Comprehensive Annual Financial Report
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December 30, 1999

A Message for Illinois Citizens, Governor George Ryan, and Members of the Illinois General Assembly:

I am proud to present to you the State of Illinois Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 1999. This year's expanded CAFR presents the State of Illinois' financial position, results of operation in accordance with generally accepted accounting principles (GAAP) as prescribed in pronouncements of the Governmental Accounting Standards Board (GASB), and Service Efforts and Accomplishments (SEA) reporting on the outcomes of 85% of the State's budget.

For the first time in six years, the CAFR reports a deterioration of the State's General Fund GAAP balance totaling $90 million, increasing the GAAP deficit to $303 million. The fiscal year 1999 decline in the GAAP balance is attributable to an increase in Section 25 liabilities and transfers to the Illinois FIRST infrastructure improvement program. The strength of the economy has driven the deficit back to a more reasonable level since fiscal year 1993 when the deficit stood at $1.916 billion. However, we must remain vigilant in budgetary decisions to maintain prudent fiscal practices to keep healthy balances. The decline in the GAAP balance underscores the necessity of establishing a "Rainy Day Fund" for Illinois by illustrating that improving cash balances do not necessarily equal budget surpluses. Illinois should use these good economic times to prepare for those times when the economy falters.

The accompanying report is divided into four sections: introductory, financial and statistical, economic, and service efforts and accomplishments. Responsibility for the accuracy of the data as well as completeness and fairness of the presentation of this report rests with my Office and other State agency management. This report necessarily includes certain amounts which are based on management's best estimates and judgments. This is the first year the SEA report was prepared in conjunction with an overall strategic planning effort spearheaded by the Governor's Office. Representative of our efforts in reporting the outcomes of agency efforts, is recognition by GASB as an experimental site for SEA reporting.

This CAFR includes a copy of the 15th Certificate of Achievement for Excellence in Financial Reporting awarded to the State of Illinois by the Government Finance Officers Association (GFOA) for last year's CAFR. This certificate is a prestigious national award which recognizes conformance with the highest standards for preparation of state and local governmental financial reports.

We now begin to look to the future to find ways to make this report and others issued by our Office more readily available to the general public. We welcome any comments and suggestions at our web site at www.ioc.state.il.us We look forward to hearing from you.

Sincerely,

Daniel W. Hynes
Comptroller

December 30, 1999

To the Citizens of the State of Illinois, Honorable George Ryan, Governor and Honorable Members of the General Assembly:

I am pleased to present to you the ***State of Illinois Comprehensive Annual Financial Report ("CAFR")*** for the year ended June 30, 1999. The CAFR is the State's official annual report and provides the readers with the financial position of the State at June 30, 1999, and results of operations during the fiscal year. The report is intended to provide the State's managers, investors and creditors, taxpayers, the legislature, and other users with information in accordance with generally accepted accounting principles ("GAAP"). The statements are presented using the "pyramid" approach to governmental financial reporting as prescribed in pronouncements of the Governmental Accounting Standards Board ("GASB"). Responsibility for the accuracy of the data as well as the completeness and fairness of presentation of this report rests with my Office and other State agency management. This report necessarily includes certain amounts which are based on management's best estimates and judgments.

The CAFR is presented in the following sections: introductory; financial; statistical and economic, and Service Efforts and Accomplishments (SEA) reporting. The *introductory section* includes the table of contents, the Comptroller's letter of transmittal and SEA Performance Measurement Initiative, and the State's organization chart. The *financial section* includes the Auditor General's report on the financial statements, the general purpose financial statements, required supplementary information and the combining and individual fund financial statements and schedules. The *statistical and economic section* includes selected demographic and business data, generally on a multi-year basis. The SEA reporting section includes the State's report for fiscal year 1999.

The accompanying financial statements are prepared in conformity with GAAP applicable to state governments as prescribed by the GASB. This office strongly supports the GASB, contributed to its formation and participates in the development of pronouncements, providing testimony at public hearings and submitting comments and recommendations as proposed standards are distributed for exposure.

The CAFR includes all funds, account groups, elected offices, departments and agencies of the State, as well as all boards, commissions, authorities, universities and colleges for which the State's executive or legislative branches are financially accountable. The financial statements distinguish between primary government organizations and component units. The primary government is the nucleus of the financial reporting entity and is the focal point for the users of the financial statements. The primary government of the State consists of all the organizations that make up its legal entity.

All funds, departments, agencies, offices and other organizations that are not legally separate are, for financial reporting purposes, part of the State or another entity's primary government. Component units are legally separate organizations for which the State is financially accountable.

The financial activities of the State are organized on the basis of individual funds and account groups, each of which is a separate accounting entity segregated for the purpose of carrying out specific activities or attaining certain objectives in accordance with specific regulations, restrictions and limitations. The reporting entity, fund types and account groups are described in detail in Note 1 to the financial statements. To ensure readability of the financial statements, generally only funds with total assets, liabilities, fund equity, revenues or expenditures greater than 2% of the total for that fund type are presented separately in the combining statements, except component units where all units are presented and special revenue funds where .5% of the total are presented.

Combination of funds is necessary due to the existence of more than 700 funds in the State's reporting entity. Funds used by more than one agency are classified with what is determined to be the primary administering agency.

Universities, and their related foundations and alumni associations are reported as "discretely presented component units." The Combined Statements of Changes in Fund Balances and Current Funds Revenues, Expenditures and Other Changes for university and college funds are presented separately within the general purpose financial statements in conformity with GAAP.

An organizational chart, showing the relationships between the Citizens of the State of Illinois, the three branches of Illinois State government and those of the various agencies, boards, commissions and universities which provide a full range of State government services, is presented on page I-39.

ECONOMIC AND FISCAL OUTLOOK

ECONOMIC OUTLOOK

The Illinois economy experienced another year of strong economic growth during fiscal year 1999. An extremely strong domestic economy offset the impact of low world commodity prices on Illinois' trade sensitive agricultural sector, related agribusinesses such as the Illinois agricultural machinery industry, and other export dependent industries.

Illinois came out of the economic crisis of the 1980's with many innovative aggressive businesses able to compete on an equal footing with competitors throughout the world. Illinois companies have scored well in this highly competitive economic environment. The continued success of the Illinois economy is apparent with a 689,000 or 13.1% increase in jobs since fiscal year 1990 and a 4.3% average unemployment rate for fiscal year 1999, the second consecutive year Illinois unemployment has averaged below 5%.

Home to such major exporters as Caterpillar, Motorola, and Abbott Labs, Illinois merchandise exports totaled $33.8 billion during 1998 – sixth highest among the states. Illinois exports were down 1.1% in calendar 1998 and up 66.3% between 1993 and 1998. Nationally, the value of exports was up 47.9% during the period.

Manufacturing exports are led by industrial machinery and computers accounting for 27.9% of exports in 1998 followed by electric and electronic equipment accounting for 19.4%. The next four largest manufacturing export sectors were chemical products (12.6%), transportation equipment (7.8%), food products (5.5%), and scientific and measuring instruments (5.1%).

Illinois ranked third in agricultural export sales in 1998 with total agricultural exports valued at $3.1 billion – down $650 million or 17.3% from the prior year. Specialization in corn and soybean production is reflected in Illinois' rank as the second largest exporter of each crop. Depressed commodity prices, due in large part to dwindling demand from East Asia, are putting financial stress on the Illinois farm sector. The impact of low prices has been offset in part by increased government payments, but an increasing number of farmers could falter if there is no future revival of weak product prices.

Illinois' success in the competitive world market has been based on technical expertise and a strong resource base rather than low labor costs as the state has maintained its position as one of the country's wealthiest states. Illinois per capita income during fiscal year 1999 stood at $29,806, or $2,612 (9.6%) greater than the national average.

The Illinois economy takes advantage of its many natural strengths. During 1998 the State was the second largest producer of corn and soybeans and the fourth largest producer of hogs. Illinois agri-business has developed to add value to these products. Illinois is the number one ethanol producer among the states. With such major Illinois companies as Archer Daniels Midland and A.E. Staley (both headquartered in Decatur, the soybean capital of the world), Illinois produces a wide variety of specialized products based on corn and soybeans.

Illinois continues to be home to major producers of heavy equipment. Examples include agricultural equipment (such as the Deere plants in the Quad Cities), construction equipment (Caterpillar, which is based in Peoria and is the world's largest earth moving equipment company), and machine tools (a specialty of the Rockford area). Illinois manufacturing payrolls have been stable in recent years with an average of 974,000 Illinoisans holding manufacturing jobs during fiscal year 1999. Illinois manufacturing employment has recovered from a low of 921,000 jobs during fiscal year 1992.

Illinois' central location makes it the logical transportation hub for the nation. Illinois is home to O'Hare airport, the nation's busiest, and an excellent highway and railroad network. The low distribution costs from basing an operation in Illinois allow for the continued generation of new jobs in transportation and merchandising. During fiscal year 1999 350,000 Illinoisans were employed in the transportation, communications, and public utilities sector, while over 1.3 million were employed in wholesale and retail trade.

The state's role as the central distribution point for agricultural commodities allowed it to develop the world's leading futures market. Illinois continues to be a national leader in financial industries such as banking, derivatives trading, and insurance and is corporate headquarters for many of the country's leading companies. Illinois is also home to an emerging venture capital industry which provided $439 million in funds to Illinois start-ups during fiscal year 1999. Finance, insurance, and real estate firms employed an average of 408,000 Illinoisans during the year.

As home to 39 of the Fortune 500 companies, Illinois ranked third among the states, trailing only New York and California. It is uncertain how the wave of super mergers, as companies seek to increase their size in response to competitive pressures, will impact Illinois' role as a headquarters state for major corporations. Illinois has recently lost the headquarters of some of its largest firms through the Amoco merger with BP and the Ameritech merger with SBC Communications Inc.

Illinois' reputation for research and technical innovation is well founded. Illinois is home to major government research laboratories such as the Argonne National Laboratory and the Fermi National Accelerator Lab, major private research labs such as those operated by Amoco Oil and Tellabs, major private universities including Northwestern University and the University of Chicago, and the state's network of nine public universities including the University of Illinois home of the Beckman Institute. The brainpower generated from these institutions continues to make Illinois a major center for technological advancement and a logical location for the production of advanced products.

Forecast for the Future

The most recent economic forecast for the Illinois economy prepared by the consulting firm of DRI/McGraw-Hill sees Illinois employment growth being constrained by weaker export markets, a tight labor market, and a slowdown in the domestic economy over the next four years. Illinois employment is forecast to increase at a 0.5% annual rate between 2000 and 2003, down from a 1.2% average annual growth rate between 1998 and 2000. DRI notes that the strengths of the Illinois economy are its diversification and its role as the regional center for finance, trade and exports.

The longer-term forecast expects continued growth in the Illinois economy, particularly in the service and trade sectors. Between 1999 and 2016, Illinois is expected to add 466,000 jobs, a 7.8% increase. Service employment is forecast to increase by 479,000 jobs or 26.2%, a greater increase than the growth in total Illinois employment. In contrast, continued automation of production processes is expected to cause manufacturing employment to decline by 122,000 jobs or 12.8% over the next seventeen years.

The long term forecast is vulnerable to unexpected economic fluctuations. Traditionally, the Illinois economy, with its emphasis on durable manufacturing, has been extremely sensitive to the business cycle. However, the increased emphasis on services and finance in the Illinois economy and better control over inventories by manufacturers are likely to reduce the impact of economic downturns on Illinois.

Long-Term Demographic Trends

The steady increase in the Illinois population is expected to continue into the twenty-first century. The most recent Illinois Bureau of the Budget estimate (1997) predicts that the Illinois population will increase from 11.4 million in 1990 to 13.3 million in 2020.

As the baby boom generation ages, a shift in the age distribution of the Illinois population is expected that will have an impact on the types of services demanded from state government. In 1990, 39.8% of the Illinois population was in the 20-44 age group and 18.7% was in the 45-64 age group. In 2020, the portion in the 20-44 bracket is expected to decline to 37.1% with the 45-64 share increasing to 22.0%. As the baby boom reaches age 65 after 2015, the population will age fairly quickly and a significant increase in the proportion of elderly is expected.

FISCAL OUTLOOK

Fiscal year 1999 marked the seventh straight improvement in the State's General Funds budgetary balance (measured on a cash basis) as the balance rose from a $356 million *surplus* in fiscal year 1998 to a $503 million *surplus* in 1999--the third positive budgetary balance in a row and the highest on record. However, after five consecutive years of improvement, the State's General Fund GAAP balance fell, from a $213 million deficit in 1998 to a $303 million deficit in 1999.

The cash-basis improvements were due in part to the continued strength of the economy, as Illinois' General Funds saw a record increase of $1.690 billion or 8.5% in revenue for fiscal year 1999. However, some of the growth was due to one-time enhancements such as the annualization of last year's restructuring of riverboat taxes and insurance taxes, as well as annualization of cigarette and public utility tax increases.

Two major factors in the deterioration of the General Funds GAAP balance were an increase in Section 25 liabilities payable from future year's appropriations and a $285 million end-of-year transfer from the General Revenue Fund (GRF) to the Fund for Illinois' Future (FIF). After falling dramatically from 1995 through 1997, Section 25 deferred liabilities grew in each of the last two years. This year's growth included a $126 million *increase* under the State's Medicaid program and a $16 million *increase* under the group health insurance program for employees, retirees, and their dependents administered by the Department of Central Management Services.

The $285 million transfer from GRF to FIF was made pursuant to law and was intended to jump-start the Illinois FIRST program (see Major Initiatives section). Absent these factors, the General Funds GAAP balance would have improved considerably.

Those involved in evaluating the fiscal health of governments generally believe that the ability to maintain working balances in the range of 4%-5% of annual budgetary expenditures indicates a strong fiscal position. As evident in the chart below, the State's General Funds end-of-month balance in June ($1.351 billion) was over the 4% threshold for the third year in a row.

While there have been improvements across a broad spectrum over the last several years, the fact that the GAAP deficit worsened in fiscal year 1999 demonstrates there is room for improvement. But in order to improve its fiscal health, the State faces several challenges. To keep balances at acceptable levels and payment cycles under control, resources must continue to be directed to these purposes. The ability to allocate resources will be constrained on the one hand by revenue growth and on the other hand by competing budgetary needs.

Some current economic forecasts are predicting a slowing in economic growth over the next few years and since revenue growth generally mirrors the strength of the economy, the record revenue growth of the past few years may not be repeated. In fact, fiscal year 2000 revenues are currently expected to grow $936 million (compared to $1.690 billion growth for 1999), including higher receipts from a liquor tax increase and higher transfers in due to dockside gambling for the riverboat gaming industry.

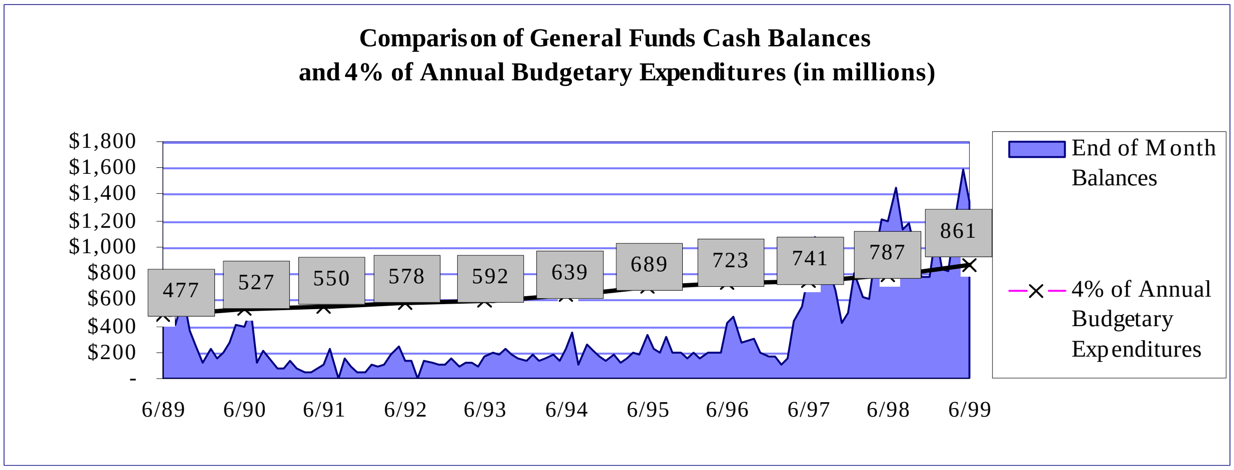
On the spending side of the budget, fiscal improvements will be competing with the needs of programs such as education and those administered by the Departments of Human Services, Corrections, Children and Family Services, and Public Aid. One area that bears close scrutiny is the growth of medical costs and the deferral of those costs to future years.

While it appears that Section 25 deferred liabilities are still largely under control, the fact that there have been two consecutive increases suggests that continued efforts will be required to keep deferrals from again becoming a budgetary burden. This is especially applicable to the Medicaid program.

The size, scope and demographics of Medicaid are not static but are driven by several dynamic factors. New and beneficial advancements in medicine are often extremely costly. The aging of the population in general, and in Illinois in particular, means that one of the fastest growing and most expensive to treat segments of the population will exert an even stronger influence on the demand for health care. In addition, some experts are forecasting an increase in the cost of medical care over the next few years.

Future budgets will also have to address other long-term issues, particularly legislated increases in funding for pensions and education. In the past, fiscal problems occurred when revenue growth slowed and spending pressures remained. Attention must continue to focus on lessons learned and on maintaining budget discipline.

The drop in the GAAP balance in spite of sizeable cash-based improvements in 1999 serves as a reminder that past financial performance is no guarantee of future results, and high end-of-year cash balances and even record budgetary balances do not in themselves indicate surpluses.



MAJOR INITIATIVES

For the Year. Major initiatives for the year generally reflect the priorities set in the budgetary process. The Illinois Economic Development for a Growing Economy (EDGE) Tax Credit, Income Tax Changes and School Tax Credit were some of the major "initiatives" enacted by the General Assembly for fiscal year 1999. The following discussion outlines those and other major initiatives for fiscal year 1999:

Illinois Economic Development for a Growing Economy (EDGE) Tax Credit Act

With the passage of Public Act 91-0476, the General Assembly approved a new income tax credit linked to income generated in Illinois as the result of new jobs. EDGE will grant corporate income tax credits to applicants creating new jobs in Illinois if the applicant's project meets certain specified criteria, including the creation of 100 new full-time jobs. EDGE was enacted in response to similar programs adopted in Indiana, Missouri, Kentucky, Michigan, and Ohio. This credit is effective for tax years 1999 and beyond and will impact State revenue in fiscal year 2000 and thereafter.

Income Tax Changes

State law raised the standard income tax exemption and changed the formula for computing tax liability for multi-state businesses operating in Illinois. After a three year phase-in period, these tax changes are expected to reduce State revenue by about $390 million annually.

The standard exemption for individual taxpayers and their dependents increased for the first time since the State income tax was imposed in 1969. Under the legislation, the standard exemption increased to $1,300 for income earned during 1998, $1,650 for 1999 income and $2,000 for 2000 income.

Prior to this change in State law, the Illinois taxable income for multi-state businesses was determined using a three factor formula. After a three-year transition period, multi-state businesses will determine their allocation of income using one factor, the share of corporate sales in Illinois. As proposed, this formula change would reduce the tax liability for companies with a large share of their assets and payroll in Illinois, but increase the tax liability for companies with large sales but few assets or employees in Illinois.

School Tuition Tax Credit

The School Tuition Tax Credit grants a tax credit equal to 25% of the amount paid for school tuition, books and lab fees for K-12 students in Illinois. In order to claim the tax credit, taxpayers must spend at least $250 on tuition, books and fees. This credit begins with tax returns filed for calendar year 2000 and is limited to a maximum credit of $500 per family.

The Public Accountability Report of Service Efforts and Accomplishments (SEA)

One of the priorities of this administration is to improve the accountability of state governmental agencies to the public they serve by reporting on the efficiency, effectiveness, and outcomes of government programs. To this end the Comptroller has launched the Public Accountability Project, which, in cooperation with the Governor's Office of Strategic Planning, has instituted a process by which state agencies annually report on their performance in carrying out their statutory missions. The instrument for this process is Service Efforts and Accomplishments (SEA) Reporting as outlined by the Governmental Accounting Standards Board (GASB). The Office of the Comptroller is working with the GASB to determine and set standards for this type of financial reporting. Illinois has been designated by the GASB as an official "experimentation site" for SEA reporting. The final section of this transmittal letter provides a description of the Public Accountability Project, and the Illinois Public Accountability (SEA) Report is contained in the final section of this CAFR.

Receivables Reporting

The State reported gross receivables of $8.2 billion at June 30, 1999, for *statutory compliance reporting purposes*. Of that amount, nearly $3.2 billion (39%) was estimated as uncollectible. Of the net receivable ($5.0 billion), $3.25 billion is over 180 days past due. Net receivables for the total reporting entity for *GAAP reporting* totaled $9.5 billion. The difference between compliance reporting and GAAP reporting is due to the difference in the measurement focus and basis of accounting.

The Office of the Comptroller continues to establish and enforce measures to help reduce the financing of "deadbeats" indebted to the State. Effective January 1, 1998, all debts that exceed $1,000 and are more than 90 days past due are required to be reported in the Comptroller's Offset System. Prior to this date, only debts in excess of $1,000 and more than 1 year past due were required to be reported. The new legislation enables the Comptroller's Office to intercept tax refunds and other payments that may otherwise be paid to the State's debtors.

For the Future. The fiscal year 2000 budget, the State's largest infrastructure program, electronic commerce, gaming reform and a Rainy Day Fund Proposal are some of the future initiatives that are anticipated for the State. These future initiatives are discussed below:

Fiscal Year 2000 Budget

For fiscal year 2000, the General Assembly approved a $45.7 billion budget, which the Governor approved. This budget contains the State's largest infrastructure program in history (See Illinois FIRST below), provides an increase in educational funding and a change to State gaming laws.

Illinois FIRST

In the spring of 1999, the Governor proposed a $12.2 billion infrastructure improvement program, the largest in the history of the State. Titled Illinois FIRST (Fund for Infrastructure, Roads, Schools and Transit), the plan is designed to meet the State's critical infrastructure needs. Financing for the original plan included: $4.5 billion in State bonds, $2.0 billion in pay-as-you go funding, $1.6 billion in Regional Transportation Authority (RTA) bonds, $1.1 billion in local school matching funds and $3.0 billion in leveraged federal funds. The final negotiated package included an additional $399 million in bond authorizations. These additions bring the program total to approximately $12.6 billion.

Funding for the State's portion of the plan includes: numerous tax and fee increases estimated to raise $572 million annually, the transfer of $285 million from the General

Revenue Fund in June 1999, the transfer of another $260 million from the General Revenue Fund in fiscal year 2001 and monthly transfers of $5.0 million from General Revenue Fund to the School Infrastructure Fund to pay for bonded indebtedness.

Electronic Commerce

Electronic Commerce is fast becoming the way to conduct business transactions in the private sector as well as the public sector. Electronic Data Interchange (EDI), an agreement between business partners, is the vehicle that is needed to conduct electronic business transactions. In the State of Illinois, the business partners are the state agencies and their vendors who provide goods and services. Generally, the Comptroller's Office receives the payment requests and funds from the agencies and provides payment and remittance information to the vendors. The Comptroller's Office is committed to working in partnership with state agencies to facilitate establishing agreements between the individual agencies and their vendors in order to ensure successful implementation of an electronic commerce solution.

Illinois is served by a large number of vendors with varying remittance needs. Most vendors today receive payments in the form of warrants that are mailed along with a paper remittance advice. Some of these vendors, who wish to expedite their payments, but do not require remittance information to post payments to their accounts receivable, are currently served adequately by direct deposit of their payments through Electronic Funds Transfer. A growing number of vendors wish to expedite their payments and posting of their accounts receivables by taking advantage of electronic technologies. This growing number of vendors desire true Electronic Commerce: paperless transactions between business partners through Electronic Data Interchange (EDI). In recognition of the many and varied state vendors, the Comptroller's Office is committed to maintaining and expanding current EFT payment processes and promoting participation in the direct deposit program while implementing system changes that will provide the technological capability to accommodate EDI.

Gaming Reform

The State made major statutory changes to the gaming laws in the last General Assembly session. These changes included provisions to allow dockside gambling, the relocation of a riverboat licensee and the dedication of 15% of the adjusted gross receipts from the relocated riverboat to the horse racing industry. These changes are expected to have a positive effect on State revenues in the future.

“Rainy Day” Fund Proposal

The Office of the Comptroller continues to propose legislation to create a “Rainy Day” Fund. This fund would be used to help the State meet its obligations whenever occasional deficits or failures in revenue occur. This fund will not increase State spending, but is specifically intended to reduce the need for future tax increases, diminish the need for short-term borrowing and maintain or strengthen the State’s bond rating. The creation of this fund would simply follow the common sense practice of putting money aside when revenue growth is healthy to help tide the State over during periods of poor revenue growth.

Service Efforts and Accomplishments (SEA)

Background

The Public Accountability Project

Traditional governmental financial reporting and budgeting are designed to report to the public on how financial resources are acquired and used by governments and to ensure that resources made available to state agencies are used in accordance with the laws and policies enacted by the General Assembly and the Governor. How many people did we employ, and how much equipment did we purchase? How many more will we use this year than we did last year? Did expenditures fall within the amounts appropriated? These are the types of questions answered by these traditional financial practices.

Missing from the traditional financial practices, however, is a review of how well our state agencies use their resources to accomplish the assignments given them in the laws and policies set by elected officials. What, in the broad sense, did taxpayers get for the money they spent? Were resources used effectively? Are our children well schooled? Are our highways safe and efficient? Do we do a good job of keeping our air and water clean?

One of the priorities of my administration is to improve the accountability of state governmental agencies to the public they serve. That is, to make sure that state resources are spent for the proper purposes, but also to report on the efficiency, effectiveness, and outcomes of government programs. To this end, the Comptroller has launched the Public Accountability Project, which, in cooperation with the Governor's Office of Strategic Planning, has instituted a process by which state agencies annually report on their performance in carrying out their statutory missions. The effect of this type of performance reporting is two-fold. First, state agencies become more customer-oriented and therefore more effective. Second, the public will become more aware of the missions and accomplishments of state agencies.

The instrument for this process is Service Efforts and Accomplishments (SEA) Reporting as ordained by the Governmental Accounting Standards Board (GASB), the agency designated to set standards for financial reporting by state and local governments. Recognizing the incompleteness of traditional financial reporting, the GASB has begun an initiative to stimulate SEA reporting by state and local governments. The goal of SEA reporting is to improve financial reports by linking information on the performance of government programs with the usual financial data. SEA reporting examines not only the financial resources allocated to programs, but their missions and goals – plus quantifiable measurements of how they have met those missions and goals. The GASB is promoting experimentation by governments under their purview before issuing standards on SEA reporting. Illinois has been designated by the GASB as an official "experimentation site" for SEA reporting.

Expanded SEA Reporting for Fiscal Year 1999

This year's SEA report is the third issued by the Illinois Office of the Comptroller, but it is the first done under a formalized reporting process initialized with the top state agencies in Illinois government. That, along with an effort to expand the range of information, makes for a larger, expanded report.

Formal reporting process. With the cooperation of the Governor's Office of Strategic Planning, the Comptroller initiated a process to incorporate nineteen of the largest departments and agencies in state government into the SEA reporting system. Together the budgets of these nineteen agencies represent over 85% of the state budget for fiscal year 1999.

The first SEA Reporting Conference in Illinois State government, conducted with the assistance of the Department of Accountancy at the University of Illinois at Springfield, began a process of preparing these selected agencies to compile their performance reports. With input and direction from the Office of the Comptroller and the Governor's Office of Strategic Planning, the agencies chose key programs on which to report and identified the mission statements, goals, and key indicators that reflect their performance. These nineteen reports are the first compiled by the agencies themselves.

Survey of public opinion on state government services. One of the goals of SEA reporting (and performance reporting generally) is to make agencies more aware of their customers. Customer satisfaction, as gauged in customer satisfaction surveys, is recognized in SEA reporting as a key indicator of performance. For state government, the customer is the public.

A few state agencies do survey their direct consumers on a limited basis, and the results of those surveys are reflected in their individual SEA reports. This year's Public Accountability Report, however, contains the results of a statewide survey of public opinion on our state's performance in key programmatic areas. Carried out by the Center for Governmental Studies at Northern Illinois University, the survey gauges the general public's attitudes about the importance of certain programmatic areas as well as the their opinion on how well we as a state address those areas.

Mission statements, goals, and external benchmarks. Integrated into the SEA reporting format this year are mission statements, goals, and external benchmarks. This information supplies an overall context for the reported programs. Mission statements and goals set expectations about the outcomes programs strive to reach. External benchmarking (an aspect of reporting that will require development) looks at the performance of comparable programs in other states (or national norms) to determine where our programs rank.

Summaries of program areas. Like the Illinois State Budget, the Public Accountability Report is broken down into six program areas: Education, Human Services, Public Safety, Environment and Business Regulation, Economic Development and Infrastructure, and Government Services. All state agencies are assigned to one of these program areas. For the first time, the Public Accountability Report presents summary data on these program areas that convey basic inputs (expenditures) and key outcomes for these areas as a whole. This type of overall reporting links agencies within the same program area to common outcomes that, individually, they may only indirectly affect.

The Goals of Public Accountability

The Public Accountability Report for fiscal year 1999 realizes the goals set out in last year's CAFR. It expands the coverage of the report to nineteen of the largest agencies in state government. And the SEA reports submitted by these agencies are the product of a newly instituted reporting process. The report offers information beyond the typical financial data on the programs administered by these agencies and presents the opportunity to ask questions about what State government is and is not accomplishing.

In broader terms, the Public Accountability Project seeks to:

Make State government more result-oriented. State agencies should be judged on what they are accomplishing, rather than merely the volume of their activities. SEA reporting enables agencies to measure the effectiveness of the services they provide to taxpayers and to gauge how their outcomes and efficiency stack up against other entities offering the same services.

Increase public awareness of the efficacy of State government programs. Budget and financial information is generally available. Information about the success or failure of certain services or programs is made public from time to time on a piecemeal basis. The Public Accountability Report aims to make readily available, to the public and decision makers, comprehensive information - in a simple, understandable format - on the results state government attains through the programs it offers to the public.

Facilitate informed decision-making on the allocation of State resources.
A comprehensive review of the results attained by state government programs can bring about an approach to budgeting that allows programs to be judged by the results they produce. SEA reporting reveals whether a program is performing up to expectations as laid out in its mission and goals. Also, by comparing its resources and results to similar programs in other states or a national average (external benchmarking), SEA reporting can provide guidance as to whether our programs are performing up to standard and whether additional resources are warranted or necessary.

Increase public accessibility to information on state government programs. Accountability is impossible unless the public receives lucid information on the activities of government and then can avail themselves of opportunities to have input into decision-making. This report and survey attempt to meet this need. Other avenues for both disseminating information and collecting input need to be explored. The Illinois Office of the Comptroller encourages all citizens to make suggestions for improving the report. The Public Accountability Report is available at the Comptroller's web site: http://www.ioc.state.il.us.

Explanatory Notes

Validity and reliability of SEA information. Except for specific instances that may have required clarification, no attempt has been made to verify or reconcile reported expenditures or performance data. None of the reported performance data has been audited, nor does it fall within the scope of the audit opinion. The information provided has been reported or submitted by each agency unless explicitly noted otherwise. The verifiability and reliability of reported performance data remain a long-term challenge for SEA reporting.

Reporting standards. SEA reporting is in its experimental stages. (Illinois has been re-designated as an “experimental site” by GASB.) Therefore, at present, no generally accepted standards have been set for this type of reporting. The evolutionary process of instituting performance reporting in Illinois is also the process for setting standards.

FINANCIAL INFORMATION

The following balance sheet and operating statements have been condensed from the statements included in the State of Illinois ***Comprehensive Annual Financial Report*** utilizing the "memorandum only" column of the primary government.

State of Illinois

Balance Sheet - Primary Government

	Amounts (in millions)	
	FY1999	**FY1998**
Assets (and other debits)		
Cash	$ 9,292	$ 8,225
Investments	50,904	46,052
Receivables, net	7,369	6,563
Fixed assets	5,416	5,126
Other assets	1,576	1,375
Other debits	21,626	20,608
Total assets and other debits	$ 96,183	$ 87,949
Liabilities		
Payables	$ 7,971	$ 7,063
Pension liability	12,116	11,305
Bonds outstanding	9,277	8,875
Depository and other	4,270	5,679
Other	2,462	2,210
Total liabilities	36,096	35,132
Equity and Other Credits		
Investment in fixed assets	5,348	5,061
General	(303)	(213)
Special revenue	3,571	2,943
Debt service	828	745
Capital projects	480	357
Proprietary	323	288
Trust	49,840	43,636
Total fund equity	60,087	52,817
Total liabilities and fund balances/ retained earnings	$ 96,183	$ 87,949

* As restated

State of Illinois

Operating Statement - Primary Government

	Amounts (in millions)	
	FY1999	**FY1998**
Revenues		
Taxes -		
Income	$ 9,250	$ 8,811
Sales	7,689	7,168
Other taxes	5,866	5,270
Federal government	9,356	8,950
Charges for sales and services	2,849	2,767
Interest income	5,032	6,332
Contributions	2,949	2,349
Licenses and fees	1,157	1,093
Other	1,492	1,583
	45,640	44,323
Expenditures/Expenses		
Health and social services	10,891	9,963
Education	7,540	6,786
General government/administrative	6,189	5,768
Social assistance	3,233	3,540
Transportation	2,567	2,649
Public protection and justice	1,899	1,678
Debt service	964	966
Benefit payments and refunds	3,125	2,907
Prizes and claims	813	842
Other	1,579	1,426
	38,800	36,525
Net other sources (uses) and nonoperating revenues (expenses	(1,093)	(1,073)
Excess of revenues over expenditures/expenses and net other us	$ 5,747	$ 6,725

Assets (and "other debits")

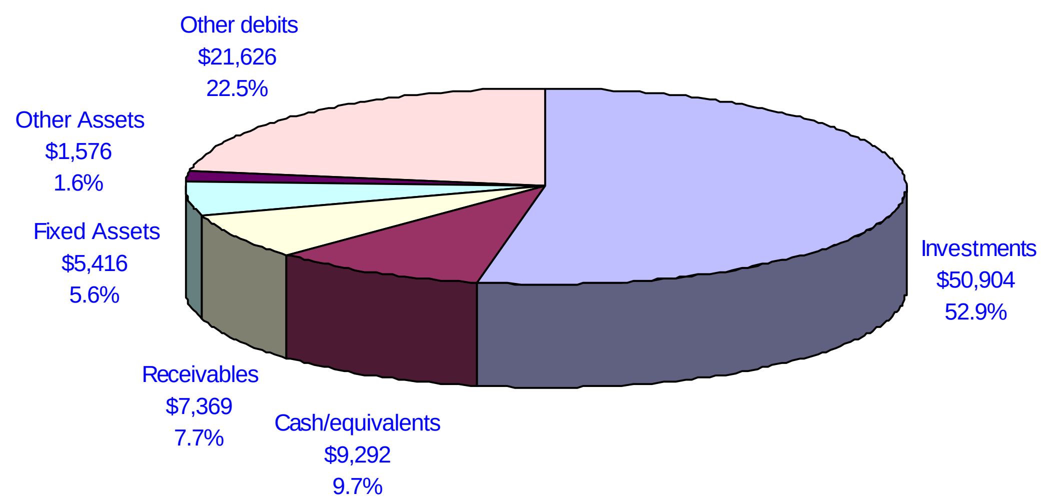
Total assets (and other debits) of the State of Illinois at June 30, 1999 were approximately $96 billion. This was an increase of $8.2 billion (9%) over fiscal year 1998. The largest increase was in the State's investments ($4.9 billion). The Pension Funds accounted for $4 billion of the investment increase.

