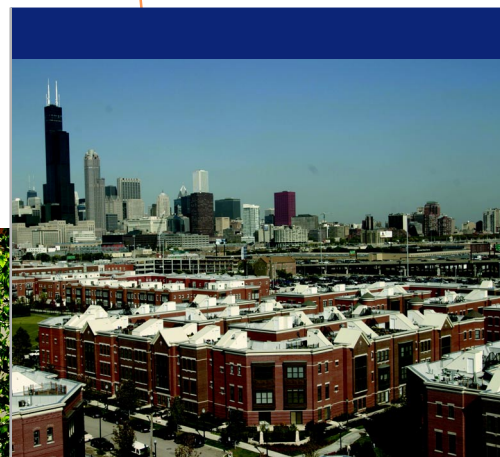


Annual Financial Report Fiscal Year 2004

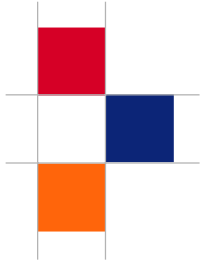
Springfield



Chicago



Urbana-Champaign



Annual Financial Report Table of Contents

Board of Trustees	2
One University	3
Message from President James J. Stukel	4
Good Works	5
On-Campus Headcount	12
Staff and Student Data	14
Independent Auditor's Report	16
Management's Discussion and Analysis from Stephen K. Rugg, Comptroller	17
Audited Financial Statements	
Statement of Net Assets	30
Statement of Revenues, Expenses and Changes in Net Assets	31
Statement of Cash Flows	32
Notes to Financial Statements	34

Board Officers

Lawrence C. Eppley, Chair
Lester H. McKeever, Jr., Treasurer
Stephen K. Rugg, Comptroller
Thomas R. Bearrows, University Counsel
Michele M. Thompson, Secretary

Administrative Officers

James J. Stukel
President

Douglas E. Beckmann
Senior Associate Vice President for Business and Finance

Sally A. Pelg
Executive Director of University Accounting and Financial Reporting

Richard O. Traver
Executive Director of University Audits

Sylvia Manning
Chancellor, University of Illinois at Chicago

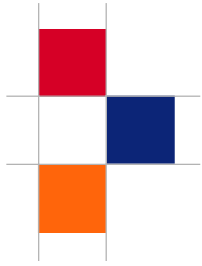
Thomas L. Gardner
Assistant Vice President for Business and Finance at Chicago

Richard D. Ringeisen
Chancellor, University of Illinois at Springfield

John Conner
Assistant Vice President for Business and Finance at Springfield

Richard H. Herman
Interim Chancellor, University of Illinois at Urbana-Champaign

Kathe M. Shinham
Assistant Vice President for Business and Finance at Urbana-Champaign



University of Illinois Board of Trustees

Member Ex-Officio
Honorable Rod R. Blagojevich, Governor



Jeffrey Gindorf, M.D.
Kenneth D. Schmidt, M.D.
Frances G. Carrol, Ed.D. (2003-2005)
1999-2005



Lawrence C. Eppley, Chair
Marjorie E. Sodemann
Robert F. Vickrey
2001-2007

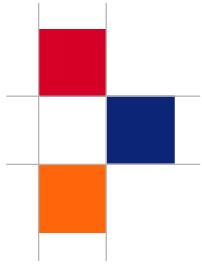


Devon C. Bruce
Niranjan S. Shah
Robert Y. Sperling
2003-2009



STUDENT TRUSTEES
Natalie A. Garcia, UIC
Andrew M. Hollingshead, UIS
Matthew T. Diller, UIUC
July 1, 2004 - June 30, 2005





One Great University Three Distinct Campuses



■ The University of Illinois at Springfield, is a small public liberal arts university with professional programs and an emphasis on public affairs. UIS is committed to excellence in teaching and preparing its students to succeed in a global society. Located in the state capital, UIS has strong ties to state government that give students access to legislative and public service internships, as well as research projects and special courses.
<http://www.uis.edu>



■ The University of Illinois at **Chicago** is a major research university located in the heart of one of the world's great cities. UIC is committed to providing a first-rate education for its students, to engaging with its diverse community, and to creating and disseminating new knowledge as a university of growing national and international stature.
<http://www.uic.edu>



■ Since its founding in 1867, the University of Illinois at **Urbana-Champaign** has earned an international reputation for excellence and innovation. Its large, distinguished faculty leads students from across the United States and around the world in a process of discovery and learning in 16 colleges and schools and more than 80 research centers and labs. Scholars and educators consistently rank this as one of the world's best public research universities.
<http://www.uiuc.edu>





Dear Colleagues and Friends of the University,

I am pleased to present the University of Illinois Financial Report for fiscal year 2004 on behalf of the Board of Trustees, faculty, students and staff. Within this report you will find information about the University's financial position and performance for the fiscal year ended June 30, 2004.

In the first few pages of this report you will also see why the University of Illinois is a world-renowned institution of research and learning. These pages feature a sampling of the honors and milestones our outstanding faculty and talented students achieved during the school year. Two headlines seen around the world heralded the fact that two members of the Urbana-Champaign faculty won Nobel prizes in October. In addition, a third Urbana-Champaign scientist won the Crafoord Prize in Biosciences, the equivalent of a Nobel for the sciences not covered by that award.

Other news from the three campuses include the arrival of the new magnetic resonance scanner for imaging the human body at the University of Illinois Medical Center at Chicago, and the new nanoscale research center at Urbana-Champaign that is being created with a grant from the National Science Foundation. Both the Urbana-Champaign and Chicago campuses continue to rank in the top 50 for federal research and the Springfield campus is forging ahead to become a national leader in online education. These pages also highlight some of the prestigious awards our faculty earned, including Guggenheims, Carnegies and an Emmy.

I am proud of all that has been accomplished during the past decade in which I had the great opportunity to serve as University president, and as the months wind down before my retirement in early 2005 I feel confident the new leadership and talented faculty will continue the University's growth in quality and stature. The citizens of Illinois have a right to feel proud of the state's largest, deepest and best public university – The University of Illinois.

As always, I welcome your comments at uipres@uillinos.edu

Sincerely,

James J. Stukel



IEEE fellow

Stephen Shing-Toung Yau, a professor of mathematics, statistics and computer science at UIC has been named a Fellow by the Institute of Electrical and Electronics Engineers for his contributions to the mathematical aspects of nonlinear filtering. The IEEE Fellow designation is one of the institute's most important honors.



Smithsonian lecture

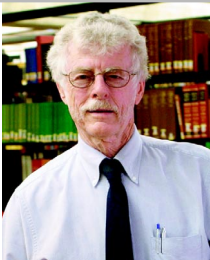
Robert V. Remini, award-winning historian and professor emeritus at UIC, delivered the first annual "Heroes of History Lecture" in May in the Museum of American History of the Smithsonian Institution. The lecture provides an opportunity for the public to learn about the lives and deeds of our nation's heroes.

He also was commissioned to write the history of the U.S. House of Representatives, as authorized by Congress in 1999.



Alcohol and drug prevention

The Substance Abuse Task Force at UIS received an "Extra Mile" award from the Illinois Higher Education Center for Alcohol, Other Drug and Violence Prevention, recognizing exemplary efforts by UIS in its "creative programming initiatives, grant writing and student involvement in campus alcohol and other drug prevention efforts."



Library Hall of Fame

Robert Malinowsky, professor and principal bibliographer for the UIC Library, has been named to the Special Libraries Association's Hall of Fame. He was honored for his contributions to the profession and leadership throughout the years. His expertise is in bibliographic reference sources in science, engineering, medicine, AIDS, and gay/lesbian, bisexual and transgender issues.



Carnegie scholar

Louise Cainkar, a research assistant professor at UIC's Great Cities Institute, was one of 13 nationwide selected as a Carnegie Scholar. Awardees receive \$100,000 over two years for research. Cainkar plans to conduct research into the heightened degrees of religious expression among Arabs in Chicago and the implications of that for American democracy.

First exoneration

The Downstate Illinois Innocence Project at UIS celebrated its first exoneration last year when Keith Harris of Belleville was pardoned by former Gov. George Ryan. Harris served 22 years of his 50-year sentence before being released. Students from the project reviewed transcripts, re-interviewed participants, considered various strategies to achieve exoneration and assisted in the preparation and presentation of the final appeal to the Illinois Prisoner Review Board.

Ford Foundation grant

Under a grant from the Ford Foundation, the *UIC's Neighborhoods Initiative* will receive \$250,000 over two years for a community development program in Pilsen. The grant will fund a project called Community Futures, which covers improvements in affordable housing, community planning, and youth and cultural programs. UIC has partnered with the Mexican Fine Arts Center Museum and the Resurrection Project, a faith-based community development organization, for help with the project.



Library marks 10-millionth volume

The library at Urbana-Champaign — *the largest public university library in the world* — acquired its 10 millionth volume in '03. The Library holds more than 22 million items, including manuscripts and archives, microform, pamphlets, maps, graphic materials, computer files, film and video materials, music scores, audio scores and other print and non-print materials. U of I librarians field more than 250,000 questions a year and the Library's online catalog gets more than 50 million "hits" annually.

More Good Works

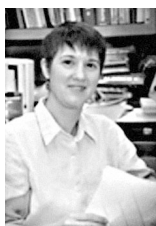
Nick Holonyak's Year

Nick Holonyak Jr., a John Bardeen Professor of Electrical and Computer Engineering and Physics at Urbana-Champaign, has been awarded a *National Medal of Technology*, one of the highest honors for work in technology. President George Bush presented the award in a White House ceremony. Holonyak received a National Medal of Science in 1990. He is one of 13 Americans to have won both medals for technology and science.

Holonyak also received the 2003 *Institute of Electrical and Electronics Engineers Medal of Honor* for a career of pioneering contributions to semiconductors and to visible light-emitting diodes and injection lasers. The IEEE is the world's largest technical professional society, with more than 377,000 members worldwide. Holonyak is the fourth Illinois faculty member to receive the Medal of Honor, IEEE's highest award.

In addition, Holonyak and **Susan E. Fahrbach** were among 291 people selected as fellows of the *American Association for the Advancement of Science*. AAAS, which publishes the journal *Science*, is the world's largest general scientific society, with 134,000 members. Fahrbach is a professor of entomology and director of the campus Howard Hughes Program for Undergraduate Education in the Life Sciences.

Holonyak also received the 2003 *Global Energy Prize* from Russia. He shared the \$900,000 prize with two others. The award recognizes Holonyak for his "contribution to the development of power silicon electronics and invention of the first semiconducting light-emitting diodes in a visible part of the spectrum." This work helped to create efficient, energy-saving technologies.



Susan E. Fahrbach

Carnegie scholar

Michael Loui was one of 26 faculty members nationally named a Carnegie Scholar by the Carnegie Academy for the Scholarship of Teaching and Learning. Loui is a professor of electrical and computer engineering at Urbana-Champaign. For his Carnegie Scholars project, Loui will examine how ethics courses and seminars affect the professional identities of engineering students.



Speech and debate success

For the second year in a row, the Forensics (speech and debate) Team at Springfield placed among the top competitors at the Pi Kappa Delta National Forensics Tournament. The team earned an overall rating of "excellent" in both debate and speech events, and members received a number of individual awards. **Nicholas Roman**, a first-year student, placed first in after-dinner humorous speaking.

Bella Abzug Woman of Honor

Beth Richie, head of African-American studies at UIC, was honored in September with the "Bella Abzug Woman of Honor" award from the Chicago chapter of the National Organization for Women for her work on incarcerated women and the role violence plays in their lives. Richie, author of "Compelled To Crime: the Gender Entrapment of Battered Black Women," is researching several areas, including incarcerated women who experience domestic and sexual violence.

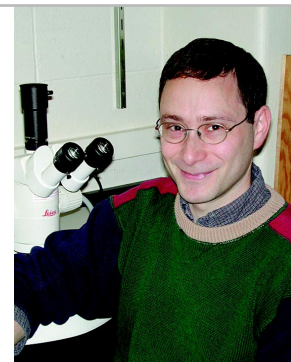


IBM gift

Thanks to an equipment gift from IBM, patrons at the *Urbana-Champaign library* can view rare and fragile materials through two high-resolution monitors. The new IBM monitors can display images at a quality comparable to the original document. The library's pre-eminent collection of rare German "emblem" books, dating to 1540, will benefit immediately.

Damon Runyon Scholar Award

Phillip A. Newmark, a researcher in the department of cell and structural biology at Urbana-Champaign, is one of five national recipients of a 2003 Damon Runyon Scholar Award. The three-year, \$300,000 award from the Damon Runyon Cancer Research Foundation supports development of outstanding scientists as they establish their own independent research labs. Also this year, Newmark received the Faculty Early Career Development Award from the National Science Foundation. It recognizes and supports the early career-development activities of teacher-scholars "who are most likely to become the academic leaders of the 21st century."

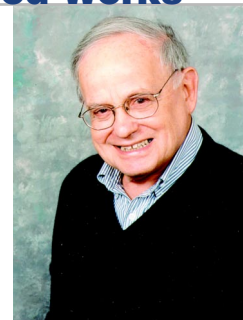


New master's degree

Students at UIS are now able to earn a master of science degree in *environmental science*. The program was added in response to student demand for a degree for those interested in environmental science and environmental risk assessment. UIS offers 19 master's degree programs, 20 bachelor's degree programs and one doctoral program.

American Academy of Arts and Sciences

James Economy, a professor of materials science and engineering at Urbana-Champaign, has been elected a fellow of the American Academy of Arts and Sciences, an honor that acknowledges the best of all scholarly fields and professions. Economy has played a major role during the last 40 years in the design and development of several polymer systems. He led the effort to create the National Science Foundation Center on Advanced Materials for Water Purification on the campus.



Center for Advanced Study

Five professors at Urbana-Champaign began appointments in fall '03 in the Center for Advanced Study, one of the highest forms of recognition the campus gives faculty members for outstanding scholarship.

The new CAS professors are *Leon Dash*, journalism; *Thomas S. Huang*, electrical and computer engineering; *Marianne Kalinke*, Germanic languages and literature; *Vijay Pandharipande*, physics, and *Abigail Salyers*, microbiology. CAS professors, who number 18 with the recent additions, are drawn from throughout the campus. They continue to serve as full members of their home departments, while participating in a variety of formal and informal activities organized by the center.

\$2 million grant

UIC researchers *James Pellegrino* and *Susan Goldman* received a \$2 million grant from Atlantic Philanthropies to strengthen teacher preparation programs. Their goal is to discover how best to teach prospective teachers to use technology and to assess its impact on student learning. A priority is to look at the impact that electronic technologies like multimedia, the Web and hand-held devices have on both teaching and learning.



James Pellegrino



Susan Goldman

Campus addition

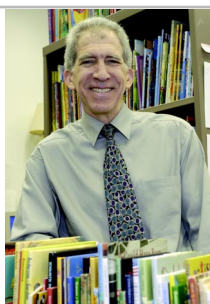
Construction began in the spring on the *Institute for Genomic Biology*, a state-of-the-art facility that will house scientists who lead the nation in biological research. The \$73.5-million institute at Urbana-Champaign is designed to support multidisciplinary collaboration among University scientists and outside partners and to promote technology transfer of new advances in genomic biology. Animal geneticist *Harris Lewin* was named the first director of the IGB.

