active employees and retirees, as a single-employer defined benefit OPEB plan not administered as a trust. Substantially all State and state public universities' unit employees become eligible for these OPEB plan benefits when they become annuitants of one of the State sponsored pension plans. CMS administers these benefits for the annuitants with the assistance of the public retirement systems sponsored by the State General Assembly Retirement System (GARS), Judges Retirement System (JRS), State Employees Retirement System (SERS), Teachers' Retirement System (TRS), and SURS.

In order to fund SEGIP's pay-as-you-go obligations for both current employees and retirees, the Act (5 ILCS 375/11) requires contributions based upon total employee compensation paid from any State fund, including the University's State Appropriations Funds. Additionally, the University shall not be required to make contributions for employees who are fully compensated from the System's operating funds. Pursuant to a long-standing State policy, the State's General Fund covers the contributions for employees who are fully compensated from the System's operating funds. This relationship may be modified through the enactment of a Public Act by the State's highest level of decision-making authority exercised by the Governor and the General Assembly pursuant to the State's Constitution.

The University has two separate components of OPEB administered within SEGIP. The (1) State of Illinois and its public universities are under a special funding situation for employees who are not paid from trust, federal, and other similar funds, while (2) the University is responsible for OPEB employer contributions when University employees are paid from trust, federal, and other similar funds. The System is under a special funding situation since its employees are not paid from trust, federal, and other similar funds.

A special funding situation exists when a non-employer entity (the State) is legally responsible for making contributions directly to an OPEB plan that is used to provide OPEB to the employees of another entity (the University, including the System) and the non-employer (the State) is the only entity with a legal obligation to make contributions directly to an OPEB plan. The System recognizes the proportionate share of the State's OPEB expense relative to the System's employees as nonoperating revenue and special funding situation for fringe benefits operating expense.

(p) Use of Estimates

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

(q) New Accounting Pronouncements

The System adopted the provisions of GASB Statement No. 83, *Certain Asset Retirement Obligations*, which was effective for periods beginning after June 15, 2018. This statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations (AROs). This Statement requires the measurement of an

ARO to be based on the best estimate of the current value of outlays expected to be incurred with subsequent adjustments for the effects of general inflation or deflation at least annually. In addition, it requires a government to evaluate all relevant factors at least annually to determine whether the effects of one or more of the factors are expected to significantly change the estimated asset retirement outlays. This Statement also requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital asset. Implementation of this pronouncement did not impact the System's financial statements.

The System adopted the provisions of GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements,* which was effective for periods beginning after June 15, 2018. The primary objective of this Statement is to improve the information that is disclosed in notes to financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities should be included when disclosing information related to debt. This Statement requires that additional essential information related to debt be disclosed in notes to the financial statements, including unused lines of credit; assets pledged as collateral for debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. Implementation of this pronouncement required additional disclosures related to the System's long-term debt.

(2) Cash, Cash Equivalents and Investments

The System has cash and certain investments that are pooled with other University funds for the purpose of securing a greater return on investment and providing an equitable distribution of investment return. Income is distributed based upon average quarterly balances invested in the investment pool.

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

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

The following details the carrying value of the System's cash, cash equivalents, and investments as of June 30, 2019:

Money market funds	$ 1,641,346
Claim on cash and on pooled investments	322,114,785
Total cash, cash equivalents and investments	$ 323,756,131

(a) Interest Rate Risk

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

The System's non-pooled investments of $1,641,346 as of June 30, 2019 were invested in money market funds with maturities of less than one year.

Claim on cash and on pooled investments represents the System's share of participation in the University's operating internal investment pool. At June 30, 2019, the University's operating internal investment portfolio had an effective duration for its interest-bearing securities of 1.4 years.

(b) Credit Risk

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

The University reports the credit ratings of fixed income securities and short-term instruments using Standard and Poor's and Moody's ratings. Securities with split ratings or with a different rating assignment are disclosed using the rating indicative of the greatest degree of risk. At June 30, 2019, the University's operating internal investment pool and non-pooled investments primarily consisted of securities with quality ratings of A or better.

(c) Custodial Credit Risk

Custodial credit risk is the risk that in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Exposure to custodial credit risk relates to investment securities that are held by someone other than the University and are not registered in the University's name. The University investment policy does not limit the value of investments that may be held by an outside party. At June 30, 2019, the System's investments and deposits had no custodial credit risk exposure.

(d) Concentration of Credit Risk

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

As of June 30, 2019, not more than 5% of the University's total investments were invested in securities of any one issuer, excluding money market funds, tri-party repurchase agreements or obligations of, or issues guaranteed by, the U.S. Treasury, U.S. agencies or U.S. government sponsored enterprises.

(e) Foreign Currency Risk

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

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

(f) Investments and Fair Value Measurements

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

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

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

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

The System's non-pooled investments of $1,641,346 as of June 30, 2019 are invested in money market funds that are reported at cost.