Comparison of Total Assets (in millions) *

Account	FY1999	FY99 %	% change From 1998	FY1998
Investments	$ 50,904	52.9%	10.5%	$ 46,052
Cash & cash equivalents	9,292	9.7%	13.0%	8,225
Receivables	7,369	7.7%	12.3%	6,563
Fixed assets	5,416	5.6%	5.7%	5,126
Other assets	1,576	1.6%	14.6%	1,375
Other debits	21,626	22.5%	4.9%	20,608
Total Assets	$ 96,183	100.0%	9.4%	$ 87,949

*The above numbers include primary government funds only.

Total Assets-Primary Government
June 30, 1999 (in millions)



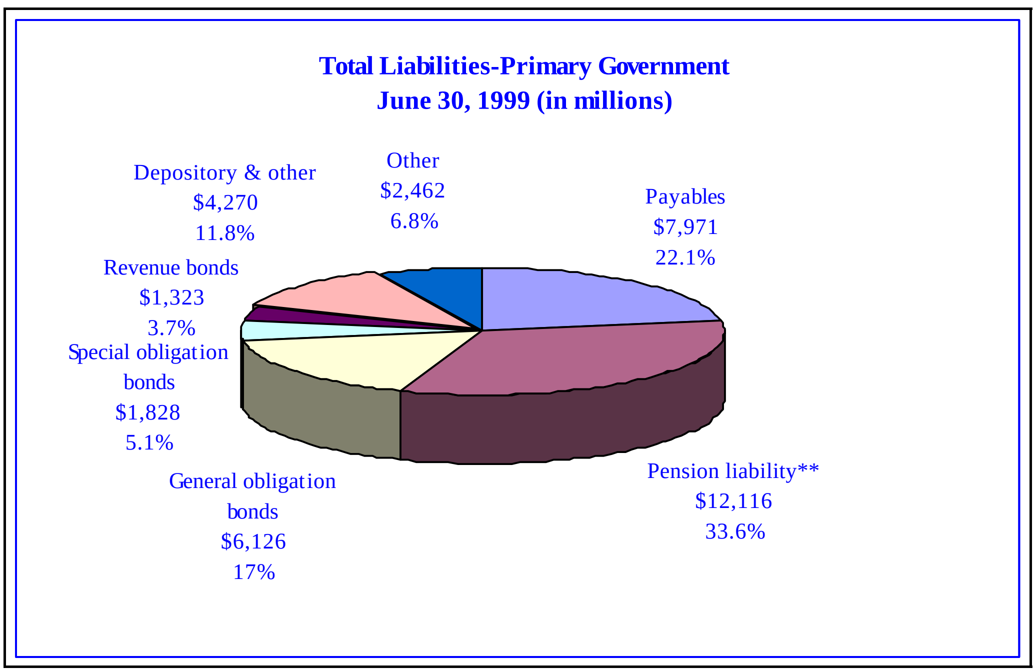
Liabilities

Total liabilities increased to $36.1 billion at June 30, 1999, $964 million (2.7%) more than fiscal year 1998. The largest increases were the State's payables ($909 million). There was also an increase ($810 million) in the pension liability due, in large part, to an increase in the pension obligation of $561 million in the Teachers Retirement System and $190 million in the State Universities Retirement System.

Comparison of Total Liabilities (in millions) *

Account	FY1999	FY99 %	% change From 1998	FY1998
Payables	$ 7,971	22.1%	12.9%	$ 7,063
Pension liability**	12,116	33.6%	7.2%	11,305
General obligation bonds	6,126	17.0%	4.1%	5,886
Special obligation bonds	1,828	5.1%	(.2%)	1,832
Revenue bonds	1,323	3.7%	14.3%	1,157
Depository & other	4,270	11.8%	(24.8%)	5,679
Other	2,462	6.8%	11.4%	2,210
Total Liabilities	$ 36,096	100.0%	2.7%	$ 35,132

*The above numbers include primary government funds only.



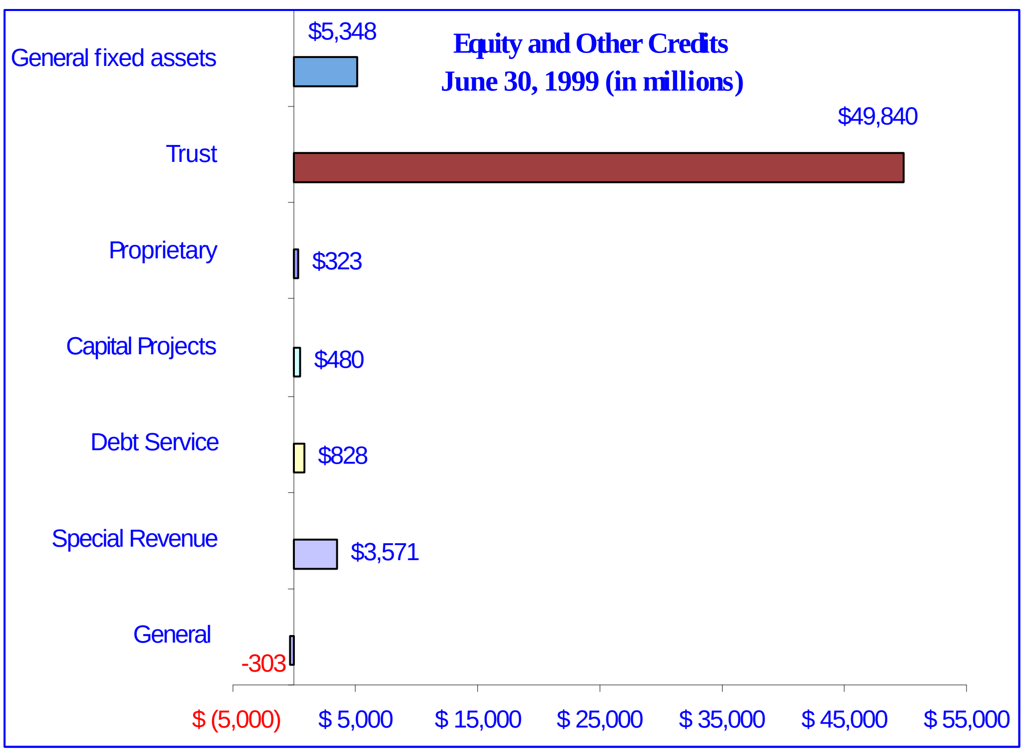
Equity and Other Credits

The fund balances for all primary government funds combined was $60 billion at June 30, 1999 representing a 13.8% increase from fiscal year 1998. By far, the majority of the increases were in the trust funds ($6.2 billion). Within those funds, the Pension Funds and Investment Trust Funds balances increased $4.6 billion.

Comparison of Total Fund Balances (Deficits) and Retained Earnings (in millions) *

Fund Types/ Account Group	FY1999	FY99 %	% change From 1998	FY1998
General	$ (303)	(0.5%)	42.3%	$ (213)
Special Revenue	3,571	5.9%	21.3%	2,943
Debt Service	828	1.4%	11.1%	745
Capital Projects	480	0.8%	34.5%	357
Proprietary	323	0.5%	12.2%	288
Trust	49,840	82.9%	14.2%	43,636
General fixed assets	5,348	8.9%	5.7%	5,061
Total Fund Balances	$ 60,087	100.0%	13.8%	$ 52,817

*The above numbers include primary government funds only.



General Governmental

Functions

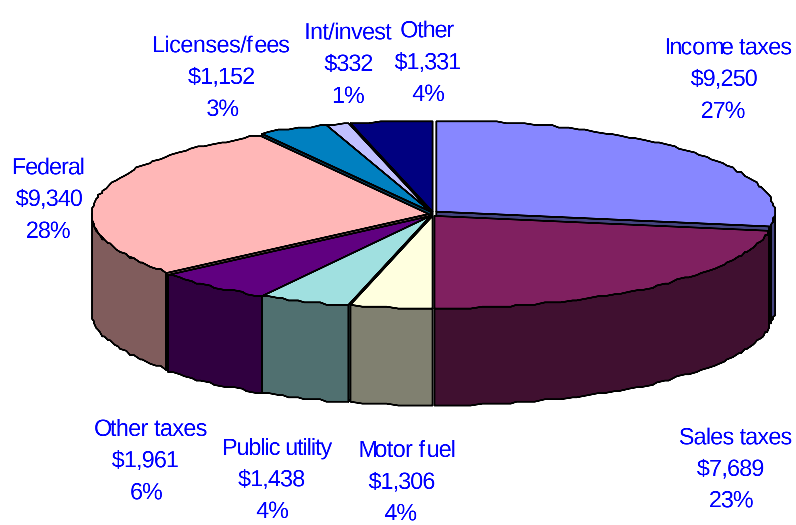
The governmental fund types are those through which most State functions are financed. These fund types (the general, special revenue, capital projects, and debt service funds) are presented on the modified accrual basis of accounting. Throughout the year, the Comptroller's Office publishes a monthly *Fiscal Focus* which summarizes the status of governmental fund revenues and expenditures and analyzes various programs and activities. These reports are available on request.

Revenues

Revenues on the modified accrual basis are recognized when they are both measurable and available to finance current operations. Revenues (amounts expressed in millions) from various sources for fiscal years 1999 and 1998 are as follows:

Revenue Source	Amount 1999	Amount 1998	Percentage of Total 1999	Percentage of Total 1998	Increase (Decrease) from 1998	Percentage Incr (Decr) from 1998
Taxes:						
Income	$ 9,250	$ 8,811	27%	28%	$ 439	5%
Sales	7,689	7,168	23%	22%	521	7%
Motor fuel	1,306	1,287	4%	4%	19	1%
Public utility	1,438	1,208	4%	4%	230	19%
Other	1,961	1,604	6%	5%	357	22%
Federal government	9,340	8,929	28%	28%	411	5%
Licenses & fees	1,152	1,093	3%	3%	59	5%
Interest/investment	332	302	1%	1%	30	10%
Other	1,331	1,549	4%	5%	(218)	(14%)
Total	$ 33,799	$ 31,951	100%	100%	$ 1,848	6%

FY99 Governmental Fund Revenues



Fiscal year 1999 governmental funds revenues increased by $1,848 million (6%) over 1998 revenues. State-imposed taxes including income, sales, motor fuel, public utility, and miscellaneous other taxes remained the largest overall revenue source for fiscal year 1999 and comprised nearly 63% of total State revenues.

Income Tax

Income tax revenues, the State's largest tax revenue source, increased $439 million (5%) from fiscal year 1998. The increase is generally the result of a robust economy and resulting growth in personal and corporate income taxes.

Sales Taxes

Sales taxes remained the second largest tax revenue source for fiscal year 1999, increasing $521 million (7%) from fiscal year 1998. The increase is due to general growth in retail sales in an improved economy.

Public Utility Taxes

Public utility taxes showed an increase of $230 million (19%) mainly because of a 2% rate increase in the telecommunications tax deposited into the Common School Fund and the School Infrastructure Fund. Also, effective with fiscal year 1998, the Department of Revenue began collecting a new Energy Assistance Charge for deposit into the Supplemental Low Income Energy Assistance Fund.

Federal Government Revenues

Federal government revenues for fiscal year 1999 increased $411 million from fiscal year 1998, and continue as the second largest revenue source on a GAAP basis for 1999 (second only to the State-imposed taxes discussed above). Of this increase, federal government revenues at the Department of Public Aid increased $106 million reflecting an increase in the federal government reimbursement revenues of the medicaid assessment program.

A significant increase occurred in the Road Fund ($316 million) administered by the Department of Transportation (IDOT). The increase occurred because funding from the federal highway bill was delayed in the previous fiscal year.

Other Revenues

Other revenues decreased $218 million (14%) from fiscal year 1998. One major component of the decrease was in the County Hospital Services Fund where the other revenues were $54 million less in Fiscal year 1998 than the previous year because there were fewer Medicaid eligible patients. Another component was a decrease of $84 million in the Department of Public Aid's Child Support Enforcement Trust Fund where record collections were recorded in the previous fiscal year.

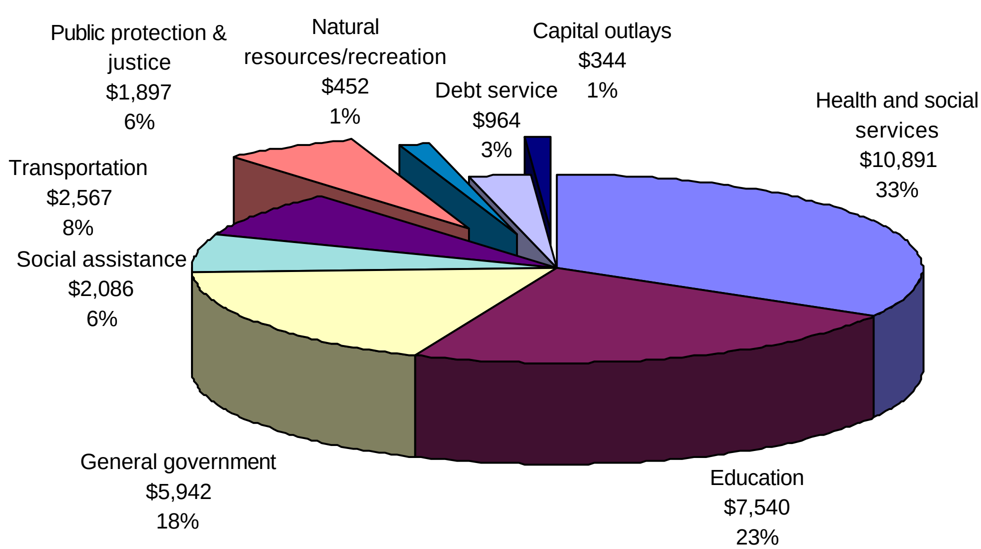
Expenditures

Expenditures for governmental fund types are presented on the modified accrual basis of accounting and are generally recognized when the fund liability is incurred regardless of when payment is made. Governmental funds expenditures of $32,683 million in fiscal year 1999 increased $1,922 million (6%) over 1998 and were $1.1 billion less than revenues on a GAAP basis.

Expenditures (amounts expressed in millions) for major governmental fund functions in fiscal year 1999 and 1998 were as follows:

Expenditure Function	Amount 1999	Amount 1998	Percentage of Total 1999	Percentage of Total 1998	Increase (Decrease) from 1998	Percentage Incr (Decr) from 1998
Health and social services	$ 10,891	$ 9,963	33%	32%	$ 928	9%
Education	7,540	6,786	23%	22%	754	11%
General government	5,942	5,561	18%	18%	381	7%
Social assistance	2,086	2,401	6%	8%	(315)	(13%)
Transportation	2,567	2,649	8%	9%	(82)	(3%)
Public protection & justice	1,897	1,678	6%	5%	219	13%
Natural resources/recreation	452	414	1%	1%	38	9%
Debt service	964	967	3%	3%	(3)	(0%)
Capital outlays	344	342	1%	1%	2	1%
Total	$ 32,683	$ 30,761	100%	100%	$ 1,922	6%

FY99 Governmental Fund Expenditures



Health and Social Services Expenditures

Health and social services expenditures of $10.9 billion were the largest expenditure function for fiscal year 1999, *increasing* by $928 million (9%) over fiscal year 1998. This expenditure function is 34% of total spending on a GAAP basis, increasing slightly from 32% in fiscal year 1998. Significant fluctuations occurred at several agencies. A $436 million increase in General Fund expenditures at the Department of Human Services (DHS) represents an increase in Health and Social Services programs and a decrease in social assistance programs. The Department of Public Aid showed a $720 million increase in General Fund spending. The increase is attributable to a change in the Medicaid accrual allocation for fiscal year 1999. The Medicaid assessment funds' expenditures decreased by $264 million.

Education Expenditures

Education expenditures were once again the second largest expenditure function in the governmental funds for fiscal year 1999. Education expenditures increased $754 million (11%) from fiscal year 1998 on a GAAP basis.

Significant education expenditure increases that reflect the continuing budgetary emphasis on education in fiscal year 1998 were at the State Board of Education where General Fund expenditures increased $253 million in the General Revenue Account and $368 million in the Common School Account.

Social Assistance Expenditures

Social assistance expenditures decreased $315 million (13%) from the last fiscal year. The largest decrease occurred at the Department of Human Services in the General Fund ($273 million) because of the change from the Aid To Families With Dependent Children (AFDC) Program to the Temporary Assistance For Needy Families (TANF) Program. The TANF Program imposes a time limit on assistance that has reduced expenditures.

General Government

General government expenditures increased $381 million (7%) from fiscal year 1998 to 1999. Expenditure increases occurred at the Department of Commerce and Community Affairs ($52 million) in conjunction with the first full year of the Low Income Energy Assistance Program. In addition, the Department of Revenue's expenditures increased $68 million in the Local Government Tax Fund and $54 million in the Local Government Distributive Fund. This growth was mainly attributable to larger payments to units of local government because of income tax growth.

Internal Control

Each State agency's management is responsible for establishing and maintaining internal control designed to ensure that the assets of the State are protected from loss, theft or misuse, and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The State's internal controls are designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

On October 31, 1989 the Fiscal Controls and Internal Auditing Act ("FCIAA") became law, requiring all State agency chief executive officers to annually certify the adequacy of internal controls in place within their agencies. The first annual certifications by State agency CEOs were due November 15, 1990. Subsequent certifications are due May 1st each year. The FCIAA also requires that certain agencies have a chief internal auditor with a specified minimum level of professional competency.

Budgetary Controls

The Comptroller's Statewide Accounting Management System **("SAMS")** provides the basis for receipt, expenditure and encumbrance reporting of all State treasury held funds with specific budgetary controls maintained on line-item expenditures for all appropriated funds. Appropriations (budget) and actual expenditure analysis for significant individual funds is provided in the Budgetary Schedules section of this report. A reconciliation between the GAAP and budgetary basis of accounting is presented in Note 2 of the financial statements. The budgetary system (i.e., SAMS) classifies funds into traditional groupings which do not conform with the fund type classifications set forth by the GASB; therefore, a reclassification of budget categories to GAAP financial statement fund types also is presented in Note 2.

The State of Illinois has a two-month "lapse period." During this time, July 1 to August 31, State agencies can expend funds appropriated in the prior fiscal year if encumbered by June 30. For all fund types, goods or services received prior to June 30 are recorded as liabilities and expenditures or expenses, whichever is appropriate. For governmental fund types, lapse period expenditures for goods or services encumbered as of June 30 and received prior to August 31 are reported with other encumbrances as reservations of June 30 fund balances and not as liabilities or expenditures.

Investment Management

The Illinois State Treasurer is responsible for investing all cash resources of the State, with the exception of those held by the retirement systems and certain debt service, enterprise, agency, universities' and colleges' endowments and other locally-held funds. Of the five retirement systems, three pool their resources for investment and two invest their resources under investment master trustee arrangements with individual investment managers. The universities and colleges are granted independent powers to invest their funds which are held outside the State Treasury. Interest income earned on the cash resources received and invested by the State Treasurer is allocated to the various funds (where specified by law) based on the average daily cash balances invested. A comparison with prior years of the State's investments (including component units) at June 30 is presented on page I-29.

State agencies had $4.9 billion more invested at June 30, 1999 than at June 30, 1998. The pension funds accounted for $4 billion of the investment increase.

Agreements signed between the State of Illinois and the Financial Management Service of the U. S. Treasury ("FMS") since July 1993, set out procedures for drawing federal funds and methods for computing interest liabilities for programs subject to the federal Cash Management Improvement Act ("CMIA"). Illinois submitted the fiscal year 1998 *CMIA Annual Report* in December 1998, and after review by FMS paid the federal government $2.8 million in State interest liabilities by the March 1999, due date.

Investment Type	Comparison of Investment Portfolios at June 30, (In millions) 1999 Amount	%	1998 Amount	%	1997 Amount	%	1996 Amount	%
Corporate Equity Securities	$ 16,794	30%	$ 13,550	24%	$ 13,513	29%	$ 8,747	24%
Mutual Funds	14,270	26%	15,962	29%	11,963	25%	8,458	23%
U.S. Treasury & Agency Obligations	8,563	15%	10,164	18%	8,151	17%	6,849	18%
Corporate Debt Securities	8,465	15%	5,981	11%	4,538	10%	4,741	13%
Tangible Property	2,502	4%	2,687	5%	2,631	6%	2,767	7%
Repurchase Agreements	4,259	8%	4,025	7%	3,197	7%	3,164	9%
Commercial Paper	3,147	6%	2,252	4%	1,833	4%	1,291	3%
Investment Contracts	2,912	5%	982	2%	844	2%	956	3%
Totals	$ 60,912	100%	$ 55,603	100%	$ 46,670	100%	$ 36,973	100%

Cash Management

The State of Illinois' daily activities are operated on a "cash basis," where bills are paid with the available balances of cash on hand. As chief fiscal officer of the State of Illinois, the Comptroller maintains the State's central fiscal accounts and is responsible for ordering all payments into and out of the funds held by the State Treasurer. The State's cash flow situation improved again during fiscal year 1999. The General Fund's available balance at June 30, 1999 was $1.351 billion, $149 million greater than the balance at June 30, 1998. The cash balance generally is affected by the same events previously discussed in the *General Governmental Functions* Section.

The General Funds include the three school and General Revenue Fund accounts which administer about 40% of the State's annual expenditures. The General Revenue Account is also the State's basic operating fund, funding at least a portion of the operating budget of every major agency. Because of the sheer size of the General Revenue Fund, annual changes in the General Fund end-of-year available cash balance are usually governed by changes in the General Revenue Fund. For fiscal year 1999, however, nearly all of the $149 million improvement occurred in the school funds.

General Fund

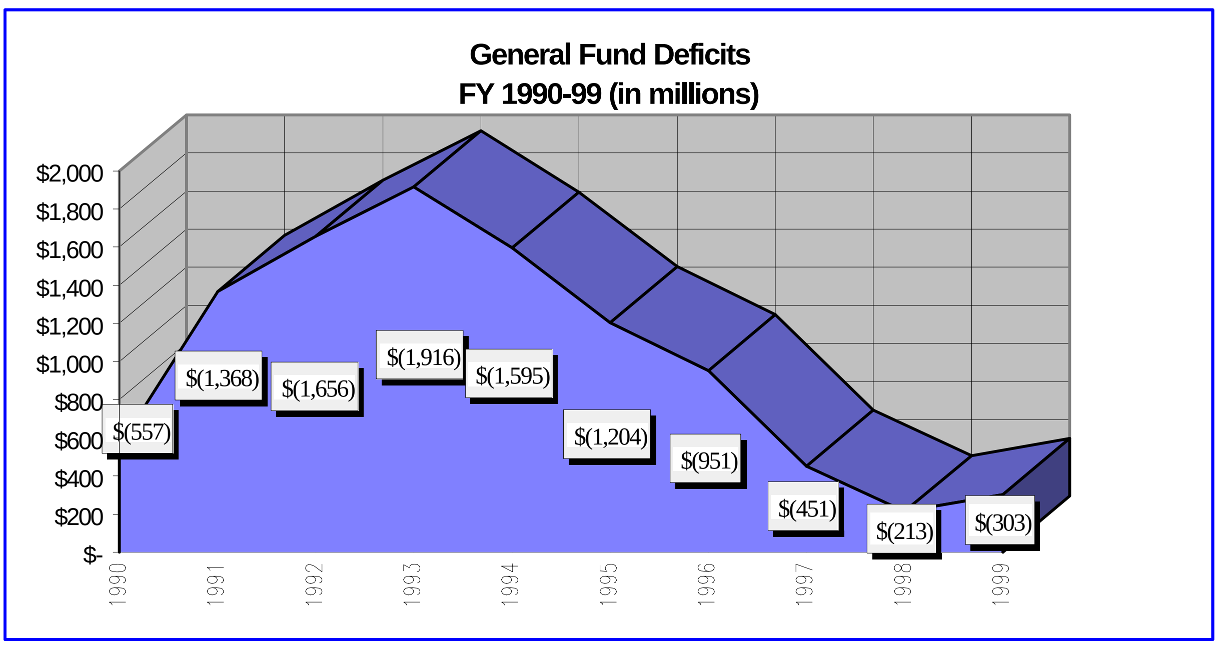
Many State programs are accounted for in the General Fund. As demonstrated by the tables on page I-30 (in millions), the State's GAAP basis financial position at June 30, 1999 worsened from fiscal year 1998. The *fund* deficit in the State's General Fund increased by $90 million on a GAAP basis (from a deficit $213 million to a deficit $303 million). On the *budgetary basis*, there was a $503 million fund balance at June 30, 1999 compared to a $356 million balance at June 30, 1998, a $147 million improvement.

The *undesignated* fund deficit on a GAAP basis worsened by $408 million from a deficit of $367 million to a deficit of $775 million**.** Expenditures and transfers-out exceeded revenues and transfers-in to the General Fund by $90 million in fiscal year 1999**.**

The General Fund's deterioration is reflected in the comparison of the growth of assets and liabilities as assets increased 4.3% while payables and other liabilities jumped 6.0%. In addition, General Fund expenditures increased $1.5 billion (8.1%) while revenues only grew $1.2 billion (5.6%).

General Fund Balance (Deficit)
Fiscal Years 1990 - 1999
(in millions)

	Fund Balance (deficit) at June 30	** Undesignated Fund (deficit) at June 30	Excess (deficiency) of revenues over (under) expenditures and net other financing sources (uses) for the year ended June 30
1990 *	(557)	(745)	(482)
1991	(1,368)	(1,537)	(806)
1992	(1,656)	(1,825)	(306)
1993	(1,916)	(2,060)	(260)
1994	(1,595)	(1,731)	321
1995	(1,204)	(1,404)	388
1996	(951)	(1,130)	252
1997	(443)	(596)	508
1998	(213)	(367)	230
1999	(303)	(775)	(90)



Expendable Trust Funds

Total revenues for the State's expendable trust funds increased $248 million (19%) from $1.315 billion in fiscal year 1998 to $1.563 billion in fiscal year 1999. Total expenditures increased $52.8 million (4.6%) from $1.144 billion in 1998 to $1.197 billion in 1999.

By far the largest expendable trust fund is the State Unemployment Compensation Trust Fund ("Trust Fund"). The unemployment insurance ("UI") system is a joint state-federal program designed to provide cash assistance to involuntarily unemployed workers regardless of need. During fiscal year 1999, the UI system provided 5.1 million weeks of benefits to laid off workers at an average weekly stipend for recipients of regular benefits of $222. The State is responsible for determining benefit levels and eligibility criteria, and for setting State UI tax levels sufficient to pay the benefits. The federal government provides all administrative funding and mandates minimal coverage requirements. A separate federal unemployment tax is assessed by the federal government to finance these administrative costs, provide a source of funds for states to borrow against during periods of high unemployment, and to pay the federal share of extended and emergency unemployment benefits.

Because of the solvency problems experienced with the Trust Fund in the late 1970's and early 1980's, the members of the General Assembly have worked closely with leaders of Illinois' labor and business communities to ensure the solvency of the fund for its workers while guarding against rapid growth of taxes on the employer community. In 1987 and again in 1992, business, government, and labor set out to revisit the issues surrounding the administration of the UI system. In 1992, most of the language from the landmark 1987 legislation was carried forward. Illinois employers will have realized tax savings of nearly $343 million over the life of the new agreement, while benefits to unemployed workers will steadily increase.

Current year revenues exceeded expenditures by $155 million and the fund continues to be in a fiscally sound position, as demonstrated by its $2.3 billion fund balance at June 30, 1999. The fiscal health of the fund has been so good that legislation was signed into law in February 1996 that reduced the minimum tax rate to .5% from .6% and the maximum rate to 6.8% from 8.2%.

Investment Trust Funds

The State has two Investment Trust Funds: the Illinois Public Treasurers' Investment Pool and the Deferred Lottery Prize Winners Trust Fund. The State's investment trust funds account for transactions, assets, liabilities and fund balances reserved for pool participants for depositors that are not part of the State's financial reporting entity. During fiscal year 1999, the Illinois Public Treasurers' Investment Pool recorded $472 million of participants' deposits, $136.1 million of net investment income and distributions to pool investors of $136.1 million. The Deferred Lottery Prize Winners Trust Fund recorded investment income of $58.5 million and participants' withdrawals of $166.1 million.

Proprietary Funds

Proprietary funds are the State's "business-type" activities and include enterprise and internal service funds. Combined operating revenues for the State's enterprise funds were $1.883 billion in fiscal year 1999 remaining unchanged from fiscal year 1998. Combined operating expenses were $1.350 billion, down $15 million (1%) from fiscal year 1998. The decrease in total enterprise fund expenses was the result of a decrease in prizes and claims (State Lottery) of $30 million combined with an increase in Local Government Health Insurance Reserve Fund and Teachers Health Insurance Security Fund benefit payments (Department of Central Management Services) of $15 million.

The State's internal service funds, which provide data processing, motor pool vehicles, telephone communications, printing services, self insurance and other services to State agencies, operated on a profitable basis for fiscal year 1999. Combined internal service funds revenues and expenses for fiscal year 1999 were $1.095 million and $866 million, respectively. This represents an increase of $90 million (9%) in revenues and an increase of $53 million (6%) in expenses from fiscal year 1998 to 1999. The increases in both revenues and expenditures are attributable to increased revenues and claims in the following funds: the Statistical Services Revolving Fund (charges for sales and services increased $37 million and cost of sales and services increased $20 million); the Health Insurance Reserve Fund (charges for sales and services increased $37 million and benefit payment increased $20 million); and the Communications Revolving Fund (charges for sales and services increased $10 million and total operating expenses increased $12 million).

Component Units

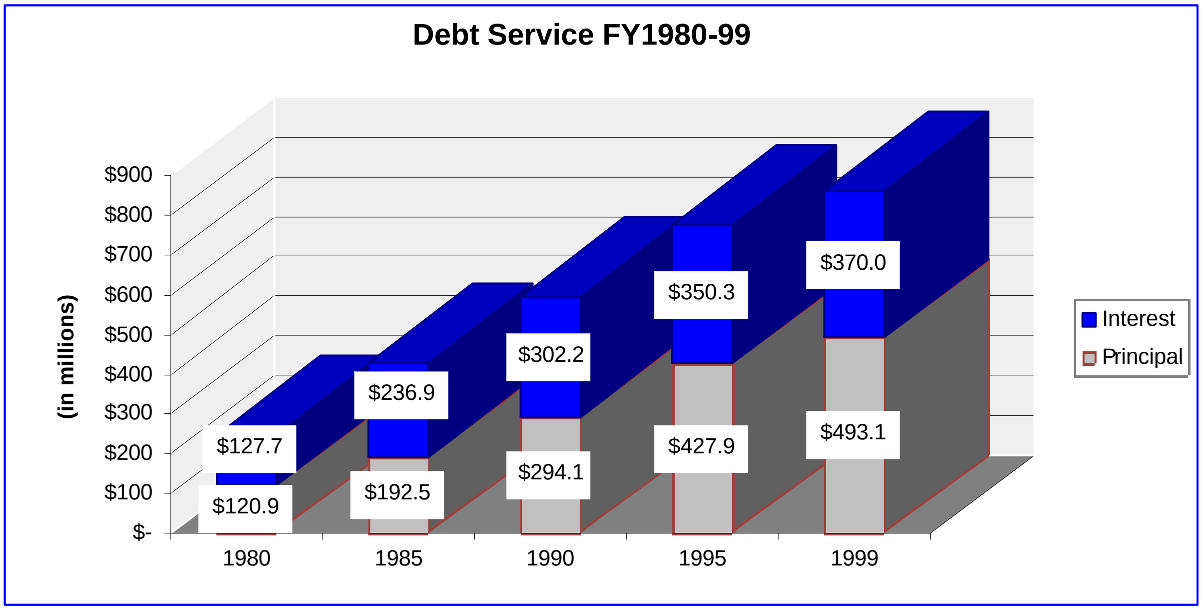
Universities. Illinois operates a comprehensive program of higher education, including nine State universities and support for a statewide network of 49 community colleges, 103 private, not-for-profit institutions, 20 proprietary institutions, and a student financial assistance program. During fiscal year 1999, university expenditures increased $219 million (5%) over 1998. General Fund financial support to the State's universities increased by 5.7%, to $1.303 billion, from fiscal year 1998 to fiscal year 1999.

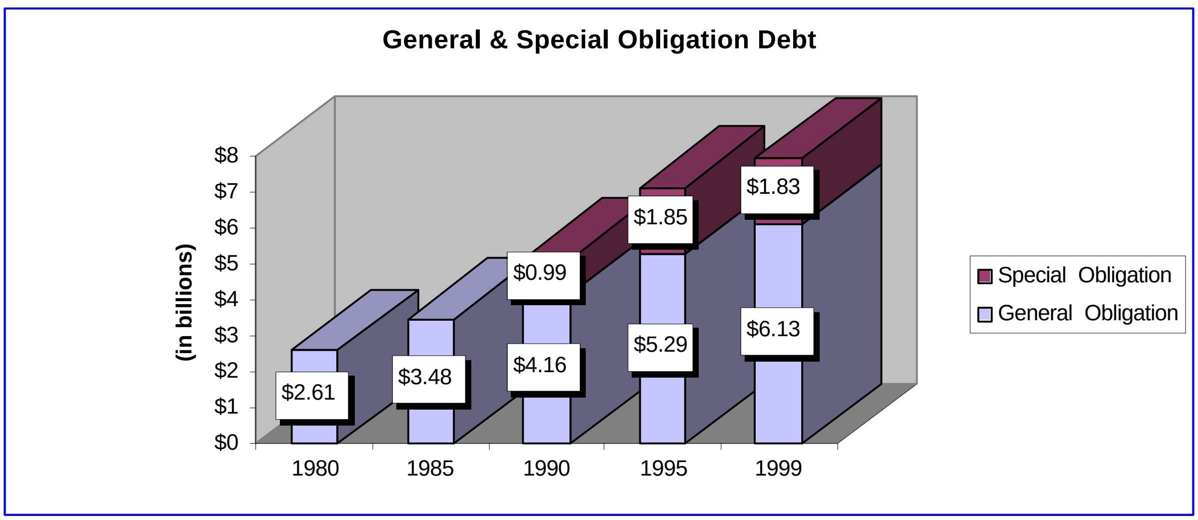
Proprietary. Certain business-type activities that are not a part of the primary government are included as component units. The largest proprietary component units in terms of assets are the Illinois Toll Highway Authority and the Illinois Housing Development Authority. Combined proprietary fund component unit operating revenues and expenses for the current fiscal year were $482 million and $352 million, respectively. This compares to revenues of $657 million and expenses of $538 million for fiscal year 1998. The decreases in revenue and expenditures occurred because the operating activity for the Toll Highway Authority is presented for a six-month period for fiscal year 1999.