Reading Hall of Fame

William Teale, professor of education at UIC, was one of four scholars worldwide elected into the 2003 Reading Hall of Fame for lifetime contributions to the research and practice of improving reading instruction. Teale is internationally known for his research on emergent literacy, the study of preschool and kindergarten children's reading and writing development.

American Philosophical Society

Jiri Jonas, an emeritus professor of chemistry at Urbana-Champaign, has been elected to the American Philosophical Society. Jonas, the first director of the Beckman Institute, was among 51 scholars and researchers elected to the learned society in Philadelphia in 2003. Founded by Benjamin Franklin in 1743, the society promotes useful knowledge in the sciences and humanities. Members have included John Adams, Charles Darwin, Thomas Edison, Albert Einstein, Robert Frost, Thomas Jefferson, Louis Pasteur and George Washington.



More Good Works



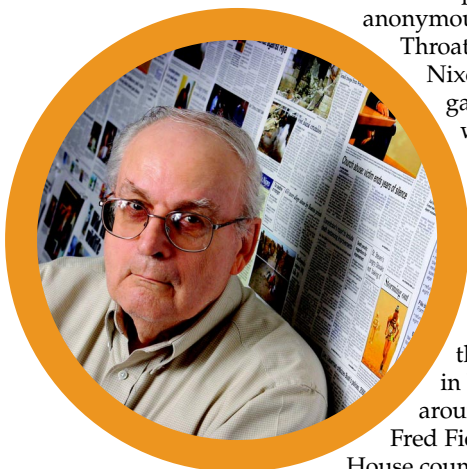
Online degrees

UIS students are able to complete two new *online undergraduate degree* programs: history and computer science. When UIS received a \$500,000 grant from the Alfred P. Sloan Foundation to develop six new online degree programs over three years, UIS officials predicted that online enrollment would double in three years and triple by 2007. This past spring, there were 1,430 online enrollments compared to about 200 in spring 1999.

Solving Watergate mystery

Urbana-Champaign Professor **Bill Gaines** and his class of investigative journalism students held a news conference in Washington, D.C., in April to reveal the name of the person they believe was the anonymous source known as Deep

Throat during the Watergate-Nixon scandal. The UI investigation took four years of work involving more than 60 students over eight semesters. Gaines, who won two Pulitzer Prizes as an investigative reporter with the Chicago Tribune, announced the results at the Watergate Hotel, and their finding was reported in broadcast and print media around the world. Their answer: Fred Fielding, assistant to White House counsel John Dean.



Lifetime achievement award

Angela Pérez Miller, adjunct clinical assistant professor of education at UIC, was among five persons to receive the 2002 Sor Juana Lifetime Achievement Award, which honors and rewards outstanding Mexican women. Miller was honored for her lifetime achievement in education. She is a top scholar in public policy analysis regarding the education of Latino children and youth.

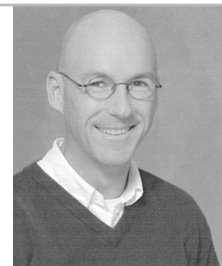


Research scholar grant

UIC biochemist **Gabriel Fenteany** received a \$650,000 Research Scholar Grant from the American Cancer Society. Fenteany, assistant professor of chemistry and member of the UIC Cancer Center, will receive the funds over three years to continue research aimed at discovering small organic molecules that inhibit biological processes such as cell movement and, it is hoped, the spread of cancer.

Outstanding book award

Kevin Barnhurst, professor of communication at the Chicago campus, and **John Nerone**, research professor of communication at the Urbana-Champaign campus, won the Outstanding Book Award from the International Communication Association. They won the prize for their book, "The Form of News: A History," which explores the role newspapers played during key periods of U.S. history, from the colonies to the Internet.



Kevin Barnhurst



John Nerone

University scholars

Six faculty members at Urbana-Champaign have been chosen University Scholars – a distinction that recognizes excellence while helping to identify and retain the university's most talented teachers, scholars and researchers.

The Urbana-Champaign scholars are: **Richard D. Braatz**, chemical engineering; **Scott D. Johnson**, human resource education; **Yi Lu**, chemistry; **Eric Michielssen**, electrical and computer engineering; **Nancy R. Sottos**, theoretical and applied mechanics; and **Matthew B. Wheeler**, animal sciences.

The UIC scholars are: **William Beck**, pharmacology and molecular genetics, head of biopharmaceutical sciences and acting associate dean for research in the College of Pharmacy; **Karen Colley**, biochemistry and molecular genetics in the College of Medicine; **Janet Larson**, head of medical surgical nursing; **Richard Van Breemen**, medicinal chemistry; **Doris Graber**, political science; **Susan Friedlander**, mathematics professor; **John D'Emilio**, history and director of the gender and women studies program.

At UIS, **Michael Lemke**, assistant professor of biology, was named University Scholar. In addition to his academic work, he teaches classroom and online courses, Capital Scholars courses and supervises undergraduate and graduate student research projects, theses and applied study placements.

National Academy of Sciences

Three Urbana-Champaign faculty members are among the 72 scientists elected to the membership in the National Academy of Sciences for distinguished research and continuing achievements.

The faculty members are **Peter Beak**, the Roger Adams Professor of Chemistry; **Karl Hess**, a Swanlund Professor of electrical and computer engineering; and **Dale Van Harlingen**, professor of physics. Membership in the academy is considered one of the highest honors that can be accorded a U.S. scientist or engineer.



Ellis Cose

Alumni Achievement Award

Ellis Cose and *James McNulty* were named the 2003 recipients of the University of Illinois Alumni Achievement Award from the Chicago campus. Cose, an award-winning columnist and author, received his B.A. from UIC in 1972. McNulty, president and CEO of Chicago Mercantile Exchange Holdings Inc. and the Chicago Mercantile Exchange, received his B.A. in 1973.



James McNulty

New nanoscale research center

The National Science Foundation will provide \$12.5 million over five years to the Urbana-Champaign campus to create a nanoscale science and engineering center with an emphasis on nanomanufacturing.

The center will be directed by *Placid Ferreira*, a professor of mechanical and industrial engineering. Illinois is the lead university for the center. Partner institutions are the California Institute of Technology and North Carolina Agricultural and Technological State University.



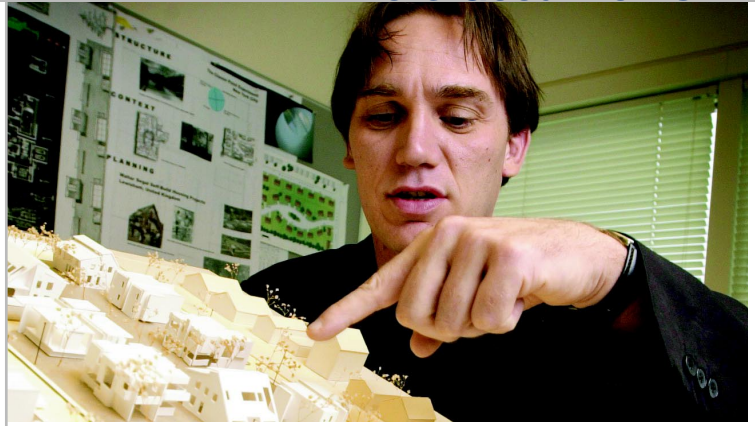
Powers wins two more

Richard Powers, a prize-winning American novelist, MacArthur Foundation "genius award" winner and professor of English at Urbana-Champaign, has won two more literary prizes, the 2002 John Dos Passos Prize for Literature and a Pushcart Prize for an essay that was published in *Zoetrope*, a literary magazine. Powers, a Swanlund Professor of English and a professor in the Center for Advanced Study, has won other prizes, including the PEN/Hemingway Special Citation, the James Fenimore Cooper Prize and *Time* magazine's Book of the Year.



Award-winning firefighter's helmet

Brad Kurz, who graduated last May in industrial design at Urbana-Champaign, won a merit award from the Industrial Design Society of America for his update of the classic firefighter's helmet. His design combined stylistic elements of the traditional leather helmet — a design favored by firefighters he surveyed — with modern materials and technology.



East St. Louis Action Research Project

Eighteen seniors and graduate students working with architecture professor *Osman Ataman* at Urbana-Champaign built a two-story, single-family home in East St. Louis to inspire new construction in the neighborhood. A local developer sold the house to a low-income family. The project is part of the University's East St. Louis Action Research Project, which brings together students and faculty from the School of Architecture and departments of landscape architecture and urban and regional planning to work with East St. Louis residents on community needs.

NASULGC teaching award

Shelly J. Schmidt, professor of food chemistry in the department of food science and human nutrition and agricultural engineering at Urbana-Champaign, received a national award for university teaching, sponsored by the U.S. Department of Agriculture and the National Association of State Universities and Land-Grant Colleges.

French award

Two professors in the French department at Urbana-Champaign received one of France's oldest awards. *Douglas Kibbee* and *Lawrence Schehr* accepted The Order of the Academic Palms with the rank of Chevalier (knight) for dedication and accomplishment in the areas of teaching, scholarship and research. Napoleon Bonaparte founded the Order of the Academic Palms in 1808.

ASHA's highest honor

Ehud Yairi, professor of speech and hearing science at Urbana-Champaign, received the highest honor of the Association from the American Speech-Language-Hearing Association. Yairi has been a leading researcher in fluency and stuttering for more than 30 years.

Last year he received a \$4.3 million grant from the National Institutes of Health to pursue research into subtypes of stuttering.



More Good Works

Society president

Dr. Ronald Hoffman, director of the Cancer Center at the University of Illinois Medical Center at Chicago, has been elected president of the American Society of Hematology, the world's largest professional society concerning the causes and treatment of blood disorders.

Jane Addams Hull House

UIC has received a \$151,000 *National Endowment for the Humanities* grant to improve the preservation and access to historic records belonging to the Jane Addams Hull House Association. The project consists of records dating to 1889. The special collections staff at UIC's Richard J. Daley Library will collate materials, describe them according to current archival standards and perform basic preservation treatment on fragile documents. Hull House was a social settlement founded in the late 1800s to address the needs of Chicago's immigrant community.

UIS book

Fourteen young authors explore the question, what would the world have been like without Abraham Lincoln, in a new children's book published by UIS. All of the authors were between the ages of 7 and 10 when they wrote the story.

National Academy of Engineering

Joseph E. Greene and *Peter W. Sauer* have been elected to the National Academy of Engineering. Greene and Sauer, both researchers at Urbana-Champaign, were among 77 engineers selected for membership.

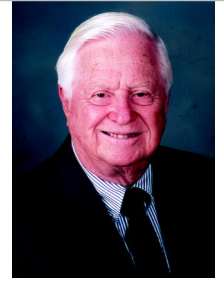
Campus addition

A new student residence hall for 447 students opened this fall as part of UIC's South Campus expansion. *Thomas Beckham Hall* is the second, and larger, of two new residences built along Halsted Street to accommodate demand for more on-campus housing. The building is designed in apartment style, with private kitchens and baths.



Distinguished Service Award

The Alumni Association awarded *Thomas Barber* of Arroyo Grande, Calif., the 2003 University of Illinois Distinguished Service Award, the highest recognition for individuals who contribute time and expertise to benefit the Chicago campus. Barber was a 1949 graduate of the College of Dentistry.



Campus addition

A much-needed *classroom/office building at UIS* is expected to be in use by summer '04. The building will have smart classrooms and wireless capability, computer labs, lecture halls and academic program offices. Admissions and Records and other key student services offices will also relocate to the building.

World's most powerful magnet

The *University of Illinois Medical Center at Chicago* is home to the world's most powerful magnet for imaging the human body. The 9.4-Tesla magnet, which arrived in July, will be used for a magnetic resonance scanner for imaging the biochemistry of tissues in humans, such as, the metabolic processes supporting the brain during thinking. At 9.4 Tesla, it has a magnetic field more than 100,000 times stronger than that of the Earth. It weighs 57 tons.



Goldsmith Book Prize

Doris Graber, professor of political science at UIC, received the 2003 Goldsmith Book Prize by Harvard University's Kennedy School of Government. The prize honors the academic book that best contributes to the improvement of government or politics through an examination of the press. Graber's book, "Processing Politics: Learning from Television in the Internet Age," analyzes flaws in the match between audio-visual news and human learning capabilities and suggests remedies.

Fulbright grant winner

William Trent, professor of educational policy studies and sociology at Urbana-Champaign, received a Fulbright Senior Specialists grant in education at the School of Education, Saint Andrew, Argentina. The grants to leading U.S. academics and professionals support curricular and faculty development in 140 countries around the world.

New law degree

UIC and the Chicago-Kent College of Law announced a new accelerated degree program that will allow UIC students to complete a bachelor's degree and law degree in six years—one year ahead of the average completion time. The program overlaps the fourth year of the bachelor's degree with the first year of law studies. Students will spend their first three years at UIC and the last three at Chicago-Kent.

Alumni Achievement Award

Robert Badgett Morgan, Paul D. Schrage and Phillip Allen Sharp received the 2003 Alumni Achievement Award from the Alumni Association for the Urbana-Champaign campus. Morgan was honored for his success in the field of music education, Schrage for his marketing and advertising achievements within the McDonald's Corporation, and Sharp for revolutionary research discoveries in molecular biology and biochemistry.

Alumni Achievement Award

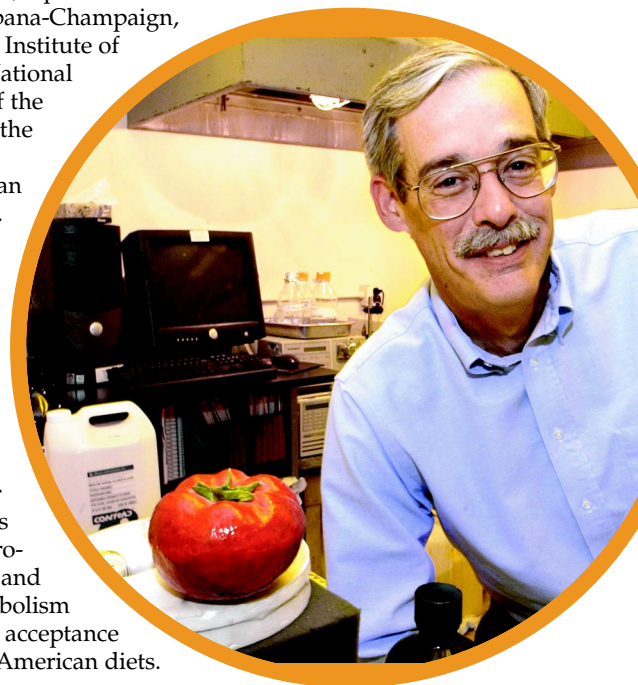
Phillip T. Zeni received the UIS Alumni Association's 2003 Alumni Achievement Award for his pioneering spirit in a number of entrepreneurial interests. Zeni is an international businessman, consultant, Internet pioneer and author and is the chief operating officer and executive vice president of Orban/CRL, which manufactures sophisticated audio process equipment for the broadcasting industry.



Elected to national academy

John W. Erdman Jr., a professor of nutrition at Urbana-Champaign, was elected to the Institute of Medicine of the National Academies, one of the highest honors in the fields of medicine and health. Erdman was one of 65 U.S. members, chosen for their contributions to the advancement of medical sciences, health care and public health.

Erdman's research focuses on prostate cancer risks. His previous research on soy protein consumption and human lipid metabolism contributed to the acceptance and use of soy in American diets.