(3) Patient Accounts Receivable

Patient accounts receivable as of June 30, 2019, reported as current assets, consisted of the following amounts:

Patient accounts receivable, net of contractual allowances and charity care:		
Medicaid managed care	$	104,603,090
HMO/PPO		85,489,024
Medicare managed care		41,270,773
Commercial insurance		29,436,193
Medicare		20,512,525
Medicaid		20,242,706
Self-pay and other		14,985,287
Total		316,539,598
Less allowance for uncollectible accounts		(174,550,825)
Total patient accounts receivable, net	$	141,988,773

The System grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2019 was as follows:

Medicaid managed care	33.1 %
HMO/PPO	27.0
Medicare managed care	13.0
Commercial insurance	9.3
Medicare	6.5
Medicaid	6.4
Self-pay and other	4.7
	100.0 %

(4) Capital Assets

The capital assets of the System are not pledged to secure outstanding indebtedness of the Board. Capital asset activity for the year ended June 30, 2019 is summarized as follows:

Capital assets	Beginning balance	Additions	Retirements	Transfers	Ending balance
Nondepreciable capital assets:					
Land	$ 770,917				$ 770,917
Construction in process	5,731,063	23,397,491		(8,791,060)	20,337,494
Total nondepreciable capital assets	6,501,980	23,397,491		(8,791,060)	21,108,411
Depreciable capital assets:					
Buildings	287,359,831			3,637,167	290,996,998
Leasehold improvements	2,320,152				2,320,152
Equipment	168,283,358	17,681,755	(30,466,633)	2,228,274	157,726,754
Software	45,362,061			2,925,619	48,287,680
Total depreciable capital assets	503,325,402	17,681,755	(30,466,633)	8,791,060	499,331,584
Less accumulated depreciation:					
Buildings	127,255,587	9,599,462			136,855,049
Leasehold improvements	2,248,679	28,588			2,277,267
Equipment	140,737,832	8,971,877	(29,754,158)		119,955,551
Software	36,213,027	3,160,505			39,373,532
Total accumulated depreciation	306,455,125	21,760,432	(29,754,158)	—	298,461,399
Total depreciable capital assets, net	196,870,277	(4,078,677)	(712,475)	8,791,060	200,870,185
Total capital assets, net	$ 203,372,257	19,318,814	(712,475)	—	$ 221,978,596

(5) Long-Term Debt

During fiscal year 1997, the University issued $25,000,000 of Health Services Facilities System Revenue Bonds Series 1997B. The bonds are variable rate bonds which bear interest at a rate determined weekly and paid monthly. Proceeds from the bonds were used to finance the costs of a new ambulatory care facility in Chicago, a medical office building in Rockford, Illinois and to pay costs incidental to the issuance of the bonds.

During fiscal year 2008, the University issued $41,215,000 Variable Rate Demand Health Services Facilities System Revenue Refunding Bonds, Series 2008. The bonds are variable rate bonds which bear interest at a rate determined weekly. Proceeds from the bonds funded the redemption of the Variable Rate Demand Health Services Facilities System Revenue Refunding Bonds, Series 2007 on July 28, 2008 and paid costs incidental to the issuance of the bonds. The difference between the reacquisition price and net carrying amount of the old debt, loss on refunding, was $4,485,000. 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.

During fiscal year 2014, the University issued $70,785,000 Health Services Facilities System Revenue Bonds, Series 2013. The bonds are fixed rate bonds which bear interest payable on April 1 and October 1 of each year. Proceeds from the bonds were used to finance the costs of certain construction, renovation and equipment purchases for the System and to pay costs incidental to the issuance of the Series 2013 Bonds. The original bond premium, $591,216, is deferred and amortized over the remaining life of the issue.

Long-term debt activity for the year ended June 30, 2019 was as follows:

Long–term debt							
Series	**Rate on June 30 outstanding debt**	**Fiscal year maturity dates**	**Beginning balance**	**Additions**	**Deductions**	**Ending balance**	**Current portion**
Bonds payable:							
1997B	Variable	2020 – 2027	$ 11,400,000	$	$ (1,100,000)	$ 10,300,000	$ 1,100,000
2008	Variable	2020 – 2027	26,575,000		(2,520,000)	24,055,000	2,655,000
2013	5% to 6.25%	2028 – 2043	70,785,000			70,785,000	
			108,760,000	—	(3,620,000)	105,140,000	3,755,000
Unamortized premium			493,104		(20,334)	472,770	20,334
Total bonds payable			109,253,104	—	(3,640,334)	105,612,770	3,775,334
Capital lease and other obligations			196,781	2,646,012	(568,859)	2,273,934	509,292
Total long–term debt			$ 109,449,885	$ 2,646,012	$ (4,209,193)	$ 107,886,704	$ 4,284,626