Debt Administration

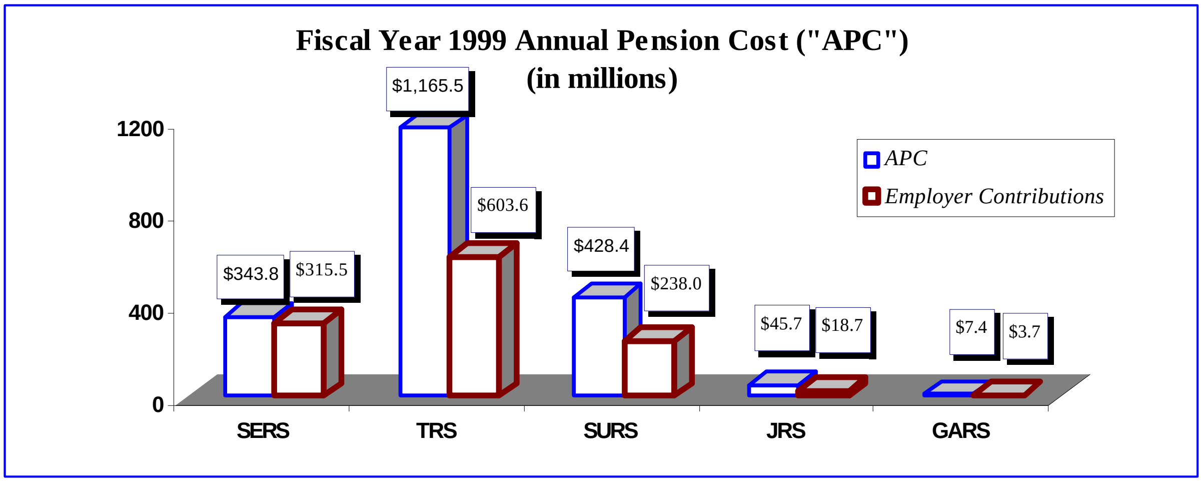
During June 1998, the Illinois general obligation bond rating was increased from "Aa3" to "Aa2" by Moody's Investors Service. Also, during June 1998, Standard & Poor's Corporation ("S & P") rating was increased to "AA" from "AA-". The higher bond ratings can be attributed to the State's improved financial condition. Special obligation bond ratings remained the same, ranging from "AAA" by S & P for Build Illinois bonds to "A1"by Moody's for Civic Center bonds. Among the states, Illinois is a moderate debt state with outstanding general and special obligation bonds at June 30, 1999 totaling $7.954 billion. Bonds have been issued primarily to provide funds for acquisition and construction of capital facilities for higher education, public and mental health, correction and conservation purposes, and for maintenance and construction of highway and waterway facilities. Bonds also have been issued to provide assistance to municipalities for construction of sewage treatment facilities, port districts, aquarium facilities, local schools, mass transportation and aviation purposes, and to fund research and development of coal and alternative energy sources.

General and special obligation bonds aggregating $772.3 million and $60 million, respectively, were issued during fiscal year 1999 at average interest rates ranging from 4.8% to 5.1%. During fiscal year 1998, general and special obligation bonds totaling $718.3 million and $183.1 million, respectively, were issued at average rates ranging from 4.8 % to 5.1%. Debt service principal and interest costs of $493.1 million and $370.0 million, respectively were paid in fiscal year 1999. The dramatic increase since fiscal year 1980 is displayed in the following chart:





In addition to general and special obligation bonds, Illinois has $5.109 billion of revenue bonds, $110.6 million of notes payable and $1.896 billion of other long-term obligations outstanding as of June 30, 1999.



Retirement Systems

Total net assets of the State's five pension trust funds, on a "fair value" basis, aggregated $41.5 billion at June 30, 1999, an increase of $4.2 billion (11%) from the previous year. During fiscal year 1997, the State adopted GASB Statement 27, *Accounting for Pensions by State and Local Governmental Employers.* The statement requires, among other things, that assets be valued at *fair market value.*

The $4.2 billion increase in net assets can be explained by three accounts. Investments (at fair value) grew by $4 billion. $2.3 billion of the growth represented net appreciation in fair value and $1 billion represented new purchases of investments. The large investment increase was offset by $215 million more accounts payable with most of the growth at Teachers' Retirement System (TRS). In addition, other liabilities increased by $382 million, which was attributable to an increase in other liabilities at TRS and Universities Retirement System. Other liabilities generally relate to securities lending transactions.

Statement 27 focuses the reader of the State's CAFR on annual pension cost ("APC") in accordance with certain accounting parameters as compared to the amount contributed. The State retirement systems were underfunded by $811.3 million during fiscal year 1999 and this amount has been added to the Net Pension Obligation (NPO) in the General Long-Term Obligations Account Group (See chart above). Of the $811.3 million, $561.9 million occurred at TRS where the APC was calculated to be $1.2 billion and employer contributions were $603.6 million.

During fiscal year 1999, all of the State systems were funded in accordance with the *statutory funding* requirement. The new law enacted in fiscal year 1996 provides for a 50-year funding plan with a 15 year phase-in and a "continuing appropriation." The continuing appropriation provides the Comptroller's Office with the authority to automatically provide funding to the pension systems based on actuarial cost requirements and amortization of the unfunded liability without being subject to the General Assembly's appropriation process. However, the State's 50-year funding plan does *not* meet the more stringent 40-year minimum amortization "parameters" required to be reported in the State's financial statements in accordance with GASB Statement 27.

Risk Management

The State's risk management program encompasses a wide range of State government activities. Generally, the State has elected to retain most exposures to risk, with only limited purchase of commercial insurance. Among the exceptions are coverage for real property at the James R. Thompson Center in Chicago, the State Retirement Systems building, and the Regional State Office complex in Collinsville. Limited commercial coverage for personal property includes a small portion of the State's fleet of motor vehicles, certain telecommunications equipment, the fixed and rotary wing aircraft fleet, some State watercraft, selected items of electronic data processing equipment, a portion of the State's collection of fine art, as well as a small number of other property and liability exposures.

The State retains workers' compensation and auto liability exposures, including claims management. Other major retained risks include employee fidelity and surety, as well as general liability. The State's risk management program also includes legal representation and indemnification of employees sued for violation of civil and constitutional rights and other tort liabilities while acting in an official capacity.

Independent Audit

The Illinois Auditor General has elected to perform a "department by department" single audit in conformity with the provisions of the *Single Audit Act Amendments of 1996.* Separate departmental financial reports for those State agencies subject to the Single Audit Act Amendments include the schedule of expenditures of federal awards, findings and questioned costs, and the auditor's reports on internal control and compliance with applicable laws and regulations. The Illinois Auditor General has performed an audit of the accompanying general purpose financial statements in accordance with generally accepted auditing standards, and his opinion is presented herein.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada ("GFOA") awarded a Certificate of Achievement for Excellence in Financial Reporting ("Certificate") to the State of Illinois for its comprehensive annual financial report ("CAFR") for the fiscal year ended June 30, 1998. This is the fifteenth consecutive year that the State has received this prestigious award in governmental financial reporting. In order to be awarded a Certificate, the State of Illinois published an easily readable and efficiently organized comprehensive annual financial report. This reportmust satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate is valid for a period of one year only. I believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and I am submitting to the GFOA to determine its eligibility for another certificate.

Acknowledgments

The preparation of the State's Comprehensive Annual Financial Report was made possible by the due diligence of my staff, the Auditor General's Office and all State agencies who submitted timely information during this year's GAAP financial statement process. Their hard work and dedication has resulted in an excellent financial report of which we can be proud. I express my gratitude to all of those involved for this tremendous cooperative effort.

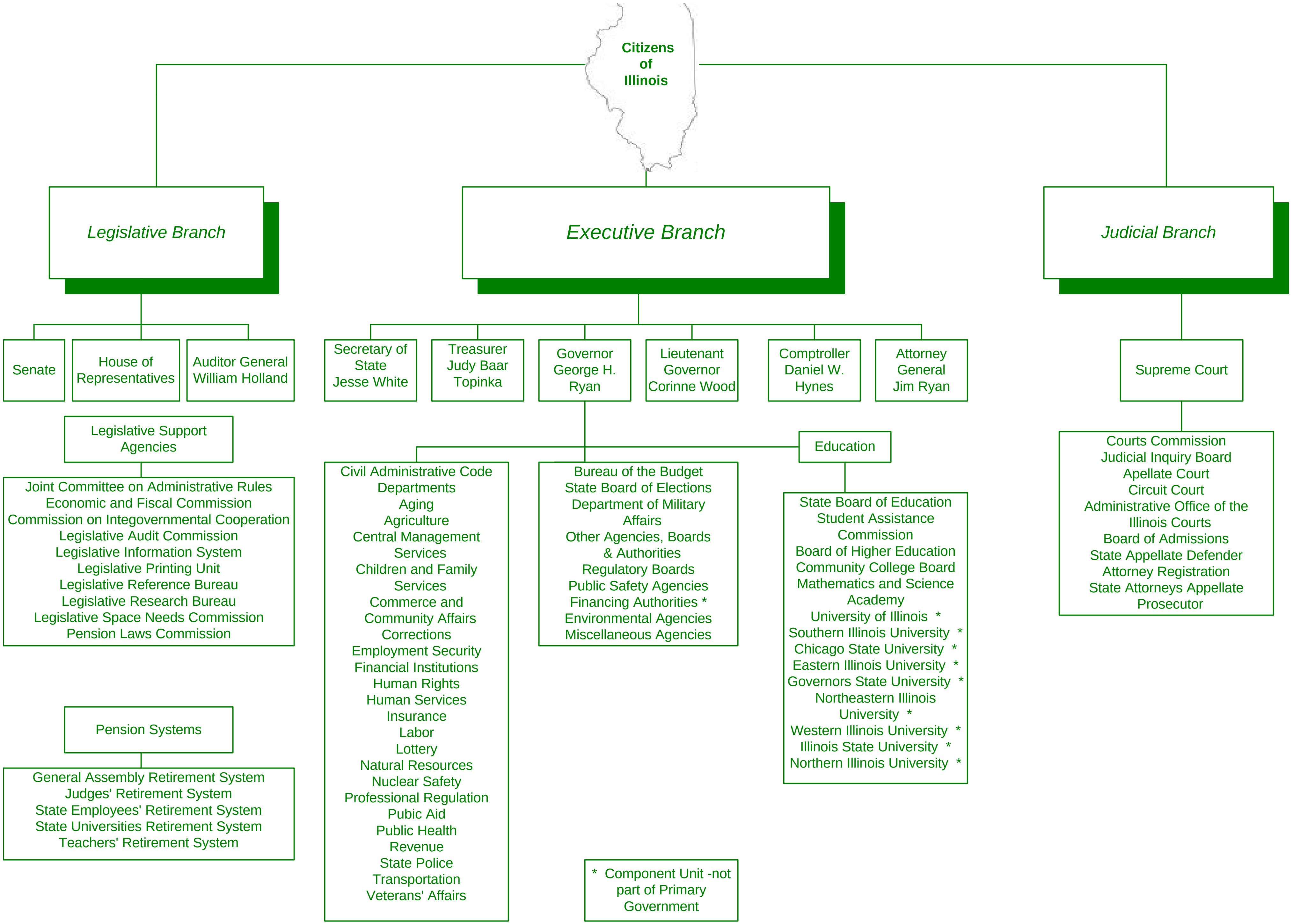
SEA Reporting

The Illinois Office of the Comptroller also wishes to express thanks to all the personnel at

the reporting state agencies who, in good faith, engaged in a process to identify and report on the outcomes of their efforts in certain programs. The extent to which state government programs can affect certain, broader outcomes related to the quality of life of our citizens – such as the crime rate or income and poverty levels – varies from one program area to another. The review of their Service Effort and Accomplishments you see here is the product of their labor. I would also like to thank the University of Illinois at Springfield and their staff for their contributions.

Sincerely,

Daniel W. Hynes
Comptroller


Citizens of Illinois
Legislative Branch
Executive Branch
Judicial Branch
Senate
House of Representatives
Auditor General William Holland
Legislative Support Agencies
Joint Committee on Administrative Rules
Economic and Fiscal Commission
Commission on Integovernmental Cooperation
Legislative Audit Commission
Legislative Information System
Legislative Printing Unit
Legislative Reference Bureau
Legislative Research Bureau
Legislative Space Needs Commission
Pension Laws Commission
Pension Systems
General Assembly Retirement System
Judges' Retirement System
State Employees' Retirement System
State Universities Retirement System
Teachers' Retirement System
Secretary of State Jesse White
Treasurer Judy Baar Topinka
Governor George H. Ryan
Lieutenant Governor Corinne Wood
Comptroller Daniel W. Hynes
Attorney General Jim Ryan
Civil Administrative Code Departments
Aging
Agriculture
Central Management Services
Children and Family Services
Commerce and Community Affairs
Corrections
Employment Security
Financial Institutions
Human Rights
Human Services
Insurance
Labor
Lottery
Natural Resources
Nuclear Safety
Professional Regulation
Pubic Aid
Public Health
Revenue
State Police
Transportation
Veterans' Affairs
Bureau of the Budget
State Board of Elections
Department of Military Affairs
Other Agencies, Boards & Authorities
Regulatory Boards
Public Safety Agencies
Financing Authorities *
Environmental Agencies
Miscellaneous Agencies
Education
State Board of Education
Student Assistance Commission
Board of Higher Education
Community College Board
Mathematics and Science Academy
University of Illinois *
Southern Illinois University *
Chicago State University *
Eastern Illinois University *
Governors State University *
Northeastern Illinois University *
Western Illinois University *
Illinois State University *
Northern Illinois University *
* Component Unit -not part of Primary Government
Supreme Court
Courts Commission
Judicial Inquiry Board
Apellate Court
Circuit Court
Administrative Office of the Illinois Courts
Board of Admissions
State Appellate Defender
Attorney Registration
State Attorneys Appellate Prosecutor

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State of Illinois

Combined Balance Sheet - All Fund Types, Account Groups and Discretely Presented Component Units

June 30, 1999 (Expressed in Thousands)

	Governmental Fund Types				Proprietary Fund Types		Fiduciary Fund Type
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service	Trust and Agency
ASSETS AND OTHER DEBITS							
Assets:							
Cash and cash equivalents	$ 1,153,800	$ 3,274,167	$ 740,435	$ 550,637	$ 224,827	$ 107,961	$ 3,240,595
Investments	656,069	447	62,617		172,707		50,012,376
Receivables, net:							
Taxes	781,590	398,167					326,611
Intergovernmental	749,429	895,594		1,411	9,215	728	13,086
Other	76,965	171,710	868		46,717	2,198	1,030,426
Due from other funds	291,183	362,518	23	200	73,111	156,913	44,568
Due from component units	21,217	2,489		6,728		3,277	6,438
Due from primary government							
Inventories	38,083	34,745			5,539	12,535	
Prepaid expenses					335	1,106	
Loans and notes receivable	20,027	764,309	25,500		1,083,826		
Restricted assets ($121,753 cash equivalents)					217,297	108	
Property, plant and equipment, net					4,040	41,540	22,896
Other assets	13,314	15,971					1,238,256
Other debits:							
Amount available in debt service funds for:							
Retirement of general obligation bonds							
Retirement of special obligation bonds							
Retirement of other obligations							
Amount to be provided for:							
Retirement of general obligation bonds							
Retirement of special obligation bonds							
Retirement of other obligations							
Pension liabilities							
Total assets and other debits	$ 3,801,677	$ 5,920,117	$ 829,443	$ 558,976	$ 1,837,614	$ 326,366	$ 55,935,252
LIABILITIES, EQUITY AND OTHER CREDITS							
Liabilities:							
Account payable and accrued liabilities	$ 2,279,538	$ 469,752	$ 19	$ 54,661	$ 85,959	$ 148,550	$ 1,415,358
Intergovernmental payables	1,048,184	1,080,166		13,592	6	241	338,561
Due to other funds	509,626	320,430	23	1,920	7,272	3,109	86,136
Due to component units	93,246	13,422	884	596		2	39
Due to primary government							
Deferred revenues	173,685	465,567		8,145	11,166	15,398	3,100
Liabilities payable from restricted assets							
Depository and other liabilities		88	201	298	25,473	11,046	4,233,282
Notes payable					100,794		
Net pension obligation							
General obligation bonds payable							
Special obligation bonds payable							
Revenue bonds payable					1,304,360		18,654
Other obligations					124,889	2,923	
Total liabilities	4,104,279	2,349,425	1,127	79,212	1,659,919	181,269	6,095,130
Equity and other credits:							
Contributed capital						19,247	
Investment in fixed assets							
Retained earnings:							
Reserved					133,067		
Unreserved					44,628	125,850	
Fund balances (deficits):							
Reserved for:							
Employees' pension benefits							41,473,766
External investment pool participants							4,564,415
Other	472,098	2,781,720	25,500	626,363			2,326,619
Unreserved:							
Designated			802,816				1,442,026
Undesignated (deficits)	(774,700)	788,972		(146,599)			33,296
Total equity (deficit) and other credits	(302,602)	3,570,692	828,316	479,764	177,695	145,097	49,840,122
Total liabilities, equity and other credits	$ 3,801,677	$ 5,920,117	$ 829,443	$ 558,976	$ 1,837,614	$ 326,366	$ 55,935,252

The accompanying notes to the financial statements are an integral part of this statement.

Account Groups		Total (Memorandum Only)		Total (Memorandum Only)
General Fixed Assets	General Long-Term Obligations	Primary Government	Component Units	Reporting Entity
		$ 9,292,422	$ 702,652	$ 9,995,074
		50,904,216	2,525,216	53,429,432
		1,506,368		1,506,368
		1,669,463	15,598	1,685,061
		1,328,884	208,056	1,536,940
		928,516	28,794	957,310
		40,149		40,149
			108,003	108,003
		90,902	44,100	135,002
		1,441	38,316	39,757
		1,893,662	1,810,294	3,703,956
		217,405	361,530	578,935
$ 5,347,976		5,416,452	7,626,284	13,042,736
		1,267,541	109,087	1,376,628
	$ 445,624	445,624		445,624
	346,498	346,498		346,498
	10,694	10,694	2,969	13,663
	5,680,820	5,680,820		5,680,820
	1,481,166	1,481,166		1,481,166
	1,545,232	1,545,232		1,545,232
	12,115,695	12,115,695		12,115,695
$ 5,347,976	$ 21,625,729	$ 96,183,150	$ 13,580,899	$ 109,764,049
		$ 4,453,837	$ 819,578	$ 5,273,415
		2,480,750	7,754	2,488,504
		928,516	28,794	957,310
		108,189		108,189
			40,149	40,149
		677,061	77,028	754,089
			3,524	3,524
		4,270,388	230,215	4,500,603
		100,794	9,798	110,592
	$ 12,115,695	12,115,695		12,115,695
	6,126,444	6,126,444		6,126,444
	1,827,664	1,827,664		1,827,664
		1,323,014	3,786,130	5,109,144
	1,555,926	1,683,738	212,312	1,896,050
	21,625,729	36,096,090	5,215,282	41,311,372
		19,247	33,524	52,771
$ 5,347,976		5,347,976	5,006,985	10,354,961
		133,067	352,863	485,930
		170,478	1,296,120	1,466,598
		41,473,766		41,473,766
		4,564,415		4,564,415
		6,232,300	1,645,074	7,877,374
		2,244,842	26,880	2,271,722
		(99,031)	4,171	(94,860)
5,347,976	-- --	60,087,060	8,365,617	68,452,677
$ 5,347,976	$ 21,625,729	$ 96,183,150	$ 13,580,899	$ 109,764,049

State of Illinois

Combined Statement of Revenues, Expenditures, Other Sources and Uses of Financial Resources and Changes in Fund Balances - All Governmental Fund Types, Expendable Trust Funds and Discretely Presented Component Units

For the Year Ended June 30, 1999 (Expressed in Thousands)

	Governmental Fund Types				Fiduciary Fund Type	Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	Primary Government
REVENUES						
Income taxes	$ 8,466,413	$ 784,079				$ 9,250,492
Sales taxes	5,633,346	2,055,650				7,688,996
Motor fuel taxes		1,306,238				1,306,238
Public utility taxes	1,041,691	395,913				1,437,604
Other taxes	1,410,143	551,060			$ 1,160,494	3,121,697
Federal government	4,618,485	4,718,513	$ 127	$ 2,887	15,932	9,355,944
Licenses and fees	72,569	1,079,038	201		5,077	1,156,885
Interest and other investment income	220,936	73,096	37,484	377	254,377	586,270
Other	603,593	718,511	852	8,130	127,286	1,458,372
Total revenues	22,067,176	11,682,098	38,664	11,394	1,563,166	35,362,498
EXPENDITURES						
Current:						
Health and social services	9,585,006	1,305,486	597		306	10,891,395
Education	5,993,682	1,350,831		195,556		7,540,069
General government	1,290,017	4,588,701	6,371	56,762	47,100	5,988,951
Social assistance	878,667	1,207,189			1,147,235	3,233,091
Transportation	47,666	2,484,632		34,552		2,566,850
Public protection and justice	1,536,489	360,553			2,015	1,899,057
Natural resources and recreation	173,612	262,909	1,413	14,301	55	452,290
Debt service:						
Principal	28,127	5,329	497,915	2		531,373
Interest	40,605	14,070	377,438	15		432,128
Capital outlays	86,230	88,175		169,886	225	344,516
Total expenditures	19,660,101	11,667,875	883,734	471,074	1,196,936	33,879,720
Excess (deficiency) of revenues over (under) expenditures	2,407,075	14,223	(845,070)	(459,680)	366,230	1,482,778
OTHER SOURCES (USES) OF FINANCIAL RESOURCES						
Proceeds from general/special obligation bond issues				661,539		661,539
Proceeds from general/special obligation bond refunding issues			173,179			173,179
Operating transfers-in	2,613,259	2,737,852	930,528	88,258	12,675	6,382,572
Operating transfers from component units				4		4
Operating transfers from primary government						
Operating transfers-out	(3,641,020)	(2,097,697)	(1,828)	(114,203)	(11,392)	(5,866,140)
Operating transfers to component units	(1,486,923)	(31,949)		(53,317)		(1,572,189)
Capital lease financing	18,156	5,511				23,667
Payment to refunded bond escrow agent			(173,179)			(173,179)
Net other sources (uses) of financial resources	(2,496,528)	613,717	928,700	582,281	1,283	(370,547)
Excess (deficiency) of revenues over (under) expenditures and net other sources (uses) of financial resources	(89,453)	627,940	83,630	122,601	367,513	1,112,231
Fund balances (deficit), July 1, 1998, as previously reported	(213,149)	2,942,752	744,686	357,163	2,184,012	6,015,464
Restatement/reclassification of fund balances					1,239,294	1,239,294
Fund balances (deficit), July 1, 1998, as restated	(213,149)	2,942,752	744,686	357,163	3,423,306	7,254,758
FUND BALANCES (DEFICIT), JUNE 30, 1999	$ (302,602)	$ 3,570,692	$ 828,316	$ 479,764	$ 3,790,819	$ 8,366,989

The accompanying notes to the financial statements are an integral part of this statement.

Component Units	Total (Memorandum Only) Reporting Entity
	$ 9,250,492
	7,688,996
	1,306,238
	1,437,604
$ 26,838	3,148,535
18,730	9,374,674
147	1,157,032
2,350	588,620
12,100	1,470,472
60,165	35,422,663
1,085	10,892,480
4	7,540,073
14,883	6,003,834
	3,233,091
	2,566,850
	1,899,057
1,772	454,062
75	531,448
181	432,309
3,111	347,627
21,111	33,900,831
39,054	1,521,832
	661,539
	173,179
163	6,382,735
	4
3	3
(8,167)	(5,874,307)
	(1,572,189)
57	23,724
	(173,179)
(7,944)	(378,491)
31,110	1,143,341
173,937	6,189,401
	1,239,294
173,937	7,428,695
$ 205,047	$ 8,572,036

Combined Statement of Revenues, Expenditures, Other Sources and Uses of Financial Resources and Changes in Budgetary Fund Balances - Budget and Actual (Non-GAAP)
All Budgeted Fund Groups (See Note 2)

For the Year Ended June 30, 1999 (Expressed in Thousands)

	General Funds			Highway Funds		
	Final Budget	Actual	Variance Over (Under)	Final Budget	Actual	(
REVENUES						
Income taxes	$ 8,090,000	$ 8,347,679	$ 257,679			
Sales taxes	5,480,000	5,608,645	128,645			
Motor fuel taxes				$ 1,214,900	$ 1,264,877	$
Public utility taxes	990,000	991,150	1,150			
Federal government	3,543,000	3,600,272	57,272	611,600	644,601	
Other	1,576,000	1,817,472	241,472	813,454	856,693	
Less:						
Refunds	34,741	29,737	(5,004)	15,544	13,869	
Total revenues	19,644,259	20,335,481	691,222	2,624,410	2,752,302	
EXPENDITURES						
Current:						
Health and social services	8,224,240	8,119,346	(104,894)			
Education	7,353,069	7,323,954	(29,115)			
General government	1,294,586	1,259,182	(35,404)	289,639	266,379	
Transportation	51,641	51,228	(413)	2,192,331	2,164,488	
Social assistance	846,203	836,531	(9,672)	2,000	1,466	
Public protection and justice	1,578,296	1,546,749	(31,547)	52,733	52,733	
Natural resources and recreation	179,617	176,098	(3,519)			
Debt service:						
Principal						
Interest						
Capital outlays	79,287	78,680	(607)	19,568	19,086	
Total expenditures	19,606,939	19,391,768	(215,171)	2,556,271	2,504,152	
Excess (deficiency) of revenues over (under) expenditures	37,320	943,713	906,393	68,139	248,150	
OTHER SOURCES (USES) OF FINANCIAL RESOURCES						
Proceeds from general and special obligation bond issues						
Operating transfers-in	3,422,000	3,522,980	100,980	1,303,428	1,334,566	
Operating transfers-out	(4,320,010)	(4,320,010)	-- --	(1,455,228)	(1,455,228)	
Budgetary funds-nonbudgeted accounts						
Excess (deficiency) of revenues over (under) expenditures, other sources (uses) of financial resources and budgetary funds-nonbudgeted accounts	(860,690)	146,683	1,007,373	(83,661)	127,488	
Budgetary fund balances (deficits), July 1, 1998, as previously reported	355,892	355,892	-- --	707,364	707,364	
Reclassifications between budgetary/nonbudgetary funds-net						
Budgetary fund balances (deficits), July 1, 1998, as reclassified	355,892	355,892	-- --	707,364	707,364	
BUDGETARY FUND BALANCES (DEFICITS), JUNE 30, 1999	$ (504,798)	$ 502,575	$ 1,007,373	$ 623,703	$ 834,852	$

The accompanying notes to the financial statements are an integral part of this statement.

Variance Over (Under)
49,977
33,001
43,239
(1,675)
127,892
(23,260)
(27,843)
(534)
-- --
(482)
(52,119)
180,011
31,138
-- --
211,149
-- --
-- --
211,149

University Funds			Special State Funds			Bond Financed Funds		
Final Budget	Actual	Variance Over (Under)	Final Budget	Actual	Variance Over (Under)	Final Budget	Actual	Variance Over (Under)
			$ 1,720,608	$ 1,720,608	$ -- --			
			547,939	561,202	13,263			
			62,900	63,846	946			
			388,336	403,415	15,079			
$ 31	$ 9	$ (22)	1,520,100	1,524,357	4,257			
406	447	41	3,769,364	3,859,221	89,857			
2	-- --	(2)	905,853	898,195	(7,658)			
435	456	21	7,103,394	7,234,454	131,060			
			2,262,038	1,967,943	(294,095)	$ 548	$ 61	$ (487)
497	373	(124)	288,010	256,006	(32,004)	192,455	185,476	(6,979)
			3,829,634	3,661,502	(168,132)	33,290	32,086	(1,204)
			257,297	232,391	(24,906)	42,398	40,227	(2,171)
			22,692	21,713	(979)			
			290,169	208,994	(81,175)	252	77	(175)
			458,500	384,852	(73,648)	52,593	51,424	(1,169)
20		(20)	13,387	12,102	(1,285)	206,889	206,700	(189)
517	373	(144)	7,421,727	6,745,503	(676,224)	528,425	516,051	(12,374)
(82)	83	165	(318,333)	488,951	807,284	(528,425)	(516,051)	12,374
						620,000	661,539	41,539
			1,816,322	1,874,067	57,745	80,000	80,000	-- --
(1)	(1)	-- --	(1,628,161)	(1,628,161)	-- --	(80,000)	(80,000)	-- --
			(124,876)	(124,876)	-- --			
(83)	82	165	(255,048)	609,981	865,029	91,575	145,488	53,913
115	115	-- --	1,054,756	1,054,756	-- --	373,108	373,108	-- --
			(578)	(578)	-- --			
115	115	-- --	1,054,178	1,054,178	-- --	373,108	373,108	-- --
$ 32	$ 197	$ 165	$ 799,130	$ 1,664,159	$ 865,029	$ 464,683	$ 518,596	$ 53,913

(continued)

Combined Statement of Revenues, Expenditures, Other Sources and Uses of Financial Resources and Changes in Budgetary Fund Balances - Budget and Actual (Non-GAAP) All Budgeted Fund Groups (See Note 2)

For the Year Ended June 30, 1999 (Expressed in Thousands)

(continued)

	Debt Service Funds			Federal Trust Fund		
	Final Budget	Actual	Variance Over (Under)	Final Budget	Actual	(
REVENUES						
Income taxes						
Sales taxes						
Motor fuel taxes						
Public utility taxes						
Federal government	$ 340	$ 90	$ (250)	$ 2,632,429	$ 2,237,629	$
Other	18,814	20,838	2,024	124,148	93,384	
Less:						
Refunds				2,944	490	
Total revenues	19,154	20,928	1,774	2,753,633	2,330,523	
EXPENDITURES						
Current:						
Health and social services				805,798	643,384	
Education				1,186,072	1,016,307	
General government				702,609	292,878	
Transportation				97,325	97,129	
Social assistance				339,337	189,825	
Public protection and justice				279,192	102,277	
Natural resources and recreation				52,697	36,088	
Debt service:						
Principal	837,134	835,922	(1,212)			
Interest	281,985	267,956	(14,029)			
Capital outlays				12,002	6,709	
Total expenditures	1,119,119	1,103,878	(15,241)	3,475,032	2,384,597	
Excess (deficiency) of revenues over (under) expenditures	(1,099,965)	(1,082,950)	17,015	(721,399)	(54,074)	
OTHER SOURCES (USES) OF FINANCIAL RESOURCES						
Proceeds from general and special obligation bond issues	173,179	173,179	-- --			
Operating transfers-in	929,197	914,915	(14,282)	31,048	28,146	
Operating transfers-out				(443)	(443)	
Budgetary funds-nonbudgeted accounts				(16,204)	(16,204)	
Excess (deficiency) of revenues over (under) expenditures, other sources (uses) of financial resources and budgetary funds-nonbudgeted accounts	2,411	5,144	2,733	(706,998)	(42,575)	
Budgetary fund balances (deficits), July 1, 1998, as previously reported	456,675	456,675	-- --	(78,938)	(78,938)	
Reclassifications between budgetary/nonbudgetary funds-net				159	159	
Budgetary fund balances (deficits), July 1, 1998, as reclassified	456,675	456,675	-- --	(78,779)	(78,779)	
BUDGETARY FUND BALANCES (DEFICITS), JUNE 30, 1999	$ 459,086	$ 461,819	$ 2,733	$ (785,777)	$ (121,354)	$

s
Variance Over (Under)
(394,800)
(30,764)
(2,454)
(423,110)
(162,414)
(169,765)
(409,731)
(196)
(149,512)
(176,915)
(16,609)
(5,293)
(1,090,435)
667,325
(2,902)
-- --
-- --
664,423
-- --
-- --
-- --
664,423

Revolving Funds			State Trust Funds			Total (Memorandum Only)		
Final Budget	Actual	Variance Over (Under)	Final Budget	Actual	Variance Over (Under)	Final Budget	Actual	Variance Over (Under)
						$ 9,810,608	$ 10,068,287	$ 257,679
			$ 353,117	$ 353,117	$ -- --	6,381,056	6,522,964	141,908
			26,128	26,128	-- --	1,303,928	1,354,851	50,923
						1,378,336	1,394,565	16,229
			231,295	128,186	(103,109)	8,538,795	8,135,144	(403,651)
$ 252,946	$ 266,777	$ 13,831	593,552	636,397	42,845	7,148,684	7,551,229	402,545
129	32	(97)				959,213	942,323	(16,890)
252,817	266,745	13,928	1,204,092	1,143,828	(60,264)	33,602,194	34,084,717	482,523
			34,085	27,181	(6,904)	11,326,709	10,757,915	(568,794)
1,118	566	(552)	216,483	127,087	(89,396)	9,237,704	8,909,769	(327,935)
244,730	223,122	(21,608)	168,202	151,973	(16,229)	6,562,690	5,887,122	(675,568)
1,000	896	(104)				2,641,992	2,586,359	(55,633)
			137,715	107,457	(30,258)	1,347,947	1,156,992	(190,955)
48,565	42,888	(5,677)	22,723	13,396	(9,327)	2,271,930	1,967,114	(304,816)
			6,441	3,537	(2,904)	749,848	651,999	(97,849)
						837,134	835,922	(1,212)
						281,985	267,956	(14,029)
4,672	2,148	(2,524)	5,900	4,789	(1,111)	341,725	330,214	(11,511)
300,085	269,620	(30,465)	591,549	435,420	(156,129)	35,599,664	33,351,362	(2,248,302)
(47,268)	(2,875)	44,393	612,543	708,408	95,865	(1,997,470)	733,355	2,730,825
						793,179	834,718	41,539
-- --	1,511	1,511	1	40	39	7,581,996	7,756,225	174,229
(97)	(97)	-- --	(94,578)	(94,578)	-- --	(7,578,518)	(7,578,518)	-- --
(8,089)	(8,089)	-- --	(629,137)	(629,137)	-- --	(778,306)	(778,306)	-- --
(55,454)	(9,550)	45,904	(111,171)	(15,267)	95,904	(1,979,119)	967,474	2,946,593
57,732	57,732	-- --	167,063	167,063	-- --	3,093,767	3,093,767	-- --
			185	185	-- --	(234)	(234)	-- --
57,732	57,732	-- --	167,248	167,248	-- --	3,093,533	3,093,533	-- --
$ 2,278	$ 48,182	$ 45,904	$ 56,077	$ 151,981	$ 95,904	$ 1,114,414	$ 4,061,007	$ 2,946,593

Combined Statement of Revenues, Expenses and Changes in Retained Earnings/Fund Balances - All Proprietary Fund Types, Nonexpendable Trust Funds, and Discretely Presented Component Units

For the Year Ended June 30, 1999 (Expressed in Thousands)

	Proprietary Fund Type		Fiduciary Fund Type	Total (Memorandum Only)		Total (Memorandum Only)
	Enterprise	Internal Service	Non-expendable Trust	Primary Government	Component Units	Reporting Entity
OPERATING REVENUES						
Charges for sales and services	$ 1,757,044	$ 1,091,714	$ 38	$ 2,848,796	$ 211,385	$ 3,060,181
Interest and other investment income	96,141	58	186	96,385	113,811	210,196
Other	30,299	3,547	7	33,853	156,874	190,727
Total operating revenues	1,883,484	1,095,319	231	2,979,034	482,070	3,461,104
OPERATING EXPENSES						
Cost of sales and services	154,213	224,155		378,368	48,279	426,647
Benefit payments and refunds	162,813	590,241		753,054	46,694	799,748
Prizes and claims	812,707			812,707		812,707
Interest	62,446	1		62,447	6,090	68,537
General and administrative	145,207	29,543	21	174,771	189,880	364,651
Depreciation	1,678	13,991		15,669	59,644	75,313
Other	11,394	8,187		19,581	1,269	20,850
Total operating expenses	1,350,458	866,118	21	2,216,597	351,856	2,568,453
Operating income	533,026	229,201	210	762,437	130,214	892,651
NONOPERATING REVENUES (EXPENSES)						
Interest and investment income	3,792	2,070	340	6,202	56,247	62,449
Interest expense	(1,581)	(496)		(2,077)	(165,598)	(167,675)
Other revenues	385	752		1,137	6,745	7,882
Other expenses	(458)	(536)		(994)	(1,672)	(2,666)
Income before operating transfers	535,164	230,991	550	766,705	25,936	792,641
Operating transfers-in		1,482	2,471	3,953	8,984	12,937
Operating transfers from primary government					15,578	15,578
Operating transfers-out	(520,916)	(78)	(58)	(521,052)	(313)	(521,365)
Operating transfers to component units		(209,323)		(209,323)		(209,323)
Net income	14,248	23,072	2,963	40,283	50,185	90,468
Retained earnings/fund balances, July 1,1998, as previously reported	166,156	102,778	8,159	277,093	1,710,150	1,987,243
Restatement of retained earnings/fund balances	(2,709)			(2,709)	(111,352)	(114,061)
Retained earnings/fund balances July 1, 1998, as restated	163,447	102,778	8,159	274,384	1,598,798	1,873,182
RETAINED EARNINGS/FUND BALANCES, JUNE 30, 1999	$ 177,695	$ 125,850	$ 11,122	$ 314,667	$ 1,648,983	$ 1,963,650

The accompanying notes to the financial statements are an integral part of this statement.