Lifetime scholar award

A. LaVonne Brown Ruoff, a pre-eminent American Indian studies scholar and professor emerita of English at UIC, received the Modern Language Association's 2002 Award for Lifetime Scholarly achievement. She is only the third person to receive the award. Ruoff also received the Writer of the Year Award for series editing from the Wordcraft Circle of Native Writers and Storytellers, the second time she has received the award.

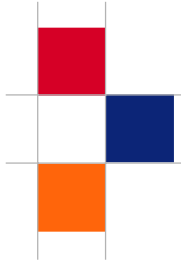
High-speed computer

UIC was one of six educational institutions selected to develop and build a high-speed computer that will use geographically distributed computational resources linked by a new generation network of ultra-high-speed optical fiber. This advanced research tool will be a "virtual" computer with the power to help researchers understand complex science as never before. UIC will manage the \$13.5 million, five-year project, funded by the National Science Foundation. *Thomas De Fanti*, distinguished professor and co-director of UIC's Electronic Visualization Laboratory, along with *Jason Leigh*, senior research scientist, will serve as co-principal investigators.

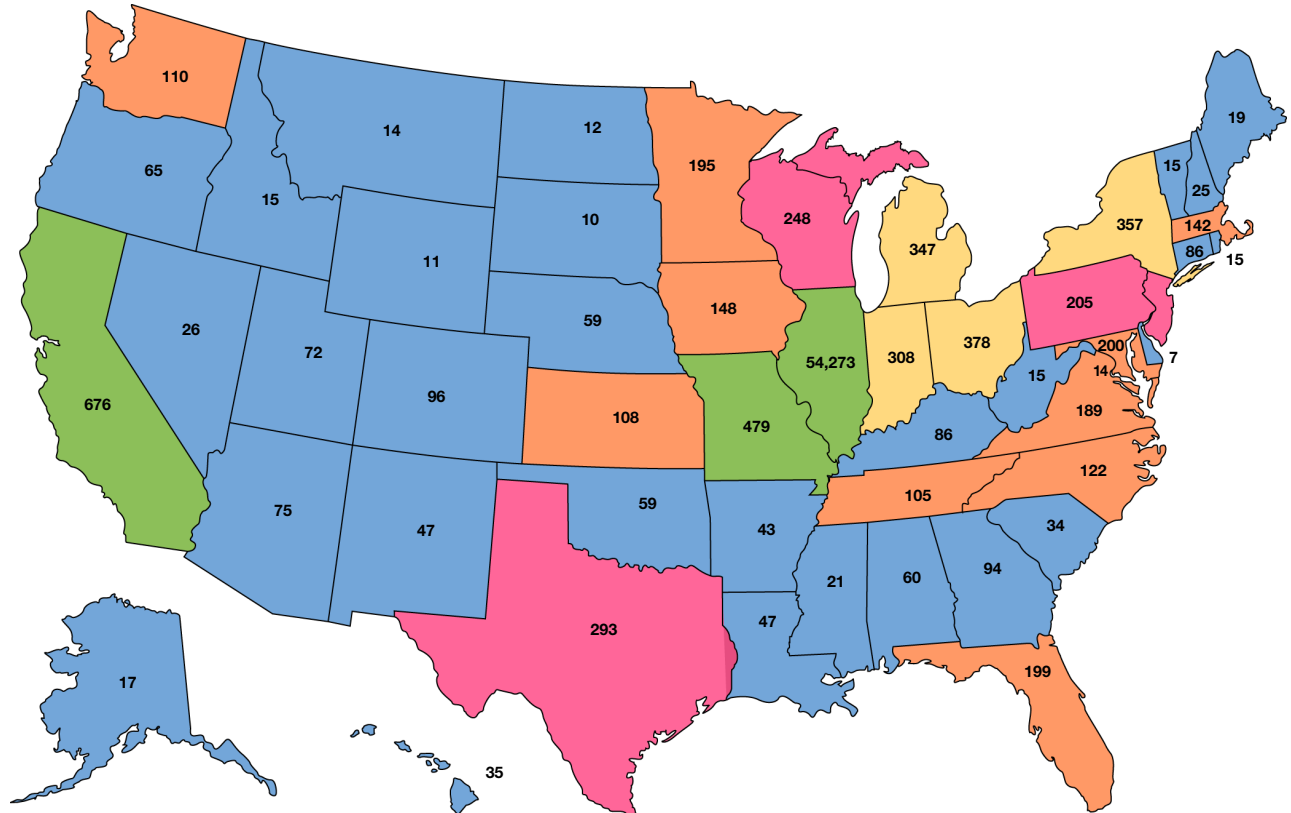
Visit us online.

www.uillinois.edu

Acknowledgements: More Good Works, A State of the University 2004 was produced by the Office for University Relations with the cooperation of the public affairs offices and news bureaus at the Chicago, Springfield and Urbana-Champaign campuses. Executive editor, Lex Tate; managing editor and lead writer, Becky Mabry; writers Becki Galaray and Mary Frega; photography, Curt Beamer, Don Hamerman, Curt Neitzke, Lou Thompson at Thompson-McClellan Photography, Tom Schaeffges, Bill Wiegand, Darrell Hoemann and Robin Scholz at The Champaign-Urbana News-Gazette, UIC Photographic Services, and the White House; design, Richard Harrison Bailey/The Agency. The University of Illinois is an equal opportunity, affirmative action institution. OUR 3/04 8K



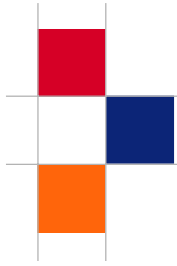
On-Campus Headcount Enrollment by State & Continent, Fall 2003



United States (AK & HI inset)

- 401 to 54,000
- 301 to 400
- 201 to 300
- 101 to 200
- 0 to 100





Staff and Student Data as of October 2003

Staff Full-Time Equivalent (all funds)

	Chicago	Springfield	Urbana-Champaign	University-wide Programs	Other University Administration	Total University
Faculty	2,350	201	2,801	6		5,358
Academic Professional	3,145	155	3,086	76	783	7,245
Support Staff	5,351	265	4,648	34	584	10,882
Graduate Assistant	2,114	107	2,645	7	6	4,879
TOTAL	12,960	728	13,180	123	1,373	28,364

Note: Chicago campus includes University of Illinois Hospital; Urbana-Champaign campus includes Cooperative Extension Service. University-wide programs include Institute of Government and Public Affairs, President's Leadership Program, University Outreach and Public Service, and University Press. Items may not add to total due to rounding.

Degrees Awarded FY 2003

	Chicago	Springfield	Urbana-Champaign	Total University
Certificates	—	—	14	14
Bachelors	3,261	607	6,973	10,841
Masters	1,808	381	2,703	4,892
Post-Masters Certificates	—	—	11	11
Doctorate	225	—	617	842
First-Professional	476	—	301	777
First-Professional-Certificates	20	—	—	20
TOTAL	5,790	988	10,619	17,397

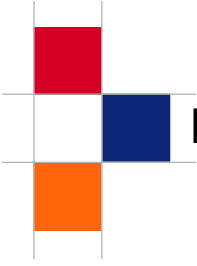
Student Full-Time Equivalent Enrollment

Fall 2003 On-Campus Enrollment

	Chicago	Springfield	Urbana-Champaign	Total University
Undergraduate	14,602	1,481	28,795	44,878
Graduate	5,940	788	10,553	17,281
Professional	4,643	0	1,481	6,124
TOTAL	25,185	2,269	40,829	68,283

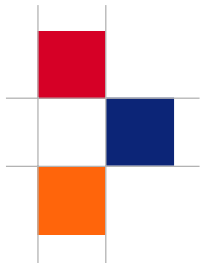
*Includes 982 residents.

Note: Fte calculated based on IBHE definition



Financial Information





Independent Auditor's Report



**Clifton
Gunderson LLP**
Certified Public Accountants & Consultants

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

As Special Assistant Auditors for the Auditor General, we have audited the accompanying basic financial statements of the University of Illinois (University) and its aggregate discretely presented component units, collectively a component unit of the State of Illinois, as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year partial comparative information has been derived from the University's 2003 financial statements and, in our report dated September 16, 2003 we expressed unqualified opinions on those financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University and of its aggregate discretely presented component units as of June 30, 2004, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2004, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Clifton Gunderson LLP

Peoria, Illinois
October 15, 2004



Stephen K. Rugg

The following Management's Discussion and Analysis, or MD&A, provides an overview of the financial position and activities of The University of Illinois for the year ended June 30, 2004.

We encourage you to read this MD&A section in conjunction with the audited financial statements and footnotes appearing in this report.

Management's Discussion and Analysis

from the Vice President for Administration, Comptroller

INTRODUCTION AND BACKGROUND

The following Management's Discussion and Analysis or MD&A provides an overview of the financial position and activities of the University of Illinois for the year ended June 30, 2004 with comparative information for the year ended June 30, 2003. The MD&A should be read in conjunction with the audited financial statements and footnotes appearing in this report.

The University of Illinois was founded in 1867 in response to the federal Land Grant Act of 1862. Ever since the first student walked through its doors, over 135 years ago, the University has provided higher education opportunities to people from all walks of life. The University is a comprehensive public university consisting of three distinct campuses, Chicago, Springfield and Urbana-Champaign. The University serves the people of Illinois through the commitment to its missions of excellence in instruction, research, public service and economic development.

The University's campuses attract some of the nation's most talented students and currently enrolls approximately 68,000 on-campus students and thousands of off campus and online students. The University of Illinois is a world leader in research with internationally renowned faculty and currently employs approximately 5,400 faculty members on its three campuses. The University offers a diverse range of degree programs from baccalaureate to post-doctoral levels. Approximately 17,000 degrees are awarded annually. The operating budget for fiscal year 2004, from all fund sources, was approximately \$3.3 billion.

The University is on the cutting edge of research and discovery. Research at this University has resulted in revolutionary innovations such as the Web browser, new plant variations and the discovery of a third form of life. Thanks to our internationally renowned faculty, we continue to successfully compete for grant funding to support our research endeavors.

An integral part of the University's mission is a commitment to public engagements. Each year scores of Illinois residents participate in conferences, institutes, courses, and workshops presented statewide. Research and class projects allow the University to share expertise and technical support with Illinois farmers, manufacturing firms, and businesses. The clinical services provided by the University's hospital and clinics help advance the efficiency and quality of life in the state. Members of our faculty and staff serve on boards, commissions, and advisory committees throughout the state, the nation and the world.

The University is dedicated to using the resources at all three campuses in an integrated fashion to strengthen the services to the state through the education of a modern labor work force, research and development, technology commercialization, and partnership with business, government and community groups. The University has an impressive impact on the state's economy by providing full-time employment for more than 23,000 and billions in direct spending in Illinois. The University's vision includes providing an affordable and outstanding education, continuous improvement of academic research and support programs, and utilization of best business practices. The University will lead nationally in creating, assessing, transferring and integrating advanced technologies in our teaching, research, outreach and operations.

University of Illinois at Chicago

The University of Illinois at Chicago, UIC, is a major comprehensive research campus located amidst the skyscrapers, parks and culture of the city of Chicago. UIC has engaged an elite research faculty in its urban mission committed to providing a first-rate education for its students



by serving its diverse communities and neighborhoods. UIC's faculty have gained national and international recognition. UIC recently unveiled the world's most powerful magnetic resonance imaging machine for human studies, capable of imaging not just the anatomy but metabolism within the brain. This advanced technology ushers in a new age of metabolic imaging that will help researchers understand the workings of the human brain, detect diseases before their clinical signs appear, develop targeted drug therapies for illnesses like strokes and provide a better understanding of learning disabilities.

University of Illinois at Springfield

The Springfield campus, UIS, is located on the southeast side of the State capital where Abraham Lincoln took his first professional steps. UIS offers a variety of opportunities for political internships, social services experiences and direct learning in corporate, government and nonprofit organizations. Teaching remains the core mission of UIS even with the continued growth and program diversification. UIS is one of the largest providers of online education enrolling hundreds of students earning degrees entirely online or by mixing classroom and online coursework. The capital scholars undergraduate program has energized the campus community but the core enrollment still consists of transfer and non-traditionally aged students, motivated individuals pursuing undergraduate and graduate degrees. UIS proudly supports a student affairs division providing students with a multitude of services including modern housing and on campus child care.

University of Illinois at Urbana-Champaign

An atmosphere of innovation at the University of Illinois Urbana-Champaign campus, UIUC, is based on a history of interdisciplinary exploration. Faculty and students pursue projects with other top scholars from around the world and across disciplines. Campus resources include the world's largest public university library, outstanding centers for the arts, and many world-class research facilities, including the National Center for Supercomputing Applications. Each of the last three years, UIUC received the most National Science Foundation funding of any university in the country. In 2003, Illinois' faculty members won national and international awards including two Nobel Prizes, the Crafoord Prize in Biosciences, and two Guggenheim Fellowships. Undergraduate students can choose from more than 150 programs of study; graduate and professional students choose from more than 100 programs.

USING THE FINANCIAL STATEMENTS

The University's financial report includes three financial statements: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. The financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles, which establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a consolidated basis to focus on the University as a whole. The financial statements encompass the University and its discretely presented component units. Information regarding these component units is summarized in Note 1 to the financial statements. This MD&A focuses on the University excluding the discretely presented component units. MD&A for these component units is included in their separately issued financial statements.

FINANCIAL HIGHLIGHTS AND KEY TRENDS

The fiscal year 2004 budget for direct state appropriations, as approved by the Governor, was approximately 7.8% less than the 2003 approved budget. Mid year rescissions in both years resulted in an overall budget reduction in fiscal year 2004 of about 5.7% or \$42 million. During the same period payments made on behalf of the University to the State Universities Retirement System (SURS) and Central Management Services (CMS) for retirement and health insurance costs increased by approximately 20.5%. The overall net budget affect was an increase of approximately 1.6% in state support. Net assets, which represent the residual interest in the University's assets after liabilities, increased during the current year by \$135 million attributed largely to an increase of \$85 million in investment in plant funded mainly by bond funds. As of June 30, 2004, the University's total assets were \$4.1 billion compared to total assets of \$3.9 billion as of June 30, 2003 also due to the growth in capital assets.

The University issued UIC South Campus Development Project Revenue Bonds Series 2003 in the amount of \$10,000,000 to provide completion funding for the UIC South Campus Development Project, an integrated academic, residential, recreational, and commercial development. During fiscal year 2004 the University also issued Certificates of Participation, Utility Infrastructure Series 2003 and 2004 in the amount of \$69,050,000 and \$143,665,000, respectively. These certificates were issued to refund previously issued certificates resulting in a combined savings of approximately \$7.6 million over the life of the issue at a present value of approximately \$6.2 million.