The bonds do not constitute obligations of the State. Bond principal and interest payments are funded from revenues pledged from (a) System net revenues, principally consisting of all charges, income and revenues received from the continued use and operation of the System remaining after providing sufficient funds for the reasonable and necessary cost of currently maintaining, repairing, insuring and operating the System, (b) Medical Service Plan (MSP) revenues net of bad debt expense and contractual allowances and (c) UIC College of Medicine tuition revenue. These revenues for the year ended June 30, 2019 are as follows:

System net revenues	$ 46,175,086
Adjusted MSP revenues	233,464,495
UIC College of Medicine student tuition	56,382,392
Total	$ 336,021,973

The table below shows the amount of revenues pledged for future principal and interest payments on the bonds:

Pledged revenues					
Bond issue(s)	**Purpose**	**Source of revenue pledged**	**Future revenues pledged[1]**	**Term of commitment**	**Debt service to pledged revenues (current year)**
Series 1997B, 2008 and 2013	Additions to System and Refunding	System net revenues, MSP revenues net of bad debt and contractual allowances, College of Medicine tuition	$ 183,224,540	2043	2.65%

1 Total estimated future principal and interest payments on debt

The resolutions authorizing the bonds provide for the establishment of separate funds as follows: Revenue Fund, Project Fund, Repair and Replacement Reserve, Equipment Reserve, Bond and Interest Sinking Fund and Development Reserve. All income and revenues received from the continued use and operation of the System, as provided for by the Bond Resolution, are to be deposited in the Revenue Fund and used to pay necessary operation and maintenance expenses of the System. In the event of default, the bond owners may sue to command performance. The Bond Resolution also requires transfers to funds as follows:

Project Fund – at the discretion of the University Comptroller, amounts not needed to complete construction and renovation projects specified in the Bond Resolution are required to be transferred either to the Repair and Replacement Reserve or to the Bond and Interest Sinking Fund.

Repair and Replacement Reserve – an amount calculated as specified in the Bond Resolution to provide for the cost of unusual maintenance and repairs.

Equipment Reserve – an amount approved by the Board for the acquisition of movable equipment to be installed in the facilities constituting the System. The reserve may not exceed 20% of the book value of the movable equipment of the System.

Bond and Interest Sinking Fund – amounts transferred into the Bond and Interest Sinking Fund sufficient to pay principal and interest as it becomes due on the outstanding bonds.

Development Reserve – an amount approved by the Board for System development. No transfers were authorized by the Board during the year ended June 30, 2019, and there was not a balance in the reserve at June 30, 2019.

The System made all required transfers for the year ended June 30, 2019.

After fulfillment of the provisions described above, the surplus, if any, remaining in the Revenue Fund may be used at the Board's option (a) to redeem bonds of the System which are subject to early redemption, (b) to improve or add facilities to the System, or (c) for any other lawful purpose.

Assets restricted by Bond Resolution were held for the following purposes at June 30, 2019:

Restricted assets:		
Cash and investments	$	24,197,377
Purpose:		
Repair and replacement reserve	$	22,522,931
Bond and interest sinking fund		1,674,446
Total assets limited as to use		24,197,377
Less amounts required for current liabilities		(1,141,158)
Total for long-term use	$	23,056,219

(a) Health Services Facilities System Variable Rate Debt and Interest Rate Swap Agreement

Demand Provisions

The System's Series 1997B and 2008 bonds mature serially through October 2026. These bonds have variable interest rates that are adjusted periodically (i.e., daily, weekly, or monthly), generally with interest paid at the beginning of each month. The bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest on seven days' notice and delivery to the University's remarketing agents. The University pays the remarketing agent fees on the outstanding bond balance. If the remarketing agent is unable to resell any bonds that are "put" to the agent, the University has letter of credit agreements with a liquidity facility entity. The fees on the letters of credit are based on outstanding bonds plus pro forma interest. The University, in the event a liquidity facility is utilized, has reimbursement agreements with associated financial entities. If a liquidity advance has not been reimbursed for 90 days, the letter of credit automatically converts to a term loan. The term loan is required to be repaid in five equal quarterly installments, at an interest rate based on whether it was an outstanding advance or an event of default. The outstanding advance interest rate would be the base rate which is the greater of prime plus 1%, Federal Funds plus 2% or 7% and the event of default interest rate would be the base rate plus 3%. The due date of the initial payment on the term loan is one year from the conversion date. The letter of credit agreement contain provisions that University may terminate and replace the letter of credit agreement so long as the University has paid all of the obligations owed to the liquidity facility entity. In the event of default, the liquidity facility entity may cause the bonds to be subject to a mandatory tender.

