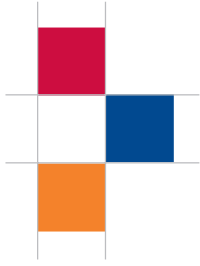


annual
financial
report

ANNUAL FINANCIAL REPORT
Fiscal Year 2005





Annual Financial Report

Table of Contents

Board of Trustees	2
The University	3
Message from President B. Joseph White	4
University Achievements	5
On-Campus Headcount	10
Staff and Student Data	12
Independent Auditor's Report	14
Management's Discussion and Analysis from Stephen K. Rugg, Comptroller	15
Audited Financial Statements	
Statement of Net Assets	27
Statement of Revenues, Expenses and Changes in Net Assets	28
Statement of Cash Flows	30
Notes to Financial Statements	31

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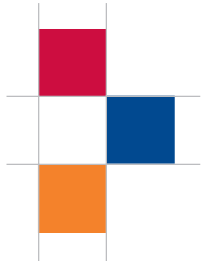
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2001-2007



Devon C. Bruce
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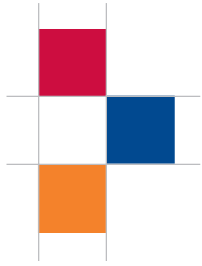
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Shumail Alam, UIC
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July 1, 2005 - June 30, 2006





University of Illinois



■ The University of Illinois at **Chicago** is a major research university located in the heart of one of the world's great cities. The largest university in Chicago, UIC has 25,000 students, 15 colleges, and the state's major public medical center. UIC is committed to providing a first-rate education for its students, to serving its diverse community and to creating and disseminating new knowledge as a university of growing national and international stature.

<http://www.uic.edu>

UIC

■ Since its founding in 1867, the University of Illinois at **Urbana-Champaign** has earned a reputation of international stature. Its distinguished faculty, outstanding resources, breadth of academic programs and research disciplines and large, diverse student body constitute an educational community ideally suited for scholarship and research. Scholars and educators consistently rank it among a select group of the world's great universities.

<http://www.uiuc.edu>



■ The University of Illinois at **Springfield** is a four-year, public, liberal arts university enrolling approximately 4,500 students. UIS is known for its small classes and personal approach to teaching and students point to their close relationships with professors as the most important feature of their education. Located in the state capital, UIS has a special mission in public affairs.

<http://www.uis.edu>





Message from the President

MESSAGE FROM THE PRESIDENT

I am pleased to present the University of Illinois Financial Report for fiscal year 2005 on behalf of the Board of Trustees, faculty, students and staff.

Within this report you will find detailed information about the University's financial position and performance for the fiscal year ended June 30, 2005. The graphs, tables, charts and financial statements reflect that the U. of I. financial house is in order and has been prudently maintained.

In the first few pages you will see a sampling of the many achievements in scholarship, research, public engagement and economic development across the campuses of our three universities. They are powerful proof that the nearly 140-year tradition of excellence at this great institution remains strong.

I am fortunate and honored to have been selected to lead the University of Illinois at this important time in its history. The first assignment I gave myself was to develop a strategic plan to chart what I expect to be a brilliant future for the University of Illinois.

Our mission: transform lives and serve society by educating, creating knowledge and putting that knowledge to work on a large scale and with excellence. Our strategy: combine academic excellence with an unprecedented commitment to innovation, quality and service so that each one of the three universities flying the U. of I. banner is the best among its peers and competitors.

It is a daunting task, but it was forever thus for generations of talented and spirited people who made the University of Illinois what it is today. I am confident our extended U. of I. family is up to the challenge, and I am excited by the opportunity to build upon the legacy of the state's largest and best public university. I will keep you apprised of our progress and welcome your comments.

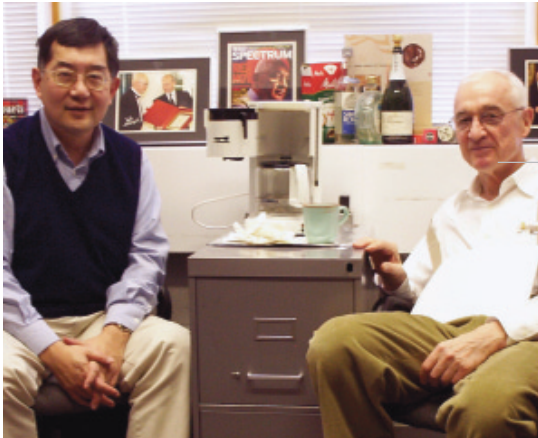
Sincerely,

B. Joseph White
President



research

RESEARCH



LASER TRANSISTORS

Two Urbana-Champaign professors are leading a revolution in the electronic industry with their work on laser transistors. Professors Nick Holonyak Jr. and Milton Feng discovered a three-port, light-emitting transistor. Building on that work, the researchers fabricated the transistor laser in the university's Micro and Nanotechnology Laboratory.

These two stellar faculty members developed the idea over coffee one morning, a ritual they maintain today. Each of the two already has important discoveries to his credit. Feng created the world's fastest bipolar transistor. Holonyak invented the first practical light-emitting diode and the first semiconductor laser to operate in the visible spectrum.