State of Illinois

Combined Statement of Cash Flows - All Proprietary Fund Types, Nonexpendable Trust Funds and Discretely Presented Component Units

For the Year Ended June 30, 1999 (Expressed in Thousands)

	Proprietary Fund Type		Fiduciary Fund Type	Total (Memorandum Only)		Total (Memorandum Only)
	Enterprise	Internal Service	Nonexpendable Trust	Primary Governement	Component Units	Reporting Entity
CASH FLOWS FROM OPERATING ACTIVITIES						
Cash received from sales and services	$ 1,832,268	$ 1,053,356	$ 38	$ 2,885,662	$ 512,430	$ 3,398,092
Cash payments to suppliers for goods and services	(349,268)	(778,673)		(1,127,941)	(68,505)	(1,196,446)
Cash payments to employees for services	(112,847)	(56,612)		(169,459)	(50,376)	(219,835)
Cash payments for lottery prizes	(784,851)			(784,851)		(784,851)
Cash receipts from other operating activities	190,218	72	21	190,311	167,427	357,738
Cash payments for other operating activities	(340,941)	(2,137)	(20)	(343,098)	(356,023)	(699,121)
Net cash provided by operating activities	434,579	216,006	39	650,624	204,953	855,577
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Proceeds from sale of revenue bonds and other borrowing	270,289			270,289	273,418	543,707
Principal paid on revenue bonds and other borrowing	(96,435)			(96,435)	(267,841)	(364,276)
Interest paid on revenue bonds and other borrowing	(1,580)			(1,580)	(128,034)	(129,614)
Operating transfers-in from other funds	85	1,485	2,471	4,041	8,326	12,367
Operating transfers from primary government					16,224	16,224
Operating transfers-out to other funds	(542,370)	(81)	(58)	(542,509)	(313)	(542,822)
Operating transfers to component units		(209,323)		(209,323)		(209,323)
Other noncapital financing activities	(23)	(15)		(38)	3,369	3,331
Net cash provided (used) by noncapital financing activities	(370,034)	(207,934)	2,413	(575,555)	(94,851)	(670,406)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Proceeds from sale of revenue bonds		6,118		6,118	343,467	349,585
Acquisition and construction of capital assets	(1,818)	(16,087)		(17,905)	(136,873)	(154,778)
Principal paid on bond maturities and equipment contracts	(5,192)	(13,159)		(18,351)		(18,351)
Interest paid on bond maturities and equipment contracts		(496)		(496)	(29,927)	(30,423)
Proceeds from sale of equipment					324	324
Other capital and related financing activities	19			19	(385,198)	(385,179)
Net cash (used) in capital and related financing activities	(6,991)	(23,624)		(30,615)	(208,207)	(238,822)
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchase of investment securities	(288,099)		(67)	(288,166)	(2,409,982)	(2,698,148)
Proceeds from sale and maturities of investment securities	276,927			276,927	2,402,054	2,678,981
Interest and dividends on investments	23,220	2,108	496	25,824	50,270	76,094
Net cash provided by investing activities	12,048	2,108	429	14,585	42,342	56,927
Net increase (decrease) in cash and cash equivalents	69,602	(13,444)	2,881	59,039	(55,763)	3,276
Cash and cash equivalents, July 1, 1998*	251,522	121,405	6,920	379,847	434,565	814,412
CASH AND CASH EQUIVALENTS, JUNE 30, 1999	$ 321,124	$ 107,961	$ 9,801	$ 438,886	$ 378,802	$ 817,688
Reconciliation of cash and cash equivalents to the balance sheet:						
Total cash and cash equivalents per the balance sheet	$ 224,827	$ 107,961	$ 3,240,595	$ 3,573,383	$ 702,652	$ 4,276,035
Add: restricted cash equivalents	96,297			96,297	25,456	121,753
Less: expendable trust, pension, investment and nonproprietary component units			(3,230,794)	(3,230,794)	(349,306)	(3,580,100)
CASH AND CASH EQUIVALENTS, JUNE 30, 1999	$ 321,124	$ 107,961	$ 9,801	$ 438,886	$ 378,802	$ 817,688
Reconciliation of operating income to net cash provided (used) by operating activities:						
Operating income	$ 533,026	$ 229,201	$ 210	$ 762,437	$ 130,214	$ 892,651
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation	1,678	13,991		15,669	59,643	75,312
Provision for uncollectible accounts	(1,581)	(2,080)		(3,661)	1,651	(2,010)
Changes in assets and liabilities:						
(Increase) decrease in accounts receivable	(170,378)	(367)	1	(170,744)	9,067	(161,677)
(Increase) decrease in due from other funds	152	(16,877)		(16,725)	20,558	3,833
(Increase) decrease in due from component units		59		59		59
(Increase) decrease in inventory	(486)	549		63		63
(Increase) decrease in prepaid expenses	(41)	(481)		(522)	(658)	(1,180)
Increase (decrease) in accounts payable and accrued liabilities	7,065	14,839		21,904	(49,090)	(27,186)
Increase (decrease) in intergovernmental payables	6	194	1	201	4,928	5,129
Increase (decrease) in due to other funds	171	(979)		(808)	(20,646)	(21,454)
Increase (decrease) In due to primary government					14	14
Increase (decrease) in due to component units		(31)		(31)		(31)
Increase (decrease) in deferred revenues	247	7,398		7,645	2,094	9,739
Increase (decrease) in other liabilities	64,853	(29,380)		35,473	4,308	39,781
Other	(133)	(30)	(173)	(336)	42,870	42,534
Total adjustments	(98,447)	(13,195)	(171)	(111,813)	74,739	(37,074)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 434,579	$ 216,006	$ 39	$ 650,624	$ 204,953	$ 855,577
Noncash investing, capital, and financing activities						
Capital leases (initial year) Fair Market Value	$ -- --	$ 125	$ -- --	$ 125	$ -- --	$ 125

* Due to a reclassification of fund type, prior year cash for the Enterprise fund type has been decreased $2,914 (See Note 3 to the financial statements).

The accompanying notes to the financial statements are an integral part of this statement.

State of Illinois

Combined Statement of Changes in Net Assets
Pension and Investment Trust Funds

For the Year Ended June 30, 1999 (Expressed in Thousands)

	Pension Trust	Investment Trust	Total (Memorandum only)
ADDITIONS			
Contributions:			
Employer	$ 1,185,824		$ 1,185,824
Plan Members	1,258,293		1,258,293
Other	33,014		33,014
Total contributions	2,477,131		2,477,131
Participants' deposits, net		$ 472,026	472,026
Total contributions and participants' deposits, net	2,477,131	472,026	2,949,157
Investment income:			
Interest and other investment income	1,449,949	257,438	1,707,387
Net appreciation (depreciation) of investments	2,914,574	(59,787)	2,854,787
Investment expense	(209,893)	(2,970)	(212,863)
Net investment income	4,154,630	194,681	4,349,311
Total additions	6,631,761	666,707	7,298,468
DEDUCTIONS			
Benefit payments and refunds	2,372,320		2,372,320
Participants' withdrawals, net		166,108	166,108
Interest expense	1,300		1,300
Distribution to pool investors		136,135	136,135
General and administration	25,627		25,627
Depreciation	2,072		2,072
Other	168		168
Total deductions	2,401,487	302,243	2,703,730
Net additions	4,230,274	364,464	4,594,738
Fund balances reserved for employees' pension benefits, and external investment pool participants, July 1, 1998	37,243,492	4,199,951	41,443,443
FUND BALANCES RESERVED FOR EMPLOYEES' PENSION BENEFITS AND EXTERNAL INVESTMENT POOL PARTICIPANTS, JUNE 30, 1999	$ 41,473,766	$ 4,564,415	$ 46,038,181

The accompanying notes to the financial statements are an integral part of this statement.

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State of Illinois

Combining Statement of Change in Fund Balances - University Component Units

For the Year Ended June 30, 1999 (Expressed in Thousands)

	Component Units				
	Chicago State University	Eastern Illinois University	Governors State University	Northeastern Illinois University	Western Illinois University
REVENUES AND OTHER ADDITIONS					
Unrestricted current fund revenues	$ 23,662	$ 66,565	$ 21,561	$ 26,085	$ 79,211
Federal and local grants and contracts-restricted	15,835	6,392	9,156	10,241	11,577
State grants and contracts-restricted		954	401	79	
Other state sources		280			249
Private gifts, grants and contracts-restricted	165	3,133	678	1,970	4,880
Investment income	272	1,949	102	47	1,246
Realized gain (loss) on investments-restricted (net)					
Interest and fees on loans receivable	132	113	63	162	36
Expended for plant facilities:					
Current funds		7,281	2,044	4,426	6,748
Plant funds	2,737	4,385		2,037	1,252
Other			479		
Retirement of long-term obligations	390	30,958		1,734	1,397
Other		6,396	576	1,166	2,032
Total revenues and other additions	43,193	128,406	35,060	47,947	108,628
EXPENDITURES AND OTHER DEDUCTIONS					
Educational and general expenditures	79,836	106,467	59,600	80,655	129,309
Auxiliary enterprises expenditures	3,847	20,851	1,058	1,840	27,223
Hospital expenditures					
Independent operations expenditures		923			
Foundation expenditures	720		571	192	2,918
Indirect costs recovered		350		344	664
Refunds of grants and adjustments to grants					
Loan cancellation and write-offs	13	96		75	43
Change in allowance for uncollectible notes				48	12
Administrative and collection cost	9	36	291	46	62
Expended for plant facilities (including noncapitalized expenditures of $42,548)	813	6,747		2,592	3,627
Retirement of long-term obligations	1,859	7,214		574	3,473
Disposal of plant facilities		3,820	3,129	3,495	2,319
Other	2,548	37,803			4,001
Total expenditures and other deductions	89,645	184,307	64,649	89,861	173,651
TRANSFERS-ADDITIONS (DEDUCTIONS)					
Nonmandatory transfers:					
Operating transfers-in		22	12		
Operating transfers from primary government	47,710	63,624	33,678	52,648	75,195
Operating transfers-out					(14)
Other					
Total transfers-additions (deductions)	47,710	63,646	33,690	52,648	75,181
Net increase (decrease)	1,258	7,745	4,101	10,734	10,158
Fund balances, July 1, 1998	79,384	172,863	71,858	108,704	224,685
FUND BALANCES, JUNE 30, 1999	$ 80,642	$ 180,608	$ 75,959	$ 119,438	$ 234,843

The accompanying notes to the financial statements are an integral part of this statement.

Component Units (continued)				
Illinois State University	Northern Illinois University	Southern Illinois University	University of Illinois	Total
$ 134,795	$ 146,540	$ 244,900	$ 966,449	$ 1,709,768
12,103	15,958	47,521	367,470	496,253
7,303	6,645	5,911	64,680	85,973
				529
10,443	10,374	28,189	179,254	239,086
3,592	3,402	7,398	30,192	48,200
26	(1,292)		53,548	52,282
226	178	378	1,525	2,813
17,219	8,195	12,049	123,351	181,313
6,079		17,818	75,948	110,256
			668	1,147
6,619	3,245	3,820	25,187	73,350
2,887	21,120	25,674	125,310	185,161
201,292	214,365	393,658	2,013,582	3,186,131
227,799	245,607	534,738	1,971,748	3,435,759
36,008	47,876	51,506	159,063	349,272
			258,868	258,868
			5,368	6,291
	1,339		28,319	34,059
784	2,073	4,534	86,650	95,399
		449	2,938	3,387
249	62	73	246	857
17	78	109	189	453
8	77	225	2,366	3,120
7,666	22,084	31,385	100,072	174,986
5,651	8,664	7,174	50,232	84,841
4,241	5,983	1,783	95,911	120,681
6,670	20,865	26,355	16,243	114,485
289,093	354,708	658,331	2,778,213	4,682,458
		1,476		1,510
111,539	135,045	296,584	949,904	1,765,927
(78)	(15)	(4)	(1,399)	(1,510)
	3,481	2,435		5,916
111,461	138,511	300,491	948,505	1,771,843
23,660	(1,832)	35,818	183,874	275,516
412,568	430,561	784,874	3,898,571	6,184,068
$ 436,228	$ 428,729	$ 820,692	$ 4,082,445	$ 6,459,584

State of Illinois

Combining Statement of University Current Funds - Revenues, Expenditures and Other Changes University Component Units

For the Year Ended June 30, 1999 (Expressed in Thousands)

	Unrestricted				
	Chicago State University	Eastern Illinois University	Governors State University	Northeastern Illinois University	Western Illinois University
REVENUES					
Tuition and fees	$ 17,089	$ 36,372	$ 5,773	$ 21,051	$ 30,932
Federal and local grants and contracts		170		373	
State grants and contracts		181		2	
Private gifts, grants and contracts	597	59		530	84
Investment income	17	1,313	184	490	1,798
Sales and services	3,345	25,160	1,180	3,224	42,362
Other	2,614	3,310	14,424	415	4,035
Total revenues	23,662	66,565	21,561	26,085	79,211
EXPENDITURES AND MANDATORY TRANSFERS					
Educational and general:					
Instruction	34,139	47,375	19,437	25,453	40,837
Research	378	258	20	14	1,247
Public service	803	1,728		1,983	2,001
Academic support	4,595	9,967	1,959	5,887	26,370
Student services	5,679	11,308	907	5,378	13,027
Institutional support	8,704	10,880	21,467	18,129	15,838
Operation and maintenance of plant	6,624	9,639	4,562	9,290	11,944
Scholarships and fellowships	2,125	3,606	433	1,476	2,974
Total educational and general	63,047	94,761	48,785	67,610	114,238
Auxiliary enterprises	3,847	20,851	1,058	1,832	27,223
Hospitals					
Independent operations		216			240
Total expenditures	66,894	115,828	49,843	69,442	141,701
Mandatory transfers:					
Retirement of long-term obligations		4,487		574	3,300
Student loan matching grant		234	59	52	22
Renewal and replacement				50	2,336
Other	1,680		137		225
Total mandatory transfers	1,680	4,721	196	676	5,883
Total expenditures and mandatory transfers	68,574	120,549	50,039	70,118	147,584
OPERATING TRANSFERS AND ADDITIONS (DEDUCTIONS)					
Operating transfers-in					
Operating transfers from primary government	45,527	59,850	28,774	47,964	70,472
Operating transfers-out					
Operating transfers to primary government					
Other transfers		(4,424)		(418)	(2,045)
Excess (deficiency) of restricted receipts over transfers to revenue					
Other additions (deductions)		(28)			
Total operating transfers and additions (deductions)	45,527	55,398	28,774	47,546	68,427
TOTAL INCREASE (DECREASE) IN FUND BALANCE	$ 615	$ 1,414	$ 296	$ 3,513	$ 54

The accompanying notes to the financial statements are an integral part of this statement.

Illinois State University	Northern Illinois University	Southern Illinois University	University of Illinois	Total
Unrestricted (continued)				
$ 71,174	$ 68,593	$ 97,359	$ 272,527	$ 620,870
623	1,682	2,675	75,496	81,019
446	644	359	3,296	4,928
82	478	1,479	9,952	13,261
1,268	820	4,768	3,528	14,186
54,197	63,234	97,828	571,137	861,667
7,005	11,089	40,432	30,513	113,837
134,795	146,540	244,900	966,449	1,709,768
79,670	92,660	179,292	613,611	1,132,474
1,860	4,185	11,232	93,739	112,933
6,004	5,150	19,254	117,451	154,374
11,421	23,333	70,515	129,962	284,009
21,715	10,096	39,415	55,743	163,268
51,601	49,354	75,811	136,649	388,433
23,542	16,281	44,240	137,455	263,577
2,384	12,527	8,044	103,874	137,443
198,197	213,586	447,803	1,388,484	2,636,511
35,784	47,855	50,760	159,058	348,268
			258,868	258,868
			5,368	5,824
233,981	261,441	498,563	1,811,778	3,249,471
5,278	7,301	6,480	34,080	61,500
	30	177	218	792
8,089	4,011	583	5,374	20,443
	957			2,999
13,367	12,299	7,240	39,672	85,734
247,348	273,740	505,803	1,851,450	3,335,205
106,244	129,511	264,699	922,066	1,675,107
(2,817)		(1,810)	(25,742)	(37,256)
3,586	3,416			6,974
107,013	132,927	262,889	896,324	1,644,825
$ (5,540)	$ 5,727	$ 1,986	$ 11,323	$ 19,388

State of Illinois

Combining Statement of University Current Funds - Revenues, Expenditures and Other Changes University Component Units

For the Year Ended June 30, 1999 (Expressed in Thousands)

			Restricted		
	Chicago State University	Eastern Illinois University	Governors State University	Northeastern Illinois University	Western Illinois University
REVENUES					
Tuition and fees					
Federal and local grants and contracts	$ 15,820	$ 6,129	$ 8,844	$ 9,837	$ 10,894
State grants and contracts		603	401	78	
Private gifts, grants and contracts	165	2,457		1,886	2,719
Investment income	272	1,230	68	43	422
Sales and services					
Other		142	1,078		1,177
Total revenues	16,257	10,561	10,391	11,844	15,212
EXPENDITURES AND MANDATORY TRANSFERS					
Educational and general:					
Instruction	1,124	546	1,096	368	977
Research	1,601	285	40	72	4,530
Public service	2,926	5,392	1,234	5,112	3,154
Academic support	66	716	13	99	11
Student services	1,206	25	8,148	589	26
Institutional support	228	441	855	79	297
Operation and maintenance of plant	191	175			6
Scholarships and fellowships	9,936	4,124		5,985	6,070
Total educational and general	17,278	11,704	11,386	12,304	15,071
Auxiliary enterprises				8	
Hospitals					
Independent operations		707			2,653
Total expenditures	17,278	12,411	11,386	12,312	17,724
Mandatory transfers:					
Retirement of long-term obligations		1			
Student loan matching grant		(181)			
Renewal and replacement					
Other	13		(132)		(225)
Total mandatory transfers	13	(180)	(132)		(225)
Total expenditures and mandatory transfers	17,291	12,231	11,254	12,312	17,499
OPERATING TRANSFERS AND ADDITIONS (DEDUCTIONS)					
Operating transfers-in		22	12		
Operating transfers from primary government	1,253	2,487	952	587	2,621
Operating transfers-out					(14)
Operating transfers to primary government					
Other transfers		(355)		3	(161)
Excess (deficiency) of restricted receipts over transfers to revenue		182	99	(38)	(79)
Other additions (deductions)		5			
Total operating transfers and additions (deductions)	1,253	2,341	1,063	552	2,367
TOTAL INCREASE (DECREASE) IN FUND BALANCE	$ 219	$ 671	$ 200	$ 84	$ 80

The accompanying notes to the financial statements are an integral part of this statement.

Restricted (continued)					
Illinois State University	Northern Illinois University	Southern Illinois University	University of Illinois	Total	Total Current Funds
					$ 620,870
$ 11,942	$ 14,794	$ 44,376	$ 292,053	$ 414,689	495,708
7,303	5,686	5,698	60,502	80,271	85,199
8,779	9,385	23,444	187,519	236,354	249,615
962	(348)	1,613	14,381	18,643	32,829
	21			21	861,688
94	122	872	110,759	114,244	228,081
29,080	29,660	76,003	665,214	864,222	2,573,990
953	2,195	7,443	130,685	145,387	1,277,861
10,919	6,522	20,689	293,443	338,101	451,034
3,706	5,436	32,099	119,406	178,465	332,839
798		693	18,818	21,214	305,223
174		788	2,464	13,420	176,688
3,915	2	2,941	3,088	11,846	400,279
235	2,682	9	318	3,616	267,193
8,902	12,162	22,227	43,361	112,767	250,210
29,602	28,999	86,889	611,583	824,816	3,461,327
224	21	746	5	1,004	349,272
					258,868
				3,360	9,184
29,826	29,020	87,635	611,588	829,180	4,078,651
			3,091	3,092	64,592
				(181)	611
					20,443
				(344)	2,655
			3,091	2,567	88,301
29,826	29,020	87,635	614,679	831,747	4,166,952
		1,476		1,510	1,510
2,920	2,334	15,763	12,348	41,265	1,716,372
(78)	(15)	(4)	(1,399)	(1,510)	(1,510)
87		(1,833)	(4,076)	(6,335)	(43,591)
(835)		1,916	(44,376)	(43,131)	(43,131)
		(432)	(2,925)	(3,352)	3,622
2,094	2,319	16,886	(40,428)	(11,553)	1,633,272
$ 1,348	$ 2,959	$ 5,254	$ 10,107	$ 20,922	$ 40,310

Index of Notes to the Financial Statements

STATE OF ILLINOIS

Notes to the Financial Statements
June 30, 1999

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The accompanying financial statements of the State of Illinois have been prepared in conformity with generally accepted accounting principles ("GAAP") as prescribed in pronouncements of the Governmental Accounting Standards Board ("GASB").

B. Financial Reporting Entity

The State of Illinois is a "primary government" whose financial statements consist of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The financial statements include all funds, account groups, elected offices, departments and agencies as well as boards, commissions, authorities, and universities for which the State's elected officials are financially accountable. Financial accountability exists when the State's governing body appoints a majority of an organization's governing board and (1) the State can impose its will upon the organization or (2) there is a potential for the organization to provide specific financial benefit to, or impose specific financial burdens on the State.

The State's governing body consists of the legislative, executive, and judicial branches of government. The legislative function is controlled by an elected General Assembly composed of a 59-member Senate and a 118-member House of Representatives. The executive branch consists of the Governor, the chief executive of the State, the Lieutenant Governor, Attorney General, Secretary of State, Comptroller, and Treasurer. The judicial branch is composed of a seven-member Supreme Court, five Appellate court districts and twenty-two Circuit Court judicial districts including Cook County.

The financial statements distinguish between the "primary government" and its "component units." The State's participation in a joint venture, related organizations, and jointly governed organizations are separately disclosed below. The primary government, which consists of organizations that make up the State's legal entity, is the nucleus of the State's reporting entity and is generally the focal point for users of the financial statements. Component units are legally separate organizations for which the State is financially accountable. An overview of the State's component units is presented in the financial statements by "discrete" presentation (i.e., columns presently separately from the primary government). Condensed financial statements for the State's discretely presented component units are displayed in Note 18.

Discretely Presented Components Units

Component units are reported in separate columns to emphasize that they are legally separate from the State. Complete financial statements of the individual component units can be obtained from the respective component unit's administrative offices (as listed in parenthesis below). Except for the Board of Trustees of the University of Illinois, whose current board is partly elected, the major component units presented below have governing bodies appointed by the governing board of the State. The State is financially accountable for these component units, and, therefore, they are reported in separate "discrete" columns in the State's financial statements.

1. *Illinois Conservation Foundation ("Foundation").* The Foundation was created to promote, support, assist, sustain, and encourage the charitable, educational, scientific, and recreational programs, projects, and policies of the Illinois Department of Natural Resources. The State has the ability to impose its will on the Foundation. (Administrative Offices: 524 South Second Street, Springfield, Illinois 62701-1787).

2. *East St. Louis Financial Advisory Authority ("Authority").* The Authority was created to provide a secure financial basis for and to furnish assistance to the city of East St. Louis. The State substantively approves the Authority's budget. (Administrative Offices: 10 Collinsville Avenue, East St. Louis, Illinois 62201).

3. *Illinois Medical District Commission ("Commission").* The Commission was created to maintain and expand a designated "medical district." The State substantively approves the Commission's budget. (Administrative Offices: 600 South Hoyne, Chicago, Illinois 60612).

4. *Comprehensive Health Insurance Plan ("CHIP") Board*. The CHIP provides an alternate market for health insurance for eligible Illinois residents having a preexisting health condition. The State provides significant operating subsidies to the CHIP. (Administrative Offices: 400 West Monroe Street, Suite 202, Springfield, Illinois 62704).

5. *Illinois Development Finance Authority ("IDFA").* The IDFA provides funding for industrial, commercial and manufacturing development in areas of Illinois with critical unemployment. The State appropriates funds for certain IDFA programs. (Administrative Offices: 233 South Wacker Drive, Suite 5310, Chicago, Illinois 60606).

6. *Illinois Housing Development Authority ("IHDA").* The IHDA issues notes and bonds to make loans for the acquisition, construction and rehabilitation of housing and to encourage home ownership. The State approves bonds and notes issued by the IHDA and is secondarily liable for its debt if there are not sufficient IHDA monies to pay principal and interest. (Administrative Offices: 401 North Michigan Avenue, Suite 900, Chicago, Illinois 60611).

7. *Illinois Rural Bond Bank ("Bond Bank").* The Bond Bank provides assistance to rural governmental units by providing adequate capital markets and facilities for borrowing money and financing public improvements at low interest rates. The State is secondarily liable for payment of principal and interest on the Bond Bank debt. Excess reserves of the Bond Bank must be returned to the State's General Fund. (Administrative Offices: 427 East Monroe Street, Suite 202, Springfield, Illinois 62701.

8. *Illinois State Toll Highway Authority ("THA").* The THA operates a toll highway system to promote the public welfare and to facilitate vehicular traffic by providing convenient, safe, modern and limited access highways within Illinois. The State approves new toll highways and issuance of bonds. (Administrative Offices: One Authority Drive, Downers Grove, Illinois 60515). The THA reports on a December 31 year end.

9. *Boards' of Trustees of Chicago State University ("CSU"), Eastern Illinois University ("EIU"), Governors State University ("GSU"), Northeastern Illinois University ("NEIU"), Western Illinois University ("WIU"), Illinois State University ("ISU"), and Northern Illinois University ("NIU") ("boards").* The boards of the respective universities operate, manage, control and maintain the schools. The State provides significant financial support to the boards of the universities. (Administrative

Offices:

- CSU, 9501 South King Drive, Chicago, Illinois 60628
- EIU, 113 West Old Main, Charleston, Illinois 61920
- GSU, Route 54 & Stuenkel Road, University Park, Illinois 60466
- NEIU, 5500 North St. Louis Avenue, Chicago, Illinois 60625
- WIU, 1 University Circle, Macomb, Illinois 61455
- ISU, Campus Box 1200, Normal, Illinois 61790-1200
- NIU, 104 Altgeld Hall, DeKalb, Illinois 60115).

10. *Board of Trustees of Southern Illinois University ("SIU Board").* The SIU Board operates, manages, controls and maintains Southern Illinois University. The State provides significant financial support to the SIU Board. (Administrative Offices: Colyer Hall, Carbondale, Illinois 62901).

11. *Board of Trustees of the University of Illinois ("U of I Board").* The U of I Board operates, manages, controls and maintains the University of Illinois. The U of I Board contains both elected and appointed trustees who manage the University of Illinois. As existing board members' terms expire they will be appointed by the Governor. The State provides significant financial support to the U of I Board. (Administrative Offices: 346 Administration Building, 506 South Wright Street, Urbana, Illinois 61801).

Joint Venture

The State is a participant with the states of Michigan, Minnesota, New York, Ohio, Pennsylvania, and Wisconsin in the Great Lakes Protection Fund ("Fund"), an Illinois not-for-profit corporation. The nation's first multi-state environmental endowment was established in 1989 for furthering Federal and State commitments to programs that restore and maintain the Great Lakes' water quality. This purpose is achieved by providing grant money for projects that promote the objectives of the regional Great Lakes Toxic Substance Control Agreement and the binational Great Lakes Water Quality Agreement.

A state becomes a member of the Fund by agreeing to contribute an amount set forth in the Articles of Incorporation. In August 1998, Illinois made its final payment of $4.2 million for a total contribution of $15 million. There is still an outstanding amount due for $1.8 million in interest, which stopped accruing upon receipt of the final payment. The required contribution from all member states at December 31, 1998, with Illinois' paid up membership is $81 million. The Fund's net assets on that date were $125 million.

Once a state agrees to make the required contribution, that state's governor becomes a "member" of the Fund. Each member is entitled to elect two individuals to the board of directors. Budgetary and financial decisions rest with the board of directors except where restricted by the Articles of Incorporation. Two-thirds of the Fund's income is used to finance projects compatible with the organization's objectives as set forth in the Articles of Incorporation. The remaining one-third of income is paid to member states in proportion to the amount and period of time that each state's contribution was invested with the Fund ("state shares"). Illinois did not receive a share payment in 1998 but has received nearly $1.1 million since the Fund's inception. In accordance with the Articles of Incorporation, Illinois' state share will be used each year to reduce the amount of interest due until such time as the entire amount is eliminated. Illinois may make a cash payment at any time to expedite the reduction of interest due. The affirmative vote of all of the members is required for all actions of the Fund. Complete financial statements of the Fund can be obtained from the Fund's Administrative Offices at 35 East Wacker Drive, Suite 1880, Chicago, Illinois, 60601.

Related Organizations

The State's officials are also responsible for appointing the majority of the boards of other organizations, but the State's accountability does not go beyond making the appointments. The State, generally the Governor, in certain instances with the advice and consent of the Senate, appoints the members of the following boards:

- Central Midwest Interstate Low-Level Radioactive Waste Commission
- Havana Regional Port District
- Kaskaskia Regional Port District
- Mt. Carmel Regional Port District
- Shawneetown Regional Port District
- Southwest Regional Port District
- Tri-City Regional Port District
- Waukegan Port District
- White County Port District
- Illinois Community College System Foundation

The State maintains accounting records for the Central Midwest & Interstate Low-Level Radioactive Waste Commission. The Illinois Community College Board provides nominal support services for the Illinois Community College System Foundation. These are the only related-party activities that the State has with the above organizations.

Jointly Governed Organizations

The State's officials, in conjunction with various other state and local government officials, are members of the boards of other organizations. However, the State has no ongoing financial interest or responsibility except the role of a participant in the various organizations' purpose and, in certain instances, pays annual dues or assessments. The Governor, sometimes with the advice and consent of the Senate, appoints the number of board members (as indicated in parenthesis below) of the following organizations:

- Bi-State Development Agency of the Missouri/Illinois Metropolitan District (5 of 10)
- Education Commission of the States (7 of approximately 350)
- Illinois/Indiana Bi-State Commission (2 of 12)
- Illinois/Indiana Bridge Commission (5 of 10)
- Illinois Valley Regional Port District (2 of 5)
- Interstate Mining Commission (1 of 17)
- Jackson/Union Counties Port District (4 of 23)
- Joliet Regional Port District (3 of 7)
- Lawyers Trust Fund (3 of 9)
- Midwestern Higher Education Commission (5 of 60)
- Northeastern Illinois Planning Commission (5 of 33)
- Ohio River Valley Water Sanitation Commission (2 of 18)
- Southwestern Illinois Metropolitan & Regional Planning Commission (8 appointed)
- Wabash Valley Interstate Commission (7 of 14)

The State has no significant related-party activities with the above organizations.

C. Fund Accounting

Financial activities of the State are organized on the basis of individual funds and account groups, each of which is a separate accounting entity segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with specific regulations, restrictions or limitations. The financial activities of the State accounted for in the accompanying financial statements have been classified into the following fund categories and account groups:

Government Fund Types

General – Transactions related to resources obtained and used for those services traditionally provided by a state government which are not required to be accounted for in other funds are accounted for in the General Fund. These services include, among others, social assistance, education (other than institutions of higher education), and health and social services. Certain resources obtained from federal grants and used to support general governmental activities are accounted for in the General Fund consistent with applicable legal requirements. The State's General Fund contains four primary sub-accounts (General Revenue, Education Assistance, Common School, and Medicaid

Provider Assessment Program) with numerous secondary sub-accounts.

Special Revenue – Transactions related to resources obtained from specific revenue sources (other than for expendable trusts or major capital projects) that are legally restricted to expenditure for specified purposes are accounted for in special revenue funds. Special revenue funds account for, among other things, federal grant programs, taxes levied with statutorily defined distributions, and other resources restricted as to purpose.

Debt Service – Transactions related to governmental resources obtained and accumulated to pay interest and principal on general long-term obligations (other than capital leases, compensated absences, workers' compensation, and unfunded retirement costs) are generally accounted for in debt service funds.

Capital Projects – Transactions related to resources obtained and used for the acquisition or construction of major capital facilities, including those provided to political subdivisions and other public organizations, which are charged to expenditures (other than those financed by proprietary, fiduciary, and university and college fund types) are accounted for in capital project funds. Such resources are derived principally from proceeds of general and special obligation bond issues.

Proprietary Fund Types

Enterprise – Enterprise funds account for operations where the intent of the State is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where periodic measurement of the results of operations is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Internal Service – Internal service funds account for the operations of State agencies which render services and provide goods to other State agencies or governmental units on a cost-reimbursement basis.

Fiduciary Fund Types

Trust

Expendable – Expendable trust funds account for assets held by the State in a trustee capacity where the principal and income may be expended in the course of the funds' designated operations.

Nonexpendable – Nonexpendable trust funds account for assets held by the State in a trustee capacity where only the income may be expended in the course of the funds' designated operations.

Pension – Pension trust funds account for transactions, assets, liabilities and fund balances reserved for employees' pension benefits of the various State public employee retirement systems.

Investment – Investment trust funds account for transactions, assets, liabilities and fund balances reserved for pool participants.

Agency

Agency funds account for the various taxes, deposits, deductions, and property collected by the State, acting in the capacity of an agent, for distribution to other governmental units or designated beneficiaries.

Universities

University funds account for the operations of State universities, including their related foundations and associations (referred to as university related organizations or "UROs"). The UROs are component units of their related universities and the universities are, in turn, component units of the State. The discrete presentation of the universities within the State's financial statements is in accordance with NACUBO accounting and reporting principles. The universities are reported in the financial statements based upon their legal ownership as follows:

- Chicago State, Eastern Illinois, Governors State, Northeastern Illinois, Western Illinois,

Illinois State, and Northern Illinois are managed, operated, controlled, and maintained by individual boards of trustees at those universities.

- Board of Trustees of Southern Illinois University – Southern Illinois University at Carbondale, Edwardsville, and the Medical School at Springfield are operated, managed, controlled, and maintained by the SIU Board of Trustees.

- University of Illinois Board of Trustees – The University of Illinois at Champaign-Urbana, Chicago, Springfield, and the Medical Center at Chicago are managed by the University of Illinois Board of Trustees.

Account Groups

General Fixed Assets - General fixed assets acquired or constructed for use by the State in the conduct of its activities, other than those accounted for in proprietary, fiduciary and university fund types are accounted for in the General Fixed Assets Account Group.

General Long-Term Obligations - Unmatured general and special obligation bonds, unfunded retirement costs, and other long-term obligations not recorded in proprietary, fiduciary and university fund types are recorded in the General Long-Term Obligations Account Group.

D. Basis of Accounting and Measurement Focus

Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities 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.