The required future interest payments for these variable rate bonds have been calculated using the current interest rate, based upon short-term tax-exempt rates, or the synthetic fixed rate, as illustrated in the table below. Certain parties and terms of the remarketing and liquidity facility agreements are disclosed in the table below:

Variable rate bonds at June 30, 2019

Bond issues	Interest rate at June 30, 2019	Remarketing agent	Remarketing fee	Liquidity facility Bank	Liquidity facility Expiration	Liquidity facility Insured by	Liquidity facility Fee
HSFS, Series 1997B	1.95%	JPMorgan Securities	0.070%	Wells Fargo	May 30, 2024	Letter of Credit	0.64%
HSFS, Series 2008	1.85%	Goldman Sachs	0.070	Wells Fargo	May 30, 2024	Letter of Credit	0.64

Interest Rate Swap Agreement

In fiscal year 2009, the University entered into a variable-to-fixed interest rate swap agreement with Loop Financial Products I LLC (Loop). The purpose of this interest rate swap was to hedge the Series 2008 debt by effectively changing the variable interest rate on the bonds to a synthetic fixed rate. When the swap agreement was entered, the notional amount of the swap was $40,875,000. In accordance with the swap agreement, the University makes monthly payments to the counterparty (Loop) equal to 3.534% of the notional amount and receives monthly payments from Loop equal to 68% of the one-month London Interbank Offered Rate (LIBOR). The swap will terminate in October 2026. As of June 30, 2019, the notional amount of the swap was $23,860,000.

The University engaged a third-party consultant to determine the fair value of the swap agreement. The fair value provided by the consultant was derived from proprietary models based upon well-recognized financial principles and reasonable estimates about relevant market conditions. The fair value (Level 2 measurement) is recognized as a noncurrent liability and was $2,179,959 as of June 30, 2019.

In connection with the interest rate swap agreement, the University may be exposed to various types of risk:

Credit Risk: As of June 30, 2019, the University was not exposed to credit risk because the swap had a negative fair value. If interest rates change and the fair value of the swap becomes positive, the University would be exposed to credit risk in the amount of the derivative's fair value. The counterparty may have to post collateral in the University's favor in certain conditions, and the University would never be required to post collateral in the counterparty's favor.

Interest Rate Risk: During fiscal year 2019, low interest rates exposed the University to interest rate risk, which adversely affected the fair value of the swap agreement.

Termination Risk: The swap is scheduled to terminate in October 2026. The University has the option to terminate the swap early. The University or Loop 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 counterparties fall below BBB+ as issued by Standard & Poor's and Baa1 as issued by Moody's Investors Service. As of June 30, 2019, the counterparty (Loop) credit rating by Standard & Poor's was BBB+ and by Moody's Investors Service was A3.

If the swap is terminated, the Series 2008 variable-rate bonds would no longer carry a synthetic fixed interest rate. In addition, if at the time of termination, the swap has a negative fair value, the University would be liable to Loop for a payment equal to the swap's fair value.

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

Other Risks: Since the swap agreement extends to the maturity of the Series 2008 bonds, it does not expose the University to rollover risk. In addition, the University is not exposed to foreign currency risk associated with this swap agreement. The University is not exposed to market access risk as of June 30, 2019. However, if the University decides to issue refunding bonds and credit is more costly at that time, it could be exposed to market access risk.

(b) Debt Service Requirements

Future estimated debt service requirements for the Series 1997B, 2008 and 2013 Bonds at June 30, 2019 were as follows:

		Principal		Interest
2020	$	3,755,000	$	5,227,582
2021		3,900,000		5,110,279
2022		4,045,000		4,988,438
2023		4,200,000		4,862,325
2024		4,360,000		4,731,138
2025 - 2029		19,695,000		21,578,441
2030 - 2034		17,245,000		17,318,681
2035 - 2039		23,355,000		11,206,906
2040 - 2043		24,585,000		3,060,750
Total debt service		105,140,000	$	78,084,540
Unamortized premium		472,770		
Total bonds payable	$	105,612,770		

The required debt service for the variable rate Series 1997B and 2008 Bonds has been calculated using the current interest rate of 1.95% and 1.85%, respectively, over the remaining life of the bonds.

Using the actual rate in effect as of June 30, 2019 (1.85% for Series 2008), debt service requirements of the Series 2008 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.

Health Services Facilities System Revenue Refunding Bonds, Series 2008
Variable-Rate Debt Service Requirements

		Variable rate bonds		Interest rate		
		Principal	Interest	swaps, net		Total
2020	$	2,655,000	445,018	339,475	$	3,439,493
2021		2,700,000	395,900	294,042		3,389,942
2022		2,845,000	345,950	245,550		3,436,500
2023		2,900,000	293,317	196,766		3,390,083
2024		3,060,000	239,668	144,581		3,444,249
2025 - 2027		9,895,000	368,890	100,783		10,364,673
Total	$	24,055,000	2,088,743	1,321,197	$	27,464,940

The capital lease obligation has a maturity date through 2024 and an interest rate of 3.00%.