'SUPER' IS NOT HYPERBOLE

The National Center for Supercomputing Applications at Urbana-Champaign has more computing resources than any university-based computing center and is used by more than 1,000 researchers from across the country. NCSA opened in 1986 and has since earned an international reputation in high-performance computing and networking and in developing innovative systems and software for science and engineering.

NCSA developed the hypermedia browser Mosaic™, which revolutionized the use of the World Wide Web in 1993, when there were about 200 Web servers in the world.



WORLD'S STRONGEST MAGNET

The world's most powerful magnet is in its new home, the Center for Magnetic Resonance Imaging at UIC. The magnet's magnetic field is about 100,000 times stronger than Earth's. The new machine allows exploration into the biochemical basis of function not only in the brain but in the beating heart and other working organs.



PUBLIC SERVICE

CELEBRATING CULTURE

Every year, the University of Illinois at Springfield sponsors International Student Festival, bringing students and the community together to learn about and celebrate multi-culturalism, diversity and international connectedness. A new theme is selected each year. Past themes have been “A Taste of Cultures,” “Rhythm of Nations” and “Toys and Tales Around the World.”



PARTNERSHIP ILLINOIS

Partnership Illinois, a commitment of the Urbana-Champaign campus to raise the visibility of programs and services available to the public, offers more than 450 programs and services that link the University to Illinois citizens. The outreach efforts are as diverse as classes for seniors on Shakespeare or Count Basie to kids’ birthday parties that explore “Silly Science” at the Allerton Conference Center to online credit courses for homebound adults. Examples: The Office for Mathematics, Science and Technology Education promotes collaborations among elementary and secondary schools and the campus and offers an online database of lessons accessible to teachers all over the world. The Novice Teacher Support Project aims to reverse the trend of teachers dropping out of the profession by providing new teachers the opportunity to work with experienced teachers, administrators and University faculty.



OFFICE OF CONTINUING EDUCATION

Students earn a master’s degree in engineering or food science from the U of I at Urbana-Champaign without ever stepping foot on campus. The Office of Continuing Education offered more than 400 credit courses with 6,000 enrollments in 2003. That includes 19 off-campus degree programs, nine of which are online, and an assortment of courses in everything from dairy science to social work.



U OF I EXTENSION

The best-known agency of the U of I’s public outreach mission is U of I Extension, which serves 2.5 million Illinois residents a year, including about 300,000 youngsters through 4-H. Extension has offices in 100 of the state’s 102 counties. It serves both urban and rural areas by offering programs in four broad areas: 4-H youth development, agriculture and natural resources, community and economic development and nutrition, family and consumer sciences.

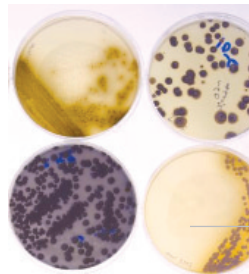
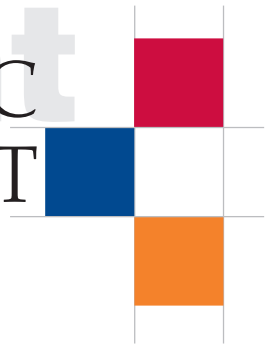


COMMITTED TO THE CITY

Students at UIC get real-life experiences with big-city problems through the University’s Great Cities Institute. Students conduct research and perform public service on issues ranging from urban sprawl to affordable housing. These kinds of ties to Chicago and increased opportunities for student experiences help to position UIC as a model public urban research university, serving its communities and neighborhoods.

economic development

ECONOMIC DEVELOPMENT



OFFICES OF TECHNOLOGY MANAGEMENT

The Chicago and Urbana-Champaign Offices of Technology Management work to move discoveries from the University to the marketplace. Both opened in the mid-1990s to encourage innovation and enhanced research, and both provide in-house technology protection and commercialization services to transfer the intellectual property created on the campuses into practical use.



RESEARCH PARKS

The Chicago Technology Park, located on 56 acres within the Illinois Medical District, serves as an incubator facility for technology companies in early development and as an expansion facility for those companies as their operations grow. Founded in 1985, it has successfully “graduated” more than 25 firms into the local economy, and the companies have doubled in size in the last four years.



At Urbana-Champaign, a high-tech incubator, EnterpriseWorks, opened in 2003 and houses 30 companies. The South Research Park has five buildings and a sixth under construction. The campus plans a north research center, as well, on 10 acres near the Beckman Institute, NCSA and the Siebel Center for Computer Science.

LARGEST OPEN-AIR LAB IN THE WORLD

Eighty acres at the southern edge of the new South Farms at Urbana-Champaign are being used as a laboratory to determine how crops will grow and produce under atmospheric conditions predicted for the year 2050. It is the largest open-air lab in the world, and has already yielded important discoveries. The U.S. Department of Energy provided nearly \$3 million for the research. It was the first major federal grant under the wing of the new Urbana-Champaign Institute for Genomic Biology.





instruction

INSTRUCTION



UIC GUARANTEES ENTRY TO PROFESSIONAL SCHOOLS

Some students at UIC are guaranteed acceptance into the College of Medicine or other professional UIC schools, assuming grades are met during the undergrad years. Michelle Gentile, left, who entered UIC in 1999, plans to earn a joint M.D. and Ph.D. in molecular oncology and pursue a research career. She is a former winner of the Gates Cambridge and Goldwater scholarships and a USA Today Academic All-Star.