Governmental Fund and Expendable Trust Funds. The accounts of the general, special revenue, debt service, capital projects and expendable trust funds are reported using a current financial resources measurement focus and modified accrual basis of accounting. Under this measurement focus only current assets and current liabilities are included on the balance sheet. Fund balance represents a measure of "available spendable resources." Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available to finance expenditures of the fiscal year. "Measurable" means when the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period). Expenditures are recorded when the related fund liability is incurred. Significant revenue sources which are susceptible to accrual include individual and corporate income taxes, sales taxes, public utility taxes and motor fuel taxes.

In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one type, monies must be expended on the specific purpose or project before any amounts will be paid to the State; therefore, revenues are recognized based upon the expenditure recorded. In the other type, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met.

Modifications to the accrual basis of accounting include:

- Self assessed taxes, principally income, excise and wealth taxes are recognized as receivables and revenues in the period to which they apply subject to their availability.

- Fines, penalties, licenses and other miscellaneous revenues are recognized when received since they normally are only measurable at that time.

- Interest on long-term obligations reflected in the General Long-Term Obligations Account Group is recognized in the debt service funds when it becomes payable.

Proprietary Funds, Nonexpendable Trust, Pension Trust and Investment Trust Funds. The accounts of the enterprise, internal service, nonexpendable trust, pension trust and investment trust funds are reported using the economic resources measurement focus and the accrual basis of accounting. Under this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Fund equity is segregated into contributed capital and retained earnings components for enterprise and internal service funds. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

As permitted by GASB Statement 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, generally, the State has elected to apply only statements and interpretations of the Financial Accounting Standards Board, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

The following major agencies, departments or component units, however, have elected to apply all statements and interpretations of the Financial Accounting Standards Board:

- Illinois Student Assistance Commission
- Comprehensive Health Insurance Board
- Illinois Farm Development Authority

Agency Funds. The accounts of agency funds are reported using the modified accrual basis of accounting as described above for governmental and expendable trust funds. Agency funds do not measure nor report operations. Instead, changes in assets and liabilities are presented for agency funds.

University and College Funds. The accounts of the university and college funds are reported using the accrual basis of accounting with the following exceptions:

- Depreciation expense related to plant fund assets generally is not recorded.

- Revenues and expenditures of an academic term encompassing more than one fiscal year are solely reported in the fiscal year in which the program is predominantly conducted.

E. Eliminations

Eliminations have been integrated into the report to eliminate those items that would significantly overstate the financial activities of certain funds and intrafund accounts within the related fund type.

F. Total (Memorandum Only) Columns

Total columns represent an aggregation of the fund type and account group financial statements. They are presented for informational purposes and do not represent consolidated financial information.

G. Budgetary Process

The State Constitution requires the Governor to prepare and submit to the General Assembly an Executive Budget for the ensuing fiscal year. The budget covers most funds held by the State, but excludes all locally held funds and various treasury held funds which are not subject to appropriation pursuant to State law. The General Assembly enacts the budget through passage of specific line-item appropriations (i.e., personal services, contractual services, equipment, etc.), the sum of which must not exceed estimated revenues pursuant to the State Constitution. The Governor has the power to approve, reduce or veto each appropriation passed by the General Assembly. Transfers in/out contained in the Executive Budget are not a part of the General Assembly's appropriation process. The actual amounts are determined either by State law or by discretionary action available to the Governor. The Statewide Accounting Management System ("SAMS") controls expenditures by line-item as established in approved appropriation bills and insures that appropriated expenditure amounts are not exceeded.

The level of legal control is at the fund level by agency or department as reported in a publication titled *Illinois Detailed Annual Report of Revenues and Expenditures*. A separate document is necessary since the State has approximately 10,400 appropriated line items. Administrative transfers between certain appropriation line items within the same treasury held fund cannot exceed 2% of the aggregate amount appropriated to an agency from that fund. Legislative action is required for more substantial transfers. Unexpended appropriations at June 30 are available for subsequent expenditure to the extent that encumbrances have been incurred at June 30, provided they are presented for payment during the succeeding 2-month "lapse period." Certain appropriations referred to as "reappropriations" represent the continuation of a prior year's program that requires additional time for completion.

Budgeted revenues in the accompanying Combined Statement of Revenues, Expenditures, Other Sources and Uses of Financial Resources and Changes in Budgetary Fund Balances – Budget and Actual (Non-GAAP) represent original estimates, while budgeted expenditures represent original/continuing appropriations modified by supplemental and amendatory appropriations aggregating $151.1 million. Budgets are essentially on the cash basis, modified for expenditures during the lapse period (beginning and end of year) as described in the preceding paragraph.

SAMS establishes the following budgetary fund groups to account for the State's budgetary activities:

General – funds established to account for those services traditionally provided by a state government which are not required to be accounted for in other funds;

Highway – funds established to receive and distribute assessments related to transportation, and to support the construction and maintenance of transportation facilities and activities of the State;

University – funds established to receive revenues such as fees, tuition and excess income from auxiliary enterprises at State-supported institutions of higher education;

Special State – funds designated by statute as special funds in the State Treasury and not elsewhere classified;

Bond Financed – funds established to receive and administer the proceeds of various bond issues of the State;

Debt Service – funds established to finance and account for the payment of principal and interest generally associated with the general and special obligation bond issues of the State;

Federal Trust – funds established pursuant to grants and contracts or under statutory authority between State agencies and the federal government;

Revolving – funds established to finance and account for intra-governmental services; and,

State Trust – funds established by statute or under statutory authority for nonfederal programs which are not deemed to be a traditional governmental activity or elsewhere classified.

H. Cash Equivalents

Cash equivalents are defined as short-term, highly liquid investments readily convertible to cash with original maturities of three months or less. Cash equivalents consist principally of certificates of deposit, repurchase agreements, and U.S. treasury bills, and are stated at cost.

I. Investments

Investments are stated at fair value in accordance with GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Generally, the State's pension systems' marketable securities are valued at closing prices listed on national securities exchanges and quotes from independent pricing services as of June 30. Real estate and venture capital are valued based upon appraisals and discounted cash flow analysis.

The Illinois Funds operates as a 2a7-like pool and thus reports all investments at amortized cost rather than market value. The Treasurer's investment policies are governed by State statute. In addition, the Treasurer's Office has adopted its own investment practices that supplement the statutory requirement. The Treasurer's Office issues a separate financial report for The Illinois Funds. It may be obtained by contacting them at Jefferson Terrace, 300 West Jefferson Street, Second Level, Springfield, Illinois 62702.

Investment income is recorded as revenue in the General Fund, except for resources of retirement systems and certain other individual funds that are statutorily authorized to be separately invested and specifically credited with the income realized thereon. The State financial statements contain certain investments that meet the definition of "derivatives." Derivative investments are included in the pension trust funds as disclosed in Note 4.

J. Inventories

Inventories for governmental funds are valued at cost, principally on the first-in, first-out purchases method.

K. Interfund Transactions

The State has the following types of interfund transactions:

Quasi-external transactions – Charges for services rendered by one fund to another are treated as revenues of the recipient fund and expenditures or expenses of the disbursing fund.

Reimbursements – Reimbursement of expenditures made by one fund for another are recorded as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund.

Residual Equity Transfers – Nonroutine or nonrecurring transfers between funds are reported as additions to or deductions from fund equity.

Operating Transfers – Legally authorized transfers other than residual equity transfers are reported as operating transfers.

L. Property, Plant and Equipment

Fixed assets are recorded at cost or, for donated assets, at fair market value at date of acquisition.

General Fixed Assets – Fixed asset records are used by the State primarily to assure accountability. Historical cost records for certain general fixed assets are incomplete or not available. Accordingly, estimated historical costs have been used. Public domain (infrastructure) general fixed assets such as highways, bridges, and lighting systems are not capitalized. Depreciation is not provided on general fixed assets and interest expenditures incurred during the construction period are not capitalized.

Proprietary and Fiduciary Fund Types – It is the State's policy to capitalize interest expense incurred on significant assets during their construction. Generally, property, plant and equipment, excluding land, are depreciated on the straight-line method over the estimated service lives of the respective assets as follows:

<u>Years</u>
Land improvements 20-50

Buildings and building improvements 20-50
Equipment 3-10

University Funds – Generally, public domain (infrastructure) assets such as streets, sidewalks, and lighting systems are not capitalized. Depreciation generally is not provided on property, plant and equipment.

M. Retirement Costs

Substantially all State employees, including members of the General Assembly and Judicial Branch, participate in one of three State public employee retirement systems (see Note 10). The State also maintains and funds public employee retirement systems for employees of the various State supported universities, and for public school teachers in cities other than Chicago. It is the State's policy to fund retirement costs without regard to amounts calculated under the actuarial requirements. Based on actuarial consultations, the State's contributions have been less than the retirement benefits paid during the year for the last eighteen fiscal years. Prior to fiscal year 1982, the State had funded the retirement costs at a level at least as great as the retirement benefits paid during the year.

Effective July 1, 1996, the State adopted the provisions of GASB Statement 27, *Accounting for Pensions by State and Local Governmental Employers*, to determine pension costs. Accordingly, calculated pension cost comprises the employer's annual required contributions (i.e., the "ARC"), which equals normal cost plus interest on unfunded prior service costs and amortization of prior service cost over forty years, one year's interest on the net pension obligation, and an adjustment to the ARC to offset the effect of actuarial amortization of past under or over contributions.

N. Capital Appreciation ("deep-discount") Bonds

Capital appreciation bonds are those bonds that are issued at stated interest rates significantly below their effective interest rate, resulting in a substantial discount. The implicit interest (i.e., discount) is not paid until the bond matures. Therefore, the net value of the bonds "accretes" (i.e., the discount is reduced) over the life of the bonds. For general and special obligation bonds, the accreted amounts are included in the General Long-Term Obligations Account Group.

O. Compensated Absences

The amounts of vested unpaid vacation and sick leave accumulated by State employees are accrued when incurred in proprietary, pension trust, university funds, and component units, which use the accrual basis of accounting. In the governmental funds, only the amounts that normally would be liquidated with expendable available financial resources are accrued as current-year expenditures. Legislation that became effective January 1, 1998 capped the paid sick leave for all State Employees' Retirement System members at December 31, 1997. Employees continue to accrue twelve sick days per year, but will not receive monetary compensation for any additional time earned after January 1, 1998. Sick days earned between 1984 and December 31, 1997 (with a 50% cash value) would only be used after all days with no cash value are depleted. Any sick days earned and unused after December 31, 1997 will be converted to service time for purposes of calculating employee pension benefits. The State's liability for unused vested sick leave and vacation time, including salary related costs (e.g., social security and Medicare tax), is recorded in the accompanying financial statements at the employees' current salary level. Unless it is anticipated that compensated absences will be used in excess of a normal year's accumulation, no additional expenditures are accrued. Therefore, the entire unpaid liability for the governmental funds, including governmental component units, is recorded in the General Long-Term Obligations Account Group.

P. Workers' Compensation Liability

The fund liabilities of the General Fund, Road and Mental Health (Special Revenue) Funds include the amount of workers' compensation claims that would normally be liquidated with expendable available financial resources. The remaining liability, based on the State's workers' compensation laws, is reported in the General Long-Term Obligations Account Group and University Funds.

Q. Encumbrances

The State employs encumbrance accounting for all governmental fund types. All contracts, purchase orders and other commitments for goods or services that have not been received/ rendered by June 30 are reported as reservations of fund balances, not as expenditures.

R. Reservations/Designations of Fund Equity

Reservations

Governmental and Fiduciary Funds – Fund balances of governmental and fiduciary fund types that are legally restricted to a specific future use or that are not available for appropriation or expenditure are reported as reservations of fund balances.

University Funds – Fund balances of university funds that are legally restricted by outside sources to specific future use are reported as reservations of fund balances.

Proprietary Funds – Reserved retained earnings of the proprietary funds are legally restricted for the payment of capital maintenance and debt service related to revenue bonds and bond anticipation notes and for other purposes.

Designations

Designations of unreserved fund balances in governmental, fiduciary and university funds indicate the State's plan for use of financial resources in future periods.

2 BUDGETARY BASIS VS. GAAP

The accompanying Combined Statement of Revenues, Expenditures, Other Sources and Uses of Financial Resources and Changes in Budgetary Fund Balances-Budget and Actual (Non-GAAP), All Budgeted Fund Groups, presents comparisons of the legally adopted budget (more fully described in Note 1-G) with actual data on a budgetary basis. Since accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial

	Primary Government					
BUDGETARY FUND GROUPS	**General**	**Highway**	**University**	**Special State**	**Bond Financed**	**Debt Service**
FINANCIAL STATEMENT FUND TYPES	**General**			**Special Revenue**	**Capital Projects**	**Debt Service**
Excess (deficiency) of revenues over (under) expenditures and other sources (uses) of financial resources (budgetary basis)	$ 146,683	$ 127,488	$ 82	$ 609,981	$ 145,488	$ 5,144
Adjustments:						
To adjust revenues, related receivables and deferred revenue	(151,313)	328,544	(18)	(622,600)	21	20,022
To adjust expenditures/expenses and related liabilities	(240,294)	(32,906)	- -	435,277	(25,555)	59,046
To adjust for lapse period expenditures which were not recorded as liabilities	164,703	(2,167)	- -	44,656	649	- -
Excess (deficiency) or revenues over (under) expenditures/expenses and other sources (uses) of financial resources into financial resources (GAAP basis) - budgetary classifications	(80,223)	420,959	64	467,314	120,603	84,212
Reclassifications & adjustments:						
To reclassify excess (deficiency) of revenues over (under) expenditures/ expenses and other sources (uses) of financial resources into financial statements fund types	(9,435)	(420,959)	(64)	162,242	2,905	(558)
To record excess (deficiency) of revenues over (under) expenditures/expenses and other sources (uses) of financial resources for nonbudgeted funds and accounts	205	- -	- -	(1,616)	(907)	(24)
Excess (deficiency) of revenues over (under) expenditures/expenses and other sources (uses) of financial resources (GAAP basis)	**$ (89,453)**	**$ - -**	**$ - -**	**$ 627,940**	**$ 122,601**	**$ 83,630**

statements in conformity with generally accepted accounting principles, a reconciliation (amounts expressed in thousands) of resulting basis, perspective, entity and timing differences in the excess (deficiency) of revenues over (under) expenditures/expenses and other sources (uses) of financial resources for the year ended June 30, 1999 is presented below:

Primary Government (Continued)						Component Units		
Federal Trust	Revolving	State Trust						
	Internal Service		Enterprise	Expendable Trust	Non-Expendable Trust	Govern-mental	Proprietary	University & College
$ (42,575)	$ (9,550)	$ (15,267)						
(80,942)	23,666	(611,067)						
114,664	8,311	621,115						
(7,587)	(59)	(180)						
(16,440)	22,368	(5,399)						
16,440	128	5,399	$ 5,200	$ 209,347	$ 65	$ 29,463	$ - -	$ (173)
- -	576	- -	9,048	158,166	2,898	1,647	50,185	275,689
$ - -	**$ 23,072**	**$ - -**	**$ 14,248**	**$ 367,513**	**$ 2,963**	**$ 31,110**	**$ 50,185**	**$ 275,516**

3 RECLASSIFICATION/RESTATEMENT OF EQUITY BALANCES

In accordance with Governmental Accounting Standards Board (GASB) Statement 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, the State, due to its significant administrative and fiduciary responsibilities, has reported its deferred compensation plan as an expendable trust fund. The equity balance of the fund used to report the State's administrative activities, previously reported as an enterprise fund type, and the plan assets, previously reported as an agency fund type, have been reclassified to an expendable trust fund as a restatement of July 1, 1998 balances. As a result of this reclassification of the enterprise fund to an expendable trust fund, the cash and cash equivalents at July 1, 1998 have been restated by $(2,914).

In addition, fixed assets of the Toll Highway Authority were overstated in prior periods by $111,352. Also, for financial reporting purposes at the reporting entity level, the Toll Highway Authority has changed its year-end from June 30 to December 31. The balances reported in these statements represent activity as of and for the six months ended December 31, 1998.

The July 1, 1998 equity balances (amounts expressed in thousands) have been reclassified/restated as follows:

	Primary Government Fund Types		Component Units Discretely Presented
	Expendable Trust	Enterprise	Proprietary
Fund Balance/Retained Earnings			
July 1, 1998, as previously reported	$ 2,184,012	$ 166,156	$ 1,710,150
Reclassifications:			
To reclassify funds determined to be Expendable Trust:			
Deferred Compensation	1,239,294	(2,709)	
Restatements:			
To adjust for overstatement of fixed assets			(111,352)
Fund Balance/Retained Earnings July 1, 1998, as reclassified/restated	$ 3,423,306	$ 163,447	$ 1,598,798

4 DEPOSITS AND INVESTMENTS

The State Treasurer is the custodian of the State's cash, cash equivalents and investments for most funds maintained in the State Treasury. Funds maintained outside the State Treasury (locally held funds) have independent authority to manage their own cash and investments. As described later, the funds of the State's retirement systems are invested separately.

Investment Policy –

General

Statutes authorize public agencies, including the State of Illinois Primary Government and its Component Units, to engage in a wide variety of investment activities. These include bonds, notes, certificates of indebtedness, treasury bills or other securities guaranteed by the United States; interest-bearing savings accounts, certificates of deposit, or interest-bearing time deposits or any other investments that constitute direct obligations of any bank; short-term obligations of certain qualified United States corporations; short-term discount obligations of the Federal National Mortgage Association; shares or other securities legally issued by certain state or federal savings and loan associations; insured dividend-bearing share accounts and certain other accounts of chartered credit unions; certain money market mutual funds; Public Treasurer's Pool; and repurchase agreements that meet certain instrument and transaction requirements. Statutes require that investments purchased must mature or be redeemable prior to the date they will be needed to pay expenditures.

The investments of the State's five retirement systems (classified as pension trust funds) are governed by the State Pension Code. Authorized investments consist of bonds, equities, real estate, venture capital and other activities that are consistent with the "prudent person" rule. The "prudent person" rule, as adopted by the Illinois General Assembly in 1982, states that fiduciaries must discharge their duties with the care, skill, prudence and diligence which a prudent person acting in a like capacity and familiar with such matters would use under conditions prevailing at the time.

In addition to statutory requirements, Primary Government agencies and Component Units have adopted their own supplemental investment practices which further regulate such activities.

Derivatives

Certain State agencies, principally Teachers' Retirement System (TRS), Illinois State Board of Investments (ISBI) and State Universities Retirement System (SURS), invest in derivative securities. A derivative security is an investment whose payoff depends upon the value of other assets such as commodity prices, bond and stock prices or a market index. In general, a derivative is used to modify exposure to undesirable risks, to increase portfolio liquidity and flexibility or to enhance investment yields within the level of risk defined in the agency's investment guidelines.

Derivative transactions involve, to varying degrees, credit risk and market risk. Credit risk is the possibility that a loss may occur because a party to a transaction fails to perform according to terms. In order to eliminate credit risk, all derivative securities of TRS, ISBI and SURS are done through a clearinghouse which guarantees delivery and accepts the risk of default by either party. Market risk is the possibility that a change in interest or currency rates will cause the value of a financial instrument to decrease or become more costly to settle. The market risk associated with derivatives, the prices of which are constantly fluctuating, is regulated by TRS, ISBI and SURS by imposing strict limits as to the types, amounts and degree of risk that investment managers may undertake. These limits are approved by governing bodies and senior management, and the risk positions of the investment managers are reviewed periodically to monitor compliance with limits.

TRS, ISBI and SURS invest in the following types of derivatives: foreign currency forward contracts, collateralized mortgage obligations (CMO's), financial futures and financial options.

Foreign currency forward contracts are used to hedge against the currency risk in agencies' foreign stock and fixed income security portfolios. Foreign currency forward contracts are an agreement to buy or sell a specific amount of a foreign currency at a specified delivery or maturity date for an agreed upon price. Fluctuations in the market value of foreign currency forward contracts are recognized as incurred rather than at the maturity or the settlement date of the contract. Foreign currency forward contracts represent an off-balance sheet obligation because there are no balance sheet assets or liabilities associated with those contracts.

Financial futures are agreements to buy or sell a specific amount of an asset at a specified delivery or on maturity date for an agreed-upon price. As the market value of the futures contract varies from the original contract price, a gain or loss is recognized and paid to the clearinghouse. Financial futures represent an off-balance sheet obligation because there are no balance sheet assets or liabilities associated with those contracts.

Financial options are agreements that give one party the right, but not the obligation, to buy or sell a specific amount of an asset for a specified price, called the strike price, on or before a specified expiration date. As writers of financial options, TRS and SURS receive a premium at the outset of the agreement and bear the risk of an unfavorable change in the price of the financial instrument underlying the option. Premiums received are recorded as a liability when the financial option is written. Fluctuations in the fair value of financial options are recognized in the financial statements as incurred rather than at the time the options are exercised or when they expire. As a purchaser of financial options, SURS pays a premium at the outset of the agreement and the counterparty bears the risk of an unfavorable change in the price of the financial instrument underlying the option. Premiums paid are recorded as an asset when the financial option is purchased and gains/losses are recognized when the options are exercised by the agency or they expire.

As of June 30, 1999, TRS fair value (expressed in thousands) of option contracts written was $73. The fair value of option contracts written represents the amount to be paid to close all positions as of that date.

Type of Derivative Contract	Contractual Principal Outstanding* (expressed in thousands) Teachers' Retirement System	Universities Retirement System	Illinois State Board of Investments
Domestic Interest Rate Products			
Fixed income futures purchased	$ 1,337,973	$ 289,200	
Fixed income futures sold		24,600	
Fixed income purchased put options		46,700	
Fixed income written put options	386,368		
Fixed income written call options	5,597	45,700	
International Interest Rate Products			
International fixed income futures purchased	73,680	758,000	
International fixed income purchased put options	49,390	30,000	
Domestic Equity Products			
S & P 500 index futures purchased	941,974		
Foreign Currency Products			
Forward foreign currency purchased		228,682	$ 200,089
Forward foreign currency sold		223,804	199,647

* The contractual principal amounts listed above represent the fair market value of the underlying assets the derivative contracts control. Contractual principal values do not represent actual balance sheet values.

The preceding table represents the derivative positions held by TRS, ISBI and SURS at June 30, 1999 in financial futures and financial options (expressed in thousands). Additional information concerning the derivative investments of TRS, ISBI and SURS can be obtained from their separately issued annual reports.

Contractual principal amounts are often used to express the volume of these transactions but do not reflect the extent to which positions may offset one another. These amounts do not represent the much smaller amounts potentially subject to risk.

Deposits –

Primary Government

On June 30, 1999, the carrying amount of the

State's Primary Government cash deposits (amounts expressed in thousands) was $2,568,193 and the bank balance was $2,567,466. Of the bank balance, $2,393,579 was covered by federal depository insurance or by collateral held by the State or the State's agent in the State's name, $13,934 was covered by collateral held in the pledging bank's trust department or by its agent in the State's name, and $159,953 was uninsured and uncollateralized.

Component Units

On June 30, 1999, the carrying amount of the State's Component Units' cash deposits (amounts expressed in thousands) was $265,711, and the bank balance was $291,924. Of the bank balance, $234,655 was covered by federal depository insurance or by collateral held by the State or the State's agent in the State's name, $51,542 was covered by collateral held in the pledging bank's trust department or by its agent in the State's name, and $5,727 was uninsured and uncollateralized. At June 30, 1999, the State Treasurer held $270,686 of the component unit agencies' bank balances. By statute, public monies deposited in financial institutions must either be collateralized; insured by an agency of the federal government; or not exceed 75% of the capital stock and surplus, 75% of the net worth, or 50% of the unimpaired capital and surplus of a financial institution.

Investments –

Investments (amounts expressed in thousands) are categorized below to give an indication of the level of custodial credit risk assumed by the State at June 30, 1999. Category 1 includes investments that are insured or registered or for which the securities are held by the State or its agent in the State's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty trust department or agent in the State's name. Category 3 includes uninsured and unregistered investments (whether or not held in the State's name) and securities held by any other party (State's agent, counterparty's trust department or agent) but not in the State's name. Of the amounts shown below in Category 3, 80% pertain to enterprise fund types and 20% pertain to pension fund types.

The master repurchase agreements utilized by the Treasurer require the broker or financial institution to maintain the fair value of collateral securities at 102% of the agreement. The carrying amount, including accrued interest, was approximately $2,202,147 and the fair value of the collateral securities to be resold based on commitments under the repurchase agreements was approximately $2,253,017 as of June 30, 1999.

Primary Government

	Category			Carrying	Fair
	1	2	3	Amount	Value
Repurchase agreements	$ 4,254,902			$ 4,254,902	$ 4,254,902
U.S. Treasury and Agency obligations	8,246,274		$ 101,346	8,347,620	8,348,054
Commercial paper	3,087,043	$ 3,915		3,090,958	3,090,958
Corporate debt securities	8,204,089		15,437	8,219,526	8,219,526
Corporate equity securities	17,394,452		1,520	17,395,972	17,395,972
	$ 41,186,760	**$ 3,915**	**$ 118,303**	41,308,978	41,309,412
Investment contracts				2,206,073	2,206,073
Tangible property				2,557,676	2,557,676
Investments in mutual funds				12,166,917	12,233,136
				$ 58,239,644	**$ 58,306,297**

Component Units

	Category 1	Category 2	Category 3	Carrying Amount	Fair Value
Repurchase agreements	$ 19,980	$ 3,704		$ 23,684	$ 23,684
U.S. Treasury and Agency obligations	294,181	39,365	$ 20,217	353,763	352,148
Commercial paper	28,872	12,984	13,878	55,734	55,781
Corporate debt securities	225,787	13,854	94	239,735	239,735
Corporate equity securities	155,869	7,101	2,766	165,736	165,894
	$ 724,689	**$ 77,008**	**$ 36,955**	838,652	837,242
Investment contracts				785,981	793,525
Tangible property				36,500	36,500
Investments in mutual funds				915,381	915,396
				$ 2,576,514	**$ 2,582,663**

Of the amounts shown above in Category 3, the university funds constitute 45%, and special revenue constitute 55%.

Reconciliation to Balance Sheet –

The balance sheet account cash and cash equivalents contains certain short-term investments (included as investments above) to reflect their liquidity. In addition, the disclosures related to deposits and investments above include certain items that the balance sheet shows as restricted assets or other assets. A reconciliation follows:

	Cash and Cash Equivalents	Investments
Amount Per Note:		
Primary Government Deposits/Investments	$ 2,568,193	$ 58,239,644
Component Units Deposits/Investments	265,711	2,576,514
Cash Equivalents	7,257,467	(7,257,467)
Restricted Assets	(96,297)	(129,259)
Amount Per Balance Sheet		
Total (Memorandum Only) Reporting Entity	**$ 9,995,074**	**$ 53,429,432**

Securities Lending Transactions –

The investment policies of certain State agencies, principally the retirement systems and certain universities, permit them to enter into securities lending transactions. In these transactions, the agency loans their securities to broker-dealers and other entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. The agencies' securities custodians are agents in lending the securities for collateral of at least 102% of the fair value of the securities. Collateral can consist of cash, cash equivalents, government securities, commercial paper or irrevocable letters of credit. Depending on their nature, securities on loan at year-end are presented as classified or unclassified in the preceding schedule of custodial credit risk. Generally, at year end, agencies had no credit risk exposure to borrowers because the amounts they owed to the borrowers exceeded the amounts the borrowers owe the agencies and maturities on non-cash collateral received are longer than the lesser of the maturities of the securities lent or the term of the lending transactions. Policies regarding indemnification vary among agencies. Some agencies' contracts with custodians require them to indemnify the agency if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or the borrowers fail to pay the agency for income distributing by the securities' issuers while the securities are out on loan. Other agencies have no provisions for indemnification.

Generally, securities loans can be terminated on demand by either the agency or the borrower, although the average term of the loans is 10 to 29 days. Cash collateral is invested in the lending agent's short-term investment pool, which at year-end has a weighted average maturity of 30 to 51 days. The relationship between the maturities of the investment pool and the agency's loan is affected by the maturities of the securities loans made by other entities that use the agent's pool, which the agency cannot determine. The agencies cannot pledge or sell collateral securities received unless the borrower defaults.

As of June 30, 1999, agencies had outstanding loaned investment securities (amounts expressed in thousands) having a fair value of $3,616,180 against which they had received collateral having a fair value of $3,727,446.

5 *TAXES RECEIVABLE*

Taxes receivable (amounts expressed in thousands) at June 30, 1999 consisted of the following:

	Fund Types			Total
	General	Special Revenue	Trust and Agency	(Memorandum Only)
Income taxes	$ 630,177	$ 73,293		$ 703,470
Sales taxes	750,657	282,363	$ 68,774	1,101,794
Motor fuel taxes		263,414	403	263,817
Public utility taxes	58,062	159,961		218,023
Unemployment compensation taxes			$ 249,939	249,939
Other taxes	122,305	20,245	7,495	150,045
	$ 1,561,201	$ 799,276	$ 326,611	$ 2,687,088
Less: Allowance for uncollectible taxes	779,611	401,109		1,180,720
Taxes Receivable, net	**$ 781,590**	**$ 398,167**	**$ 326,611**	**$ 1,506,368**

6 DUE FROM/TO OTHER FUNDS AND COMPONENT UNITS

The following balances (amounts expressed in thousands) at June 30, 1999 represent due from/ to balances among all funds and component units:

	Due From			Due To		
Fund Type/Fund	**Other Funds**	**Component Units**	**Primary Government**	**Other Funds**	**Component Units**	**Primary Government**
Primary Government						
General	$ 291,183	$ 21,217		$ 509,626	$ 93,246	
Special Revenue:						
State Construction Account	47,305					
Local Government Distributive	103,773			625		
Public Transportation	38,518					
Motor Fuel Tax	25,788			64,588		
Road	42,609	1,926		56,699	5,344	
Tourism Promotion	7,791			48	186	
RTA Occupation & Use Tax Replacement	4,640					
Special Purposes Trust	22,958	15		500		
Personal Property Tax Replacement				54,846		
State & Local Sales Tax Reform				37,116		
County & Mass Transit District				21,765		
Build Illinois	9,450					
Downstate Public Transportation				7,278		
State Gaming				32,107		
Rate Adjustment				5,983		
Social Security & Employment Services	8,909			4,386		
Unemployment Compensation	2,759			8,181		
USDA Women, Infants & Child	3,554			3,885		
Local Initiative	6,000				100	
Other	38,464	548		22,423	7,792	
	362,518	2,489		320,430	13,422	
Debt Service:	23			23	884	
Capital Projects:						
ESCO COP Capital Projects		6,728				
Other	200			1,920	596	
	200	6,728		1,920	596	
Enterprise:						
State Lottery	72,925			1,693		
Other	186			5,579		
	73,111			7,272		
Internal Service:						
Communications Revolving	27,112	502		1,858	1	
Statistical Service Revolving	20,814	11		464		
State Garage Revolving	4,847	3		70	1	
Health Insurance Reserve	96,108	2,759		364		

Note 6 (continued)

Fund Type/Fund	Due From: Other Funds	Due From: Component Units	Due From: Primary Government	Due To: Other Funds	Due To: Component Units	Due To: Primary Government
Trust and Agency:						
Expendable Trust:	2,313	98		3,066	39	
Pension Trust:						
State Employees' Retirement System	15,600					
State Universities Retirement System	33	6,225				
Other	57			315		
	15,690	6,225		315		
Investment Trust:	9			22		
Agency:						
Public Assistance Recoveries Trust				40,244		
Group Insurance Premium Fund	5	115		5,344		
RTA Sales Tax Trust	21,765					
Secretary of State International Registration	4,051					
Social Services				27,525		
Other	735			9,620		
	26,556	115		82,733		
Total Trust and Agency	44,568	6,438		86,136	39	
Total (Memorandum Only) Primary Government	**928,516**	**40,149**		**928,516**	**108,189**	
Component Units						
Governmental	181		$ 39	1,397		
Proprietary:						
Industrial Revolving Fund	3,852			1,399		
Other	1,267			2,457		$ 22
	5,119			3,856		22
University and College:						
Northern Illinois University	3,825		4,918	3,825		
Southern Illinois University	5,150		7,691	5,000		2,700
University of Illinois	13,347		90,060	13,667		35,451
Other	1,172		5,295	1,049		1,976
	23,494		107,964	23,541		40,127
Total Component Unit	**28,794**		**108,003**	**28,794**		**40,149**
Total (Memorandum Only) Reporting Entity	**$ 957,310**	**$ 40,149**	**$ 108,003**	**$ 957,310**	**$ 108,189**	**$ 40,149**

The Illinois State Toll Highway Authority (THA), a component unit, has no amounts reported as due from or to the primary government or other component units at December 31, 1998.

At June 30, 1999, THA would report due from primary government of $2,111 and due to primary government of $1,925.

7 LOANS AND NOTES RECEIVABLE

Loans and notes receivable (amounts expressed in thousands) at June 30, 1999 consisted of the following:

	Fund Types				Total (Memorandum Only)	
	General	Special Revenue	Debt Service	Enterprise	Primary Government	Component Units
Mortgage loan program	$ 25	$ 120			$ 145	$ 1,643,630
Student loan program	19,339	1,813		$ 1,086,351	1,107,503	113,167
Local government infrastructure		725,040			725,040	92,025
Business loan program	16,672	7,009			23,681	208
Port districts construction	15,468				15,468	
Other	2,154	34,227	$ 25,500		61,881	1,812
	53,658	768,209	25,500	1,086,351	1,933,718	1,850,842
Less: Allowance for uncollectible accounts	33,631	3,900		2,525	40,056	40,548
Loans and notes receivable, net	**$ 20,027**	**$ 764,309**	**$ 25,500**	**$ 1,083,826**	**$ 1,893,662**	**$ 1,810,294**

In the accompanying financial statements, the General, special revenue and debt service fund types reflect loans and notes receivable of $809.8 million. Fund balances in the amount of $745.4 million have been reserved to indicate their long-term nature and that they are not available to meet current appropriation or expenditure needs.

A portion of the General fund type business loan programs ($29.4 million) represents various funds' pooled resources that the State has invested in a pilot mortgage program since fiscal year 1983. The only remaining program is categorized as a hotel loan and is discussed below.

Effective January 12, 1987, two of the program's outstanding mortgage loans aggregating $28.9 million were restructured. One of these loans with an original balance of $15.5 million was restructured again effective January 1, 1990. The remaining loan totaling $13.4 million in original value was restructured effective January 1, 1991. Through June 30, 1998, the Treasurer recorded a provision for the write-down of $17.1 million for these two properties based on independent valuations. These two loans have been classified as nonperforming assets.

In 1995, the Treasurer authorized the trustee to sell the mortgage loans. However, the Attorney General opined that both his and the Governor's consent were required, which was not provided. Affiliates of the owners of the hotel loans filed a lawsuit against the trustee and the Treasurer seeking specific performance of the buy-sell agreement on the agreed-to terms. This lawsuit is still pending and the ultimate outcome of this proceeding is not presently determinable.

On October 31, 1997, the trustee filed suit against the Hotel ventures for making improper deductions in determining payments due, creating a default and making the loan balances due upon demand. At the time of the filing of the suit, the trustee presented letters of credit with a value of $2.7 million, which serve as collateral for the loans of one of the properties, for collection. The ventures obtained a restraining order to prevent collection of the letters of credit.

On December 9, 1997, the Circuit Court dissolved the restraining order of one Hotel venture and denied the venture's motion to stop the trustee from calling the letter of credit. The court stayed the effectiveness of this order pending appeal. The Appellate Court subsequently reversed the Circuit Court's ruling.

The Treasurer and trustee have appealed this ruling which was denied by the Illinois Supreme Court. The matter is now before the trial court. The ultimate outcome of this proceeding is not presently determinable.