As of June 30, 2019, future minimum lease payments are as follows:

		Principal		Interest
2020	$	509,292	$	61,253
2021		524,782		45,763
2022		540,743		29,801
2023		557,191		13,353
2024		141,926		710
Total minimum payments – other obligations	$	2,273,934	$	150,880

(6) Operating Leases

The System leases various real property and equipment under operating lease agreements, including leases renewed on an annual basis. Total rental expense under these agreements was $1,244,901 for the year ended June 30, 2019.

As of June 30, 2019, future minimum payments under operating leases are as follows:

2020	$	1,189,310
2021		716,269
2022		648,881
2023		294,405
2024		96,359
2025 - 2026		157,212
Total minimum payments – operating leases	$	3,102,436

(7) Accrued Compensated Absences

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

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

Changes in Compensated Absences Balance

Balance, beginning of year	$	26,504,183
Additions		4,103,227
Deductions		(2,344,371)
Balance, end of year		28,263,039
Less current portion		(2,182,166)
Balance, end of year – noncurrent portion	$	26,080,873

(8) Net Patient Service Revenues

Approximately 90% of the System's net patient service revenue was derived from Medicare, Medicaid and managed care programs for the year ended June 30, 2019. Reimbursement under these programs provided payments to the System at amounts different from its established rates, based on a specific amount per case, or a contracted price, for rendering services to program beneficiaries. The System records contractual allowances in the current period representing the difference between charges for services rendered and the expected payments under these programs, and adjusts them in future periods as final settlements through cost reports or other means as determined.

Net patient service revenue for the fiscal year ending June 30, 2019 was as follows:

Medicaid managed care	$	874,778,796
HMO/PPO		671,327,970
Medicare		531,208,614
Medicaid		147,771,335
Medicare managed care		269,128,160
Commercial insurance		74,658,510
Self-pay and other		139,432,150
Total gross revenue		2,708,305,535
Less:		
Contractual allowances		(1,942,348,539)
Provision for uncollectible accounts		(5,984,937)
Net patient revenue	$	759,972,059

A summary of the payment arrangements with major third-party payers follows:

Medicare and Medicare Managed Care: Inpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient services are paid at prospectively determined rates that are based on the patients' diagnosis. Outpatient payments to the Hospital are based on a predetermined package rate based on services provided to patients. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The System's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2012. For the fiscal year ended June 30, 2019, changes in estimates related to the settlement of cost reports have been recognized as an increase in net patient service revenue of approximately $865,000 as a result of settled cost reports and changes in estimates related to services rendered in previous years.

Medicaid and Medicaid Managed Care: Services are reimbursed at prospectively determined rates. Medicaid payment methodologies and rates for services rendered are subject to change and the amount of funding available to the University of Illinois Hospital Services Fund. Such changes could have a significant effect on the System's revenues.

HMO/PPO: The System has payment agreements with certain health maintenance organizations (HMOs) and preferred provider organizations (PPOs). The basis for payment under these agreements includes prospectively determined rates-per-discharge, discounts from established charges, prospectively determined daily rates and capitated per-member per-month rates.

(9) Retirement and Postemployment Benefits

(a) Retirement Benefits

General Information about the Pension Plan

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

Benefits Provided: A traditional benefit plan was established in 1941. Public Act 90-0448 enacted effective January 1, 1998, established an alternative defined benefit program known as the portable benefit package. The traditional and portable plan Tier 1 refers to members that began participation prior to January 1, 2011. Public Act 96-0889 revised the traditional and portable benefit plans for members who begin participation on or after January 1, 2011, and who do not have eligible Illinois reciprocal system services. The revised plan is referred to as Tier 2. New employees are allowed 6 months after their date of hire to make an irrevocable election. A summary of the benefit provisions as of June 30, 2018 can be found in the SURS' comprehensive annual financial report (CAFR) Notes to the Financial Statements.

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

Contributions: The State is primarily responsible for funding SURS on behalf of the individual employers at an actuarially determined amount. Public Act 88-0593 provides a Statutory Funding Plan consisting of two parts: (i) a ramp-up period from 1996 to 2010 and (ii) a period of contributions equal to a level percentage of the payroll of active members of the System to reach 90% of the total Actuarial Accrued Liability by the end of Fiscal Year 2045. Employer contributions from "trust, federal, and other funds" are provided under Section 15-155(b) of the Illinois Pension Code and require employers to pay contributions which are sufficient to cover the accruing normal costs on behalf of applicable employees. The employer normal cost for fiscal year 2018 and 2019 respectively, was 12.46% and 12.29% of employee payroll. The normal cost is equal to the value of current year's pension benefit and does not include any allocation for past unfunded liability or interest on the unfunded liability. Plan members are required to contribute 8.0% of their annual covered salary except for police officers and fire fighters who contribute 9.5% of their earnings. The contribution requirements of plan members and employers are established and may be amended by the Illinois General Assembly.