STATEMENT OF NET ASSETS

The Statement of Net Assets presents the financial position of the University at the end of the fiscal year and includes all assets and liabilities of the University using the accrual basis of accounting. The difference between total assets and total liabilities, net assets, is one indicator of the current financial condition of the University. The changes in net assets that occur over time indicate improvement or deterioration in the University's financial condition. Generally assets and liabilities are reported at cost with the exception of investments which are reported at fair value and capital assets which are stated at historical cost less accumulated depreciation. A summarized comparison of the University's assets, liabilities and net assets at June 30, 2004 and 2003 is as follows:

(in thousands)		
	2004	2003
Current assets:		
Cash and investments	\$ 364,589	\$ 407,263
Accounts and notes receivable	299,114	282,040
Other current assets	60,550	58,774
Noncurrent assets:		
Investments	575,241	560,633
Notes receivable	47,028	48,084
Capital assets, net of accumulated depreciation	2,746,524	2,547,063
Other assets	27,263	20,880
Total assets	\$ 4,120,309	\$ 3,924,737
Current liabilities:		
Accounts payable, accrued liabilities and deferred revenue	\$ 356,888	\$ 351,218
Bonds payable	24,849	21,982
Leaseholds payable and other obligations	29,857	13,153
Accrued self insurance	28,592	19,104
Other current liabilities	70,012	66,942
Noncurrent liabilities:		
Bonds payable	670,451	675,632
Leaseholds payable and other obligations	436,382	385,024
Accrued self insurance	69,446	71,857
Other noncurrent liabilities	155,454	175,956
Total liabilities	\$ 1,841,931	\$ 1,780,868
Net assets	\$ 2,278,378	\$ 2,143,869

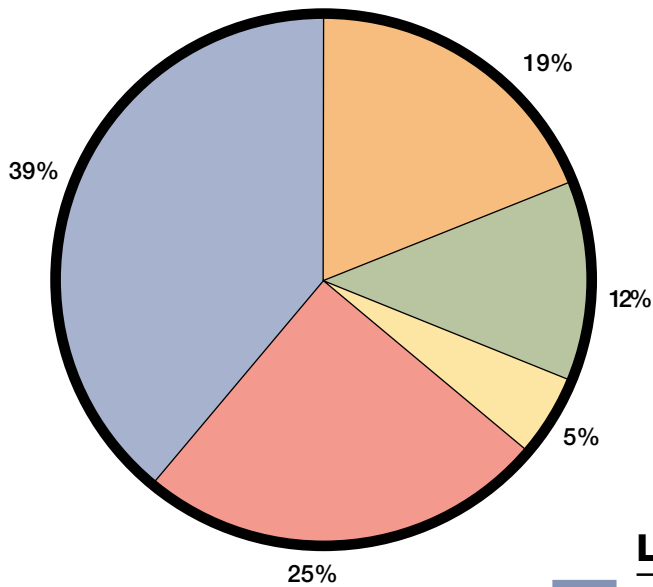
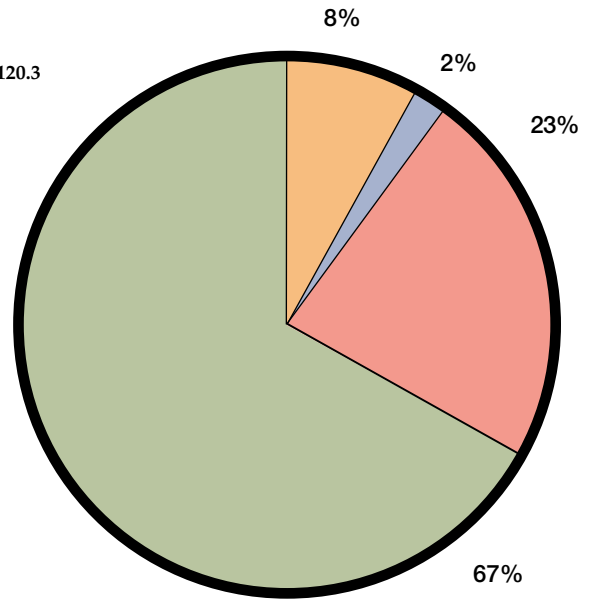
Total assets increased by \$196 million or 5% to \$4.1 billion during fiscal year 2004. The change is the result of an overall decrease in cash and investments of \$28 million, an increase in accounts and notes receivable of \$16 million, an increase in capital assets of \$200 million, and an increase of \$8 million in all other categories combined. The decrease in total University cash and investments is largely due to the use of previously acquired bond funds for capital projects. Receivables from sponsoring agencies, the State of Illinois, and receivables due to the hospital all increased slightly during the fiscal year.

Total liabilities increased by approximately \$61 million or 3.4% during fiscal year 2004. Bonds payable decreased by \$2 million as the result of \$22 million principal paid on outstanding debt offset against \$10 million accretion on capital appreciation bonds outstanding and \$10 million South Campus Project bonds issued. Leaseholds and other obligations payable increased by \$68 million mainly resulting from the issuance of the Series 2003 and 2004 Utility Infrastructure certificates which were used to refund previously issued certificates. Accrued self insurance and accounts payable and accrued liabilities increased slightly. The residual decrease is due to an overall decrease in other liabilities, mainly accrued compensated absences.

The following graphs illustrate the University's assets and liabilities with the current and non current categories combined:

Assets

	millions
Cash and investments	\$ 939.8
Other assets	\$ 87.8
Accounts and notes receivable	\$ 346.2
Capital assets, net of depreciation	\$ 2,746.5
TOTAL	\$ 4,120.3

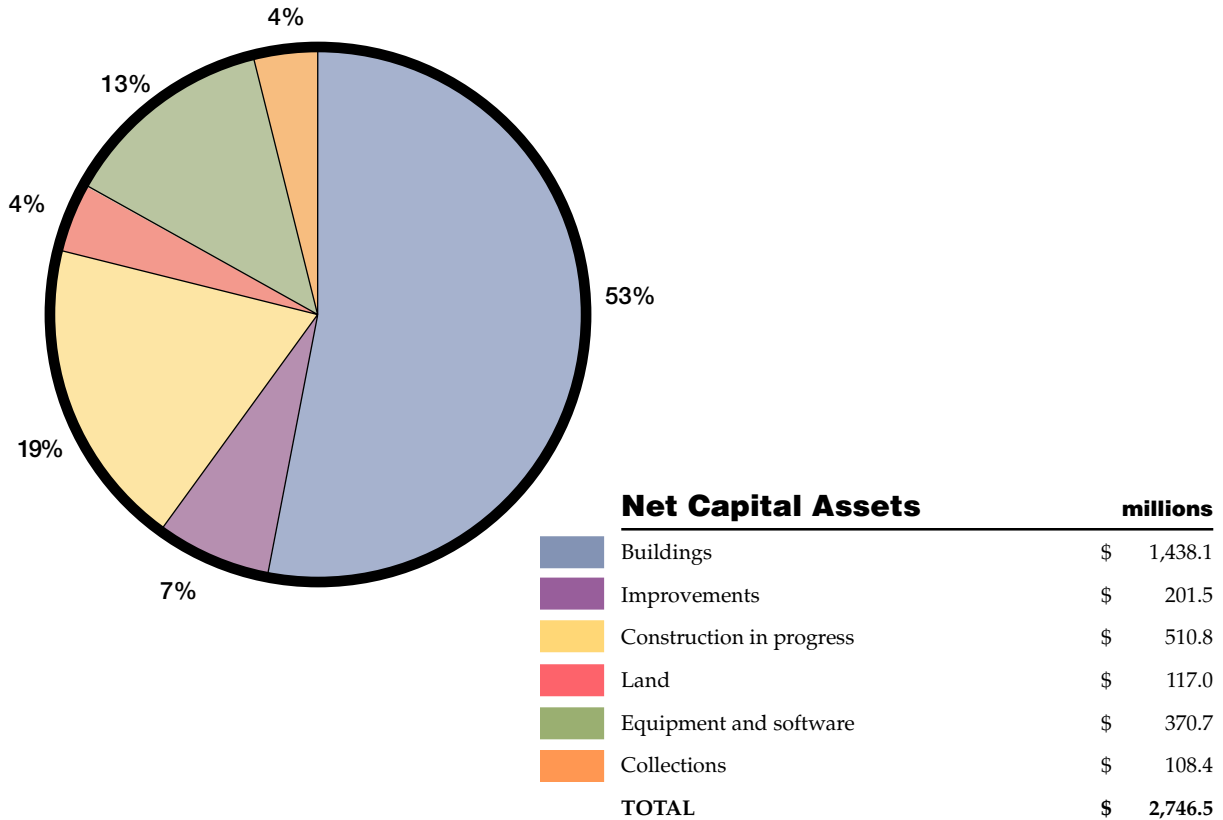


Liabilities

	millions
Bonds payable	\$ 695.3
Payables, accrued liabilities, and deferred revenue	\$ 356.9
Other liabilities	\$ 225.5
Accrued self insurance	\$ 98.1
Leaseholds payable and other obligations	\$ 466.2
TOTAL	\$ 1,842.0

Capital Assets and Related Financing Activities

Capital assets, net, which includes the University's land, buildings, improvements, and equipment including capitalized software and library books, increased by \$200 million to approximately \$2.7 billion at June 30, 2004. The University depreciates its capital assets on a straight-line basis, using estimated useful lives ranging from three to fifty years. Facilities under construction include projects funded from State capital appropriations, private gifts, revenue bonds, certificates of participation, and internal funds. State capital appropriations funded construction of the Classroom and Office Building at the Springfield campus and the College of Medicine Research Facility on the Chicago campus. Revenue bonds are being used to fund recreation facility upgrades and new construction at each of the campuses as well as parking projects at the Urbana-Champaign campus and a portion of the South Campus Project at the Chicago campus. The following chart illustrates the composition of the University's capital assets, net of depreciation, by category.



The University has historically utilized revenue bonds to finance auxiliary and health service facility needs, and more recently, the UIC South Campus Project. These activities generally have the ability to generate resources from student fees, users, and third parties sufficient to service the debt. The following chart details the various bonded debt outstanding at June 30, 2004 and 2003:

BONDS PAYABLE		
(in thousands)		
	2004	2003
Auxiliary Facilities System	\$ 546,569	\$ 556,501
Health Services Facilities System	65,842	67,337
UIC South Campus	81,707	72,389
Other Issues	1,182	1,387
	<u>\$ 695,300</u>	<u>\$ 697,614</u>

The University has issued certificates of participation (COPS) for infrastructure projects that have a projected cost savings pay back. The cost of updating its physical plant and utility infrastructure as well as the cost to replace existing mainframe legacy systems has been funded by the sale of COPS. During fiscal year 2004, Utility Infrastructure COPS were issued to refund other previously issued COPS with a resulting savings over the life of the new issues of \$7.6 million. The COPS are reported as leaseholds payable. The following chart details the various outstanding issues as of June 30, 2004 and 2003:

CERTIFICATES OF PARTICIPATION OUTSTANDING
(in thousands)

	2004	2003
Utility infrastructure projects	\$ 241,030	\$ 234,800
UI Integrate project	139,550	107,850
Natural gas purchase	6,320	9,480
South farms relocation project	25,200	25,200
	<u>\$ 412,100</u>	<u>\$ 377,330</u>

The University's resources are classified into net asset categories in the Statement of Net Assets. These categories are defined as (a) Invested in capital assets, net of related debt - capital assets net of accumulated depreciation and outstanding debt balances, (b) Restricted nonexpendable - assets restricted by externally imposed stipulations, (c) Restricted expendable - assets subject to externally imposed restrictions that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time and (d) Unrestricted - assets not subject to externally imposed stipulations but may be designated for specific purposes by action of management or the Board of Trustees. The University's net assets increased by \$135 million during fiscal year 2004. Net assets balances are detailed below:

NET ASSETS

(in thousands)

	2004	2003
Net Assets:		
Invested in capital assets, net of related debt	\$ 1,715,047	\$1,630,184
Restricted:		
Nonexpendable	30,809	27,883
Expendable	332,750	309,645
Unrestricted:		
Designated	182,012	160,493
Undesignated	17,760	15,664
Total Net Assets	<u>\$ 2,278,378</u>	<u>\$2,143,869</u>

Invested in capital assets, net of related debt increased by \$85 million or 5% as the result of increases in capital assets offset by the changes in bonds and capital leases outstanding. Endowments increased by \$3 million represented by an increase in the restricted-nonexpendable category. The restricted-expendable category of net assets increased by \$23 million largely due to growth in the quasi endowment fund and an increase in the medical service plan net assets. Other categories combined increased by \$24 million due to a \$19 million reduction in compensated absences expected to be paid from future appropriations which resulted in an increase in unrestricted designated net assets. Net assets for hospital and institutional operations and undesignated unrestricted net assets combined for an increase of \$21 million offset by \$16 million in all other categories combined.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

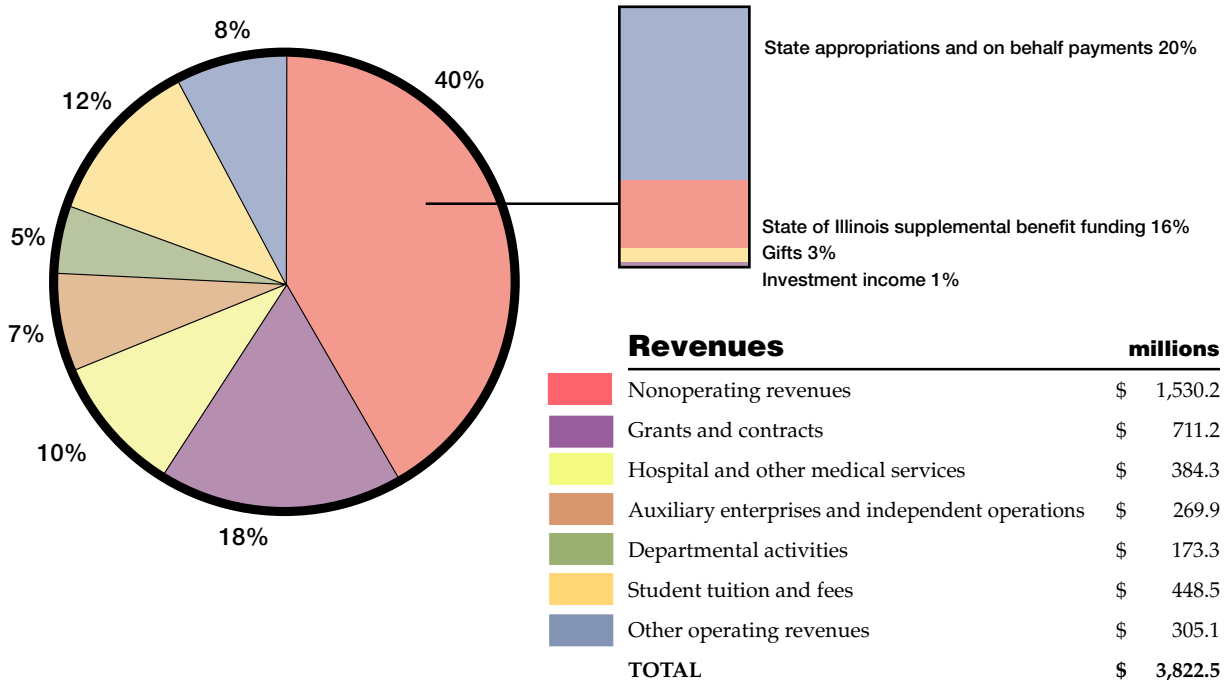
The Statement of Revenues, Expenses, and Changes in Net Assets presents the University's results of operations. In accordance with GASB reporting standards, revenues and expenses are classified as either operating or nonoperating. A summarized comparison of the University's Statement of Revenues, Expenses and Changes in Net assets for the years ended June 30, 2004 and 2003 is as follows:

(in thousands)		
	2004	2003
Operating revenues:		
Student tuition and fees	\$ 448,476	\$ 384,981
Sponsored programs	711,172	750,636
Hospital and other medical activities	384,323	359,689
Auxiliary enterprises and independent operations	269,916	271,111
Medical service plan	116,946	111,590
Other	361,428	244,679
Total operating revenues	2,292,261	2,122,686
Operating expenses	3,798,003	3,110,304
Operating loss	(1,505,742)	(987,618)
Nonoperating revenues (expenses)		
State appropriations and on behalf payments	1,405,178	909,914
Private gifts	96,319	118,703
Investment income	28,795	28,687
Other net operating revenues (expenses)	(19,828)	(30,432)
Net nonoperating revenues	1,510,464	1,026,872
Capital state appropriations and capital gifts and grants	127,514	111,782
Endowment gifts	2,273	2,821
Increase in net assets	134,509	153,857
Net assets, beginning of year	2,143,869	1,990,012
Net assets, end of year	\$ 2,278,378	\$ 2,143,869

Revenues

The University's revenues are generated from diverse sources to supplement the student tuition and fees. This diversity helps to maintain the University's funding base despite a decline in state appropriation funding. GASB reporting standards requires the categorization of revenues into operating and nonoperating. Operating revenues generally result from exchange transactions where each of the parties to the transaction either give up or receive something of equal or similar value. Certain revenue sources that the University relies on for operations, including State appropriations, gifts, and investment income, are defined by this statement as nonoperating.