The lawsuit against the other venture has been stayed pending the resolution of certain related issues discussed above. Once the Illinois Supreme Court rules on the related issues, a decision will likely be made on whether to lift the stay or not. The outcome of this litigation is not presently determinable.

The write-down of the above Hotel loans is not considered forgiveness of the obligations and collection efforts will continue for the entire loan balance including principal and interest.

On December 2, 1999, subsequent to the report date, the judge in the Circuit Court in Madison county granted the motions of the plaintiffs for a partial summary judgement of the 1995 lawsuit. The court found that the plaintiffs were ready, willing and able to perform the buy-sell agreements at the time originally set for closing in 1995. Since the buy-sell agreements limited the relief available under their terms to specific performance, the Court directed preparation of a final decree allowing plaintiffs' claim for this form of relief and providing the terms for consummating the sale. The Treasurer is considering her options, which include the possibility of appealing this decision.

8 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment (amounts expressed in thousands) at June 30, 1999 consisted of the following:

	General Fixed Assets Account Group	Fund Types: Enterprise	Fund Types: Internal Service	Fund Types: Non-Expendable Trust	Fund Types: Pension Trust	Total (Memorandum Only) Primary Government	Component Units
Land and land improvements	$ 640,841		$ 335	$ 104	$ 1,963	$ 643,243	$ 2,954,354
Buildings and building improvements	3,245,469		17,113		13,910	3,276,492	3,295,243
Equipment	1,406,020	$ 13,635	175,581		24,310	1,619,546	2,161,895
Construction in progress	55,646					55,646	716,235
	5,347,976	13,635	193,029	104	40,183	5,594,927	9,127,727
Less: Accumulated depreciation		9,595	151,489		17,391	178,475	1,501,443
	$ 5,347,976	$ 4,040	$ 41,540	$ 104	$ 22,792	$ 5,416,452	$ 7,626,284

Changes in general fixed assets (amounts expressed in thousands) for the year ended June 30, 1999 are presented below:

	Balance July 1, 1998	Additions	Deletions/ Net Transfers	Balance June 30, 1999
Land and land improvements	$ 607,073	$ 8,291	$ (25,477)	$ 640,841
Buildings and building improvements	3,031,867	43,124	(170,478)	3,245,469
Equipment	1,366,380	146,782	107,142	1,406,020
Construction in progress	56,176	161,679	162,209	55,646
	$ 5,061,496	$ 359,876	$ 73,396	$ 5,347,976

Construction in progress (amounts expressed in thousands) for general fixed assets, and component units as of June 30, 1999 is composed of the following:

Project	Project Authorizations	Expended through June 30, 1999	Committed as of June 30, 1999	Available Authorization
General Fixed Assets Account Group -				
Lawrenceville Correctional Center	$ 74,500	$ 6,155	$ 63,601	$ 4,744
IYC Kewanee	42,750	3,655	34,082	5,013
DNR Office Building	30,600	2,902	24,039	3,659
Juvenile Correctional Facility	34,000	247	12	33,741
Joliet Minimum Security Prison	65,500	1,337	2,035	62,128
Savanna Maximum Security Prison	95,000	787	75,566	18,647
Alton Building Addition, MHC	11,924	175	475	11,274
Other	217,299	40,388	166,298	10,613
Total	**$ 571,573**	**$ 55,646**	**$ 366,108**	**$ 149,819**
Component Units -				
State Toll Highway Improvements	$ 645,250	$ 486,297	$ 158,953	-
Faraday Hall Addition - NIU	26,840	26,699	25	116
Faraday Engineering Building - NIU	28,138	27,520	175	443
Altgeld Hall Renovation - NIU	19,150	31	906	18,213
Stevenson Towers Renovation - NIU	26,056	15,171	5,492	5,393
Ambulatory Care Facility - U of I	97,613	78,757	15,342	3,514
Parking Structure D-1 2nd Addition - U of I	12,515	12,515	-	-
Assemby Hall Addition & Remodeling - U of I	11,435	9,677	131	1,627
ACES Library - U of I	21,100	324	17,293	3,483
Engineering Hall Rehabilitatioin - U of I	14,625	1,490	7,576	5,559
Spurlock Museum - U of I	10,846	4,479	5,026	1,341
Total	**$ 913,568**	662,960	**$ 210,919**	**$ 39,689**
Projects less than $10,000		53,275		
Total		**$ 716,235**		

9 NOTES PAYABLE

The State agencies listed below generally issue short-term notes, normally secured by specific revenue sources, to provide temporary financing. Outstanding notes payable (amounts expressed in thousands) at June 30, 1999 were as follows:

Fund Type/Agency	Amount Outstanding	Interest Rates	Annual Maturity To
Primary Government -			
Enterprise:			
Illinois Student Assistance Commission	$ 100,794	3.17% to 9%	Various
Component Unit -			
Governmental:			
Illinois Medical District Commission	$ 2,969	6.25%	2019
Proprietary:			
Southwestern Illinois Development Authority	$ 91	--	2008
Universities and Colleges:			
Northern Illinois University	1,408	5% to 7.5%	2002
Northeastern Illinois University	304	8.5%	2008
Southern Illinois University	2,890	3% to 4.2%	2009
University of Illinois	2,136	5.39% to 9%	2000
	6,738		
Total Component Units	9,798		
Total (Memorandum Only) Reporting Entity	$ 110,592		

Illinois Student Assistance Commission (ISAC) –

The ISAC is authorized to issue Student Loan Revenue Notes. The notes and related interest are payable solely from the revenues and other resources of the ISAC. On June 30, 1999, the ISAC had $101 million of notes outstanding due 2005, 2029, or upon demand. Assets acquired and revenues generated under the individual notes serve as collateral for their respective note issues.

Illinois Medical District Commission (Commission) –

The Commission's notes payable consist of a 20-year mortgage on the Chicago Technology Park Enterprise Center which was completed in Fiscal Year 1999. The 20-year mortgage, $2,969, has an interest rate of 6.25%, matures in 2019, and is secured by the related building and land.

Southwestern Illinois Development Authority (SWIDA) –

The SWIDA obtained a note payable from the Department of Commerce and Community Affairs in the amount of $100 thousand in fiscal year 1997, the proceeds of which were used for start-up costs. This note is non-interest bearing and matures on July 1, 2008. As of June 30, 1999, there were notes payable outstanding of $91 thousand.

Universities and Colleges –

Universities and colleges have issued notes payable aggregating $6.7 million at June 30, 1999. The notes are generally secured through revenues (i.e., lease payment agreements) derived from the operations of the projects constructed, although portions of the notes outstanding are unsecured.

10 RETIREMENT SYSTEMS

Plan Descriptions. The State of Illinois sponsors five public employee retirement systems ("PERS") that are included in the State's financial statements as pension trust funds. The General Assembly Retirement System ("GARS"), Judges' Retirement System ("JRS") and State Employees' Retirement System ("SERS"), are the administrators of single-employer defined benefit pension plans. The GARS, JRS and SERS are governed by articles 2, 18 and 14, respectively, of the Illinois Pension Code (40 ILCS 5/1, et. al.).

The Teachers' Retirement System ("TRS") is the administrator of a cost-sharing multiple-employer public employee defined benefit pension plan with "special funding situations." It provides coverage to teachers employed by public school districts in Illinois (excluding Chicago) even though most covered employees are not State employees. There are 894 local school districts, 134 special districts, and 32 other State agencies which contribute to the TRS plan. At June 30, 1999, the TRS had outstanding receivables of $261 million for payroll deduction agreements with members for optional services, refund repayments and upgrade balances owed to the TRS. The State Universities Retirement System ("SURS") is the administrator of a cost-sharing multiple-employer public employee defined benefit pension plan and a defined contribution plan. They also have "special funding situations." The SURS provides coverage to faculty and staff of State universities, community colleges and related agencies, of which, some covered employees are not State employees. There are 12 universities, 39 community colleges, and 14 other State agencies which contribute to the SURS plan.

The State of Illinois is legally mandated to make contributions to the TRS and SURS. Because the State contributes most of the TRS and SURS employer contributions, the single employer provisions of GASB Statement 27 have been followed for reporting those systems in the statewide CAFR. The TRS and SURS are governed by articles 16 and 15, respectively, of the Illinois Pension Code.

Effective January 1, 1998, legislation established an alternative defined benefit program know as the Portable Benefit Option Plan within the SURS. This option is offered in addition to the existing traditional benefit option. All members who are eligible for the traditional benefit option are eligible for the portable option. New and existing members are provided a window period in which to make an irrevocable election. The portable option provides an enhanced refund at termination for those who leave SURS with at least five years of service. Offsetting this additional cost is the elimination of the survivor benefit package. This program is designed to be cost neutral in relation to the traditional option. Approximately 11,000 of the approximately 78,000 members have chosen this option.

Legislation, effective January 1, 1998, also required the SURS to offer a Self-Managed Plan. This is a defined contribution plan and is offered to employees of all SURS employers who elect to participate. The contribution rate is 8% of their gross earnings. It is a qualified money purchase plan under Section 401(a) of the Internal Revenue Code. The assets are maintained under trust administered by the SURS Board of Trustees in accordance with the Illinois Pension Code. 3,740 of the approximately 78,000 members have chosen this option. $31.3 million of the $11.8 billion total assets relate to the Self-Managed Plan. Plan member contributions were $6.7 million and employer contributions were $6.4 million for the year ended June 30, 1999.

Each of the five State-sponsored retirement systems provide retirement, death and disability benefits to members and beneficiaries. Each plan also issues a publicly available financial report that includes financial statements and required supplementary information for that plan. Those reports may be obtained by writing or calling the plan as follows:

- General Assembly Retirement System and Judges' Retirement System, 2101 South Veterans Parkway, PO Box 19255, Springfield, Illinois, 62794-9255, (217)782-8500.
- State Employees' Retirement System, 2101 South Veterans Parkway, PO Box 19255, Springfield, Illinois, 62794-9255, (217)785-2340.
- Teachers' Retirement System, 2815 West Washington Street, PO Box 19253, Springfield, Illinois, 62794-9253, (217)753-0311.
- State Universities Retirement System, 1901 Fox Drive, Champaign, Illinois, 61820-7333, (217)378-8800.

Funding Policy and Annual Pension Cost. Member contributions are based on fixed percentages set by statute ranging from 4% to 11.5%. The State's funding requirements have been established by statute (Public Act 88-593) effective July 1, 1995 and provide for a systematic 50-year funding plan with an ultimate goal to achieve "90% funding" of the systems' liabilities. In addition, the funding plan provides for a 15-year phase-in period to allow the State to adapt to the increased financial commitment. Once the 15-year phase-in period is complete, the State's contribution will then remain at a level percentage of payroll for the next 35 years until the 90% funded level is achieved. As illustrated in Table I, the State met its funding requirement established by *statutory law* for the fiscal year ended June 30, 1999. Actual contributions varied slightly from contributions required by statute mainly because of differences between estimated and actual federal contributions.

The current statutory law includes a "continuing appropriation," which means that the State must automatically provide funding to the pension systems based on actuarial cost requirements and amortization of the unfunded liability without being subject to the General Assembly's appropriation process.

This statutory funding requirement differs significantly from the annual pension cost ("APC") because the statutory plan does not conform with the GASB Statement 27 accounting parameters. The State's APC for the current year and related information for each plan (dollar amounts expressed in thousands) are included in Table I.

TABLE I *(dollar amounts in thousands)*

	GARS	JRS	SERS	TRS	SURS
Actuarially required contribution ("ARC")	$ 6,092	$ 38,631	$ 319,747	$ 932,909	$ 296,196
Plus: Interest on net pension obligation ("NP	2,897	15,064	98,653	554,058	289,076
Adjustment to the ARC	(1,541)	(8,014)	(74,628)	(321,514)	(156,899)
Annual pension cost ("APC")	7,448	45,681	343,772	1,165,453	428,373
Employer contributions	3,700	18,689	315,525	603,603	237,873
Increase in NPO	3,748	26,992	28,247	561,850	190,500
NPO at June 30, 1998***	36,205	188,303	1,160,624	6,518,330	3,400,896
NPO at June 30, 1999	$ 39,953	$ 215,295	$ 1,188,871	$ 7,080,180	$ 3,591,396
Required contribution amounts/rates:					
* Statutory required contribution - State	$ 3,504	$ 18,293	$ 314,618	$ 592,547	$ 238,300
Members	11.5%	11%	4% - 9.5%	9%	8% - 9.5%
Actuarial valuation date	6/30/99	6/30/99	6/30/99	6/30/99	6/30/99
Actuarial cost method	Proj. Unit Credit	Proj. Unit Credit	Proj. Unit Credit	Proj. Unit Credit	Proj. Unit Credit
Amortization method	Level % of pay	Level % of pay	Level % of pay	Level % of pay	Level % of pay
Remaining amortization period	40 years, open	40 years, open	40 years, open	40 years, open	40 years, open
Asset valuation method	Fair value	Fair value	Fair value	Fair value	Fair value
Actuarial assumptions:					
Investment rate of return	8%	8%	8.5%	8.5%	8.5%
Projected salary increases	6.5%	6%	.5% - 4.7%	6% - 9.3% **	5.5%
Postretirement benefit increases	3%	3%	3%	3%	3%
Inflation rate	4%	4%	3.5%	4%	5%

* Public Act 88-0593 provides for 50-year funding including 15-year phase-in of employer contributions as a percentage of active member payroll increasing until fiscal year 2010, and remaining at that level until fiscal year 2045 when the Systems' funded ratios will be 90%.

** Composite, 7%

*** Prior year balance for SURS revised due to changes in actuarial calculations.

Trend Information. The annual pension cost, the percentage of annual pension cost contributed for the year and the net pension obligation at the end of the year are presented in the following Table II:

Table II (dollar amounts in thousands)

		GARS	JRS	SERS	TRS	SURS
Annual Pension Cost ("APC")						
	6/30/97	$ 6,044	$ 31,672	$ 241,891	$ 1,103,974	$ 543,502
	6/30/98	$ 6,545	$ 35,188	$ 239,048	$ 1,184,289	$ 415,303
	6/30/99	$ 7,448	$ 45,681	$ 343,772	$ 1,165,453	$ 428,373
% of APC Contributed						
	6/30/97	46.11%	43.42%	65.39%	35.81%	33.49%
	6/30/98	47.56%	44.59%	83.98%	40.33%	54.85%
	6/30/99	49.68%	40.91%	91.78%	51.79%	55.53%
Net Pension Obligation						
	6/30/97	$ 32,773	$ 168,807	$ 1,122,318	$ 5,811,726	$ 3,213,690
	6/30/98	$ 36,205	$ 188,303	$ 1,160,624	$ 6,518,330	$ 3,400,896
	6/30/99	$ 39,953	$ 215,295	$ 1,188,871	$ 7,080,180	$ 3,591,396

The prior year amounts for JRS and SURS were revised due to a change in actuarial calculations.

Postemployment Benefits. In addition to providing pension benefits, the State Employees Group Insurance Act requires that the State pay the cost of basic noncontributory health and dental, and life insurance benefits to annuitants who are former State employees. This includes annuitants of all of the State's retirement systems, except the non-state employee members of TRS.

Effective January 1, 1996, legislation transferred the administration of the TRS health insurance program to the Illinois Department of Central Management Services ("CMS"). The legislation also established a funding mechanism consisting of a one-half of one percent contribution from active teachers and matching appropriations from the State to pay the subsidy portion of participating annuitants during fiscal year 1996 and thereafter. Persons enrolling in TRS managed care or residing in areas with no managed care receive a 75% premium subsidy. All others receive a 50% subsidy. At June 30, 1999 there were approximately 31,800 TRS annuitants enrolled in the health plan. Payments into this plan by the annuitants as well as the state subsidy were approximately $55.7 million. The teachers health insurance program is accounted for in the Teachers Health Insurance Security Fund, an enterprise fund. TRS is responsible for program enrollment and eligibility determination. CMS is responsible for providing information and consultation to plan participants.

Substantially all of the State's employees may become eligible for postemployment benefits if they eventually become an annuitant. 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 are limited to $5,000 per annuitant age 60 and older. For fiscal year 1999 the State did not segregate payments made to annuitants from those made to current employees for health and dental, and life insurance benefits. The total cost of all members, including postemployment health and dental, and life insurance benefits, is recognized as an expenditure in the accompanying financial statements as claims are reported and are financed on a pay-as-you-go basis. For fiscal year 1999 the cost of providing postemployment health and dental, and life insurance benefits for the approximately 68,000 annuitants was estimated to be $205.3 million and $1.4 million, respectively.

11 *GENERAL OBLIGATIONS BONDS*

General obligation bonds have been authorized and issued primarily to provide funds for acquisition and construction of capital facilities for higher education, public and mental health, correction and conservation purposes and for maintenance and construction of highway and waterway facilities. Bonds also have been issued to provide assistance to municipalities for construction of sewage treatment facilities, port districts, aquarium facilities, local schools, mass transportation and aviation purposes, and to fund research and development of coal as an energy source. In addition, bonds have been authorized to refund any general obligation bonds outstanding.

The State Constitution provides that the State may issue general obligation bonds for specific purposes in such amounts as provided either by the General Assembly with a three-fifths vote of each house or by a majority of voters in a general election. The enabling acts pursuant to which the bonds are issued provide that all bonds issued thereunder shall be direct obligations of the State of Illinois and pledge the full faith and credit of the State. General obligation bonds are redeemed over a period not to exceed 30 years from available resources in the debt service funds. However, the State of Illinois has generally issued 25 year serial bonds with equal amounts of principal and interest maturing each year, except for capital appreciation and refunding bonds which mature in varying amounts. With the exception of anti-pollution bonds, Illinois offerings generally have call option of the State. Calls can begin 10 years following the date of issuance, in whole or in part, in such order as the State shall determine and at a redemption price not to exceed 102% of par value.

General obligation bonds outstanding and bonds authorized but unissued (amounts expressed in thousands) at June 30, 1999 are as follows:

Purpose	Outstanding Interest Rates	Outstanding Amount	Authorized but Unissued
Capital development	3.50% to 7.90%	$ 2,619,447	$ 1,787,830
Transportation	3.50% to 7.90%	1,547,551	3,021,397
Anti-Pollution	3.50% to 12.0%	295,397	74,663
School construction	3.50% to 7.90%	257,516	1,962,456
Coal development	3.50% to 7.90%	43,917	96,214
Refunding	3.50% to 6.50%	1,362,616	566,806
		$ 6,126,444	$ 7,509,366

Changes in general obligation bonds during the year ended June 30, 1999 are summarized in Note 15. Future general obligation debt service requirements (amounts expressed in thousands) at June 30, 1999 are as follows:

Year Ending June 30	Principal	Interest	Total
2000	$ 498,625	$ 215,741	$ 714,366
2001	496,255	199,335	695,590
2002	478,435	184,197	662,632
2003	479,745	169,337	649,082
2004	467,695	155,081	622,776
Thereafter	4,662,890	1,165,579	5,828,469
	$ 7,083,645	$ 2,089,270	$ 9,172,915
Less: Unaccreted appreciation	957,201		
	$ 6,126,444		

On March 25, 1999, the State issued $400 million in general obligation bonds. A portion thereof, $169.3 million with an average interest rate of 4.7%, plus $4.7 million of the $5.3 million reoffering premium for the total bond issue, were used to advance refund $161.8 million of certain callable maturities of previously issued general obligation bonds that had interest rates ranging from 5.875% to 6.625%. The principal of the refunded bonds will be redeemed on various dates through 2002 at redemption prices of 102%. The net proceeds of $173.2 million (after payment of $.8 million in underwriting fees and bond insurance premium) were used to purchase U.S. government securities which were deposited with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability for those bonds has been removed from the General Long-Term Obligations Account Group. At June 30, 1999, the outstanding balance of the defeased bonds is $161.8 million.

The advance refunding transaction has reduced the State's aggregate debt service payments by $9.8 million, resulting in an economic gain (the difference between the present values of the debt service payments on the old and new debt) of $9.3 million over the life of the refunded bonds.

In prior years, the State defeased certain callable maturities of general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the accompanying financial statements. At June 30, 1999, the outstanding balance of these defeased bonds is $97.7 million. These bonds, bearing interest at rates ranging from 5.0% to 6.75%, are to be redeemed on various dates through 2001 at redemption prices varying from 100% to 102%.

Subsequent to June 30, 1999, the State issued $100 million of general obligation bonds. The bonds, issued on November 3, 1999, mature annually from 2003 through 2017 and bear interest at rates ranging from 4.75% to 6%.

12 SPECIAL OBLIGATION BONDS

Special obligation bonds have been authorized and issued to provide funds for the Build Illinois Program, the State's Metropolitan Civic Center Support Program, and to refund any bonds previously issued under these programs.

The Build Illinois Program was implemented to expand the State's efforts in economic development by providing financing in certain areas. These areas include construction, reconstruction, modernization, and extension of the State's infrastructure; development and improvement of educational, scientific, technical and vocational programs and facilities; expansion of health and human services in the State; protection, preservation, restoration, and conservation of the State's environmental and natural resources; and provision of incentives for the location and expansion of businesses in Illinois resulting in increased employment.

The State's Metropolitan Civic Center Support Act (Support Act) was amended on September 3, 1985, to allow the issuance of bonds to refinance the State's Metropolitan Civic Center Support Program and to provide additional capital for new projects to be financed under the Support Act. The refinancing of the State's Metropolitan Civic Center Support Program is discussed further in Note 14. The Support Act was amended further on September 11, 1990, to allow the issuance of bonds for making construction and improvement grants by the Secretary of State, as State Librarian, to public libraries and library systems. Special obligation bonds are payable primarily from dedicated portions of the State's sales tax and the horse racing privilege tax and are redeemed over a period of not more than 30 years. Additionally, these bonds have call provisions providing for early redemption at the option of the State, beginning 10 years following the date of issuance, in whole or in part, in such order as the State shall determine and within any maturity by lot at varying premiums which decrease periodically.

Special obligation bonds outstanding and bonds authorized but unissued (amounts expressed in thousands) at June 30, 1999, are as follows:

Purpose	Outstanding Interest Rates	Outstanding Amount	Authorized but Unissued
Build Illinois:			
Public infrastructure	3.9% to 7.5%	$ 534,662	$ 645,584
Business development	5.6% to 7.5%	5,968	25,001
Education	3.9% to 7.5%	246,450	63,198
Environment	3.9% to 7.5%	7,397	70,665
Refunding	3.9% to 7.0%	865,340	Unlimited
		1,659,817	804,448
Civic Center:			
Civic centers	5.5% to 7.4%	58,942	135,424
Libraries	5.5% to 6.4%	6,780	3,220
Refunding	3.65% to 7.35%	102,125	Unlimited
		167,847	138,644
		$ 1,827,664	$ 943,092

Changes in special obligation bonds during the year ended June 30, 1999, are summarized in Note 15. Future special obligation debt service requirements (amounts expressed in thousands) at June 30, 1999, are as follows:

Year Ending June 30	Principal	Interest	Total
2000	$ 79,405	$ 93,889	$ 173,294
2001	80,645	91,036	171,681
2002	81,900	88,154	170,054
2003	83,250	85,169	168,419
2004	84,900	81,823	166,723
Thereafter	1,511,795	635,245	2,147,040
	$ 1,921,895	$ 1,075,316	$ 2,997,211
Less: Unaccreted appreciation	94,231		
	$ 1,827,664		

In prior years, the State defeased certain callable maturities of Build Illinois and Civic Center bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the accompanying financial statements. At June 30, 1999, the outstanding balance of the defeased bonds is $359.8 million. These bonds, with interest rates ranging from 5.6% to 7.6%, are to be redeemed on various dates through 2008 at redemption prices varying from 100% to 102%.

13 *REVENUE BONDS*

The State Constitution empowers certain State agencies and authorities to issue bonds that are not supported by the full faith and credit of the State. The bond indentures include a pledge from these agencies and authorities that income derived from acquired or constructed assets be used to retire the debt and service related interest. In addition, certain authorities have issued debt which is classified as “conduit” debt of the State.

Revenue bonds issued by individual agencies are supported by fees, rentals, tolls assessed to users and loan repayments. Issuing agencies of the primary government include the Illinois Student Assistance Commission (Student Loan Revenue Bonds) and the State Universities Retirement System of Illinois (State Universities Retirement System Special Revenue Bonds). Component units issuing agencies include the Illinois Housing Development Authority (Housing Development, Multi-Family Housing, Residential Mortgage, Multi-Family Program, Homeowner Mortgage Revenue and Affordable Housing Program Trust Fund Bonds), Illinois State Toll Highway Authority (Construction Revenue Bonds), Illinois Rural Bond Bank (Bond Bank Revenue Bonds), and universities consisting of Chicago State University, Eastern Illinois University, Northeastern Illinois University, Western Illinois University, Illinois State University, Northern Illinois University, Southern Illinois University and University of Illinois (University Revenue Producing Facilities Construction Bonds). Bonds outstanding (amounts expressed in thousands) at June 30, 1999 (except for the Illinois State Toll Highway Authority which is as of December 31, 1998), net of unamortized discounts, are as follows:

Agency	Amount Outstanding	Interest Rates	Annual Maturity To
Primary Government -			
Enterprise:			
Illinois Student Assistance Commission	$ 1,304,360	3.25% to 18.000%	2032
Trust:			
State Universities Retirement System	18,654	7.25% to 7.450%	2005
Total (Memorandum Only) Primary Government	**1,323,014**		
Component Units -			
Proprietary:			
Illinois Housing Development Authority	2,059,984	3.00% to 15.000%	2031
Illinois State Toll Highway Authority	894,565	3.50% to 6.30%	2017
Illinois Rural Bond Bank	88,585	3.45% to 7.300%	2029
	3,043,134		
Universities and Colleges:			
Chicago State University	25,650	3.45% to 5.50%	2023
Eastern Illinois University	47,215	3.90% to 5.625%	2018
Northeastern Illinois University	6,065	4.50% to 6.200%	2017
Western Illinois University	38,033	4.40% to 6.850%	2020
Illinois State University	59,477	4.40% to 7.350%	2016
Northern Illinois University	83,003	4.70% to 10.050%	2022
Southern Illinois University	125,078	4.24% to 6.750%	2029
University of Illinois	358,475	3.00% to 9.700%	2026
	742,996		
Total Component Units	**3,786,130**		
Total (Memorandum Only) Reporting Entity	**$ 5,109,144**		

Changes in revenue bonds during the year ended June 30, 1999 are summarized in Note 15.

Revenue bond debt service requirements, principal and interest (amounts expressed in thousands) as of June 30, 1999 are as follows:

Year Ending	Primary Government					
	Enterprise		Trust		Total	
June 30	Principal	Interest	Principal	Interest	Principal	Interest
2000	$ 44,767	$ 69,557	$ --	$ --	$ 44,767	$ 69,557
2001	45,530	66,884	--	--	45,530	66,884
2002	33,935	64,346	5,825	--	39,760	64,346
2003	36,910	62,081	--	--	36,910	62,081
2004	73,110	59,941	10,000	--	83,110	59,941
Thereafter	1,076,575	848,771	10,000	--	1,086,575	848,771
	1,310,827	**$ 1,171,580**	25,825	**$ --**	1,336,652	**$ 1,171,580**
Less:						
Unaccreted						
appreciation	147		7,171		7,318	
	$ 1,310,680		**$ 18,654**		**$ 1,329,334**	

Year Ending	Component Units				Total	
	Proprietary		University and College			
June 30	Principal	Interest	Principal	Interest	Principal	Interest
2000	$ 84,390	$ 169,592	$ 33,050	$ 24,182	$ 117,440	$ 193,774
2001	82,015	173,419	37,450	23,217	119,465	196,636
2002	87,030	169,106	38,765	22,071	125,795	191,177
2003	91,150	164,482	40,150	21,191	131,300	185,673
2004	96,135	159,568	40,255	20,276	136,390	179,844
Thereafter	2,722,854	1,735,567	872,455	208,310	3,595,309	1,943,877
	3,163,574	$ 2,571,734	1,062,125	$ 319,247	4,225,699	$ 2,890,981
Less:						
Unaccreted						
appreciation	81,852		315,558		397,410	
	$ 3,081,722		$ 746,567		$ 3,828,289	

Total principal debt service requirements for the primary government includes bond discounts of $6.3 million for enterprise funds. Component unit bond discounts and refundings include $38.6 million for proprietary funds and $3.6 million for university funds.

Illinois Student Assistance Commission (Commission) -

The Commission issues student loan revenue bonds, the proceeds of which are used to purchase student loans from eligible lenders and to originate Stafford subsidized and nonsubsidized loans to Illinois residents. The bonds mature annually in varying amounts, bearing interest rates ranging from 3.25% to 18%.

Bonds outstanding exclusive of refunding issues may not exceed $2,100 million ($1,304.4 million was outstanding at June 30, 1999, net of $6.3 million of unamortized discounts). All student loans purchased by the Commission and all loans financed from the proceeds of bonds issued, along with all revenues received from or on account of these bonds, are pledged as collateral for the bonds. Any losses are guaranteed as to principal and interest by the Commission's Guarantee Loan Program, which can be subrogated to the United States Department of Education.

The bond resolutions provide for early retirement for various bond issues at rates ranging from 100% to 102.5% of par value, with premiums decreasing periodically until unmatured bonds can only be retired at par value. Pursuant to the bond resolutions, reserves for bond retirement and interest payments aggregated $90.9 million at June 30, 1999.

Included in the $1,304.4 million of outstanding revenue bonds are $346.6 million of variable rate demand bonds, (Series B, Series C, Series D, Series 1996A and 1996B, Series 1997A, Series 1997B, Series 1998A and Series 1998B), the proceeds of which were used to purchase and originate student loans. The bonds mature at various dates, bearing interest rates as determined by the remarketing agent that would enable the bonds to be sold at a price equal to their principal amount, but not to exceed 18% per annum for the Series B and Series C bonds, 15% per annum for the Series D, Series 1996B, Series 1997B, and Series 1998B bonds, 12% per annum for the Series 1996A bonds, Series 1997A and Series 1998A bonds.

The bonds, if in a weekly or monthly mode, are subject to purchase on demand of the holder at a price equal to principal plus accrued interest on seven days' notice and delivery to the remarketing agent. The remarketing agent is authorized to sell the repurchased bonds at a price equal to their principal amount by adjusting the interest rate.

Irrevocable letters of credit have been issued by various credit facilities in order to permit the

Trustee to draw amounts to pay the tender price of the variable rate demand bonds tendered for payment under early redemption and demand provisions of the bond issues. Under these letters of credit, the various credit facilities, acting as tender agent, paying agent, and bond registrar for the respective bond issues are entitled to draw the amount needed (a) to pay interest on the bonds on each interest payment date; (b) to pay principal and interest on the bonds called for redemption; (c) to pay principal and interest on the bonds resulting from an acceleration of maturity due to an event of default; and (d) to pay the tender price of bonds tendered or required to be tendered for purchase which is not to be paid from remarketing proceeds or from certain funds held under the indenture. The letters of credit have variable interest rates ranging from the Federal funds rate plus .5% to 20% per annum and expire at various dates from December 1, 1999 through February 25, 2002. If the remarketing agent is unable to resell any bonds that are "put" within 180 days of the "put" date, the Commission is required to repay the amounts drawn on the letters of credit for the redemption of these bonds. Repayment of amounts drawn on the letters of credit will be made by the Commission from the trustee accounts.

The Commission is required to pay to the credit facilities an origination fee based on the line of credit amounts and thereafter, a quarterly commitment fee based on the available amount of the letters of credit. Quarterly commitment fees currently in effect range from .375% to .55% of the available amount of the letters of credit.

State Universities Retirement System (System) –

The System issued revenue bonds to finance the design, acquisition, construction and equipping of a new permanent administrative office building. The bonds are capital appreciation bonds with interest rates ranging from 7.25% to 7.45%. These bonds are payable solely from and secured by a pledge of and first lien on the net revenues derived from investments of the System. They are not payable from any employer or employee contributions to the System. The bond resolutions do not provide for early redemption prior to maturity. At June 30, 1999, bonds outstanding were $18.7 million.

Illinois Housing Development Authority (IHDA) –

The IHDA was created in 1967 to increase the production of low and moderate income housing in Illinois by providing mortgage loans. The IHDA is authorized to have bonds and notes outstanding in an aggregate principal amount not to exceed $3,600 million exclusive of refunding issues. Bonds issued must mature within 50 years from the date of issue, bearing interest rates as determined by the IHDA. Subsequent to July 1, 1983, the maximum interest rate cannot exceed 11% or 70% of the prime rate, whichever is greater. All revenue bonds, issued to provide mortgage loans, are secured by first mortgage liens on the related developments.

At June 30, 1999 bonds outstanding aggregated $2,076.9 million, before unamortized discounts of $16.9 million. Sinking funds established pursuant to bond resolutions at year end aggregated $128.9 million. The bonds mature annually through 2031, bearing interest rates from 3.0% to 15%. The bonds provide for early redemption at the option of the IHDA, in whole or in part, in inverse order of maturity at varying premiums which decrease periodically.

The bonds outstanding are general obligations of the IHDA with the exception of $806.9 million of Homeowner Mortgage Revenue Bonds, $100.8 million of Affordable Housing Program Trust Fund Bonds, $18.3 million of Multi-Family Variable Rate Demand Bonds, $29.9 million of Multi-Family Housing Bonds, 1995 Series A, and $45.1 million of Multi-Family Program Bonds, Series 7 and 8, which are special limited obligations of the IHDA and are payable from pledged property as defined in their respective bond general resolutions. The IHDA has also pledged its general obligation to the payment of the Affordable Housing Program Trust Fund Bonds to a limited extent and amounts.

A portion of the general obligation bonds of the IHDA, outstanding in the amount of $683.2 million, is a moral obligation of the State. In the event that the IHDA determines that funds will not be sufficient for the payment of principal and interest on these bonds, the Chairman of the IHDA shall certify to the Governor as soon as practicable the amount required by the IHDA to enable it to pay such principal and interest. The Governor shall include the amount so certified in the State budget; however, the General Assembly has no obligation to appropriate funds to IHDA.

Included within the IHDA's outstanding revenue bonds are $18.3 million of Multi-Family Variable Rate Demand Bonds Series 1996A and $14.2 million of Multi-Family Housing Revenue Bonds Series 1997 which are variable rate demand bonds. Interest rates on these bonds are determined weekly at a rate established by the remarketing agents on each rate determination date. The IHDA has agreements with liquidity providers to purchase any bonds tendered for purchase in accordance with the indentures with respect to which the Trustee does not, on the date any such tendered bonds are required to be purchased, have sufficient funds to make such purchase. Payment of the principal of and interest on the bonds when due are insured by a financial guarantee insurance policy. The IHDA has a general obligation to reimburse the insurer for any such payments made.

The IHDA has also issued special limited obligations with a claim for repayment solely from payments received with respect to the mortgage loans. The bonds are not general obligations of the IHDA or an obligation of the State. These bonds do, however, apply toward the IHDA's authorized debt limit. As of June 30, 1999, these bonds were outstanding in the amount of $222.4 million.

Subsequent to June 30, 1999, the IHDA issued Homeowner Mortgage Revenue Bonds, 1999 Series D, 1999 Series E, 1999 Series F and 1999 Series G in the aggregate principal amount of $113.7 million. The 1999 Series E and Series G bonds are subject to mandatory tender no later than July 27, 2000 and October 26, 2000 respectively. The 1999 Series D and Series F bonds bear interest rates ranging from 3.75% to 8.25%, and mature semiannually from 2000 through 2030.