CAPITAL SCHOLARS

UIS admitted freshmen students for the first time in fall 2001. Called Capital Scholars, it is a selective undergraduate program combining the high standards and emphasis on excellence of the University of Illinois with a small, residential college model, enrolling only about 100 first-year students each year. Starting in fall 2006, Capital Scholars will expand to accept non-honors freshmen and sophomores.



FRESHMEN START OFF RIGHT

UIC has student orientation programs, left, and freshmen success seminars to help freshmen adjust to college. The Urbana-Champaign campus has convocation, an academic welcome from the chancellor and a welcome evening planned by the student alumni association. UIS plans First Week activities for its newcomers to campus.

instruction



AMONG THE BEST VALUES

The 2004 *Fiske Guide to Colleges* calls the Urbana-Champaign campus one of 43 “best buys” based on quality and cost. *Kiplinger’s Personal Finance* ranked the campus eighth in its “100 Best Values in Public Colleges” in 2003.



COMPUTER TECHNOLOGY

UIS was the first public university in the state to have wireless networking throughout campus. It’s available in all academic and administrative buildings, all student apartments and residence halls, in recreational facilities, such as the gymnasium and soccer stadium, and in outdoor “gathering spots” like the Human Sciences Building plaza, the cafeteria patio and Patton Park. The wireless network complements the campus-wide “wired” network and allows persons using laptops to connect to the campus network through the air, rather than wire.

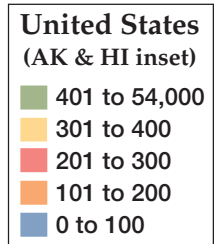
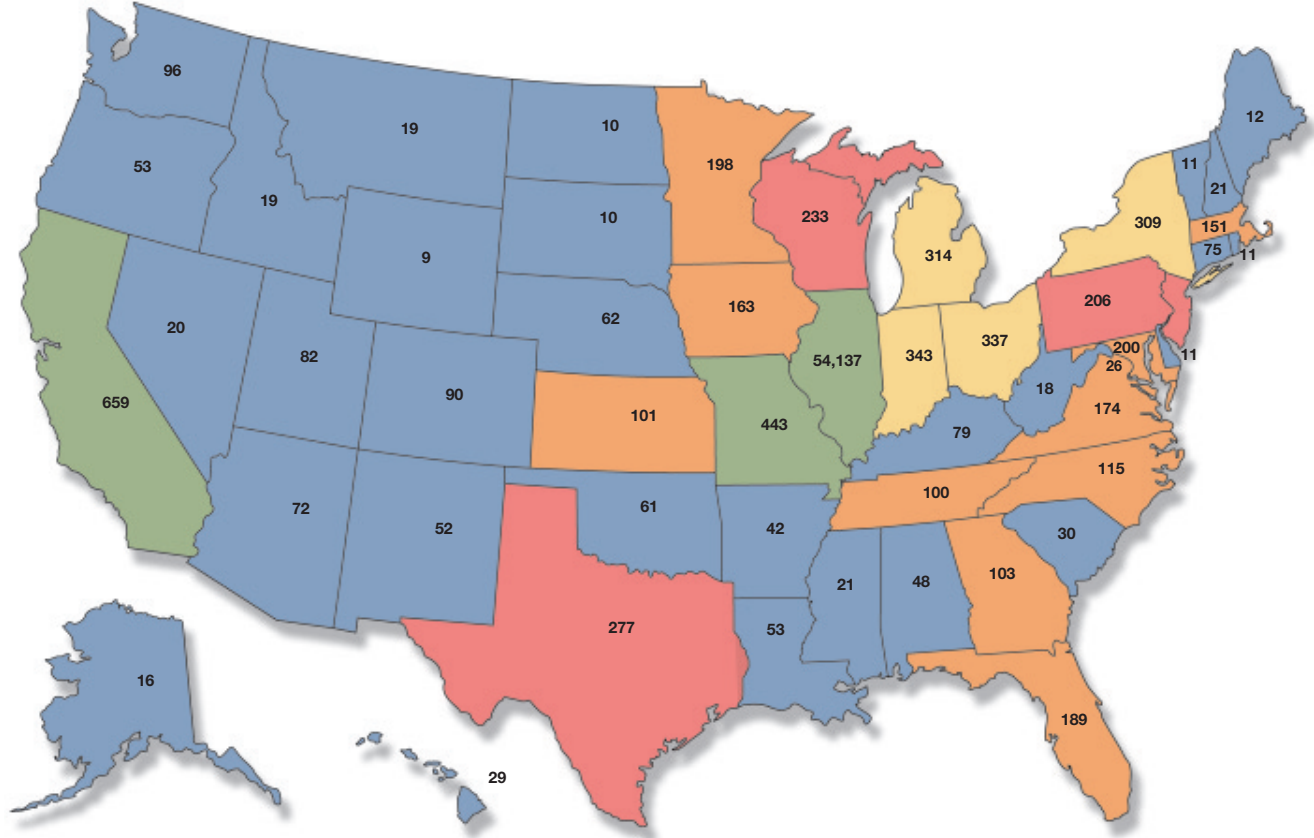
On the Urbana-Champaign campus there are 3,000 computer workstations available for student use; UIC has about 2,000 workstations and at UIS about 1,300. Increasingly, students bring their own desktop computers and laptops to campus.