Participating employers make contributions toward separately financed specific liabilities under Section 15-139.5(e) of the Illinois Pension Code (relating to contributions payable due to the employment of "affected annuitants" or specific return to work annuitants), Section 15-155(g) (relating to contributions payable due to earning increases exceeding 6% during the final rate of earnings period), and Section 15-155 (j-5) (relating to contributions payable due to earnings exceeding the salary set for the Governor).

Pension Liabilities, Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Net Pension Liability: The net pension liability was measured as of June 30, 2018. At June 30, 2018, SURS reported a net pension liability of $27,494,556,682.

Employer Proportionate Share of Net Pension Liability: The amount of the proportionate share of the net pension liability to be recognized for the System is $0. The proportionate share of the State's net pension liability associated with the System is $2,325,669,476. This amount should not be recognized in the financial statement. The net pension liability and total pension liability as of June 30, 2018 was determined based on the June 30, 2017 actuarial valuation rolled forward. The basis of allocation used in the proportionate share of net pension liability is the actual reported pensionable contributions made to SURS during fiscal year 2018.

Pension Expense: At June 30, 2018 SURS reported a collective net pension expense of $2,685,322,700.

Employer Proportionate Share of Pension Expense: The employer proportionate share of collective pension expense should be recognized as nonoperating revenue with matching operating expense (special funding situation for fringe benefits) in the financial statements. The basis of allocation used in the proportionate share of collective pension expense is the actual reported pensionable contributions made to SURS during fiscal year 2018. As a result, the University recognized revenue and pension expense of $1,194,361,719 from this special funding situation during the year ended June 30, 2019, of which $227,142,215 was related to the System.

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

SURS Collective Deferred Outflows and Deferred Inflows of Resources by Sources

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 65,521,614	$ 181,032,053
Changes in assumption	1,286,257,095	123,218,306
Net difference between projected and actual earnings on pension plan investments	26,810,634	
Total	$ 1,378,589,343	$ 304,250,359

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

Year Ending June 30	Net Deferred Outflows (Inflows) of Resources
2019	$ 763,171,084
2020	540,443,042
2021	(192,612,398)
2022	(36,662,744)
2023	-
Thereafter	-
Total	$ 1,074,338,984

Assumptions and Other Inputs

Actuarial assumptions: The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period June 30, 2014 – 2017. The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25 percent
Salary increases	3.25 to 12.25 percent, including inflation
Investment rate of return	6.75 percent beginning with the actuarial valuation as of June 30, 2018

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

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

For each major asset class that is included in the pension plan's target asset allocation as of June 30, 2018, these best estimates are summarized in the following table:

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return
U.S. Equity	23%	5.00%
Private Equity	6%	8.50%
Non-U.S. Equity	19%	6.45%
Global Equity	8%	6.00%
Fixed Income	19%	1.50%
Treasury-Inflation Protected Securities	4%	0.75%
Emerging Market Debt	3%	3.65%
Real Estate REITS	4%	5.45%
Direct Real Estate	6%	4.75%
Commodities	2%	2.00%
Hedged Strategies	5%	2.85%
Opportunity Fund	1%	7.00%
Total	100%	4.55%
Inflation		2.75%
Expected Arithmetic Return		**7.30%**

Discount Rate: A single discount rate of 6.65% was used to measure the total pension liability. This single discount rate was based on an expected rate of return on pension plan investments of 6.75% and a municipal bond rate of 3.62% (based on the weekly rate closest to but not later than the measurement date of the 20-Year Bond Buyer Index as published by the Federal Reserve). The projection of cash flows used to determine this single discount rate were the amounts of contributions attributable to current plan members and assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the statutory contribution rates under SURS' funding policy. Based on these assumptions, the pension plan's fiduciary net position and future contributions were sufficient to finance the benefit payments through the year 2075. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2075, and the municipal bond rate was applied to all benefit payments after that date.

Sensitivity of the SURS' Net Pension Liability to Changes in the Discount Rate: Regarding the sensitivity of the net pension liability to changes in the single discount rate, the following presents the plan's net pension liability, calculated using a single discount rate of 6.65%, as well as what the plan's net pension liability would be if it were calculated using a single discount rate that is 1-percentage-point lower or 1-percentage-point higher:

1% Decrease 5.65%	Current Single Discount Rate Assumption 6.65%	1% Increase 7.65%
$33,352,188,584	$27,494,556,682	$22,650,651,520

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

(b) Other Postemployment Benefits

Plan description: The State Employees Group Insurance Act of 1971 (Act), as amended, authorizes the SEGIP to provide health, dental, vision, and life insurance benefits for certain retirees and their dependents. Substantially all of the University's full-time employees are members of SEGIP. Members receiving monthly benefits from the GARS, JRS, SERS, TRS, and SURS are eligible for these other post-employment benefits ("OPEB"). The eligibility provisions for the SURS members were defined within Note 9(a).