Illinois State Toll Highway Authority (THA) –

The THA issued revenue bonds to finance construction of the State toll highway system and to refund in advance of maturity certain outstanding bonds of the Authority. The bond resolutions, with the exception of Series 1996A and Series 1998A, provide for early redemption at the option of the THA in whole or part. Of the outstanding bonds, this option has not been exercised and remains available for the Series 1993A bonds maturing on January 1, 2005 and the variable rate bonds, Series 1993B and Series 1998B. The Series 1993A bonds noted above are callable on or after January 1, 2003. All of the other outstanding bonds are redeemable at maturity. In accordance with the provisions of the bond resolutions, debt reserves on deposit with and invested by the Bond Trustee at December 31, 1998 (the THA's reporting year) aggregated $147.1 million.

At December 31, 1998, THA had bonds outstanding in the amount of $894.6 million. These bonds mature at various dates through 2017 and bear interest rates ranging from 3.5% to 6.3%.

Included within the THA's outstanding revenue bonds are variable rate demand bonds in the amount of $178.2 million for the Series 1993B bonds and $123.1 million for the Series 1998B bonds. These bonds mature in 2010 and 2017, respectively and bear interest rates as determined by the remarketing agents on each rate determination date not to exceed 22% and 25%, respectively. These bonds are subject to redemption if tendered by the holder at a price equal to the principal plus accrued interest upon notice and delivery to the remarketing agent. The THA has agreements with liquidity providers to purchase any bonds so tendered for purchase in accordance with the indentures with respect to which the Trustee does not, on the date any such tendered bonds are required to be purchased, have sufficient funds to make such purchase. The THA has obtained a financial guarantee insurance policy to guarantee the payment of principal and interest on the scheduled maturity dates. The THA has an obligation to reimburse the insurer for any such payments made.

To mitigate the effect of interest rate changes, the THA has entered into Interest Rate Swap Agreements for both the Series 1993B bonds and the Series 1998B bonds. These agreements effectively change the THA's interest rates to a synthetic fixed rate of 4.92% and 4.325%, respectively. The THA will be exposed to variable rates if a counter party to the swap agreement defaults or if the swap is terminated. However, the THA does not anticipate nonperformance. The amounts shown in the schedule of revenue bond debt service requirements are based on the fixed rate effects of this interest rate swap.

In addition, as of December 31, 1998, the THA has $380.2 million of revenue bonds outstanding which have been advance refunded. U.S. Government securities have been deposited in an irrevocable trust with an escrow agent to satisfy all future debt service requirements of these bonds. As a result, these bonds are considered defeased and are not included in the accompanying financial statements.

Illinois Rural Bond Bank (Bank) –

The Bank issues revenue bonds and notes whose proceeds are used for (1) the purchase of securities of local Illinois governmental units to include the establishing or increasing reserves in securing the payment of the bonds and/or interest on the bonds and (2) to pay, fund or refund any bonds issued by the Bank. The Bank is authorized to have bonds and notes outstanding in an aggregate original principal amount not to exceed $200 million.

In the event that the Bank determines that funds will not be sufficient for the payment of the principal and interest on its bonds and notes, the Chairman of the Bank shall certify to the Governor, as soon as possible, the amount required by the Bank to enable it to pay such principal and interest. The Governor shall include the amount so certified in the State budget as soon as practically possible; however, the General Assembly has no obligation to appropriate funds for the Bank.

At June 30, 1999, bonds outstanding aggregated $88.6 million. Sinking funds established pursuant to bond resolutions at year end aggregated $7.1 million. The bonds mature annually through 2029, bearing interest at rates ranging from 3.45% to 7.3%. The bonds provide for early redemption at the option of the Bank in whole or in part. Bonds maturing on various dates between February 1, 2001 through February 1, 2010 are redeemable at 102% of par, with the premium decreasing periodically until February 1, 2009. Thereafter, the bonds are redeemable at par value.

Included within the $88.6 million of outstanding revenue bonds are $19.8 million of bonds which do not require the Governor to include in the State budget the amount necessary for payment of principal and interest. Payment of principal and interest on these bonds is guaranteed by a municipal bond insurance policy.

Subsequent to June 30, 1999, the Bank issued the Bond Bank Revenue Bonds Series 1999 and Series 1999B in the amount $1.6 million and $4.5 million, respectively. The bonds mature annually from 2000 through 2030 at interest rates ranging from 3.7% to 5.75%.

Universities –

The Boards of Chicago State University, Eastern Illinois University, Northeastern Illinois University, Western Illinois University, Illinois State University, Northern Illinois University, Southern Illinois University, and the University of Illinois (hereinafter the "Boards"), as empowered by enabling acts, have issued various revenue bonds to support construction of student housing and other revenue producing facilities at State universities. These bonds do not constitute general obligations of either the State of Illinois or the Boards but, together with interest thereon, are payable solely from and are secured by, subject to the prior pledge and lien of existing refunded bonds, (i) the net revenues of the Boards; (ii) debt service grants; (iii) income received from certain special accounts; (iv) retained tuition fees (subject to prior payment of related operating and maintenance expenses); (v) certain debt service reserves; (vi) certain repair and replacement reserves; and (vii) the principal of the special accounts arising on refundings, all as defined in the various bond resolutions. In accordance with provisions of the bond resolutions, debt service funds and reserves on deposit aggregated $160.8 million at June 30, 1999. The bonds are callable prior to their maturity in accordance with the provisions of the bond resolutions, including premiums of up to 5%.

Subsequent to June 30, 1999, the Board of Trustees of Western Illinois University issued the Auxiliary Facilities System Revenue Bonds, Series 1999 in the amount of $10.0 million. The Series 1999 bonds mature annually from 2001 through 2024 at interest rates ranging from 5.2% to 5.3%.

Contingent Liabilities –

Metropolitan Pier and Exposition Authority (McCormick Place) –

In July 1998, the State amended the Metropolitan Pier and Exposition Authority Act (Act) to authorize the issuance of McCormick Place Expansion Project bonds in the aggregate original principal amount of $1,037 million (excluding the amount of any refunding bonds and notes). The Act also authorizes the McCormick Place to levy certain taxes (MPEA Taxes) to secure the bonds and for certain other purposes. The MPEA Taxes would include (i) a sales tax within portions of the City of Chicago on food, alcoholic beverages, and soft drinks sold for consumption on the premises and on certain sales for immediate consumption off the premises, (ii) a tax at the rate of 2.5% of the gross rental receipts of hotels located within the City of Chicago, (iii) a 6% tax on gross receipts of the business of renting automobiles in Cook County, Illinois, (iv) a 6% use tax on automobiles rented outside Illinois which are titled or registered with an agency of the State for use in Cook County, Illinois, and (v) a tax on taxis and livery vehicles ranging from $2 per taxi departure to $27 per bus having a capacity of over 24 passengers. In addition, subject to appropriation, amounts of State sales tax ranging from $71 million for fiscal year 1999 and graduating to $106 million for fiscal year 2007 and thereafter (until 2029) would be available for the payment of debt service on the additional bonds to the extent that the MPEA Taxes are not sufficient for such purpose.

The McCormick Place issued revenue bonds Series 1992A, Series 1994B and Series 1998B in the aggregate principal amount of $1,036.4 million to finance the McCormick Place expansion and certain other improvements to its facilities and Navy Pier. The McCormick Place also issued revenue refunding bonds Series 1994A, Series 1996A and Series 1998A in the aggregate principal amount of $737.0 million to refund in advance of their maturity $531.0 million of the Series 1992A bonds and $45.3 million of the Series 1994 A&B bonds.

As of June 30, 1999, the outstanding bonds, which the State is contingently obligated to pay, are $1,290.2 million. These bonds bear interest at rates ranging from 4.5% to 8.5% with the exception of certain bonds. The Series 1992A and Series 1994B bonds maturing in 2004 and the Series 1998B bonds maturing in 2009 bear interest at a rate of 50%. These bonds, in the aggregate principal amount of $21.0 million, were sold at a premium with effective yields ranging from 4.7% to 5.9%. The McCormick Place bonds mature annually until 2029.

In addition, as of June 30, 1999, the McCormick Place has $584.1 million of revenue bonds outstanding which have been advance refunded. U. S. Government securities have been deposited in an irrevocable trust with an escrow agent to satisfy all future debt service requirements of these bonds. As a result, these bonds are considered defeased and the State is no longer contingently liable for them.

Subsequent to June 30, 1999, the McCormick Place issued $310.3 million of refunding bonds and $133.4 million of expansion bonds. These bonds mature annually from 2010 through 2028 and bear interest at rates ranging from 5.25% to 7.16%.

Southwestern Illinois Development Authority (SWIDA) –

The SWIDA, whose mission is to promote and enhance economic development in the counties of Madison and St. Clair, Illinois, has issued $109.1 million of revenue bonds. The proceeds of these bonds were loaned to several companies for the acquisition of land and construction of various types of facilities. These companies are primarily liable for repayment of the bonds, which are secured by SWIDA loan agreements with the companies. These bonds bear interest at rates ranging from 3.4% to 9.25% and mature annually through 2021. The State has accepted a moral obligation to repay the bonds in the event the SWIDA and the companies are unable to meet the bonds' repayment commitments.

During the fiscal year, the SWIDA issued the Solid Waste Disposal Refunding Revenue Bonds, Series 1998A and Series 1998B, in the aggregate principal amount of $3.7 million to refund, in advance of their maturity, the outstanding Waste Recovery bonds of 1994. The SWIDA also issued $2.9 million of the Special Facility Refunding Bonds (Children's Center for Behavioral Development Project) Series 1998 to advance refund $2.7 million of the Center's Series 1990 bonds. Both companies deposited proceeds from their bond issues, along with other available funds, into separate irrevocable trusts with an escrow agent to provide for their respective advance refundings. As a result, the refunded bonds are considered defeased and the State no longer has a moral obligation to repay the bonds.

As of June 30, 1999, the outstanding balance of bonds, which the State is morally obligated to repay, is $75.3 million. The outstanding balance of the refunded bonds is $7.9 million.

The SWIDA has also issued $208.2 million of revenue bonds, the proceeds of which were loaned to several companies. Of this amount, $81.0 million was issued this year and was loaned to Meridian Village, City of East St. Louis, Anderson Hospital, and Illinois – American Water. These bonds are special, limited obligations of the SWIDA and can only be repaid from payments by the above companies. Unlike the bonds in the preceding paragraph, the State has not accepted a moral obligation to repay the bonds in the event the SWIDA and the companies are unable to meet the bonds' repayment commitments. At June 30, 1999, the outstanding balance is $182.1 million.

Quad Cities Regional Economic Development Authority (Authority) –

The Authority has issued $27.2 million of revenue bonds, the proceeds of which were loaned to HDC, Inc. and to Thoms-Proestler Company to provide permanent financing for the acquisition and construction of various types of facilities. These companies are primarily liable for repayment of the bonds, which are secured by (i) mortgages and security agreements from HDC, Inc. and Thoms-Proestler Company to the Authority, (ii) a leasehold mortgage and security agreement from HDC, Inc. to the Authority, (iii) an assignment of leases, rents and revenues from HDC, Inc. to the Authority, and (iv) a guaranty by HDC, Inc. to the trustee. The bonds mature semiannually through 2017 and bear interest at rates of 8.7% and 9.75%. The State has accepted a moral obligation to repay the bonds in the event the Authority and the companies are unable to meet the bonds' repayment commitments. At June 30, 1999, the outstanding balance is $15.6 million.

The Authority has also issued $17.3 million of revenue bonds, the proceeds of which were loaned to several companies. Of this amount, $5.5 million was issued this year and was loaned to Plastic Products Company, Inc., Steel Warehouse Quad Cities, Inc., and Seaberg Industries, Inc. These bonds are special, limited obligations of the authority and can only be repaid from payments by the companies. Unlike the bonds of the preceding paragraph, the State has not accepted a moral obligation to repay the bonds in the event the Authority and the companies are unable to meet the bonds' repayment commitments. At June 30, 1999, the outstanding balance is $16.3 million.

Upper Illinois River Valley Development Authority (UIRVDA) –

The UIRVDA, whose mission is to promote and enhance economic development within the counties of Grundy, LaSalle, Bureau, Putnam, Kendall and Marshall, Illinois, has issued $7.0 million of revenue bonds. The proceeds from these bonds were loaned to Waste Recovery – Illinois (the Company) to finance the acquisition, construction, equipment and installation of a tire recycling and tire-derived fuel processing facility and to refund in advance of their maturity certain bonds. The Series 1994 bonds, outstanding in the amount of $2.9 million, were refunded through the issuance of a like amount of the Solid Waste Refunding Revenue bonds, Series 1998, (Waste Recovery – Illinois Project). The Series 1994 bonds were refunded for the purpose of extending the maturity dates over an additional ten years and to effect a decrease in interest rates of .6%.

The Company is primarily liable for repayment of the bonds, which are secured by an assignment and a pledge of revenues derived from a separate loan agreement between the UIRVDA and the Company. These bonds mature annually through 2014 and bear interest at a rate of 5.9%. The State has accepted a moral obligation to repay the bonds in the event the UIRVDA and the Company are unable to meet the bonds' repayment commitments. At June 30, 1999, the outstanding balance is $2.8 million.

The UIRVDA has also issued $16.6 million of revenue bonds, the proceeds of which were loaned to Exolon-Esk Company and General Electric Company. These bonds are special, limited obligations of the UIRVDA and can only be repaid from payments by Exolon-Esk Company and General Electric Company. Unlike the bonds in the preceding paragraph, the State has not accepted a moral obligation to repay the bonds in the event the UIRVDA and the companies are unable to meet the bonds' repayment commitments. At June 30, 1999, the outstanding balance is $16.6 million.

Defeased Revenue Bonds –

In September 1998, the Eastern Illinois University issued $31.8 million in revenue bonds with interest rates ranging from 3.9% to 5% to advance refund $11.4 million of the outstanding Series 1989 CAB bonds and $7.9 million of the outstanding Series 1994 bonds with interest rates ranging from 5.4% to 7.1%. The net proceeds, together with $2.9 million from the debt service reserve accounts were used to purchase U.S. government securities, which were deposited in an irrevocable trust with an escrow agent for future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements.

The advance refunding decreased the total debt service requirements by $.9 million and resulted in an economic gain or present value savings of $1.0 million over the life of the refunded bonds. An accounting loss of $3.4 million was recognized during fiscal year 1999 relative to the refunding transaction.

On December 23, 1998, the Chicago State University issued $24.4 million of revenue bonds with interest rates ranging from 3.45% to 5.5% to advance refund $22.6 million of revenue bonds with interest rates ranging from 5.15% to 6.15%. The net proceeds were used to purchase U.S. government securities, which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements.

Although the advance refunding resulted in the recognition of an accounting loss of $2.2 million, the Chicago State University reduced its aggregate debt service payments by $.9 million and obtained an economic gain or present value savings of $.8 million over the life of the refunded bonds.

Also, in December 1998, the Illinois State Toll Highway Authority issued $325.1 of revenue bonds with interest rates ranging from 4.0% to 5.5% to advance refund $313.1 million of revenue bonds with interest rates ranging from 5.75% to 6.45%. The net proceeds were used to purchase U.S. government securities which were deposited in an irrevocable trust which with interest thereon, will be sufficient to pay all future debt service requirements of the refunded bonds.

The refunding transaction resulted in the recognition of an accounting loss of approximately $34.7 million based upon the required deposit to the irrevocable trust and the write off of related unamortized deferred bond issuance costs. The Authority also reduced its aggregate debt service payments by approximately $39.7 million over the next 18 years and obtained an economic gain or present value savings of approximately $26.9.million.

In addition on February 18, 1999, the Illinois Student Assistance Commission (ISAC) issued $34.6 million of new bonds with interest rates ranging from 3.25% to 4.25% to currently refund a like amount of bonds maturing March 1, 1999. The refunding bonds are fixed rate bonds.

The current refunding resulted in no difference between the reacquisition price and the net carrying amount of the old debt. However, the current refunding increased the total debt service payments by $6.5 million over the life of the new debt and resulted in an economic present value loss of $5.6 million.

The State Toll Highway Authority, the Illinois Housing Development Authority, and State universities consisting of Chicago State University, Eastern Illinois University, Western Illinois University, Northern Illinois University, Illinois State University, Southern Illinois University, and the University of Illinois had previously defeased outstanding bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liability for the defeased bonds are not included in the financial statements. On June 30, 1999, $718.7 million of bonds outstanding are considered defeased. These bonds have interest rates ranging from .05% to 10.4% with principal maturing until 2023.

Conduit Debt (not included in financial statements) –

The State of Illinois, by action of the General Assembly, created various authorities for the express purpose of providing private entities with an available low cost source of capital financing for construction of facilities deemed to be in the public interest. Fees are assessed to recover related processing and application costs incurred. Bonds issued by the authorities represent limited obligations payable solely from payments made by the borrowing entities. The majority of the bonds are secured by the property financed. Upon repayment of a bond, ownership of acquired property transfers to the entity served by the bond issuance. The State has no obligation for this debt. Accordingly, these bonds are not reflected in the accompanying financial statements. At June 30, 1999, recorded amounts of revenue bonds, net of defeased bonds and notes outstanding (amounts expressed in thousands) as reported by authority officials are as follows:

Authority		Amount Outstanding	Annual Maturity To
Illinois Health Facilities Authority		$ 6,853,078	2033
Illinois Development Finance Authority			
Environmental facilities	$ 1,426,638		2032
501(c)(3) not for profit	2,254,991		2036
Industrial development	1,046,929		2032
Infrastructure	816,653		2024
Housing	426,408		2037
Financially distressed city	18,900		2013
Leases and certificates of participation	49,299		2019
		6,039,818	
Illinois Educational Facilities Authority		1,912,414	2038
Illinois Housing Development Authority		222,385	2034
Southwestern Illinois Development Authority		182,148	2038
Illinois Farm Development Authority		85,701	2038
Quad Cities Regional Economic Development Authority		16,286	2018
Upper River Valley Development Authority		16,600	2023
		$ 15,328,430	

14 OTHER LONG-TERM OBLIGATIONS

Other long-term obligations reported in the General Long-Term Obligations Account Group and disclosed below are as follows (in millions):

Description	Reference	Amount
Metropolitan Pier and Exposition Authority (McCormick Place) liability	(A)	$ 314.1
Compensated absences	(B)	514.6
Regional Transportation Authority liability	(C)	475.9
Workers' compensation liability	(D)	55.0
Capital lease obligations	(E)	16.1
Illinos Sports Facilities Authority liability	(F)	28.8
Installment purchase obligations	(G)	24.7
Certificates of participation	(H)	124.9
Other obligations	(I)	1.8
Total Other Long-Term Obligations		**$ 1,555.9**

(A) Metropolitan Pier and Exposition Authority (Authority) Liability -

In July 1984, and November 1985, the State amended the "Metropolitan Fair and Exposition Authority Act" (Act) to authorize the issuance of $265 and $47.5 million, respectively, for a total authorization of $312.5 million, in additional bonds. Bond proceeds were used (1) to pay construction costs of completing the McCormick Place expansion, (2) to pay the construction costs of projects authorized by the Illinois General Assembly in the future, and (3) to refund any outstanding bonds of the McCormick Place that were issued prior to July 1, 1984. The Act was further amended in July and August 1986 to authorize the issuance of refunding bonds either on a parity with or subordinated to the 1984 and 1985 bonds. In addition, in July 1989 the Act was amended to change the name to Metropolitan Pier and Exposition Authority and to expand its purposes to provide for the acquisition and improvement of the Navy Pier in Chicago.

The Illinois General Assembly also amended certain tax laws in July 1984 and November 1985 to provide for 1.75% of total State sales tax revenues, 3% of 94% of total hotel room rental receipts, and $1.7 million per year out of 7% of State racing tax revenues to be deposited into the Build Illinois Fund, which replaced the Tourism Fund, as collected. The legislation provides for credits to separate accounts within the Build Illinois Fund of which the "McCormick Place Account" is one and has first priority credit of the amounts collected.

In August 1984, the Metropolitan Fair and Exposition Authority issued $252.5 million of bonds at interest rates ranging from 7% to 10.375% and maturing annually through 2014. Additionally, in December 1985, the Authority issued $60.1 million in bonds at interest rates varying from 6% to 8.875% and maturing annually through 2015.

During 1986, the Authority issued 1986 and 1986A Series refunding bonds. The 1986 Series bonds, issued in the amount of $324.2 million with interest rates ranging from 4.9% to 8% and maturing annually through 2014, were used to defease the remaining 1984 Series bonds. The 1986A Series bonds, issued in the amount of $62.6 million with interest rates ranging from 3.75% to 7% and maturing annually through 2015, were used to defease certain callable maturities of 1985 Series bonds. In March 1992, the 1992 Series refunding bonds were issued in the amount of $182.1 million, with interest rates ranging from 4% to 6.75% and maturing annually through 2010, to defease certain callable maturities of 1985 Series bonds and 1986 Series bonds. In July 1995, the 1995 Series refunding bonds were issued in the amount of $54.1 million, with interest rates ranging from 4.3% and 6.25% and maturing annually through 2011, to defease $51.6 million of certain callable maturities of 1986 Series bonds and 1986A Series bonds. The proceeds of the 1986, 1986A, 1992 and 1995 Series bonds were placed in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the financial statements. As of June 30, 1999, the outstanding balance of the defeased bonds was zero.

As of June 30, 1999, the balance of the bonds outstanding was $314.1 million and is included as "Other Obligations" in the General Long-Term Obligations Account Group. Future McCormick Place debt service requirements (amounts expressed in thousands) at June 30, 1999 are as follows:

Year Ending June 30	Principal	Interest	Total
2000	$ 12,995	$ 18,586	$ 31,581
2001	13,785	17,807	31,592
2002	14,645	16,985	31,630
2003	15,530	16,067	31,597
2004	16,545	15,080	31,625
Thereafter	240,615	81,925	322,540
	$ 314,115	**$ 166,450**	**$ 480,565**

(B) Compensated Absences -

Most employees earn annual leave ranging from 1 to 2 days per month with maximum accumulation ranging from 20 to 50 days. At June 30, 1999, the liability for accrued annual leave was approximately $264.6 million, including salary-related costs of $16.3 million, for the governmental funds.

Until January 1, 1984, sick leave, which generally is earned one day per month with unlimited accumulation, was paid only when an employee was absent due to illness of other acceptable circumstances as outlined by personnel regulations. Effective January 1, 1984, upon death, retirement, resignation or termination from State employment, employees are able to receive payment for one-half of accumulated sick leave earned subsequent to January 1, 1984, or full service credit for such accumulated sick leave under the State Employees Article of the State Pension Code.

During fiscal year 1998, Public Act 90-65 was enacted, which eliminates compensation for sick leave accumulated on or after January 1, 1998. However, the unused sick leave may be used to establish retirement system service credit as provided in the Illinois Pension Code.

At June 30, 1999, the liability for sick leave earned subsequent to January 1, 1984 was $250.0 million, including $14.9 million of salary-related costs. Thus, the State's liability for compensated absences reported in the General Long-Term Obligations Account Group amounted to $514.6 million at June 30, 1999. As explained in Note 1-O, this amount does not include compensated absences liabilities for propriety, pension trust and university fund types and component units.

(C) Regional Transportation Authority (Authority) Liability -

The Authority was authorized by the Regional Transportation Authority Act to issue bonds in the principal amount of $100 million on or after January 1, 1990 and increasing $100 million per year until January 1, 1994, for a total authorization of $500 million used for Strategic Capital Improvement Projects (SCIP). These projects were used to acquire, repair or replace public transportation facilities in the metropolitan region as approved by the Governor.

Since June 1992, the Authority has issued $500 million of bonds with interest rates ranging from 3.75% to 9% and maturing annually through 2025.

The bonds are general obligations of the Authority to which the full faith and credit of the Authority is pledged. However, for State fiscal years in which the SCIP bonds are outstanding, the State's assistance shall be transferred monthly from the General Revenue Fund to the Public Transportation Fund for payment in an amount equal to the lesser of monthly debt service on the SCIP bonds, or one-twelfth of the amount of the State's assistance as provided in the authorization. The authorization provided for $40 million for 1996, $50 million for 1997, and $55 million for each year thereafter. Although the amount of the State's assistance is measured by the debt service on the SCIP bonds, the assistance is not pledged for payment of or security for the SCIP bonds. The State's assistance is paid directly to the Authority and may be spent by the Authority at its discretion. As of June 30, 1999, the outstanding balance included in the General Long-Term Obligations Account Group is $475.9 million.

Future Regional Transportation Authority debt service requirements (amounts expressed in thousands) at June 30, 1999 are as follows:

Year Ending June 30	Principal	Interest	Total
2000	$ 8,310	$ 31,145	$ 39,455
2001	8,770	30,690	39,460
2002	9,275	30,202	39,477
2003	9,815	29,677	39,492
2004	10,500	29,007	39,507
Thereafter	429,235	336,527	765,762
	$ 475,905	**$ 487,248**	**$ 963,153**

(D) Workers' Compensation Liability -

The workers' compensation liability has been determined using claims outstanding and a projection of claims to be submitted, based upon prior years' experience of the State. Claims that will be liquidated with expendable available financial resources have been recorded as a liability in the General Fund, Road Fund and Mental Health Fund (special revenue funds), in the amounts of $30.2, $15.9 and $19.0 million, respectively. The remaining portion of the liability, $55.0 million as of June 30, 1999, is included in the General Long-Term Obligations Account Group. Of this liability, $26.5, $10.1 and $18.4 million are expected to be paid from future resources of the General Fund, the Road Fund and the Mental Health Fund, respectively. In addition, a $6.4 million workers' compensation liability has been included in the University fund type included in component units.

(E) Lease Commitments -

The State leases land, office facilities, office and computer equipment and other assets. Although lease terms vary, certain leases are renewable subject to appropriation by the General Assembly. If renewal is reasonably assured, leases requiring appropriation by the General Assembly are considered noncancelable leases for financial reporting purposes. At June 30, 1999, assets capitalized under capitalized leases included in property, plant and equipment (amounts expressed in thousands) are as follows:

	Primary Government		
	General Fixed Assets	Proprietary Fund Types	Component Units
Land and land improvements			$ 500
Buildings and building improvements	$ 4,032	$ 1,808	2,455
Equipment	6,600	1,968	17,798
	10,632	3,776	20,753
Less: Accumulated depreciation		557	
	$ 10,632	$ 3,219	$ 20,753

Future minimum commitments for noncancelable leases (amounts expressed in thousands) as of June 30, 1999 are as follows:

Primary Government

Year Ending June 30	Operating Leases	Capitalized Leases: General Long-Term Obligatioins	Capitalized Leases: Proprietary Fund Types	Total
2000	$ 86,072	$ 4,059	$ 697	$ 90,828
2001	72,654	3,547	472	76,673
2002	57,033	2,893	272	60,198
2003	29,131	2,511	214	31,856
2004	11,579	2,162	210	13,951
Thereafter	8,338	6,550	210	15,098
Total minimum lease payments	**$ 264,807**	21,722	2,075	**$ 288,604**
Less amounts representing interest		5,636	236	
Present value of net minimum lease payments		**$ 16,086**	**$ 1,839**	

Component Units

Year Ending June 30	Operating Leases	Capitalized Leases: University and College Funds	Capitalized Leases: Proprietary Fund Types	Total
2000	$ 8,354	$ 9,415	$ - -	$ 17,769
2001	4,854	8,079	- -	12,933
2002	3,540	6,819	- -	10,359
2003	2,173	6,614	- -	8,787
2004	727	6,031	- -	6,758
Thereafter	226	35,378	- -	35,604
Total minimum lease payments	**$ 19,874**	72,336	- -	**$ 92,210**
Less amounts representing interest		16,282	- -	
Present value of net minimum lease payments		**$ 56,054**	$ - -	

Rental payments (amounts expressed in thousands) for operating leases charged to operations during the year ended June 30, 1999 aggregated $290,826 for the primary government and $18,700 for component units.

(F) Illinois Sports Facilities Authority (Authority) Liability -

The Authority is authorized by the Illinois Sports Facilities Authority Act to issue bonds in the principal amount of $150 million to be used for providing sports stadiums for professional sports teams. On March 1, 1989, $150 million of bonds were issued with interest rates ranging from 6.8% to 7.875% and maturing annually through 2010.

During fiscal year 1999, Illinois Sports Facility Authority issued $103.8 million of revenue bonds with interest rates ranging from 4.0% to 5.0% to currently refund $111.4 million of revenue bonds with interest rates ranging from 7.45% of 7.875%. The refunding transaction has saved the Authority aggregate debt service payments of $17.9 million and will result in an economic gain or present value savings of $12.3 million over the life of the refunded bonds.

The bonds are secured by payments from the Illinois Sports Facilities Fund that consist of annual payments of $5 million from the State's Hotel Operator's Occupation Tax, $8 million from the Authority's Hotel Tax and $5 million from the City of Chicago's share of the Local Government Distributive Fund. The State's maximum liability is limited to $13 million annually, but the State anticipates that $8 million, derived from the Authority's Hotel Tax, will reduce this liability to $5 million annually. In fiscal year 1999, receipts from the Authority's Hotel Tax totaled $24.1 million. As of June 30, 1999, the State's share of the outstanding principal balance was $28.8 million.

The State (and non-State) share of future Illinois Sports Facilities Authority debt service requirements (amounts expressed in thousands) at June 30, 1999 are as follows:

Year Ending	State Share		Non-State Share		Total	
June 30	Principal	Interest	Principal	Interest	Principal	Interest
2000	$ 2,122	$ 1,394	$ 5,518	$ 3,626	$ 7,640	$ 5,020
2001	2,174	1,257	5,651	3,269	7,825	4,526
2002	2,261	1,170	5,879	3,043	8,140	4,213
2003	2,351	1,080	6,114	2,807	8,465	3,887
2004	2,446	986	6,359	2,563	8,805	3,549
Thereafter	17,467	3,122	45,413	8,117	62,880	11,239
	$ 28,821	$ 9,009	$ 74,934	$ 23,425	$ 103,755	$ 32,434

(G) Installment Purchase Obligations -

The State has acquired certain land, office facilities, office and computer equipment, and other assets through installment purchase arrangements. Future commitments under installment purchase contracts (amounts expressed in thousands) as of June 30, 1999 are as follows:

Year Ending June 30	Primary Government: General Long-Term Obligations Principal	Primary Government: General Long-Term Obligations Interest	Primary Government: Proprietary Fund Types Principal	Primary Government: Proprietary Fund Types Interest	Primary Government: Total	Component Units: University Funds Principal	Component Units: University Funds Interest	Component Units: Total
2000	$ 13,223	$ 577	$ 1,881	$ 110	$ 15,791	$ 2,206	$ 638	$ 2,844
2001	9,008	399	1,114	51	10,572	1,346	539	1,885
2002	1,595	90	600	8	2,293	1,311	468	1,779
2003	751	43	- -	- -	794	896	405	1,301
2004	136	7	- -	- -	143	830	344	1,174
Thereafter	- -	- -	- -	- -	- -	6,180	2,657	8,837
Total future commitments	**$ 24,713**	**$ 1,116**	**$ 3,595**	**$ 169**	**$ 29,593**	**$ 12,769**	**$ 5,051**	**$ 17,820**

(H) Certificates of Participation -

State-issued Certificates of Participation. The State is authorized to issue certificates of participation ("Certificates") representing the right to receive a proportionate share in lease-purchase or installment purchase payments to be made for the benefit of State agencies for the acquisition or improvement of real or personal property, refinancing of such property, payment of expenses of such property, or payment of expenses related to the issuance. During fiscal year 1996, the State, acting by and through the Bureau of the Budget, issued $38.8 million of these certificates to provide for the construction and lease purchase of certain correctional facilities to be operated by the Department of Corrections at various sites within the State. The certificates have interest rates ranging from 4.15% to 6.375% and maturing annually through 2017. The outstanding balance of the certificates as of June 30, 1999 included in the General Long-Term Obligations Account Group is $37.2 million.

The University of Illinois has also issued certificates of participation representing the right to receive a proportionate share of lease-purchase or installment payments. On August 1, 1990, the University of Illinois issued $3.3 million of the certificates, with an interest rate of 7.25% and maturing in 2000, to finance the construction of a facility to house academic units in Area Studies and International Programs. On January 1, 1991, $16.8 million of the certificates were issued, at interest rates ranging from 5.9% to 6.4% and maturing annually through 1998, to finance the acquisition and installation of the construction of a building for an electrical and high temperature hot water cogeneration system. On April 1, 1995, $29.9 million of the certificates were issued, at interest rates ranging from 4.1% to 5.4% and maturing semiannually through 2005, to finance the purchase of a firm supply of natural gas from Mid-Con Gas Services Corporation. On September 15, 1997, $46.0 million of the certificates were issued, at interest rates ranging from 4% to 5.75% and maturing annually through 2009, to finance various utility system development projects.

Subsequent to June 30, 1999, the University of Illinois issued $78.5 million of the certificates. The certificates, issued August 15, 1999, mature annually from 2001 through 2016 and bear interest at rates ranging from 4.1% to 5.5%.

Northern Illinois University (NIU) has also issued certificates of participation representing the right to receive a proportionate share of lease-purchase or installment payments. On October 1, 1992, NIU issued $3.4 million of the certificates, with interest rates ranging from 3.75% to 6.8% and maturing annually through 1999, to finance the acquisition of telecommunication equipment. On August 15, 1993, $8.5 million of the certificates were issued, at interest rates ranging from 2.95% to 5.3% and maturing annually through 2008, to refund outstanding certificates issued for additional improvements to the Hoffman Estates Education Center. On June 1, 1997, $3.1 million of the certificates were issued, at interest rates ranging from 4% to 4.875% and maturing annually through 2004, to finance the acquisition of data processing equipment.

The outstanding balance of the certificates as of June 30, 1999 is $78.3 million and is included as "Other Obligations" in the component units.

Non-State-issued Certificates of Participation. The State also finances the purchase of certain state-owned real and personal property through third party (non-State issued) certificates. These non-State issued certificates are sold by private concerns and are repaid by State agency appropriations pursuant to installment purchase agreements. The outstanding balance of non-State issued certificates included in the General Long-Term Obligations Account Group as of June 30, 1999 is $87.8 million. There are no outstanding non-State issued certificates in the component units as of June 30, 1999.

Future commitments by the State to make installment payments to pay for the assets acquired and related financing costs for State and non-State issued certificates (amounts expressed in thousands) at June 30, 1999 are as follows:

	Certificates of Participation					
	General Long-Term Obligations Account Group					
Year Ending	State Issued		Non-State Issued		Total	
June 30	Principal	Interest	Principal	Interest	Principal	Interest
2000	$ 1,190	$ 2,080	$ 3,840	$ 5,125	$ 5,030	$ 7,205
2001	1,240	2,023	4,075	4,916	5,315	6,939
2002	1,295	1,962	4,325	4,688	5,620	6,650
2003	1,360	1,896	4,570	4,442	5,930	6,338
2004	1,425	1,825	4,845	4,176	6,270	6,001
Thereafter	30,650	14,461	66,110	27,313	96,760	41,774
	$ 37,160	$ 24,247	$ 87,765	$ 50,660	$ 124,925	$ 74,907

	Certificates of Participation					
	Component Units					
Year Ending	State Issued		Non-State Issued		Total	
June 30	Principal	Interest	Principal	Interest	Principal	Interest
2000	$ 7,545	$ 3,988	- -	- -	$ 7,545	$ 3,988
2001	7,490	3,615	- -	- -	7,490	3,615
2002	7,115	3,258	- -	- -	7,115	3,258
2003	7,470	2,902	- -	- -	7,470	2,902
2004	7,855	2,506	- -	- -	7,855	2,506
Thereafter	40,835	7,985	- -	- -	40,835	7,985
	$ 78,310	$ 24,254	$ - -	$ - -	$ 78,310	$ 24,254

(I) Other Obligations -

The State's risk financing of auto liability, determined using an estimate of claims outstanding, approximates $2.4 million as of June 30, 1999. Both the General Fund and the Road Fund have recorded liabilities of $1.2 million that will be liquidated with expendable available resources.