DISCOVERY COURSES

Discovery courses on the Urbana-Champaign campus are for freshmen only and they are designed for 20 or fewer students with some of the most gifted teachers, including deans. Discovery courses were slashed in budget cuts in 2003-04, but restored in fall 2004.



On-Campus Headcount Enrollment by State & Continent, Fall 2004





Staff and Student Data as of October 2004

Staff Full-Time Equivalent (all funds)

	Chicago	Springfield	Urbana-Champaign	Other University Administration	Total University
Faculty	2,371	207	2,896	6	5,480
Academic Professional	3,278	161	3,078	786	7,303
Support Staff	5,264	259	4,515	575	10,613
Graduate Assistant	2,120	112	2,685	10	4,927
TOTAL	13,033	739	13,174	1,377	28,323

Note: Chicago campus includes University of Illinois Hospital; Urbana-Champaign campus includes Cooperative Extension Service.

Degrees Awarded FY 2004

	Chicago	Springfield	Urbana-Champaign	Total University
Certificates	—	—	9	9
Bachelors	3,262	625	6,763	10,650
Masters	1,879	453	2,756	5,088
Post-Masters Certificates	—	—	7	7
Doctorate	233	1	574	808
First-Professional	515	—	308	823
First-Professional-Certificates	23	—	—	23
TOTAL	5,912	1,079	10,417	17,408

Student Full-Time Equivalent Enrollment

Fall 2004 On-Campus Enrollment

	Chicago	Springfield	Urbana-Champaign	Total University
Undergraduate	15,448	1,965	29,287	46,700
Graduate	6,581	1,419	9,188	17,188
Professional	2,378	0	1,070	3,448
TOTAL	24,407	3,384	39,545	67,336

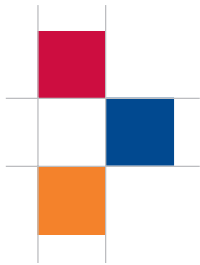
*Includes 982 residents.

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, 2005, 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 2004 financial statements and, in our report dated October 15, 2004 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, 2005, 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 September 28, 2005, 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, and 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 accounting principles generally accepted in the United States of America. 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
September 28, 2005



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, 2005.

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 (unaudited)

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, 2005 with comparative information for the year ended June 30, 2004. 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. The University's evolution over nearly 140 years as a land-grant institution has produced a set of core values that underlie all aspects of its present and future programs. The University is a comprehensive public university, a family of three distinct campuses — Chicago, Springfield and Urbana-Champaign serving the people of Illinois through a shared commitment to our missions of excellence in teaching, research, public service and economic development.

Our campuses attract some of the nation's most talented students and currently enrolls approximately 67,300 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 5,500 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 2005, from all fund sources, was approximately \$3.4 billion. We are a university that belongs to the people of Illinois. Our faculty, staff and students share their knowledge and expertise and the resources of the University with citizens in every corner of the state through more than 700 public service and outreach programs.

The University is a world leader in 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. Each campus makes specific and different contributions to the University's overarching missions. The campuses are strengthened by intercampus cooperation and by university-wide services, yet carry out their academic functions with a high degree of delegated authority and autonomy.

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 being engaged with the society it serves, 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 research university located in the heart of one of the world's great cities. The largest university in Chicago, UIC ranks among the nation's top 50 universities in federally funded research. UIC plays a critical role in Illinois healthcare, operating the state's major public medical center and serving as the principal educator of Illinois' physicians, dentists, pharmacists, nurses and other health professionals. UIC's student body is one of the nation's most diverse, reflecting the global character of Chicago. The hallmark of the campus is its Great Cities Commitment, through which UIC faculty, staff and students engage in hundreds of programs with civic, community, corporate and government partners to improve the quality of life in Chicago and other metropolitan areas around the world.

University of Illinois at Springfield

The University of Illinois at Springfield (UIS) is located on 746 picturesque acres in the state capital of Illinois. UIS is a small, public liberal arts university where faculty place the top priority on teaching. The resulting close relationships they build with students are consistently cited by graduates as the University's greatest strength. Classes are small so students benefit from hands on learning, they do not just observe in the classrooms and labs. Through extraordinary internships in the community and in government, UIS offers 42 undergraduate and graduate degree programs, and is known for an emphasis on public affairs and service, its wireless campus, and its extensive online offerings.