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

Benefits provided: The health, dental, and vision benefits provided to and contribution amounts required from annuitants are the result of collective bargaining between the State and the various unions representing the State's and the State universities' employees in accordance with limitations established in the Act. Therefore, the benefits provided and contribution amounts are subject to periodic change. Coverage through SEGIP becomes secondary to Medicare after Medicare eligibility has been reached. Members must enroll in Medicare Parts A and B to receive the subsidized SEGIP premium available to Medicare eligible participants. The Act requires the State to provide life insurance benefits for annuitants equal to their annual salary as of the last day of employment until age 60, at which time, the benefit amount becomes $5,000.

Funding policy and annual other postemployment benefit cost: OPEB offered through SEGIP are financed through a combination of retiree premiums, State contributions and Federal government subsidies from the Medicare Part D program. Contributions are deposited in the Health Insurance

Reserve Fund, which covers both active State employees and retirement members. Annuitants may be required to contribute towards health and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants who retired prior to January 1, 1998, and who are vested in the State Employee's Retirement System do not contribute toward health and vision benefits. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced five percent for each year of credited service with the State allowing those annuitants with twenty or more years of credited service to not have to contribute towards health and vision benefits. All annuitants are required to pay for dental benefits regardless of retirement date. The Director of CMS, on an annual basis, determines the amount the State shall contribute toward the basic program of group health benefits. State contributions are made primarily from the State's General Fund on a pay-as-you-go basis. No assets are accumulated or dedicated to funding the retiree health insurance benefit and a separate trust has not been established for the funding of OPEB.

For fiscal year 2019, the annual cost of the basic program of group health, dental, and vision benefits before the State's contribution was $11,269 ($6,699 if Medicare eligible) if the annuitant chose benefits provided by a health maintenance organization and $13,823 ($4,984 if Medicare eligible) if the annuitant chose other benefits. The State is not required to fund the plan other than the pay-as-you-go amount necessary to provide the current benefits to retirees.

CMS changes in estimates: For the measurement date of June 30, 2018, CMS experienced two significant changes within its estimation process. The OPEB for both the special funding situation and the portion of OPEB where the University is responsible for employer contributions were both significantly impacted by (1) the University's participants in SEGIP and (2) the average cost per employee within SEGIP. CMS made changes to its estimation methodology that resulted in significant differences within its estimates which represent an outcome of estimation uncertainty that, as time has passed and new sources of better data have become available, continued to be refined to achieve a more representative reflection of the actual outcome of the estimate in future periods. As such, the System experienced a significant decrease in the nonoperating revenue and operating expenses recognized from the special funding situation.

Special funding situation of OPEB: The proportionate share of the State's OPEB expense relative to the System's former employees or retirees was estimated to be ($74,635,843) during the year ended June 30, 2019. The amount of the total proportionate share of the total OPEB liability to be recognized by the System related to the special funding situation is $0.

(10) Related-Party Transactions

The University charged the System for administrative and other services totaling $16,825,800 in fiscal year 2019. These charges represent a portion of the estimated administrative and other service costs incurred by the University in support of the System. An additional $29,125,628 was paid by the University on behalf of the System for salaries and other costs for the year ended June 30, 2019, in exchange for System services and facilities provided, and are recognized as operating expenses (salaries and general) and operating revenues.

The System provides funds to the UIC College of Medicine to support programmatic initiatives that benefit the System's strategic goals and to pay for salaries of physicians and staff in the College of Medicine who serve as medical directors and physician leaders of the System under various agreements. During fiscal year 2019, approximately $43.8 million was recognized in salaries and wages and supplies and general expenses by the System under these agreements.

The System provides funds to the University's College of Pharmacy under various arrangements to pay for salaries of clinical pharmacists, faculty and residents and to support programs that benefit the System's clinical operations. During fiscal year 2019, approximately $11.3 million was recognized in salaries and wages and supplies and general expenses under these arrangements.

The System contracts with the College of Pharmacy to provide certain pharmacy services related to the Federal drug discount program under Section 340b of the Public Health Service Act, under which the System is a covered entity and purchases drugs for dispensing to eligible outpatients. During fiscal year 2019, the System paid approximately $10.6 million to the College of Pharmacy for these services.

The College of Pharmacy also provides various community benefit programs to patients and constituents of the System. During fiscal year 2019, the System paid approximately $8.2 million to the College of Pharmacy to support these programs.

Most healthcare services rendered by physicians at the University are charged, billed and collected through the MSP. For ambulatory care services, there is a charge for both professional and technical components. Based on the underlying agreements between the MSP and the System, the System remits certain funds collected to the MSP. Total MSP remittances from the System for the year ended June 30, 2019 relating to the delivery of ambulatory care were approximately $15.0 million.

During 2019, various departments within the College of Medicine agreed to reimburse the System for a portion of the expenses related to the resident and fellowship training program. This reimbursement, which totaled $3.7 million, has been reflected in the financial statements as a reduction of the related expenses.