The following graphically illustrates the revenues by source (both operating and certain nonoperating) which were used to fund the University's operating activities for the year ended June 30, 2004



Student tuition and state appropriations are primary sources of funding for the University's academic programs. There is a direct relationship between the state support and the University's ability to restrain tuition increases. Actual State appropriation revenue, not including payments on behalf, decreased by \$42 million and student tuition revenue increased by \$63 million during fiscal year 2004. The increase in tuition is due to a 5% tuition increase approved by the Board of Trustees for fiscal year 2004, additional tuition from the third year of a four-year tuition increase program, and additional tuition as the result of special tuition differentials in various graduate and undergraduate programs. Other revenue sources with significant increases during fiscal year 2004 were certain self supporting activities such as the hospital and medical service plan. Payments on behalf for FY04 were \$937.4 compared to \$282.2 in FY03. This significant increase is due to supplemental state funding provided to SURS on July 2, 2003 of \$1.4 billion, allocated among participating employers. The University's share of this supplemental funding was \$597.2 million. GASB reporting requires disclosure of all estimated allocations to the entity be included in the current year statement of revenues, expenses and changes in net assets.

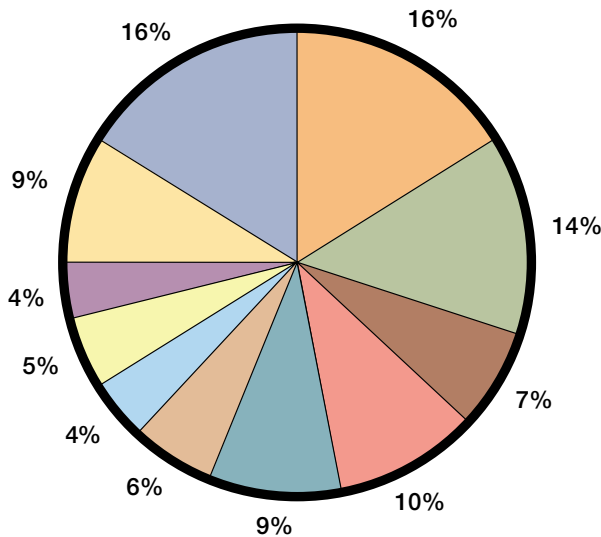
Expenses

The majority of the University's expenses are exchange transactions which GASB standards define as operating expenses. Nonoperating expenses include capital financing costs and costs related to capital assets.

OPERATING EXPENSES		
(in thousands)		
	2004	2003
Instruction	\$ 602,025	\$ 608,250
Research	548,969	520,574
Public service	250,534	297,558
Support services	392,048	430,544
Hospital and medical activities	353,861	319,795
Auxiliary enterprises and independent operations	222,835	201,175
Scholarships and fellowships	160,673	138,733
Plant operations and maintenance	176,682	171,418
Depreciation	153,022	140,106
On behalf payments for fringe benefits	340,109	282,151
State of Illinois supplemental benefit funding	597,245	
Total operating expenses	\$ 3,798,003	\$ 3,110,304

Fiscal year 2004 expenses per the statement of revenues, expenses and changes in net assets increased by \$688 million. As described above in the revenue discussion, \$597 million of this increase is due to supplemental state funding to SURS resulting in an increase in on behalf payments for the University. Actual University spending increased \$90 million or 3%. Expenses related to the University's mission of instruction, research and public service decreased by 1.7%, or \$25 million in 2004. Instruction expenses, tied directly to state funding, showed a slight decrease during fiscal year 2004. In addition, public service expenses decreased by \$47 million, with a corresponding decrease in State of Illinois grant revenue, because funding previously received as a State of Illinois grant for nursing programs was redirected to another state agency. However research expenses continued to increase in relation to the increase in other grant revenue. Hospital and medical activities expenses increased by \$34 million or 11% which correlates to their increase in revenue during fiscal year 2004. Other increases are attributable to auxiliary enterprise self supporting operations and an increase in scholarship and fellowship expenses.

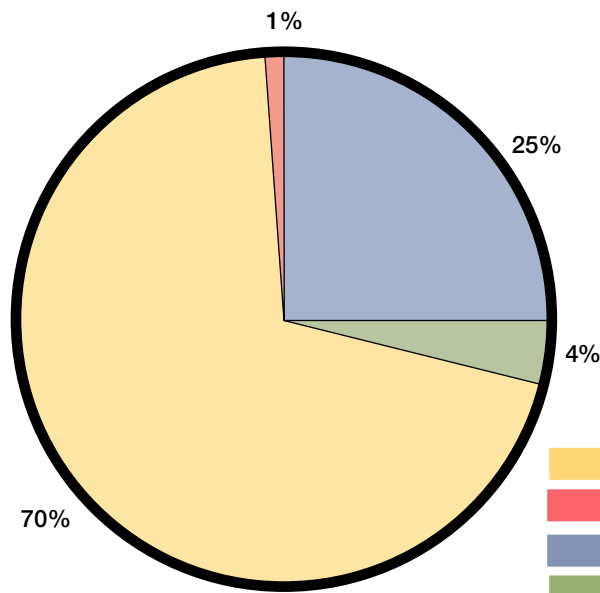
The University chooses to report their expenses by functional classifications in the Statement of Revenues, Expenses and Changes to Net Assets. For the reader's information, the expenses are displayed in their natural classification in Note 14. The following graphs illustrate the expenses for each method of classification:



Operating Expenses

Functional Classification	millions
Instruction	\$ 602.0
Research	\$ 549.0
Public service	\$ 250.5
Support services	\$ 392.1
Hospital and medical activities	\$ 353.9
Auxiliary enterprises and independent operations	\$ 222.8
Scholarships and fellowships	\$ 160.7
Plant operations and maintenance	\$ 176.7
Depreciation	\$ 153.0
On behalf payments for fringe benefits	\$ 340.1
State of Illinois supplemental benefit funding	\$ 597.2
TOTAL	\$ 3,798.0





Operating Expenses

Natural Classification	millions
Compensation and benefits	\$ 2,656.0
Scholarships and fellowships	\$ 49.9
Supplies and services	\$ 939.1
Depreciation	\$ 153.0
TOTAL	\$ 3,798.0

STATEMENT OF CASH FLOWS

The Statement of Cash Flows provides information about the University's financial results, by reporting the major sources and uses of cash. A comparative summary of the statement of cash flows for the years ended June 30, 2004 and 2003 is as follows:

	(in thousands)	
	2004	2003
Cash flows from operating activities:		
Total sources	\$ 2,137,860	\$2,061,302
Total uses	(2,739,899)	(2,686,620)
Net cash flows used by operating activities	(602,039)	(625,318)
Cash flows from noncapital financing activities:		
State appropriations	647,385	684,760
Gifts transferred from the Foundation	96,319	118,703
Other uses, net	30,516	30,103
Net cash flows provided by noncapital financing activities	774,220	833,566
Cash flows from capital and related financing activities:		
Proceeds from debt issues	10,066	75,276
State capital appropriations	45,877	94,453
Payments of principal and interest on bonds and capital leases	(91,608)	(73,052)
Payment of bond issuance costs	(199)	(790)
Purchase of capital assets	(265,895)	(306,409)
Other sources, net	53,099	15,955
Net cash flows used by capital and related financing activities	(248,660)	(194,567)
Cash flows from investing activities:		
Interest and dividends received	29,723	42,519
Proceeds from sales and maturities of investments, net of cash paid for investment purchases	(8,188)	(35,009)
Net cash flows provided by investing activities	21,535	7,510
Net increase (decrease) in cash and cash equivalents	(54,944)	21,191
Cash and cash equivalents, beginning of year	331,190	309,999
Cash and cash equivalents, end of year	\$ 276,246	\$ 331,190

The University's cash and cash equivalents decreased by \$55 million due largely to the increased cash flows used by capital and related financing operations for the payment of principal and interest on bonds and capital leases and decreases in debt issue proceeds and state capital appropriations. Other decreases are attributed to decreases in state appropriations funding and the gifts transferred from the Foundation to the University during the fiscal year.

THE UNIVERSITY'S ECONOMIC OUTLOOK

State appropriations represent operating support provided by the Governor and General Assembly for University programs. The State also appropriates funds to CMS and SURS to pay the cost of health insurance and retirement for University employees, on-behalf payments. The fiscal year 2005 budget, as approved by the Governor, shows a very slight increase over the fiscal year 2004 approved budget. However, after adjusting the fiscal year 2004 approved budget by the mid year rescission, the actual increase will be approximately 2% if no mid year rescission occurs during fiscal year 2005. The on behalf payments for fiscal year 2005 are expected to increase over the actual 2004 payment further increasing the overall state support expected to be received for fiscal year 2005.

The University projects an increase in tuition and miscellaneous departmental revenue. The recommended \$453.7 million fiscal year 2005 tuition and miscellaneous departmental revenue budget represents a \$73.1 million (19.2%) increase from fiscal year 2004. The estimated increase in tuition is due to an 8% tuition increase approved by the Board expected to generate \$27.2 million, 8% front load tuition cost for new undergraduates expected to generate \$6.1 million to partially offset reductions in direct state support. The increase also includes the fourth year of the four-year tuition increase program, generating approximately \$13.1 million, and program differentials, increases in enrollment and other fluctuations are expected to generate \$26.7 million. The University is earmarking the use of these funds for financial aid and program improvements in the liberal arts and sciences, commerce and other undergraduate programs.

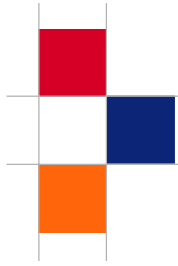
The University's institutional funds include revenues from sponsored projects for indirect project costs, royalty revenues, and administrative allowance revenue i.e. auxiliary enterprise and departmental activity revenue directed to pay University overhead costs. The University's fiscal year 2005 budget, approved by the Board of Trustees, includes only a slight increase in institutional funds revenue of 2.2%.

Research is one of four components of the University's mission. Research leading to the development of new products and services is also the engine driving economic development, another component of the University's mission. The growth in externally sponsored research is testimony to the public and private sector confidence in the University's research faculty. The FY2005 sponsored project budget is an estimate of grant and contract awards for direct costs and represents a 4.1% increase from FY2004.

Private gifts are an important supplement to the University's sources of funding for operating costs and capital acquisitions and construction. Private gifts are budgeted to increase by at least 3% during fiscal year 2005. Economic pressures affecting donors may affect the level of gift support the University receives over the next year.

The University experienced growth from a variety of funding sources during fiscal year 2004 despite reduced support from the state. The University's Board of Trustees and management are committed to upholding the University's outstanding academic reputation. To achieve a continued strong financial position the University constantly pursues supplemental and diverse sources of revenue to support our mission of instruction, research, public service and economic development.





Audited Financial Statements



Statement of Net Assets as of June 30, 2004
with Comparative Totals for 2003 (in thousands)

	University		University Related Organizations	
	2004	2003	2004	2003
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 194,586	\$ 257,645	\$ 4,921	\$ 5,087
Cash and cash equivalents, restricted	81,660	73,545	1,429	1,650
Investments	51,963	39,509		
Investments, restricted	36,380	36,564		
Accrued investment income	4,269	5,195	1,312	1,155
Accounts receivable, net of allowance for uncollectible	284,783	271,606	19,088	19,690
Receivable from State of Illinois General Revenue Fund	2,165	1,892		
Pledges receivable, net of allowance			3,362	12,758
Notes receivable, net of allowance for uncollectible	14,331	10,434		
Accrued interest on notes receivable	1,336	1,574		
Inventories	24,342	23,778	4	1
Prepaid expenses and deferred charges	27,173	26,335	218	425
Due from related organizations	1,265			
Other assets			3,277	2,845
Total Current Assets	724,253	748,077	33,611	43,611
Noncurrent Assets:				
Cash and cash equivalents, restricted			235	205
Investments	400,692	352,473	144,599	145,704
Investments, restricted	174,549	208,160	737,593	625,842
Pledges receivable, net of allowance			10,935	8,637
Notes receivable, net of allowance for uncollectible	47,028	48,084		
Real estate and farm properties	12,516	10,980	25,103	23,210
Prepaid expenses	7,490	2,688		
Due from related organizations	4,095	5,360		
Irrevocable trust held by other trustees			8,692	10,274
Capital assets, net of accumulated depreciation	2,746,524	2,547,063	8,809	8,921
Other assets	3,162	1,852	4,653	394
Total Noncurrent Assets	3,396,056	3,176,660	940,619	823,187
TOTAL ASSETS	\$ 4,120,309	\$ 3,924,737	\$ 974,230	\$ 866,798
LIABILITIES AND NET ASSETS				
Current Liabilities:				
Accounts payable and accrued liabilities	\$ 130,291	\$ 128,030	\$ 30,071	\$ 36,027
Accrued payroll	96,814	116,372	357	297
Accrued compensated absences, current portion	16,079	16,568	767	727
Accrued self insurance, current portion	28,592	19,104		
Deferred revenue and student deposits	129,783	106,816	39	1,175
Accrued interest payable	14,448	14,401	60	75
Notes payable			7,513	7,489
Annuities payable			6,796	5,981
Bonds payable, current portion	24,849	21,982		
Due to related organizations, current portion			1,265	
Leaseholds payable and other obligations, current portion	29,857	13,153		
Assets held for others	39,485	35,973	273	19
Total Current Liabilities	510,198	472,399	47,141	51,790
Noncurrent Liabilities:				
Bonds payable	670,451	675,632		
Leaseholds payable and other obligations	436,382	385,024		
Due to related organizations			4,095	5,360
Accrued compensated absences	155,454	175,956		
Accrued self-insurance	69,446	71,857		
Annuities payable			43,031	38,841
Remainder interest due to others			6,258	4,244
Deferred distributions			29	96
Total Noncurrent Liabilities	1,331,733	1,308,469	53,413	48,541
Total Liabilities	1,841,931	1,780,868	100,554	100,331
NET ASSETS				
Invested in capital assets, net of related debt	1,715,047	1,630,184	1,296	2,930
Restricted:				
Nonexpendable	30,809	27,883	569,006	467,277
Expendable	332,750	309,645	279,658	276,368
Unrestricted	199,772	176,157	23,716	19,892
Total Net Assets	2,278,378	2,143,869	873,676	766,467
TOTAL LIABILITIES AND NET ASSETS	\$ 4,120,309	\$ 3,924,737	\$ 974,230	\$ 866,798

See accompanying notes to financial statements.