University of Illinois at Urbana-Champaign

An atmosphere of innovation at the University of Illinois Urbana-Champaign campus 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, and such new facilities as the Seibel Center for Computer Science and the Institute for Genomic Biology. The Urbana campus perennially receives the most National Science Foundation funding of any university in the nation, and its faculty members have been recognized with the highest honors for scholarship: Nobel and Pulitzer prizes, Guggenheim Fellowships, the Crafoord Prize in Biosciences, National Medals of Science and Technology, and many others. Undergraduate students 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, the University of Illinois Foundation, the University of Illinois Alumni Association, and Wolcott, Wood and Taylor, Inc. Additional 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 2005 budget for direct state appropriations, as approved by the Governor, was approximately \$700 million, virtually the same as the approved fiscal year 2004 budget. However, overall the budget utilized by the University increased by approximately \$12 million, the amount of the fiscal year 2004 mid year rescission. During the same period the annual appropriation, not including the fiscal year 2004 supplemental funding to the State Universities Retirement System (SURS), made to SURS and Central Management Services (CMS) for retirement and health insurance costs on behalf of the University increased by approximately \$7 million. The overall net budget affect was a modest increase in state support. Net assets, which represent the residual interest in the University's assets after liabilities, increased during the current year by \$42 million attributed largely to an increase of \$65 million in invested in capital assets and an increase of \$14 million in permanent endowment funds offset by decreases in both restricted expendable and unrestricted funds. As of June 30, 2005, the University's total assets were \$4.3 billion compared to total assets of \$4.1 billion as of June 30, 2004 also due to the growth in capital assets.

During fiscal year 2005, the University issued Auxiliary Facilities System Revenue Bonds Series 2005A in the amount of \$163.9 million to fund various improvements and additions to the System and to refund portions of outstanding Auxiliary Facilities System bonds. The refunding resulted in overall savings of \$3.6 million over the life of the issue at a present value of approximately \$4.2 million. The University also issued Certificates of Participation, College of Medicine Certificates Series 2005 in the amount of \$20.6 million to fund the completion of the College of Medicine Building at UIC.

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, 2005 and 2004 is as follows:

(in thousands)		
	2005	2004
Current assets:		
Cash and investments	\$ 380,705	\$ 364,589
Accounts and notes receivable	331,215	299,114
Other current assets	52,736	60,550
Noncurrent assets:		
Investments	618,605	575,241
Notes receivable	35,421	47,028
Capital assets, net of accumulated depreciation	2,867,380	2,746,524
Other assets	30,119	27,263
Total assets	\$ 4,316,181	\$ 4,120,309
Current liabilities:		
Accounts payable, accrued liabilities and deferred revenue	\$ 371,410	\$ 356,888
Bonds payable	23,813	24,849
Leaseholds payable and other obligations	27,244	29,857
Accrued self insurance	29,912	28,592
Other current liabilities	71,655	70,012
Noncurrent liabilities:		
Bonds payable	756,459	670,451
Leaseholds payable and other obligations	435,843	436,382
Accrued self insurance	101,064	69,446
Other noncurrent liabilities	178,059	155,454
Total liabilities	\$ 1,995,459	\$ 1,841,931
Net assets	\$ 2,320,722	\$ 2,278,378

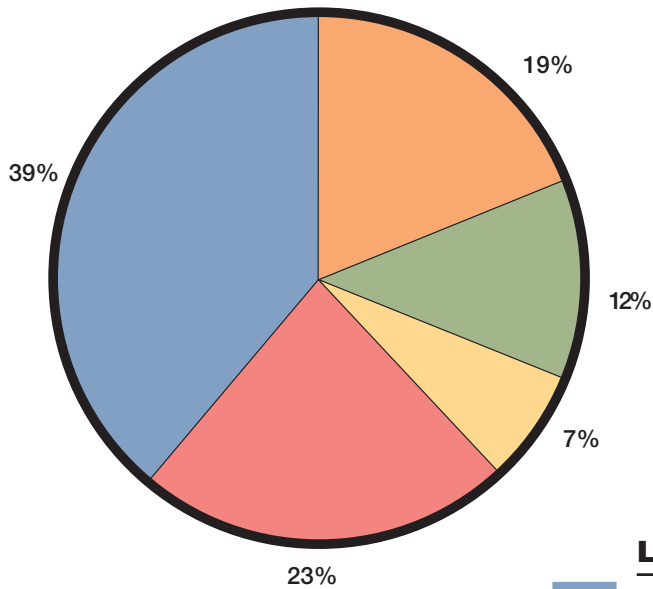
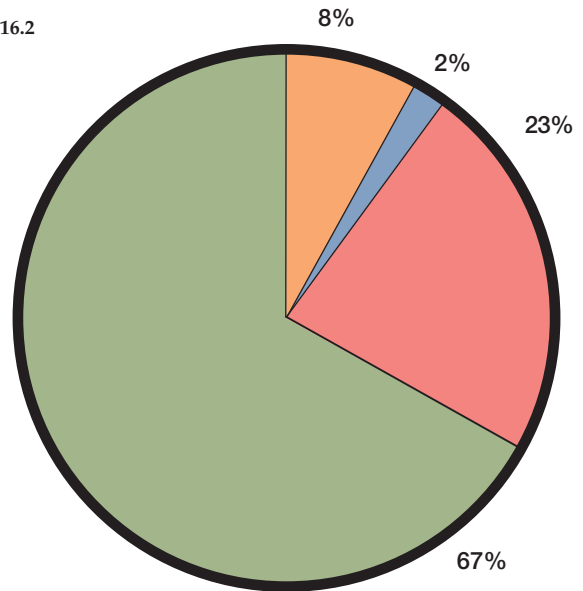
Total assets increased by \$196 million or 5% to \$4.3 billion during fiscal year 2005. The change is attributed to an increase in cash and investments of \$59 million, an increase in accounts and notes receivable of \$21 million, an increase in capital assets of \$121 million, and a decrease in other assets of \$5 million. The increase in total University cash and investments is largely due to the sale of bonds at the end of the third quarter for capital projects. Receivables from sponsoring agencies and receivables due to the hospital and the medical service plan all increased during the fiscal year while notes receivable decreased.