(11) Commitments and Contingencies

(a) Commitments

At June 30, 2019, the System had commitments on various construction projects and contracts for repairs and renovation of health services facilities of $10,705,990 and commitments on software projects of $90,387,620.

(b) Contingencies

The University (including the System) is involved in regulatory audits arising in the normal course of business.

In 2019, the System received notices from Medicare requiring that it provide documentation for certain claims as part of the Recovery Audit Contractor (RAC) program. The System has responded to these requests. Review of claims through the RAC program may result in a liability to Medicare which could have a material impact on the System's net patient service revenues.

The University (including the System) 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, which covers hospital and medical professional/general liability; estimated general and contractual liability, and workers' compensation liability. At June 30, 2019, the University's total accrued self-insurance liability was $242,048,005.

The University's accrued self-insurance liability includes $167,793,461 at June 30, 2019, for the most probable and reasonably estimable ultimate cost of medical malpractice liabilities. Ultimate cost consists of amounts estimated by the University's risk management division and actuaries for asserted claims, unasserted claims arising from reported incidents, expected litigation expenses and amounts determined by actuaries using relevant industry data and System specific data to cover projected losses for claims incurred but not yet reported. The System contributes to the University's self-insurance reserve through annual assessments. Therefore, no liability related to medical malpractice claims is included in the System's financial statements, but the entire self-insurance liability is reflected in the University's financial statements.

The System utilizes classes of medical devices and x-ray machines that have legally imposed costs associated with their eventual disposal. The System does not have sufficient information available to reasonably estimate the timing and/or cost related to these future retirement obligations.

Required Supplementary Information
Year Ended June 30, 2019

Schedule of University of Illinois Health Services Facilities System Proportionate Share of the Net Pension Liability	**Fiscal Year 2018**	**Fiscal Year 2017**	**Fiscal Year 2016**	**Fiscal Year 2015**	**Fiscal Year 2014**
(a) Proportion Percentage of the Collective Net Pension Liability	0%	0%	0%	0%	0%
(b) Proportion Amount of the Collective Net Pension Liability	$0	$0	$0	$0	$0
(c) Portion of Nonemployer Contributing Entities' Total Proportion of Collective Net Pension Liability associated with Liability Employer	$2,325,669,476	$2,068,800,122	$2,016,718,081	$1,770,601,518	$1,546,893,194
Total (b) + (c)	$2,325,669,476	$2,068,800,122	$2,016,718,081	$1,770,601,518	$1,546,893,194
Employer defined benefit Covered Payroll*	$288,314,036	$274,251,179	$265,271,833	$253,062,776	$260,376,968
Proportion of Collective Net Pension Liability associated with Employer as a percentage of DB covered payroll	806.64%	754.35%	760.25%	699.67%	594.10%
SURS Plan Net Position as a Percentage of Total Pension Liability	41.27%	42.04%	39.57%	42.37%	44.39%

* GASB Statement #82 amended GASB Statements #67 & #68 to require the presentation of covered payroll, defined as payroll on which contributions to a pension plan are based, and ratios that use that measure. For the SURS plans, the covered payroll are those employees within the defined benefit plan.

Notes to Required Supplementary Information
June 30, 2019

Changes of benefit terms. There were no benefit changes recognized in the Total Pension Liability as of June 30, 2018.

Changes of assumptions. In accordance with Illinois Compiled Statutes, an actuarial review is to be performed at least once every three years to determine the reasonableness of actuarial assumptions regarding the retirement, disability, mortality, turnover, interest and salary of the members and benefit recipients of SURS. An experience review for the years June 30, 2014 to June 30, 2017 was performed in February 2018, resulting in the adoption of new assumptions as of June 30, 2018.

- Salary increase. Decrease in the overall assumed salary increase rates, ranging from 3.25 percent to 12.25 percent based on years of service, with underlying wage inflation of 2.25 percent.

- Investment return. Decrease the investment return assumption to 6.75 percent. This reflects maintaining an assumed real rate of return of 4.50 percent and decreasing the underlying assumed price inflation to 2.25 percent.

- Effective rate of interest. Decrease the long-term assumption for the ERI for crediting the money purchase accounts to 6.75 percent (effective July 2, 2019).

- Normal retirement rates. A slight increase in the retirement rate at age 50. No change to the rates for ages 60-61, 67-74 and 80+, but a slight decrease in rates at all other ages. A rate of 50 percent if the member has 40 or more years of service and is younger than age 80.

- Early retirement rates. Decrease in rates for all Tier 1 early retirement eligibility ages (55-59).

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

- Mortality rates. Maintain the RP-2014 mortality tables with projected generational mortality improvement. Update the projection scale from the MP-2014 to the MP-2017 scale.

- Disability rates. Decrease current rates to reflect that certain members who receive disability benefits do not receive the benefits on a long-term basis.

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