Statement of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2004 with Comparative Totals for 2003 (in thousands)

	University		University Related Organizations	
	2004	2003	2004	2003
OPERATING REVENUES:				
Student tuition and fees, net	\$ 448,476	\$ 384,981	\$	
Fee for services - state appropriation	47,869	47,911		
Federal appropriations	16,418	17,058		
Federal grants and contracts	572,996	552,466		
State of Illinois grants and contracts	74,440	108,444		
Private gifts, grants, and contracts	63,736	89,726	82,159	92,534
Educational activities	173,297	172,216		
Auxiliary enterprises, net	262,058	260,964		
Hospital and other medical activities, net	336,454	311,778		
Medical service plan	116,946	111,590		
Independent operations	7,858	10,147		
Interest and service charges on student loans	310	1,215		
On behalf - hospital and other medical activities	171,403	54,190		
Allocation from the University			5,808	8,166
Other sources			25,335	19,855
TOTAL OPERATING REVENUES	2,292,261	2,122,686	113,302	120,555
OPERATING EXPENSES:				
Instruction	602,025	608,250		
Research	548,969	520,574		
Public service	250,534	297,558		
Academic support	187,290	212,025		
Student services	75,644	70,089		
Institutional support	129,114	148,430	29,482	22,903
Operation and maintenance of plant	176,682	171,418		
Scholarships and fellowships	160,673	138,733		
Auxiliary enterprises	213,740	192,163		
Hospital and medical activities	353,861	319,795		
Independent operations	9,095	9,012		
Depreciation	153,022	140,106	390	563
On behalf payments for fringe benefits	937,354	282,151		
Distributions on behalf of the University			122,599	123,593
TOTAL OPERATING EXPENSES	3,798,003	3,110,304	152,471	147,059
Operating (Loss)	(1,505,742)	(987,618)	(39,169)	(26,504)
NONOPERATING REVENUES (EXPENSES):				
State appropriations	639,227	681,953		
Private gifts	96,319	118,703		
On behalf payments for fringe benefits	765,951	227,961	1,276	1,142
Net investment income (net of interest expense of \$1,184 in 2004)	28,795	28,687	4,929	7,060
Net increase in the fair value of investments	18,691	14,351	99,928	6,460
Interest on capital asset related debt	(56,526)	(56,607)	(129)	(194)
Loss on disposals of capital assets	(1,747)	(11,543)		
Other nonoperating revenues	19,754	23,367		
Other nonoperating expenses			(145)	(229)
Net nonoperating revenues (expenses)	1,510,464	1,026,872	105,859	14,239
Income (loss) before other revenues, expenses, gains, or losses	4,722	39,254	66,690	(12,265)
Capital state appropriations	68,388	94,453		
Capital gifts and grants	59,126	17,329		
Private gifts for endowment purposes	2,273	2,821	40,519	21,525
INCREASE IN NET ASSETS	134,509	153,857	107,209	9,260
NET ASSETS, BEGINNING OF YEAR	2,143,869	1,990,012	766,467	757,207
NET ASSETS, END OF YEAR	\$ 2,278,378	\$ 2,143,869	\$ 873,676	\$ 766,467

See accompanying notes to financial statements.



Statement of Cash Flows

Year Ended June 30, 2004 with Comparative Totals for 2003 (in thousands)

	University		University Related Organizations	
	2004	2003	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:				
Student tuition and fees	\$ 441,743	\$ 386,292		
Medical fees for service - state appropriations	47,869	47,911		
Federal, state, and local grants and contracts	655,497	660,213		
Nongovernmental sponsored programs	65,681	93,434	1,626	3,420
Sales and services of educational and other departmental activities	192,345	167,213		
Contributions and gifts			83,368	76,495
Service fee revenue			7,201	6,356
Auxiliary activities and independent operations	270,758	271,375	600	443
Hospital and other medical activities	331,015	307,582		
Medical service plan	117,433	113,039		
Distributions on behalf of the University			(112,507)	(88,865)
Allocation from the University			5,168	5,247
Payments to employees and benefits	(1,755,653)	(1,657,047)	(12,547)	(11,602)
Payments to suppliers	(916,504)	(972,252)	(7,943)	(7,588)
Payments to annuitants	(49,216)	(42,926)	(7,075)	(6,532)
Student loans issued	(18,526)	(14,395)		
Student loans collected	14,970	12,724		
Student loan interest and fees collected	549	1,519		
Other operating revenue			11,846	8,482
NET CASH USED BY OPERATING ACTIVITIES	(602,039)	(625,318)	(30,263)	(14,144)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
State appropriations	647,385	684,760		
Gifts transferred from University of Illinois Foundation	96,319	118,703		
Private gifts for endowment purposes	302	2,760	40,519	21,525
Advance and repayments to related organizations, net		(153)		
Other, net	30,214	27,496	(401)	(228)
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	774,220	833,566	40,118	21,297
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Proceeds from issuance of capital debt	10,066	75,276		3,683
Capital state appropriations	45,877	94,453		
Capital gifts and grants	53,099	15,955		
Purchase of capital assets	(265,895)	(306,409)	(279)	(1,778)
Principal payments on bonds and capital leases	(55,725)	(28,614)		(2,738)
Interest payments on bonds and capital leases	(35,883)	(44,438)	(129)	(512)
Payment on notes payable			24	
Payments of bond issuance costs	(199)	(790)		
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES:	(248,660)	(194,567)	(384)	(1,345)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest and dividends on investments, net	29,723	42,519	6,340	9,593
Proceeds from sales and maturities of investments	11,703,249	2,173,238	1,069,611	913,113
Purchase of investments	(11,711,437)	(2,208,247)	(1,085,779)	(930,857)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	21,535	7,510	(9,828)	(8,151)
Net increase (decrease) in cash and cash equivalents	(54,944)	21,191	(357)	(2,343)
Cash and Cash Equivalents, Beginning of Year	331,190	309,999	6,942	9,285
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 276,246	\$ 331,190	\$ 6,585	\$ 6,942

Statement of Cash Flows

Year Ended June 30, 2004 with Comparative Totals for 2003 (in thousands) - (continued)

	University		University Related Organizations	
	2004	2003	2004	2003
Reconciliation of operating loss to net cash used by operating activities				
Operating loss	(1,505,742)	(987,618)	\$ (39,169)	\$ (26,504)
Adjustments to reconcile operating loss to net cash used by operating activities:				
On behalf payments for reimbursement of hospital and medical activities	(171,403)	(54,190)		
On behalf payments for fringe benefits expense	937,354	282,151	1,276	1,142
Depreciation expense	153,022	140,106	390	563
Change in value of split interest agreements			3,195	(4,289)
Changes in assets and liabilities:				
Accounts receivable, net	(21,174)	(25,816)	12	562
Notes receivable, net	(2,841)	(1,453)		
Accrued interest on notes receivable	238	304		
Inventories	(564)	1,671	(3)	
Prepaid expenses and deferred charges	(4,634)	512	207	(261)
Pledges receivable			7,000	13,000
Noncurrent assets other			(2,555)	387
Accounts payable	20,698	4,700	247	64
Accrued payroll	(19,558)	5,913	15	(25)
Deferred revenue and student deposits	22,967	5,595	(1,172)	1,180
Accrued compensated absences	(20,991)	(6,639)	40	19
Accrued self-insurance	7,077	9,659		
Assets held for others	3,512	(213)	254	18
Net cash used by operating activities	(602,039)	(625,318)	(30,263)	(14,144)
Noncash investing, capital, and financing activities:				
On behalf payments for fringe benefits	\$ 937,354	\$ 282,151	\$ 1,276	\$ 1,142
Gifts in kind	\$ 6,027	\$ 1,373	\$ 10,380	\$ 39,108
Capital assets in accounts payable	\$ 45,275	\$ 63,711		
Capital asset acquisitions by CDB	\$ 22,510	\$ 29,953		
Capital asset acquisitions via leaseholds payable	\$ 50,284	\$ 26,804		
Capital appreciation on bonds payable	\$ 9,799	\$ 9,409		
Net interest capitalized	\$ 2,740	\$ 9,973		
Other capital asset adjustments	\$ 26,226			
Loss on disposals of capital assets	\$ 1,747			

See accompanying notes to financial statements.



Notes to Financial Statement

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Basis of Presentation

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

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

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

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

The Alumni Association was formed to promote the general welfare of the University and to encourage and stimulate interest among students, former students and others in the University's programs. In this capacity, the Alumni Association offers memberships in the Alumni Association to former students, conducts various activities for students and alumni, and publishes periodicals for the benefit of alumni. Complete financial statements for the Alumni Association may be obtained by writing the Director of Administration and Business Affairs, 227 Illini Union, 1401 W. Green Street, Urbana, IL 61801.

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

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

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

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

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

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

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

The basic financial statements include prior year comparative information, which has been derived from the University's 2003 financial statements. Such information does not include all of the information required to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the University's financial statements for the year ended June 30, 2003.

Certain items in the June 30, 2003 Financial Statements have been reclassified to correspond to the June 30, 2004 presentation.

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

Significant Accounting Policies

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

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

Scholarships and fellowships of \$82,886,000 and \$1,945,000 are netted against student tuition and fees and auxiliary enterprises revenues, respectively. Stipends and other payments made directly to students are reported as scholarship and fellowship expense. Net tuition and fees, except for Summer Session, are recognized as revenues as they are assessed. The portion of Summer Session tuition and fees applicable to the following fiscal year is deferred.

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

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

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

In accordance with GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, the University reported payments made to the State Universities Retirement System on behalf of the Entity for contributions to retirement programs for Entity employees of approximately \$727,269,000 for the year ended June 30, 2004. The 2004 contribution includes an annual calculated contribution of \$130,024,000 and additional funding from the State of Illinois of \$597,245,000. Substantially all employees participate in group health insurance plans administered by the State of Illinois. The employer contributions to these plans for University employees paid by State appropriations and auxiliary enterprises are paid to Central Management Services on behalf of the University. The employer contributions to these plans on behalf of employees paid from other University-held funds are paid by the University. The on-behalf payments are approximately \$210,085,000 for 2004. The cost of these benefits paid on behalf of the Hospital are reflected as operating revenues as the result of certain contractual agreements. All other on-behalf payments are reflected as nonoperating revenues. In all cases, the corresponding on behalf expense is reflected as operating and reported in on-behalf payments for fringe benefits.

With respect to the Hospital, net patient service revenue is reported at the estimated net realizable amounts due from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Approximately 89% of the Hospital's net patient service revenues were derived from Medicare, Medicaid, Blue Cross and managed care programs for the year ended June 30, 2004. Payments under these programs are based on established program rates or costs, as defined, of rendering services to program beneficiaries. The Hospital provides contractual allowances on a current basis for the differences between charges for services rendered and the expected payments under these programs. For the year ended June 30, 2004, the contractual allowances totalled \$503,480,000.

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

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

Employment contracts for certain academic personnel provide for twelve monthly salary payments, although the contracted services are rendered during a nine month period. The liability for those employees who have completed their contracted services, but have not yet received final payment, was approximately \$41,418,000 at June 30, 2004 and is recorded in the accompanying financial statements. This amount will be paid from amounts specifically included in State of Illinois General Revenue Fund appropriations to the University for fiscal year 2005 rather than from the unrestricted net assets available at June 30, 2004.

Accrued compensated absences for Entity personnel are charged as an operating expense, using the vesting method, based on earned but unused vacation and sick leave days including the Entity's share of social security and medicare taxes. At June 30, 2004, the University estimates that \$113,295,000 of the accrued compensated absences liability will be paid out of State of Illinois General Revenue Fund appropriations to the University in subsequent years, rather than from unrestricted net assets available at June 30, 2004.

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

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

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

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

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

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

NOTE 2 - CASH , CASH EQUIVALENTS AND DEPOSITS

The total bank account balances at June 30, 2004, of the University and the Foundation, aggregated \$ 8,108,000, and \$2,590,000, respectively, of which \$8,108,000, and \$2,590,000, respectively, was covered by federal depository insurance or by collateral held by an agent in the Entity's name.

Certificates of Deposit, which are reported as investments per GASB Statement No. 9, totaled \$4,745,000 at June 30, 2004 and were covered by federal depository insurance or collateral held by an agent in the University's name.

NOTE 3 - INVESTMENTS

Investments in real estate and farm properties are carried at cost, or when donated, at the fair value at the date of donation. All other investments are carried at their fair value, as determined by quoted market prices. Investment income and the change in fair value of investments is recognized in the fund which owned such investments, except for income derived from investments of the University Endowment Fund which is recognized in the fund to which the income is restricted.

Illinois Statutes and Board policy authorize the University to invest in obligations of the U.S. Treasury, agencies, and instrumentalities (U.S. Government securities); bank and savings and loan time deposits; corporate bonds, stock and commercial paper; repurchase agreements; and mutual funds. Illinois Statutes require a third party custodian to perfect the University's security interest under repurchase agreements. The University follows industry standards and requires that securities underlying repurchase agreements must have a fair value of at least 102% of the cost of the repurchase agreement. At June 30, 2004, the University had repurchase agreements of \$68,618,000. The market value of securities underlying these repurchase agreements was \$71,041,000 at June 30, 2004.

Nearly all of the Entity's investments are managed by external professional investment managers. Many of these investments are made through commingled investment vehicles such as common trust funds and mutual funds. A number of the investment managers utilize derivatives in the execution of their investment strategies. In general, managers utilize derivatives to reduce or eliminate undesirable risks, to increase portfolio liquidity and flexibility or to increase investment return within the level of risk defined in the manager's investment guidelines. Examples of authorized derivative transactions would be the hedging of foreign currency exposure through the use of currency forwards, owning mortgage securities with embedded prepayment options or utilizing treasury futures to change the duration of a fixed income portfolio. The Foundation invests in "To Be Announced" (TBA) GNMA and FNMA mortgage rolls. The Foundation does not intend to finance all of its TBA mortgage rolls. The Foundation reports its pending trades as accounts receivable and accounts payable on the gross basis. The Entity did not engage in any other significant derivative transactions during the year ended June 30, 2004.

The University, by the authorization of the Board of Trustees, increases its investment income by lending the University's securities, through its custodian, to independent third parties. Such loans are secured by collateral consisting of cash, cash equivalents or U.S. Government securities and irrevocable bank letters of credit in an amount not less than 102% of the fair value of the securities loaned. Any collateral securities cannot be pledged or sold by the University unless the borrower defaults. The University receives interest and dividends during the loan period as well as a fee from the custodian. At June 30, 2004, the University has no credit risk exposure to borrowers because the amounts the University owes the borrowers exceed the amounts the borrowers owe the University. As of June 30, 2004, approximately \$175,257,000 of the investments reported on the University's Statement of Net Assets were on loan, secured by collateral with a fair value of approximately \$178,646,000.

Distributions are made from the University Endowment Fund to the University entities that benefit from the endowment funds. The endowment spending rule provides for an annual distribution of 4.75% of the two-quarter lagged, seven-year moving average market value of fund units. At June 30, 2004 net appreciation of \$23,350,000 is available to be spent, of which \$22,469,000 is restricted to specific purposes.

Cash, cash equivalents, and investments (excluding real estate and farm properties) have been categorized to give an indication of the level of credit risk assumed by the University and the Foundation at June 30, 2004. Category 1 includes investments that are insured or registered or for which the securities are held by the Entity or an agent in its name. Category 2 includes uninsured and unregistered investments for which the securities are held by the financial institution's trust department or agent in the Entity's name. Category 3 includes uninsured and unregistered investments for which

the securities are held by the financial institution, or by its trust department or agent but not in the Entity's name. Mutual funds and money market investments are not required to be categorized. Investments of Alumni Association and WWT as of June 30, 2004 were not significant.