As discussed in Note 1-B, the State has an outstanding amount due of $1.8 million in interest to the Great Lakes Protection Fund.

(J) Metropolitan Exposition Auditorium and Office Building Authorities -

The General Assembly, through adoption of the

"Metropolitan Civic Center Support Act" (Support Act), created the Metropolitan Exposition Auditorium and Office Building Fund (Fund) into which 33.5% of all monies received by the State as horse racing taxes are deposited. At June 30, 1999, the balance of the Fund is $31.8 million. The purpose of the Fund is to secure and retire a proportionate share of locally issued revenue bonds, the proceeds of which were used to construct local civic and exposition centers. The Support Act was amended in September 1985 to provide State financial support by issuing direct, limited obligation revenue bonds for the advanced refunding of any civic center bond issued before July 1, 1985 and for newly certified applicants after July 1, 1985. It was further amended to increase the limitation of the aggregate amount of principal issued and outstanding in State and local bonds subject to State financial support for all Authorities from $75 million to $200 million. In addition, further restrictions exist as to the amount to be committed on behalf of any single taxing authority.

On December 15, 1985, the State defeased previous State supported guarantees by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the State supported guarantees. Accordingly, the trust account assets and the liability for the guarantees are not included in the State's financial statements. The bonds used to defease the State supported guarantees are further discussed in Note 12, Special Obligation Bonds.

At June 30, 1999, the unpaid principal on State supported guarantees (amounts expressed in thousands) are as follows:

Authority	Amount Defeased	Interest Rates	Annual Maturity To
DeKalb	$ 2,125	10.85%	2003
Joliet	1,200	9.40%	2003
	$ 3,325		

Beginning July 1, 1985, the following newly certified local governmental units have received grants ranging from $.4 to $20 million through June 30, 1999:

Quad Cities	Bureau County	Aledo
Rosemont	Orland Park	Benton
Centre East	Knox County	Herrin
Quincy	River Forest	Rockford
Peoria	Aurora	Bowdre Township
Ogle County	Pekin	Mason County
Collinsville	LaSalle County	

(K) Obligations to Lottery Prize Winners -

The State has obligations to certain lottery prize winners for awards payable in annual installments ranging from nineteen years to the life of the prize winner, with the first payment being made after the claim is presented for payment. In addition, the State has fulfilled its obligations for certain other prize winners through the purchase of annuities under group contracts.

Prior to July 1985, the State purchased annuity contracts in the name of the prize winner through agreements with insurance companies which provide payments corresponding to the Lottery's obligation to the prize winner. The State would be contingently liable for such future payments if the insurance company defaulted on their payment obligation.

As the State has met its primary obligation for these future payments, the liability and corresponding value of the annuity contracts are not included in these financial statements. The present value of future installment payments owed to these prize winners approximates $32.6 million at June 30, 1999.

Effective July 30, 1985, State law provides that the State Treasurer, with the consent of the Director of the Lottery, may contract to invest in securities which provide payments corresponding to the Lottery's obligation to these winners. For certain prize winners, annuities were purchased in the name of the State for which the State has retained the rights of ownership. The present value of these annuities and the related liabilities owed to prize winners, approximating $77.9 million, have been reported in the financial statements of the State Lottery Fund, a proprietary fund.

In addition to the prize obligations discussed above, the State has provided for other payments corresponding to the Lottery's obligation through the purchase of other securities, primarily in the form of United States Treasury zero coupon bonds. As established by State law, such investments shall be maintained in the Deferred Lottery Prize Winners Trust Fund, a special trust fund separate and apart from all public money or funds of the State. In accordance with the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, this fund is reported as an investment trust fund, with the investments reported at fair value approximating $1.7 billion and the fund balance reported as reserved for external investment pool participants.

15 CHANGES IN LONG-TERM OBLIGATIONS

Changes in long-term obligations (amounts expressed in thousands) for the year ended June 30, 1999 are summarized as follows:

	Proprietary and Other		General Long-Term Obligations Account Group			
	Notes Payable (Note 9)	Revenue Bonds (Note 13)	Net Pension Obligation (Note 10)	General Obligation Bonds (Note 11)	Special Obligation Bonds (Note 12)	Other Long-Term Obligations (Note 14)
Balances at July 1, 1998, as originally reported	$ 102,093	$ 4,922,635	$ 11,304,662	$ 5,886,104	$ 1,832,306	$ 1,586,127
Adjustment to prior year balance for SURS due to changes in actuarial calculations			(304)			
Balances at July 1, 1998	102,093	4,922,635	11,304,358	5,886,104	1,832,306	1,586,127
Primary Government:						
Compensated absences earned						331,292
Increase in workers' compensation liability						1,578
Debt issues	65,500	203,996		772,334 *	60,000 *	
Increase in lease and installment purchase obligations						24,093
Compensated absences taken						(328,248)
Amortization of bond discounts and bond issuance costs		454				
Amortization of deferred amounts on bond refundings		339				
Increase in accreted value of capital appreciation bonds		1,681		113,144	10,778	
Principal retirements and terminations	(60,660)	(40,913)		(645,138)	(75,420)	(51,511)
Excess of annual pension cost ("APC") over employer contributions from governmental fund types			811,337			
Other						(7,405)
Total Primary Government	4,840	165,557	811,337	240,340	(4,642)	(30,201)
Component Units:						
Debt issues	4,473	637,619				
Amortization of bond discounts and bond issuance costs		(26)				
Amortization of deferred amounts on bond refundings		511				
Increase in accreted value of capital appreciation bonds		23,826				
Principal retirements and terminations	(814)	(640,978)				
Total Component Units	3,659	20,952	-- --	-- --	-- --	-- --
Balances at June 30, 1999	$ 110,592	$ 5,109,144	$ 12,115,695	$ 6,126,444	$ 1,827,664	$ 1,555,926

*The debt issues amount represents the gross issuance amount and not the net proceeds that are reported in the operating statements.

16 FUND EQUITY

A. Fund equity reservations and designations not displayed separately on the combined balance sheet (amounts expressed in thousands) at June 30, 1999 consisted of the following:

	Fund Types						Total (Memorandum Only)	
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Expendable Trust	Primary Government	Component Units
Fund Equity:								
Retained Earnings:								
Reserved for:								
Revenue bond and note retirement					$ 96,814		$ 96,814	$ 283,075
High risk insurance program and other					36,253		36,253	69,788
Total reserved retained earnings					**$ 133,067**		**$ 133,067**	**$ 352,863**
Fund Balances:								
Reserved for other:								
Long-term portion of:								
Federal highway program receivable		$ 453,850					$ 453,850	
Intergovernmental receivable	$ 367						367	$ 4,500
Other receivables		4,349					4,349	
Loans and notes receivables	17,709	702,157	$ 25,500				745,366	121,300
Encumbrances	410,657	1,570,740		$ 626,363		$ 2,465	2,610,225	29,636
Inventories	38,083	34,745					72,828	
Restricted fund balances							- -	598,673
Endowment and similar funds							- -	862,128
Unemployment compensation benefits						2,322,271	2,322,271	
Other	5,282	15,879				1,883	23,044	28,837
Total fund balances reserved for other	**$ 472,098**	**$ 2,781,720**	**$ 25,500**	**$ 626,363**		**$ 2,326,619**	**$ 6,232,300**	**$ 1,645,074**
Unreserved:								
Designated for:								
Debt Service			$ 802,816				$ 802,826	
Deferred compensation benefits						$ 1,442,026	1,442,026	
Other								$ 26,880
Total unreserved, designated fund balances			**$ 802,816**			**$ 1,442,026**	**$ 2,244,852**	**$ 26,880**

As disclosed in Note 1-R, the above fund equity reservations are not available to finance current operations of State government at the balance sheet date or are legally restricted to a specific future use. In governmental funds, the reserves represent portions of asset accounts that are non-current.

Specifically, the $453,850 Federal highway program receivable is due from the Federal government and will be received upon the Federal government increasing their grant amount to exceed their apportionment authorization.

B. During the year, contributed capital increased pursuant to the following schedule (amounts expressed in thousands):

	Contributed Capital 7/1/98	Fixed Assets Additions	Fixed Assets Deletions	Contributed Capital 6/30/99
Primary Government -				
Internal Service:				
Central Management Services:				
Statistical Services Revolving Fund	$ 8,157			$ 8,157
Department of Corrections:				
Working Capital Revolving Fund	9,179	$ 74		9,253
Other	1,837			1,837
Total Internal Service	19,173	74	- -	19,247
Total (Memorandum Only) Primary Government	19,173	74	- -	19,247
Component Unit -				
Development Finance Authority	18,508			18,508
Farm Development Authority	12,232			12,232
Other	2,790		6	2,784
Total Component Unit	33,530	- -	6	33,524
Total (Memorandum Only) Reporting Entity	$ 52,703	$ 74	$ 6	$ 52,771

17 *FUND DEFICITS*

Primary Government:

The State's General Fund, from which a significant portion of day to day operating expenditures are paid, has a GAAP deficit aggregating $303 million at June 30, 1999, although the cash basis fund balance at that date was $1,351 million. This deficit results from recognition of fund liabilities significantly in excess of accrued revenues.

The Drivers Education Fund of the State Board of Education (reported as a special revenue fund) has a deficit at June 30, 1999, aggregating $11.8 million, resulting from reimbursement to school districts for drivers education program costs incurred in the current year but not paid until the subsequent year.

The Mental Health Fund of the Department of Human Services (reported as a special revenue fund) has a deficit at June 30, 1999, aggregating $12.0 million, resulting from workers' compensation claims incurred in the current year, but not paid until the subsequent year.

The Local Government Health Insurance Reserve Fund (reported as an enterprise fund) has a deficit at June 30, 1999, aggregating $1.3 million, resulting from a rate structure which was insufficient to support claims paid in fiscal year 1998 and fiscal year 1999. The rate structure was amended for both fiscal year 1999 and fiscal year 2000 to ensure payments received would support future claims and build an appropriate reserve.

The Federal Department of Agriculture Fund of the State Board of Education (reported as a special revenue fund) has a deficit at June 30, 1999, aggregating $132 thousand, resulting from program costs incurred in the current year but not paid until the subsequent year.

The Prepaid Tuition Fund of the Illinois Student Assistance Commission (reported as an enterprise fund) has a deficit at June 30, 1999, aggregating $709 thousand, resulting from program costs incurred since the inception of the program which will be paid in subsequent years.

The above Governmental Funds' deficits will be eliminated by future revenue increases and/or expenditure reductions in the following year(s).

18 CONDENSED FINANCIAL STATEMENTS-DISCRETELY PRESENTED COMPONENT UNITS

Condensed financial statements (amounts expressed in thousands) for the State's discretely presented component units for the fiscal year ended June 30, 1999 are as follows:

CONDENSED FINANCIAL STATEMENTS-DISCRETELY PRESENTED COMPONENT UNITS:
BALANCE SHEETS

	Governmental				
	Illinois Distance Learning Foundation	Illinois Literacy Foundation	Illinois Grain Insurance Corporation	Illinois Conservation Foundation	East St. Louis Fin. Advisory Authority
Assets:					
Due from other funds					
Due from primary government			$ 39		
Other current assets	$ 48	$ 40	4,013	$ 88	$ 4,769
Property, plant and equipment					
Other assets				1,663	
Total assets	**$ 48**	**$ 40**	**$ 4,052**	**$ 1,751**	**$ 4,769**
Liabilities:					
Due to other funds					
Due to primary government					
Other current liabilities			$ 165	$ 43	
Bonds payable					
Other long-term liabilities					
Total liabilities	- -	- -	165	43	- -
Equity:					
Contributed capital					
Investment in fixed assets					
Retained earnings					
Fund balance	$ 48	$ 40	3,887	1,708	$ 4,769
Total equity	48	40	3,887	1,708	4,769
Total liabilities and equity	**$ 48**	**$ 40**	**$ 4,052**	**$ 1,751**	**$ 4,769**

CONDENSED FINANCIAL STATEMENTS-DISCRETELY PRESENTED COMPONENT UNITS:
STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND EQUITY

	Governmental				
	Illinois Distance Learning Foundation	Illinois Literacy Foundation	Illinois Grain Insurance Corporation	Illinois Conservation Foundation	East St. Louis Fin. Advisory Authority
Revenues	$ 3	$ 6	$ 700	$ 2,639	$ 492
Expenditures					
Current	4	6	172	1,772	266
Capital outlays					
Debt service					
Transfers in					
Transfers (out)					
Capital lease financing					
Other financing sources					
Excess (deficiency) of revenues over (under) expenditures	(1)	- -	528	867	226
Equity-beginning	49	40	3,359	841	4,543
Equity-ending	**$ 48**	**$ 40**	**$ 3,887**	**$ 1,708**	**$ 4,769**

CONDENSED FINANCIAL STATEMENTS-DISCRETELY PRESENTED COMPONENT UNITS:
BALANCE SHEETS (continued)

Governmental (continued)				
East St. Louis Development Authority	Development Finance Authority	Housing Development Authority	Illinois Medical District Commission	Other
			$ 181	
$ 2	$ 4,700	$ 190,929	6,263	
			18,274	$ 205
			1	
$ 2	**$ 4,700**	**$ 190,929**	**$ 24,719**	**$ 205**
	$ 1	$ 1,265	$ 131	
			6,084	
- -	1	1,265	6,215	- -
			18,274	$ 205
$ 2	4,699	189,664	230	
2	4,699	189,664	18,504	205
$ 2	**$ 4,700**	**$ 190,929**	**$ 24,719**	**$ 205**

CONDENSED FINANCIAL STATEMENTS-DISCRETELY PRESENTED COMPONENT UNITS:
STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND EQUITY (continued)

Governmental (continued)				
East St. Louis Development Authority	Development Finance Authority	Housing Development Authority	Illinois Medical District Commission	Total
		$ 51,915	$ 1,377	$ 57,132
		14,439	1,085	17,744
			3,111	3,111
			256	256
			166	166
		(8,013)	(154)	(8,167)
			57	57
			3,033	3,033
- -	- -	29,463	27	31,110
$ 2	$ 4,699	160,201	203	173,937
$ 2	**$ 4,699**	**$ 189,664**	**$ 230**	**$ 205,047**

CONDENSED FINANCIAL STATEMENTS-DISCRETELY PRESENTED COMPONENT UNITS:
BALANCE SHEETS (Continued)

	Proprietary				
	Community Development Finance Corporation	Comprehensive Health Insurance Board	Farm Development Authority	Health Facilities Authority	Educational Facilities Authority
Assets:					
Due from other funds			$ 2		
Due from primary government					
Other current assets	$ 6	$ 88,014	12,597	$ 8,105	$ 814
Property, plant and equipment		99	47	28	
Other assets			1,392	4	
Total assets	**$ 6**	**$ 88,113**	**$ 14,038**	**$ 8,137**	**$ 814**
Liabilities:					
Due to other funds			$ 2		
Due to primary government		$ 7	1		
Other current liabilities		20,984	76	$ 87	$ 69
Bonds payable					
Other long-term liabilities					
Total liabilities	- -	20,991	79	87	69
Equity:					
Contributed capital			12,232		
Investment in fixed assets					
Retained earnings	$ 6	67,122	1,727	8,050	745
Fund balance					
Total equity	6	67,122	13,959	8,050	745
Total liabilities and equity	**$ 6**	**$ 88,113**	**$ 14,038**	**$ 8,137**	**$ 814**

CONDENSED FINANCIAL STATEMENTS-DISCRETELY PRESENTED COMPONENT UNITS:
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY (continued)

	Proprietary				
	Community Development Finance Corporation	Comprehensive Health Insurance Board	Farm Development Authority	Health Facilities Authority	Educational Facilities Authority
Operating revenues		$ 25,046	$ 1,090	$ 1,306	$ 373
Operating expenses:					
Depreciation		59	14	14	
Other		50,262	806	1,441	335
Operating income (loss)	- -	(25,275)	270	(149)	38
Other non-operating revenue (expense)		11,318	152	293	36
Transfers-in (out)			658		
Transfers from (to) primary government		15,324			
Net income for the year	- -	1,367	1,080	144	74
Equity-beginning, as restated	$ 6	65,755	647	7,906	671
Contributed capitol			12,232		
Equity-ending	**$ 6**	**$ 67,122**	**$ 13,959**	**$ 8,050**	**$ 745**

CONDENSED FINANCIAL STATEMENTS-DISCRETELY PRESENTED COMPONENT UNITS:
BALANCE SHEETS (continued)

Proprietary (continued)						
Development Finance Authority	Housing Development Authority	Rural Bond Bank	State Toll Highway Authority	Quad Cities Regional Economic Development	Southwestern Illinois Development Authority	Upper Valley Development Authority
$ 3,852	$ 1,265					
25,450	502,610	$ 24,739	$ 364,234	$ 256	$ 2,960	$ 140
19	722	35	1,829,568		623	
10,856	2,001,904	100,279	145,780		3,051	
$ 40,177	$ 2,506,501	$ 125,053	$ 2,339,582	$ 256	$ 6,634	$ 140
$ 3,851	$ 3					
		$ 14				
2,437	214,054	7,466	$ 126,594	$ 2	$ 3,074	
	2,059,984	88,585	894,565			
		25,000		89		
6,288	2,274,041	121,065	1,021,159	91	3,074	- -
18,508		2,784				
15,381	232,460	1,204	1,318,423	165	3,560	$ 140
33,889	232,460	3,988	1,318,423	165	3,560	140
$ 40,177	$ 2,506,501	$ 125,053	$ 2,339,582	$ 256	$ 6,634	$ 140

CONDENSED STATEMENTS-DISCRETELY PRESENTED COMPONENT UNITS:
STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND EQUITY (continued)

Proprietary (continued)							
Development Finance Authority	Housing Development Authority	Rural Bond Bank	State Toll Highway Authority	Quad Cities Regional Economic Development	Southwestern Illinois Development Authority	Upper Valley Development Authority	Total
$ 2,880	$ 269,691	$ 7,136	$ 173,220	$ 39	$ 1,219	$ 70	$ 482,070
40	358	8	59,133		18		59,644
2,969	161,769	7,439	66,615	154	358	64	292,212
(129)	107,564	(311)	47,472	(115)	843	6	130,214
838	(99,288)		(17,745)	11	107		(104,278)
	8,013						8,671
		254					15,578
709	16,289	(57)	29,727	(104)	950	6	50,185
14,672	216,171	1,261	1,288,696	269	2,610	134	1,598,798
18,508		2,784					33,524
$ 33,889	$ 232,460	$ 3,988	$ 1,318,423	$ 165	$ 3,560	$ 140	$ 1,682,507

CONDENSED FINANCIAL STATEMENTS-DISCRETELY PRESENTED COMPONENT UNITS:
BALANCE SHEETS (continued)

	University				
	Chicago State University	Eastern Illinois University	Governor's State University	Northeastern State University	Western Illinois University
Assets:					
Due from other funds	$ 1,085			$ 87	
Due from primary government	484	$ 243	$ 1,041	681	$ 314
Other current assets	13,341	90,955	16,810	21,256	57,703
Property, plant and equipment	112,033	186,522	75,053	126,764	250,723
Other assets		769	1,157	3	
Total assets	**$ 126,943**	**$ 278,489**	**$ 94,061**	**$ 148,791**	**$ 308,740**
Liabilities:					
Due to other funds	$ 883	$ 2		$ 87	
Due to primary government	964	117	$ 313	53	$ 529
Other current liabilities	16,314	40,129	17,209	20,586	35,178
Bonds payable	25,650	47,215		6,065	38,033
Other long-term liabilities	2,490	10,418	580	2,562	157
Total liabilities	46,301	97,881	18,102	29,353	73,897
Equity:					
Contributed capital					
Investment in fixed assets	85,170	136,266	74,473	121,688	212,377
Retained earnings					
Fund balance	(4,528)	44,342	1,486	(2,250)	22,466
Total equity	80,642	180,608	75,959	119,438	234,843
Total liabilities and equity	**$ 126,943**	**$ 278,489**	**$ 94,061**	**$ 148,791**	**$ 308,740**

CONDENSED FINANCIAL STATEMENTS-DISCRETELY PRESENTED COMPONENT UNITS:
BALANCE SHEETS (continued)

University (continued)				
Illinois State University	**Northern Illinois University**	**Southern Illinois University**	**University of Illinois**	**Total**
	$ 3,825	$ 5,150	$ 13,347	$ 28,794
$ 2,532	4,918	7,691	90,060	108,003
116,036	122,200	278,760	1,570,433	3,528,271
415,424	472,866	781,267	3,356,012	7,626,284
321	1,945	1,063	19,359	2,289,547
$ 534,313	**$ 605,754**	**$ 1,073,931**	**$ 5,049,211**	**$ 13,580,899**
$ 77	$ 3,825	$ 5,000	$ 13,667	$ 28,794
		2,700	35,451	40,149
38,267	56,740	120,461	421,878	1,147,897
59,477	83,003	125,078	358,475	3,786,130
264	33,457		137,295	212,312
98,085	177,025	253,239	966,766	5,215,282
				33,524
369,327	356,844	678,166	2,954,195	5,006,985
				1,648,983
66,901	71,885	142,526	1,128,250	1,676,125
436,228	428,729	820,692	4,082,445	8,365,617
$ 534,313	**$ 605,754**	**$ 1,073,931**	**$ 5,049,211**	**$ 13,580,899**

19 SEGMENT INFORMATION - ENTERPRISE FUNDS

Selected financial information by enterprise fund segment (amounts expressed in thousands) is as follows:

Primary Government

	Department of Lottery State Lottery (1)	Student Assistance Commission (2)	Other (3)	Total
Operating revenues	$ 1,501,148	$ 96,142	$ 286,194	$ 1,883,484
Depreciation	696	111	871	1,678
Operating income (loss)	524,811	9,258	(1,043)	533,026
Operating transfer-out	518,551	644	1,721	520,916
Nonoperating revenues	77	23	4,077	4,177
Nonoperating expenses	-- --	21	2,018	2,039
Net income (loss)	6,337	8,616	(705)	14,248
Property, Plant and Equipment:				
Additions	457	188	1,143	1,788
Deletions	294	-- --	639	933
Net working capital	35,102	(133,240)	42,918	(55,220)
Total assets	168,255	1,556,567	112,792	1,837,614
Bonds and other long-term liabilities payable from:				
Operating revenues	-- --	901,950	14,243	916,193
Other revenues	60,422	64,448	19	124,889
Total equity	36,253	90,171	51,271	177,695

The above referenced organizations and activities generate enterprise fund revenues as follows:

(1) Illinois State Lottery revenues and operations.

(2) Administration of State-authorized financial aid programs for post-secondary students in Illinois.

(3) Service and processing fees charged by the following board, departments, and commissions for their operations:

Board

- Board of Admissions to the Bar

Departments

- Central Management Services
- Corrections
- Human Services
- Insurance
- Veterans' Affairs

Commissions

- Attorney Registration & Disciplinary Commission
- Office of Banks and Real Estate
- Illinois Industrial Commission

20 RISK MANAGEMENT

The State has elected to retain the following liability exposures: worker's compensation, vehicle, employee fidelity and surety, legal representation and employee indemnification, general liability and other tort liability. The State purchases minimal commercial insurance. The insurance in force on State-owned assets is limited except for certain university facilities. Further, the State makes no provision for anticipated losses in the event of involuntary conversions. Liabilities for claims, including claims incurred but not reported, are recorded in the funds or the General Long-Term Obligations Account Group as appropriate. Claims liabilities are carried at present value discounted at 4.87% , which is the average interest rate for fiscal year 1999 general obligation debt issues. The amounts are based on actual claims that are outstanding, historical trend data and known inflation and cost of living factors. There were no significant reductions in insurance coverage from the prior fiscal year. The amount of settlements has not exceeded insurance coverage in the past three fiscal years. The following is a reconciliation of the State's claims liabilities for its major claims categories for the current fiscal year and prior year (amounts expressed in thousands):

	Changes in Claims Liability Balances			
Year Ended June 30	Beginning Balance	Claims Incurred	Decreases	Ending Balance
1998	$ 62,490	$ 62,569	$ 66,164	$ 58,895
1999	$ 58,895	$ 61,191	$ 59,438	$ 60,648

The State administers the following two public entity risk pools for non-state employers: 1) The Local Government Health Insurance Reserve Fund offers a health insurance program to local governments for its employees and retirees, and 2) the Teacher Health Insurance Security Fund offers health insurance to school districts for its teachers and retirees. These funds are presented as enterprise funds in the State's CAFR. Detailed information on these programs can be obtained from the Department of Central Management Services, which administers both plans. Separate audit reports are issued for both plans and includes the required pool supplementary disclosures.

21 DEFERRED COMPENSATION

The State offers its employees a deferred compensation plan (the Plan) created in accordance with Internal Revenue Code Section 457. The Plan, which is administered by the Department of Central Management Services, permits participants to defer a portion of their salary until future years. Amounts deferred under the Plan are not available to employees until termination, retirement, death, or an unforeseeable emergency.

Under the current Internal Revenue Service regulations, all monies that are deferred and any other assets or income of the Plan shall be held in one or more custodial accounts for the exclusive benefit of their participating employees and their beneficiaries. The State no longer owns the amounts deferred by employees or related income on those amounts.

The State has implemented GASB Statement 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457, Deferred Compensation Plans*, for the fiscal year ended June 30, 1999. The State has determined that it does have significant administrative involvement and fiduciary accountability for the Plan and, as such, is required under GASB Statement 32 to report the Plan as an expendable trust fund. The Deferred Compensation Plan Fund, which was previously reported as an agency fund, is being reported as an expendable trust fund in the financial statements.

22 CONTINGENCIES

In October 1997, a state Supreme Court decision held that the Illinois Privilege Tax (215 ILCS 5/409), as in effect prior to 1998, was unconstitutional under the Illinois Constitution's Uniformity Clause. On remand the trial court is to determine whether Plaintiffs should get all protested privilege tax payments now on deposit or, as asserted by the State, any recovery should be offset by an amount representing an increased liability for the Plaintiffs under the Illinois Retaliatory Tax Statute (215 ILCS 5/444 and 5/444.1). In June the Trial Court decided this issue in favor of the Plaintiff protesters and the matter is now pending on Motion for Reconsideration. The case was remended to the Trial Court and in June 1999, the Court ruled in favor of the plaintiffs, that protested privilege taxes on deposit of approximately $109 million should be returned.

The State is treating the full amount of the protest account as a contingent claim of $109 million, unless the State is successful on reconsideration or subsequent appeal.

Pursuant to the Balanced Budget Act of 1997, the Illinois Student Assistance Commission is required to refund $19.7 million to the U.S. Department of Education by September 30, 2002.

The Illinois State Toll Highway Authority has entered into commitments for road construction of $215 million. The Illinois Housing Development Authority has entered into commitments aggregating $30.4 million for home loans.

The State receives significant financial assistance from the U.S. Government in the form of grants and entitlements. Entitlement to these resources is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by the grantors. Any adjudicated disallowance as a result of these audits becomes a liability of the State.

Also, the State, its units and employees are parties to numerous legal proceedings, many of which normally recur, in governmental operations. All legal proceedings are not, in the opinion of the Attorney General, likely to have a material impact on any of the State's fund types or account groups.

In addition, the State and its units are involved in certain other legal proceedings, which, if decided adversely to the State, may require the State to make material future expenditures for expanded services or capital facilities or may impair future revenue sources. It is neither possible to determine the outcome of these proceedings nor to estimate the possible effects adverse decisions may have on future expenditures or revenue sources.

23 SUBSEQUENT EVENTS

A Master Settlement Agreement (MSA) was executed in November of 1998 between five tobacco companies and 46 states, including the State of Illinois. The MSA called for, among other things, the payment of more than $200 billion allocated to the states in installments payable until the year 2025 with additional payments continuing thereafter in perpetuity. The Illinois share is expected to be $9.1 billion through 2025. The payments are subject to various adjustments such as those for volume shipped, inflation, and the success of litigation by other governmental units and could amount to less than the expected amounts. Various aspects of the MSA have been challenged in court both locally and nationally. In addition, an attorney's lien potentially in the amount of $910 million has been filed against Illinois' proceeds, but the amount of loss to the lien, if any, is uncertain and, in any event, is subject to an offset of $121 million awarded by an arbitrator for legal fees out of separate funds under the MSA. Because of the novelty of the MSA and of the many related claims and because of the uncertainty inherent in calculation under the MSA, it is not possible to accurately predict the amount of money that will actually be received by the State with reasonable certainty. It can be noted, however, that the State's first payment of approximately $115 million was received in the week of December 13, 1999, contributing to a total of approximately $400 million that is expected by April of 2000.

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REQUIRED SUPPLEMENTARY INFORMATION

Required Supplementary Information
Year 2000 Disclosure
(Unaudited)

The State of Illinois is currently addressing the Year 2000 (Y2K) data processing compliance issues. The Y2K issue exists because many computer programs use only two digits to identify a year in the date field. These programs were designed and developed without considering the impact of the upcoming change in the century. Therefore, such programs may interpret the year 2000 as the year 1900. In addition, the Year 2000 is a leap year, which may generate additional problems. The State of Illinois will have to modify the computer systems or replace current systems with year 2000-compliant systems to address this issue. Finally, the Y2K issue could adversely affect any system or electronic equipment containing embedded computer chips that rely on date recognition features.

The following stages have been identified as necessary to implement a year 2000-compliant system:

- Awareness Stage – This stage encompasses establishing a budget and project plan for dealing with the Year 2000 issue.

- Assessment Stage – This stage begins with identifying all of the State's systems and individual components of those systems. The State has identified its mission-critical systems and equipment, which are systems and equipment that are critical to conducting operations and checking for compliance.

- Remediation Stage – This stage is comprised of making technical changes to existing systems and equipment or switching to new compliant systems. During this stage, decisions are made on how to make the systems year 2000 compliant, and the required system changes are made.

- Validation/Testing Stage – This stage validates and tests the changes made during the remediation stage. This stage includes the development of test data and test scripts, the running of test scripts, and the review of test results.

On July 30, 1998, with the enactment of Public Act 90-666, the State of Illinois created the Year 2000 Technology Task Force ("Task Force"). The Task Force is composed of several elected constitutional State officials, including four members of the General Assembly, the Auditor General, the Chief Justice of the Supreme Court, two representatives from municipalities, townships and counties and seven representatives from major mission-critical agencies.

Effective February 1999, the Governor created the Illinois Technology Office. This office was designed to strengthen the State's oversight of the Y2K preparedness efforts. With the creation of this office, the State moved from monitoring the readiness of mission-critical systems to monitoring the readiness of business functions for material agencies under the Governor's Office. The offices of the elected officials, retirement systems and universities are monitoring their Y2K readiness and their status is reported below.

Illinois Technology Office (ITO) - The change in methodology adopted by the Illinois Technology Office allows them to measure the readiness of a business function rather than the Y2K-readiness of the technology that supports it. The State's Y2K-readiness efforts now include measuring all components, including embedded chips; vendor and business partner assurances of Y2K-readiness; and electronic interfaces with other computer systems, as well as multiple tiers of computer hardware, software applications, and networking components.

Under this new methodology the State identified 708 business functions and developed contingency plans in the event of unforeseen failures. Of these, 75 (11%) are identified as Tier 1 functions, 120 (17%) as Tier 2 functions, and the remaining 513 (72%) as Tier 3 functions. A function assigned to Tier 1 indicates that this program, function or service could not be interrupted for more than one day without endangering the public health, welfare or safety of the citizens of the State of Illinois or seriously impacting the State's revenues streams. Tier 2 functions are those functions that could not be interrupted for more than one week and Tier 3 functions are all others. According to the Year 2000 Project Monthly Status Report as of November 30, 1999, the ITO reports that the Tier 1, 2 and 3 functions have completed 100% of the awareness, assessment and remediation stages and approximately 89% of the validation/testing stage.

Elected Officials - The Office of the Governor, the Office of the Attorney General, the Office of the Secretary of State, the Office of the Comptroller and the Office of the Treasurer have substantially completed all stages of Y2K implementation for major critical systems and have formulated contingency plans.

Retirement Systems - The State's retirement systems, the General Assembly Retirement System, the Judges' Retirement System, the State Employees' Retirement System, the State Universities Retirement System and the Teachers Retirement System have substantially completed all stages of Y2K implementation for major critical systems and have formulated contingency plans.

Universities - The State's major University component units, the University of Illinois, Southern Illinois University, Northern Illinois University, and Illinois State University have substantially completed the awareness and assessment stages of Y2K implementation and are currently in the remediation and validation stages of Y2K implementation. These universities have also formulated contingency plans.

The State's annual budgetary process does not readily support multi-year contracts. Therefore, the amount of the outstanding commitments applicable to the Year 2000 vendors at June 30, 1999 was minimal and not informative in assessing the State's expected current external costs. However, the Illinois Technology Office has estimated the total cost of completing the Year 2000 Project will exceed $125 million for major agencies under the Governor's Office. Further, since all agencies have not reported the information on costs for completing the Year 2000 Project, the total estimated costs are not determinable at this time.

While the State of Illinois is taking what it believes to be appropriate action to address the Y2K issue, there is no guarantee that all of the State's systems and equipment will be year 2000-compliant and there will not be an adverse impact upon State operations or finances as a result. Since Y2K compliance by outside parties is beyond the State's control to remediate, the failure of outside parties to achieve Y2K compliance could have an adverse impact on State operations or finances as well. If significant adverse impacts were to occur, the State's contingency plans would be activated.

Required Supplementary Information
Pension Trust Funds – Schedule of Funding Progress
(Unaudited)

The following schedule of funding progress (dollar amounts in thousands) for the State of Illinois' retirement systems is provided for fiscal years ended June 30, 1997, 1998 and 1999.

	(a)	(b)	(c)	(d)	(e)	(f)
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability ("AAL") Projected Unit Credit	Unfunded AAL ("UAAL") (b-a)	Funded Ratio (a/b)	Covered Payroll	UAAL as a Percentage of Covered Payroll (c/e)
General Assembly						
6/30/97	$ 56,710	$ 143,837	$ 87,127	39.4%	$ 9,362	930.6%
6/30/98	62,738	150,408	87,671	41.7%	10,005	876.3%
6/30/99	66,833	160,871	94,038	41.5%	10,467	898.4%
Judges'						
6/30/97	314,561	704,460	389,899	44.7%	87,171	447.3%
6/30/98	356,693	747,276	390,583	47.7%	94,626	412.8%
6/30/99	389,762	805,587	415,825	48.4%	99,200	419.2%
State Employees'						
6/30/97	6,048,027	7,548,208	1,500,181	80.1%	3,003,628	49.9%
6/30/98	7,064,495	9,341,898	2,277,403	75.6%	3,096,087	73.6%
6/30/99	7,986,433	9,998,205	2,011,772	79.9%	3,212,569	62.6%
Teachers'						
6/30/97	17,393,108	26,951,585	9,558,477	64.5%	5,013,583	190.7%
6/30/98	19,965,887	29,908,241	9,942,354	66.8%	5,323,403	186.8%
6/30/99	22,237,709	33,205,513	10,967,804	67.0%	5,698,117	192.5%
State Universities						
6/30/97	8,376,300	10,552,200	2,175,900	79.4%	2,298,000	94.7%
6/30/98	9,792,000	11,416,100	1,624,100	85.8%	2,377,600	68.3%
6/30/99	10,761,700	12,617,500	1,855,800	85.3%	2,411,100	77.0%