The following details the Entity's cash, cash equivalents and investments at June 30, 2004:

UNIVERSITY CASH, CASH EQUIVALENTS, AND INVESTMENTS

(in thousands)

	Category			Carrying Amount
	1	2	3	
Certificates of Deposit	\$ 4,745	\$	\$	\$ 4,745
U.S. Gov. Securities	221,136			221,136
Repurchase Agreements		68,618		68,618
Commercial Paper	10,232			10,232
Corporate Bonds	214,623			214,623
Corporate Stock	35,626			35,626
Total	\$ 486,362	\$ 68,618	\$	554,980
Mutual Funds				
Bonds				60,530
Stocks				124,378
Money Market				198,495
Real Estate				392
Illinois Fund				1,055
TOTAL CASH, CASH EQUIVALENTS, & INVESTMENTS				\$ 939,830

FOUNDATION INVESTMENTS

(in thousands)

	Category			Carrying Amount
	1	2	3	
U.S. Gov. Securities	\$ 35,654	\$ 20,159	\$	\$ 55,813
Municipal Bonds	708			708
Corp. Bonds/Notes	48,126	4,321		52,447
Preferred Stock	1,066	536		1,602
Corporate Stock	274,136	66,177		340,313
Total	\$ 359,690	\$ 91,193	\$	450,883
Real Estate				
Partnerships				66,156
Mutual Funds				
Bonds				139,226
Stocks				173,018
Money Market				36,607
Other				3,369
TOTAL INVESTMENTS				\$ 869,259

NOTE 4 - ACCOUNTS, NOTES, AND PLEDGES RECEIVABLE

The Entity provides allowances for uncollectible accounts and notes receivable based upon management's best estimate of uncollectible accounts and notes at the Statement of Net Assets date, considering type, age, collection history of receivables, and any other factors as considered appropriate. Accounts receivable are reported net of allowances of \$205,365,000 at June 30, 2004. Notes receivable are reported net of allowances of \$2,398,000 at June 30, 2004.

The composition of accounts receivable and notes and pledges receivable at June 30, 2004 is summarized as follows:

ACCOUNTS RECEIVABLE (in thousands)		NOTES AND PLEDGES RECEIVABLE (in thousands)	
Receivables from sponsoring agencies	\$ 149,717	Student notes - University:	
Hospital and other medical activities	70,017	Student notes outstanding	\$ 63,757
Student tuition and fees, net of allowances	24,235	Allowance for uncollectible loans	(2,398)
Auxiliaries, net of discounts and allowances	10,043	Total student notes	<u>\$ 61,359</u>
Medical service plan	15,560	Gift pledges outstanding - Foundation:	
State appropriations	3,493	Operations	\$ 10,607
Educational activities	10,253	Capital	10,739
Other	1,465	Total gift pledges outstanding	<u>21,346</u>
	<u>\$ 284,783</u>	Less:	
		Allowance and unamortized discount to present value	<u>(7,346)</u>
		Total pledges receivable, net	<u>\$ 14,000</u>

NOTE 5 - CAPITAL ASSETS

Net interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Net interest of \$3,279,000 was capitalized during the year ended June 30, 2004.

Capital assets activity for the University and the Foundation for the year ended June 30, 2004 is summarized as follows:

CAPITAL ASSETS FOR THE UNIVERSITY (in thousands)					
	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Nondepreciable Capital Assets:					
Land	\$ 105,293	\$ 12,579	\$ (858)	\$	\$ 117,014
Construction in progress	232,594	209,075		69,159	510,828
Inexhaustible collections	11,608	1,275			12,883
Total nondepreciable capital assets	<u>349,495</u>	<u>222,929</u>	<u>(858)</u>	<u>69,159</u>	<u>640,725</u>
Depreciable Capital Assets:					
Buildings	2,024,559	25,930	(158)	136,540	2,186,871
Improvements and infrastructure	589,525			(205,699)	383,826
Equipment and software	922,351	86,052	(13,570)	(9,944)	984,889
Library materials	330,865	20,335		9,944	361,144
Subtotal	<u>3,867,300</u>	<u>132,317</u>	<u>(13,728)</u>	<u>(69,159)</u>	<u>3,916,730</u>
Less accumulated depreciation	<u>1,669,732</u>	<u>153,022</u>	<u>(11,823)</u>		<u>1,810,931</u>
Total net depreciable capital assets	<u>2,197,568</u>	<u>(20,705)</u>	<u>(1,905)</u>	<u>(69,159)</u>	<u>2,105,799</u>
TOTAL CAPITAL ASSETS	<u>\$2,547,063</u>	<u>\$ 202,224</u>	<u>\$ (2,763)</u>	<u>\$</u>	<u>\$ 2,746,524</u>

CAPITAL ASSETS FOR THE FOUNDATION

(in thousands)

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Nondepreciable Capital Assets:					
Land	\$ 934	\$	\$	\$	\$ 934
Farmland	647				647
Buildings held for the University's future use	5,939	25			5,964
Total nondepreciable capital assets	7,520	25			7,545
Depreciable Capital Assets:					
Equipment and software	485	42	(37)		490
Less accumulated depreciation	313	39	(37)		315
Total net depreciable capital assets	172	3			175
TOTAL CAPITAL ASSETS	\$ 7,692	\$ 28	\$	\$	\$ 7,720

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

The University's accrued self-insurance liability of \$98,038,000 at June 30, 2004 covers hospital patient liability; hospital and medical professional liability; estimated general and contract liability; and workers' compensation liability related to employees paid from local funds. The accrued self-insurance liability was discounted at a rate of 6% at June 30, 2004. Amounts increasing the accrued self-insurance liability are charged as expenses based upon estimates made by actuaries and the University's risk management division. The workers' compensation self-insurance liability of \$9,520,000 at June 30, 2004 related to employees who are paid from State appropriations is included in the University's accounts payable. These claims will be paid from State appropriations in the year in which the claims are finalized, rather than from unrestricted net assets at June 30, 2004.

Accrued self-insurance includes \$63,106,000 at June 30, 2004 for the currently estimated ultimate cost of uninsured medical malpractice liabilities. Ultimate cost consists of amounts estimated by the University's risk management division and independent actuaries for asserted claims, unasserted claims arising from reported incidents, expected litigation expenses, and amounts determined by actuaries using relevant industry data and Hospital specific data to cover projected losses for claims incurred but not reported. Because the amounts accrued are estimates, the aggregate claims actually incurred could differ significantly from the accrued self-insurance liability at June 30, 2004. Changes in these estimates will be reflected in the Statement of Revenues, Expenses and Changes in Net Assets in the period when additional information is available.

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

CHANGES IN ACCRUED SELF-INSURANCE

(in thousands)

	2004	2003
Balance, beginning of year	\$ 90,961	\$ 81,302
Claims incurred and changes in estimates	32,408	33,365
Claim payments	(25,331)	(23,706)
Balance, end of year	98,038	90,961
Less current portion	(28,592)	(19,104)
Balance, end of year - noncurrent portion	<u>\$ 69,446</u>	<u>\$ 71,857</u>

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

CHANGES IN COMPENSATED ABSENCES BALANCE

(in thousands)

Balance, beginning of year	\$ 192,524
Additions/(Deductions)	(20,991)
Balance, end of year	171,533
Less current portion	(16,079)
Balance, end of year	<u>\$ 155,454</u>

NOTE 7 - BONDS AND NOTES PAYABLE

On June 5, 2003, the University issued Auxiliary Facilities System Revenue Bonds Series 2003A in the amount of \$65,870,000 to fund various additions and improvements to the System, to pay debt service during construction, and to pay all costs incidental to the issuance of the bonds.

On August 1, 2003, the University issued UIC South Campus Development Project Revenue Bonds Series 2003 in the amount of \$10,000,000 to provide completion funding for the UIC South Campus Development Project, an integrated academic, residential, recreational, and commercial development.

BONDS PAYABLE

(in thousands)

	Maturity Dates	Beginning Balance	New Debt/ Accretion	Principal Paid/Debt Refunded	Ending Balance	Current Portion
AUXILIARY FACILITIES SYSTEM -						
Current Interest Bonds	2003-2032	\$ 416,030	\$	\$ 16,155	\$ 399,875	\$ 17,140
Capital Appreciation Bonds	2003-2030	140,356	9,799	3,915	146,240	3,709
WILLARD AIRPORT -	2003-2009	1,390		205	1,185	215
HEALTH SERVICES FACILITIES SYSTEM -	2003-2026	68,020		1,525	66,495	1,595
UIC SOUTH CAMPUS -	2013-2022	72,660	10,000	760	81,900	2,570
Total Principal Payable		<u>\$ 698,456</u>	<u>\$ 19,799</u>	<u>\$ 22,560</u>	695,695	25,229
Unamortized debt premium					9,584	295
Unamortized loss on refunding					(9,979)	(675)
TOTAL BONDS PAYABLE					<u>\$ 695,300</u>	<u>\$ 24,849</u>

Auxiliary Facilities System Series 1991, Series 1993 and Series 1999A are capital appreciation bonds with outstanding balances at June 30, 2004 of \$105,691,000, \$27,503,000 and \$13,046,000, respectively. Capital appreciation bonds do not require current interest payments. The University records the annual increase in the principal amount of these bonds as interest expense and accretion on bonds payable.

The Health Services Facilities Systems Series 1997B Bonds are variable rate bonds which bear interest at a defined weekly rate and interest is paid monthly. The required debt service for the Series 1997B Bonds has been calculated using the current interest rate, based upon short term tax exempt rates, of 1.05% over the life of the bonds. Other bond issues bear interest at fixed rates ranging from 3% to 9.7%.

None of the University's bonds described above constitute obligations of the State of Illinois. Series 1979, Series 1991, Series 1993, Series 1996, Series 1999A, Series 1999B, Series 2000, Series 2001A, Series 2001B, Series 2001C, and Series 2003A Auxiliary Facilities System Bonds are payable solely from net revenues of the Auxiliary Facilities System, student tuition and fees and certain restricted plant funds. Series 1997 Bonds are payable solely from the net revenues of the Airport, funds received from the County of Champaign, Illinois, and related restricted plant funds. Series 1997A and 1997B Bonds are payable solely from net revenues of the Health System, Medical Service Plan revenue net of bad debt expense, and College of Medicine net tuition revenue. Series 1999, Series 2000, and Series 2003 Bonds are payable from revenue derived from the defined tax increment financing (TIF) district, student tuition and fees, and funds on deposit in the Bond and Interest Sinking Fund. In addition, the Series 2000 Bonds are payable from the sales proceeds derived from the sale of certain land in the University of Illinois UIC South Campus Development Project. During fiscal year 2004, the debt service payments related to the Series 1999, Series 2000, and Series 2003 Bonds were \$5,814,000. Proceeds from the sale of land of \$2,547,000 and revenue from other legally available sources of \$3,267,000 funded these payments.

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

The Foundation has a demand note outstanding with interest at 1.81% and principal outstanding of \$7,513,000. The change in the balance for fiscal year 2004 is as follows:

CHANGE IN NOTES PAYABLE	
(in thousands)	
Balance, beginning of year	\$ 7,489
New proceeds	<u>24</u>
Balance, end of year	<u>\$ 7,513</u>

The University has defeased bonds through advance refunding in prior years and, accordingly, they are not reflected in the accompanying statements. The amount of bonds which have been defeased as of June 30, 2004 consists of the following:

ADVANCE REFUNDED BONDS	
(in thousands)	
Series	Outstanding at June 30, 2004
1964	\$ 170
1978-M	43,865
1978-N	7,395
1999A	<u>73,460</u>
TOTAL ADVANCE REFUNDED BONDS	<u><u>\$ 124,890</u></u>

Future debt service requirements for all bonds outstanding at June 30, 2004 are as follows:

DEBT SERVICE REQUIREMENTS

(in thousands)

	Principal	Interest
2005	\$ 25,229	\$ 28,933
2006	26,881	28,029
2007	27,010	28,590
2008	25,617	28,660
2009	26,130	28,658
2010-2014	128,552	146,797
2015-2019	143,628	138,142
2020-2024	145,750	86,808
2025-2029	97,610	34,585
2030-2034	49,288	9,953
TOTAL	\$ 695,695	\$ 559,155

Certain bonds of the University have debt service reserve requirements. The Maximum Annual Net Debt Service for those bonds, as defined, is \$19,121,417.

NOTE 8 - LEASEHOLDS AND OTHER OBLIGATIONS

Leaseholds payable and other obligations activity for the year ended June 30, 2004 consist of the following:

LEASEHOLDS AND OTHER OBLIGATIONS

(in thousands)

	Beginning Balance	Additions/ (Deductions)	Ending Balance	Current Portion
University:				
Capital Lease Principal	\$ 373,542	\$ 83,739	\$ 457,281	\$ 23,359
Unamortized Debt Premium	8,374	5,893	14,267	1,399
Unamortized Deferred Loss on Refunding		(18,029)	(18,029)	(1,221)
Total Leasehold Payable	381,916	71,603	453,519	23,537
Natural Gas Contract	9,480	(3,160)	6,320	6,320
Environmental Remediation Liability	6,781	(381)	6,400	
Total University	\$ 398,177	\$ 68,062	\$ 466,239	\$ 29,857
Foundation:				
Annuities Payable	\$ 44,822	\$ 5,005	\$ 49,827	\$ 6,796
Other Liabilities	4,244	2,014	6,258	
Total Foundation	\$ 49,066	\$ 7,019	\$ 56,085	\$ 6,796

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

On March 6, 2003, the University issued Certificates of Participation South Farms Project Series 2003 in the amount of \$25,200,000 to fund the first phase of the South Campus Master Plan for the University's Urbana-Champaign campus which provides for the relocation of the south farms research area of the College of Agricultural, Consumer and Environmental Sciences.

On January 6, 2004 and March 5, 2004, the University issued Certificates of Participation Utility Infrastructure Series 2003 and 2004 in the amount of \$69,050,000 and \$143,665,000, respectively. The Series 2003 Certificates were issued to fund the cost of advance refunding all of the outstanding Series 1999 Certificates and to fund the costs of issuing the Certificates. The Series 2004 Certificates were issued to fund the cost of the advance refunding of all outstanding Series 2001A and 2001B Certificates and to fund the costs of issuing the Certificates. The refundings resulted in combined savings of \$7,600,000 over the life of the issue at a present value of approximately \$6,154,000.

The difference between the reacquisition price and the net carrying amount of the old debt, loss on refunding, was \$7,304,900 and \$11,207,800 for Series 2003 and Series 2004, respectively. These amounts are deferred and amortized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter.

To facilitate the advance refunding of the Certificates of Participation (Utility Infrastructure Projects) Series 2001 A & B; and, as a means to lower its borrowing costs, when compared against fixed-rate bonds at the time of issuance in March 2004, the University entered into an interest rate swap in connection with its \$143,665,000 variable-rate Certificates of Participation (Utility Infrastructure Projects) Series 2004. The intention of the swap was to effectively change the University's variable interest rate on the Certificates to a synthetic fixed rate of 3.919%, which includes the Certificates' current liquidity facility fee. In addition, there is a 0.05% current remarketing fee.

The Certificates and related swap agreement mature on August 15, 2021, and the swap's initial notional amount of \$143,665,000 matches the \$143,665,000 variable-rate Certificates. The swap was entered at the same time as the Certificates were issued (March 2004). Starting in fiscal year 2006, the notional value of the swap and the principal amount of the associated Certificates decline. Under the swap, the University pays the counterparty a fixed payment of 3.765% and receives a variable payment computed as 100% of the BMA Municipal Swap Index™ (BMA). Conversely, the Certificates' variable interest rates are expected to approximate BMA. Since issuance, the Certificates' average variable interest rate has been 0.01% below BMA.

The University engaged a third-party consultant to calculate the "mark to market" or "market value" of the swap transaction. On June 30, 2004, the mark to market value of the swap was \$2,261,000. Since this is a positive number it represents an approximation of the amount of money that a swap provider may have been willing to pay the University to terminate the swap.

As of June 30, 2004, the University was exposed to credit risk because the swap had a positive fair value. The swap counterparty was rated A+ by Standard & Poor's and Aa3 by Moody's Investors Service as of June 30, 2004. To mitigate the potential for credit risk, if both credit ratings of the counterparty fall below A- and A3 respectively, the fair value of the swap will be collateralized by the counterparty with US Treasury Securities, Agency Notes and Municipal Securities. Collateral would be posted with a third-party custodian.

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

Using rates as of June 30, 2004, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, were as follows. As rates vary, variable-rate bond interest payments and net swap payments will also vary.

	Variable Rate Certificates		Interest Rate	Total
	Principal	Interest	Swaps, Net	
2005	\$ -	\$ 1,448	\$ 3,660	\$ 5,108
2006	915	1,523	3,869	6,307
2007	955	1,513	3,844	6,312
2008	995	1,503	3,817	6,315
2009	1,035	1,497	3,785	6,317
2010-2014	29,015	6,936	17,141	53,092
2015-2019	56,695	4,944	11,541	73,180
2020-2022	54,055	1,062	2,045	57,162
TOTAL	\$ 143,665	\$ 20,426	\$ 49,702	\$ 213,793

The University leases various properties from the Foundation under capital lease obligations amounting to \$85,000 at June 30, 2004.

Assets held under capital leases are included in capital assets at June 30, 2004 as follows:

ASSETS HELD UNDER CAPITAL LEASE
(in thousands)

Land	\$ 8,775
Buildings	42,224
Improvements	279,657
Equipment	156,567
Subtotal	487,223
Less accumulated depreciation	33,952
Total net depreciable assets	\$ 453,271

The net present value of outstanding capital leases at June 30, 2004 is:

OUTSTANDING CAPITAL LEASES
(in thousands)

Certificates of Participation	
Series 1997 Utility Infrastructure	\$ 28,315
Series 2001 UI Integrate	107,850
Series 2003 South Farms	25,200
Series 2003 UI Integrate	31,700
Series 2003 Utility Infrastructure	69,050
Series 2004 Utility Infrastructure	143,665
Other Capital Leases	51,501
NET PRESENT VALUE	\$ 457,281

As of June 30, 2004, future minimum lease payments under capital leases is as follows:

**FUTURE MINIMUM LEASE PAYMENTS
UNDER CAPITAL LEASES**

(in thousands)

2005	\$ 43,478
2006	43,627
2007	42,966
2008	42,800
2009	42,390
2010-2014	198,645
2015-2019	129,874
2020-2024	<u>94,768</u>
Total minimum lease payments	638,548
Amount representing interest	<u>(181,267)</u>
NET PRESENT VALUE	<u>\$ 457,281</u>

The University entered into a purchase contract during fiscal year 1995 to purchase a firm supply of natural gas over the next ten years. The contract is classified as a prepaid expense in the Statement of Net Assets. The future minimum payments under the contract at June 30, 2004 are as follows:

**FUTURE MINIMUM PAYMENTS
UNDER THE NATURAL GAS CONTRACT**

(in thousands)

2005	6,531
Amount representing interest	<u>(211)</u>
NET PRESENT VALUE	<u>\$ 6,320</u>

Interest of \$467,000 was paid on this purchase contract during the year ended June 30, 2004.

The University monitors environmental matters and records an estimated liability for identified environmental remediation costs. The estimated liability at June 30, 2004 is \$6,400,000.

The University also leases various buildings and equipment under operating lease agreements. Total rental expense under these agreements was \$10,221,000 for the year ended June 30, 2004. The future minimum lease payments (excluding those leases renewed on an annual basis) are as follows:

**FUTURE MINIMUM
OPERATING LEASE PAYMENTS**

(in thousands)

2005	\$ 7,088
2006	5,702
2007	3,760
2008	2,093
2009	786
2010-14	<u>1,457</u>
TOTAL	<u>\$ 20,886</u>

At June 30, 2004, the Foundation had annuities payable outstanding of \$49,827,000. Annuities payable represent an actuarial computation of the present value of future payments to annuitants.

NOTE 9 - NET ASSETS

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

UNIVERSITY NET ASSETS

(in thousands)

Invested in capital assets, net of related debt	\$ 1,715,047
Restricted - nonexpendable	
Invested in perpetuity to produce income expendable for scholarships, fellowships and research	30,809
Restricted - expendable for -	
Scholarships, fellowships and research	204,889
Loans	76,001
Medical service plan	28,534
Retirement of indebtedness	23,326
Unrestricted	
Designated for:	
Auxiliary	36,174
Hospital	49,004
Capital projects	54,675
Self supporting activities	18,238
Institutional Support	98,296
Quasi endowments	89,858
Amount expected to be financed in future years	(164,233)
Undesignated	17,760
TOTAL NET ASSETS	\$ 2,278,378

FOUNDATION NET ASSETS

(in thousands)

Invested in capital assets, net of related debt	\$ 207
Restricted - nonexpendable	
Invested in perpetuity to produce income expendable for scholarships, fellowships and research	569,006
Restricted - expendable for -	
Scholarships, fellowships and research	279,567
Unrestricted	13,476
TOTAL NET ASSETS	\$ 862,256

NOTE 10 - FUNDS HELD IN TRUST BY OTHERS

The University and Foundation are income beneficiaries of several irrevocable trusts which are held and administered by outside trustees. The University and Foundation have no control over these funds as to either investment decisions or income distributions, thus the principal is not recorded in the accompanying financial statements. The fair value of these funds at June 30, 2004 and the amount of income received from these trusts during the year then ended were as follows:

FUNDS HELD IN TRUST BY OTHERS		
(in thousands)		
	University	Foundation
Fair value of funds held in trust by others	\$ 24,926	\$ 23,667
Income received from funds held in trust by others	\$ 738	\$ 718

NOTE 11 - STATE UNIVERSITIES RETIREMENT SYSTEM

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

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

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

Plan members are required to contribute 8.0% of their annual covered salary and substantially all employer contributions are made by the State of Illinois on behalf of the individual employers at an actuarially determined rate. The current rate is 9.65% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the Illinois General Assembly. The University's contributions to SURS for the years ended June 30, 2004, 2003, and 2002 were \$755,398,000, \$139,955,000 and \$123,613,000 respectively, equal to the required

contributions for each year. The 2004 contribution includes an annual calculated contribution of \$158,153,000 and additional funding from the State of Illinois of \$597,245,000. The Foundation's contributions to SURS for the years ended June 30, 2004, 2003, and 2002 were \$418,000, \$392,000 and \$384,000 respectively.

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

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

NOTE 12 - POSTEMPLOYMENT BENEFITS

In addition to providing pension benefits, the State provides certain health, dental and life insurance benefits to annuitants who are former State employees. This includes annuitants of the Entity. Substantially all State employees, including the employees of the Entity, may become eligible for postemployment benefits if they eventually become annuitants. Health and dental benefits include basic benefits for annuitants under the State's self-insurance plan and insurance contracts currently in force. Life insurance benefits for annuitants under age 60 are equal to their annual salary at the time of retirement; life insurance benefits for annuitants age 60 and older are limited to \$5,000 per annuitant.

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

NOTE 13 - COMMITMENTS AND CONTINGENCIES

At June 30, 2004 the University had commitments on various construction projects and contracts for repairs and renovation of facilities of approximately \$112,453,000.

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

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

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

NOTE 14 - OPERATING EXPENSES BY NATURAL CLASSIFICATION

Operating expenses by natural classification for the year ended June 30, 2004 for the University and the Foundation are summarized as follows:

UNIVERSITY OPERATING EXPENSES BY NATURAL CLASSIFICATION

	(in thousands)				
	Compensation and benefits	Supplies and services	Student aid	Depreciation	Total
Instruction	\$ 509,143	\$ 88,849	\$ 4,033	\$	\$ 602,025
Research	344,884	199,359	4,726		548,969
Public service	147,377	100,663	2,494		250,534
Academic support	116,691	67,288	3,311		187,290
Student services	46,778	26,818	2,048		75,644
Institutional support	99,237	29,421	456		129,114
Operations and maintenance of plant	65,902	110,780			176,682
Scholarships and fellowships	131,238	1,555	27,880		160,673
Payments on behalf of the University	937,354				937,354
Auxiliary enterprises	69,886	138,873	4,981		213,740
Hospital and medical activities	185,675	168,186			353,861
Independent operations	1,805	7,290			9,095
Depreciation				153,022	153,022
TOTAL OPERATING EXPENSES	\$ 2,655,970	\$ 939,082	\$ 49,929	\$ 153,022	\$ 3,798,003

FOUNDATION OPERATING EXPENSES BY NATURAL CLASSIFICATION

	(in thousands)			
	Distribution on behalf of the University	Institutional support	Depreciation	Total
Salaries and benefits	\$	\$ 9,333	\$	\$ 9,333
Distributions on behalf of the University	122,599			122,599
Printing		680		680
Travel		663		663
Equipment		266		266
Meeting, conferences and special events		606		606
Supplies and other		5,532		5,532
Depreciation			39	39
TOTAL OPERATING EXPENSES	\$ 122,599	\$ 17,080	\$ 39	\$ 139,718

NOTE 15 - SEGMENT INFORMATION

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

(in thousands)				
	AUXILIARY FACILITIES SYSTEM	HEALTH SERVICES FACILITIES SYSTEM	WILLARD AIRPORT FACILITY	TOTAL
Condensed Statement of Net Assets				
ASSETS:				
Current assets	\$ 189,347	\$ 101,977	\$ 1,988	\$ 293,312
Noncurrent assets				
Capital assets, net of accumulated depreciation	477,026	183,536	31,205	691,767
Other noncurrent assets	26,395	1,945	288	28,628
TOTAL ASSETS	\$ 692,768	\$ 287,458	\$ 33,481	\$ 1,013,707
LIABILITIES				
Current liabilities	\$ 58,045	\$ 42,720	\$ 1,118	\$ 101,883
Noncurrent liabilities				
Long term debt	528,724	79,355	968	609,047
Other liabilities	5,989	19,704		25,693
TOTAL LIABILITIES	592,758	141,779	2,086	736,623
NET ASSETS:				
Invested in capital assets, net of related debt	4,431	96,675	30,040	131,146
Restricted				
Expendable	22,115	1,247	486	23,848
Unrestricted	73,464	47,757	869	122,090
TOTAL NET ASSETS	100,010	145,679	31,395	277,084
TOTAL LIABILITIES AND NET ASSETS	\$ 692,768	\$ 287,458	\$ 33,481	\$ 1,013,707
Condensed Statement of Revenues, Expenses and Changes in Net Assets				
Operating revenues	\$ 208,485	\$ 551,104	\$ 2,141	\$ 761,730
Operating expenses	204,037	534,614	2,773	741,424
Depreciation expense	11,623	14,048	1,566	27,237
Operating income (loss)	(7,175)	2,442	(2,198)	(6,931)
Nonoperating revenues (expenses)	8,438	1,820	650	10,908
Capital and endowment additions			1,285	1,285
Increase (decrease) in net assets	1,263	4,262	(263)	5,262
Net assets, beginning of year	98,747	141,417	31,658	271,822
NET ASSETS, END OF YEAR	\$ 100,010	\$ 145,679	\$ 31,395	\$ 277,084
Condensed Statement of Cash Flows				
Net cash flows provided (used) by operating activities	\$ 39,283	\$ 8,308	\$ (968)	\$ 46,623
Net cash flows provided (used) by noncapital financing activities	(244)	5,021	439	5,216
Net cash flows used by capital and related financing activities	(97,965)	(17,931)	(329)	(116,225)
Net cash flows provided by investing activities	68,010	269	26	68,305
Net increase (decrease) in cash and cash equivalents	9,084	(4,333)	(832)	3,919
Cash and cash equivalents, beginning of year	65,377	29,495	1,978	96,850
Cash and cash equivalents, end of year	\$ 74,461	\$ 25,162	\$ 1,146	\$ 100,769

NOTE 16 - UNIVERSITY RELATED ORGANIZATIONS

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

(in thousands)				
	FOUNDATION	ALUMNI ASSOCIATION	WWT	TOTAL
Condensed Statement of Net Assets				
Assets:				
Current assets	\$ 30,363	\$ 1,931	\$ 1,317	\$ 33,611
Noncurrent assets				
Capital assets, net of accumulated depreciation	7,720	543	546	8,809
Other noncurrent assets	918,722	13,088		931,810
Total assets	\$ 956,805	\$ 15,562	\$ 1,863	\$ 974,230
Liabilities:				
Current liabilities	\$ 45,239	\$ 312	\$ 1,590	\$ 47,141
Noncurrent liabilities				
Long term debt			4,095	4,095
Other noncurrent liabilities	49,310	8		49,318
Total liabilities	94,549	320	5,685	100,554
Net assets:				
Invested in capital assets, net of related debt	207	543	546	1,296
Restricted				
Nonexpendable	569,006			569,006
Expendable	279,567	91		279,658
Unrestricted	13,476	14,608	(4,368)	23,716
Total net assets	862,256	15,242	(3,822)	873,676
Total liabilities and net assets	\$ 956,805	\$ 15,562	\$ 1,863	\$ 974,230
Condensed Statement of Revenues, Expenses and Changes in Net Assets				
Operating revenues	\$ 100,504	\$ 6,873	\$ 5,925	\$ 113,302
Operating expenses	139,679	7,129	5,273	152,081
Depreciation expense	39	16	335	390
Operating income (loss)	(39,214)	(272)	317	(39,169)
Nonoperating revenues (expenses)	103,508	2,581	(230)	105,859
Contributions to endowments	40,519			40,519
Increase in net assets	104,813	2,309	87	107,209
Net assets, beginning of year	757,443	12,933	(3,909)	766,467
Net assets, end of year	\$ 862,256	\$ 15,242	\$ (3,822)	\$ 873,676
Condensed Statement of Cash Flows				
Net cash flows provided (used) by operating activities	\$ (30,390)	\$ (608)	\$ 735	\$ (30,263)
Net cash flows provided (used) by noncapital financing activities	40,519	(145)	(256)	40,118
Net cash flows used by capital and related financing activities	(172)		(212)	(384)
Net cash flows provided (used) by investing activities	(9,945)	106	11	(9,828)
Net increase (decrease) in cash and cash equivalents	12	(647)	278	(357)
Cash and cash equivalents, beginning of year	3,886	2,197	859	6,942
Cash and cash equivalents, end of year	\$ 3,898	\$ 1,550	\$ 1,137	\$ 6,585

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



Printed by the authority of the State of Illinois
October 2004
Copies Printed 1,750
Total Cost \$6,371
Cost per Copy \$3.64
Printed by Illinois Graphics
Graphic Design by Jody Boles