Total liabilities increased by approximately \$154 million or 8% during fiscal year 2005. Bonds payable increased by \$85 million as the result of the sale of bonds for Auxiliary Facilities System capital projects. Leaseholds and other obligations payable decreased by \$3 million. Series 2005 certificates were issued during FY05 for the completion of the College of Medicine Building offset by principal payments on certificates outstanding, which included principal payments that retired the Series 1995 natural gas purchase certificates. Accrued self insurance increased by \$33 million as the result of actuarial studies which analyze future claims outstanding and estimate the possible outcome. The residual increase is due to an increase in accrued compensated absence balances and an increase in the accrued payroll and accounts payable at the end of fiscal year 2005.

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

Assets

	millions
Cash and investments	\$ 999.3
Other assets	\$ 82.9
Accounts and notes receivable	\$ 366.6
Capital assets, net of depreciation	\$ 2,867.4
TOTAL	\$ 4,316.2

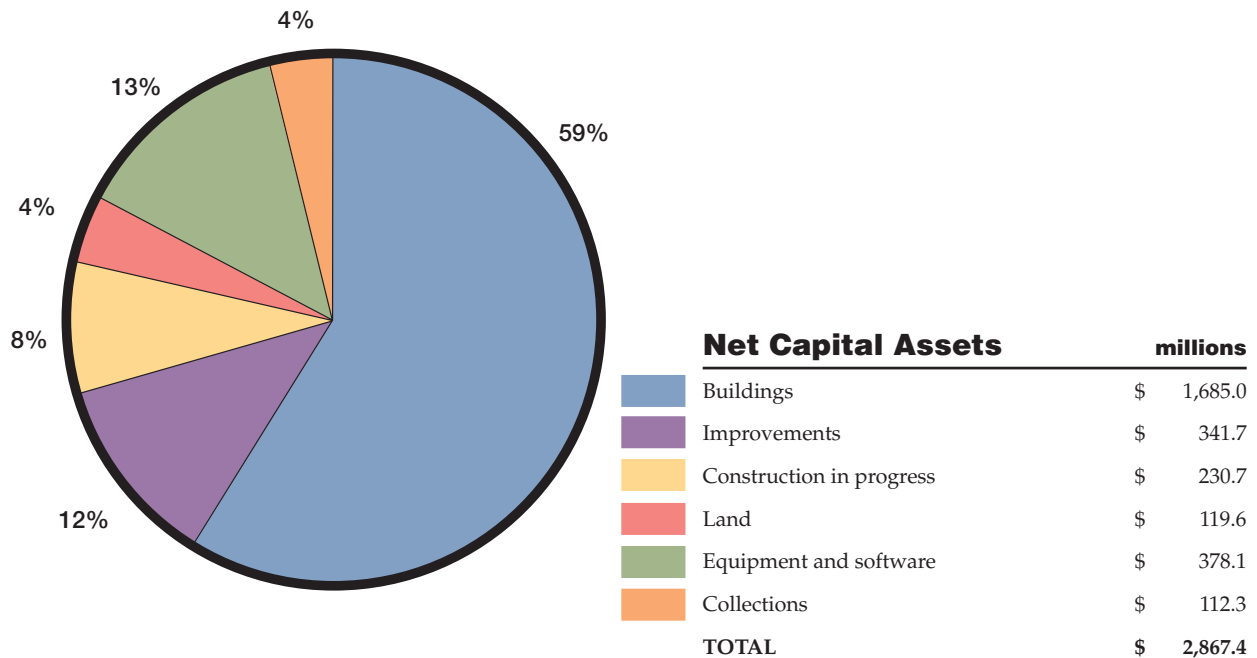


Liabilities

	millions
Bonds payable	\$ 780.3
Payables, accrued liabilities, and deferred revenue	\$ 371.4
Other liabilities	\$ 249.7
Accrued self insurance	\$ 131.0
Leaseholds payable and other obligations	\$ 463.1
TOTAL	\$ 1,995.5

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 \$121 million to approximately \$2.87 billion at June 30, 2005. The University's policy requires the capitalization of all land and collection purchases regardless of cost, equipment at \$5,000, buildings and improvements at \$100,000, and infrastructure at \$1,000,000. The 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, a portion of the College of Medicine Research Facility on the Chicago campus and survey facilities at the Urbana-Champaign 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 accumulated 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. During fiscal year 2005 the University issued Auxiliary Facilities System Revenue Bonds Series 2005A in the amount of \$163,905,000. Series 2005A Bonds were issued to fund various additions and improvements to the System and to provide for the advance refunding of portions of outstanding Auxiliary Facilities System Revenue Bonds. The following chart details the various bonded debt outstanding at June 30, 2005 and 2004:

BONDS PAYABLE

(in thousands)

	2005	2004
Auxiliary Facilities System	\$ 635,880	\$ 546,569
Health Services Facilities System	64,277	65,842
UIC South Campus	79,148	81,707
Other Issues	967	1,182
	<u>\$ 780,272</u>	<u>\$ 695,300</u>

The University has issued certificates of participation (COPS) for infrastructure projects that have a projected cost savings payback. 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 2005, UIC College of Medicine COPS were issued to complete the construction of the UIC College of Medicine Research Building in combination with state appropriated capital funds and University funds. Funds will be generated from grants supporting the research to be conducted in the facility. The COPS are reported as leaseholds payable. The following chart details the various outstanding issues as of June 30, 2005 and 2004:

CERTIFICATES OF PARTICIPATION OUTSTANDING

(in thousands)

	2005	2004
Utility infrastructure projects	\$ 223,263	\$ 230,139
UI Integrate project	134,824	146,037
Natural gas purchase		6,320
South Farms relocation project	24,858	25,842
UIC College of Medicine building	20,590	
	<u>\$ 403,535</u>	<u>\$ 408,338</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 \$42 million during fiscal year 2005. Net assets balances are detailed below:

NET ASSETS

(in thousands)

	2005	2004
Net Assets:		
Invested in capital assets, net of related debt	\$ 1,780,064	\$1,715,047
Restricted:		
Nonexpendable	45,119	30,809
Expendable	327,405	332,750
Unrestricted:		
Designated	163,231	182,012
Undesignated	4,903	17,760
	<u>\$ 2,320,722</u>	<u>\$2,278,378</u>

Invested in capital assets, net of related debt increased by \$65 million or 4% as the result of increases in capital assets offset by the changes in bonds and capital leases outstanding. Endowments increased by \$14 million represented by an increase in the restricted-nonexpendable category. The restricted-expendable category of net assets decreased by \$5 million due to a slight reduction in all types of funds that make up this category, including restricted operating funds, loan funds, service plan funds and retirement of indebtedness funds. Other categories combined decreased by \$32 million due to decreases in auxiliary, hospital, and other self supporting funds and decreases in institutional designated and nondesignated funds. These decreases were offset in part by an increase in capital project funds and quasi endowments.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

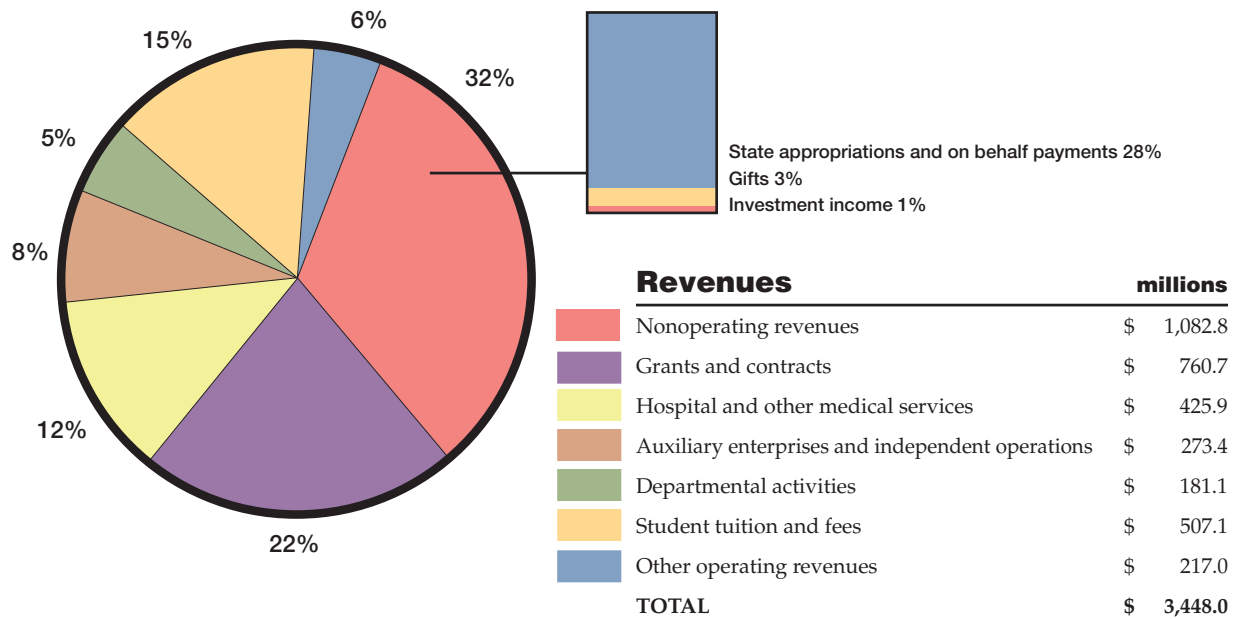
The Statement of Revenues, Expenses, and Changes in Net Assets presents the University's results of operations. In accordance with GASB reporting standards, revenues and expenses are classified as either operating or nonoperating. A summarized comparison of the University's Statement of Revenues, Expenses and Changes in Net assets for the years ended June 30, 2005 and 2004 is as follows:

(in thousands)		
	2005	2004
Operating revenues:		
Student tuition and fees	\$ 507,137	\$ 448,476
Sponsored programs	760,728	711,172
Hospital and other medical activities	425,932	384,323
Auxiliary enterprises and independent operations	273,404	269,916
Medical service plan	138,624	116,946
Other	259,331	361,428
Total operating revenues	2,365,156	2,292,261
Operating expenses	3,471,697	3,798,003
Operating loss	(1,106,541)	(1,505,742)
Nonoperating revenues (expenses)		
State appropriations and on behalf payments	940,510	1,405,178
Private gifts	107,278	96,319
Investment income	35,077	28,795
Other net operating revenues (expenses)	(41,241)	(19,828)
Net nonoperating revenues	1,041,624	1,510,464
Capital state appropriations and capital gifts and grants	106,005	127,514
Endowment gifts	1,256	2,273
Increase in net assets	42,344	134,509
Net assets, beginning of year	2,278,378	2,143,869
Net assets, end of year	\$ 2,320,722	\$ 2,278,378

Revenues

The University's revenues are generated from various sources to help supplement student tuition and fees. Multiple sources of revenue allow the University to maintain its funding base in the face of recent level or declining funding from state appropriations. GASB reporting standards require revenues to be categorized as operating or nonoperating. Operating revenues are derived from activities associated with providing goods and services by the University and generally result from exchange transactions where each of the parties to the transaction either give up or receive something of equal or similar value. The University also relies on such revenue as State appropriations, gifts, and investment income to support operations which GASB reporting standards define 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, 2005:



Student tuition and state appropriations are primary sources of funding for the University's academic programs. State appropriation revenue remained relatively consistent between fiscal year 2004 and fiscal year 2005. Tuition revenue increased by \$58 million during fiscal year 2005. The increase in tuition is due to an 8% tuition increase approved by the Board of Trustees for fiscal year 2005, additional tuition from the last 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 2005 included certain self supporting activities such as the hospital and medical service plan. Payments on behalf for FY05 were \$347 million compared to \$937 million in FY04. This significant decrease is due to fiscal year 2004 supplemental state funding of \$1.4 billion provided to SURS on July 2, 2003. This 2004 supplemental funding was allocated among participating employers with the University's share totaling \$597 million. Payments on behalf for fiscal year 2005 increased by \$7 million and there was no supplemental funding, resulting in an overall decrease in on behalf payments of \$590 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.

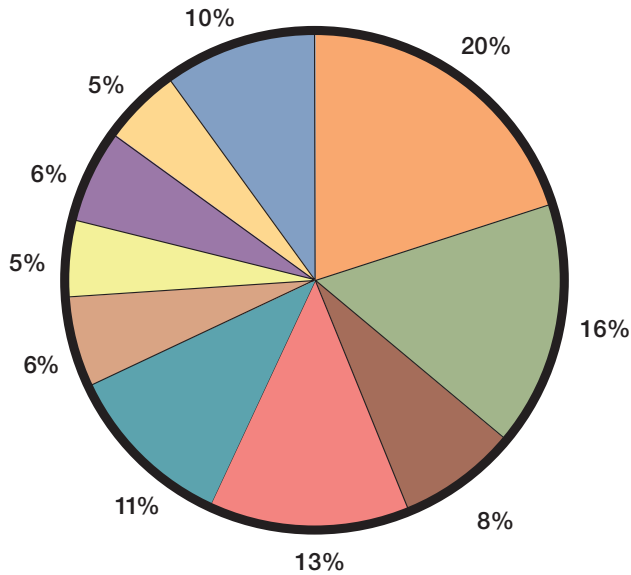
Expenses

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)		
	2005	2004
Instruction	\$ 677,928	\$ 602,025
Research	557,058	548,969
Public service	277,626	250,534
Support services	450,364	392,048
Hospital and medical activities	394,122	353,861
Auxiliary enterprises and independent operations	217,040	222,835
Scholarships and fellowships	175,166	160,673
Plant operations and maintenance	199,183	176,682
Depreciation	175,978	153,022
On behalf payments for fringe benefits	347,232	340,109
State of Illinois supplemental benefit funding		597,245
	\$ 3,471,697	\$ 3,798,003

Operating expenses per the statement of revenues, expenses and changes in net assets decreased by \$325 million during fiscal year 2005. As described in the revenue discussion, there was an overall decrease in on behalf payments of \$590 million. Expenses related to the University's mission of instruction, research and public service increased by 8%, or \$111 million in 2005. Instruction and public service expenses increased by \$75 million and \$27 million, respectively, during fiscal year 2005 mainly due to salary increases supported by incremental revenues as the result of increased income fund receipts and an increase in departmental activity programs. Research expenses increased by \$8 million during fiscal year 2005 which correlates to the continued growth in grant research revenue. Hospital and medical activities expenses increased by \$40 million or 11% which correlates to their increase in revenue during fiscal year 2005. Other increases are attributable to self supporting operations and an increase in scholarship and fellowship expenses which also correlate to increases in revenue.

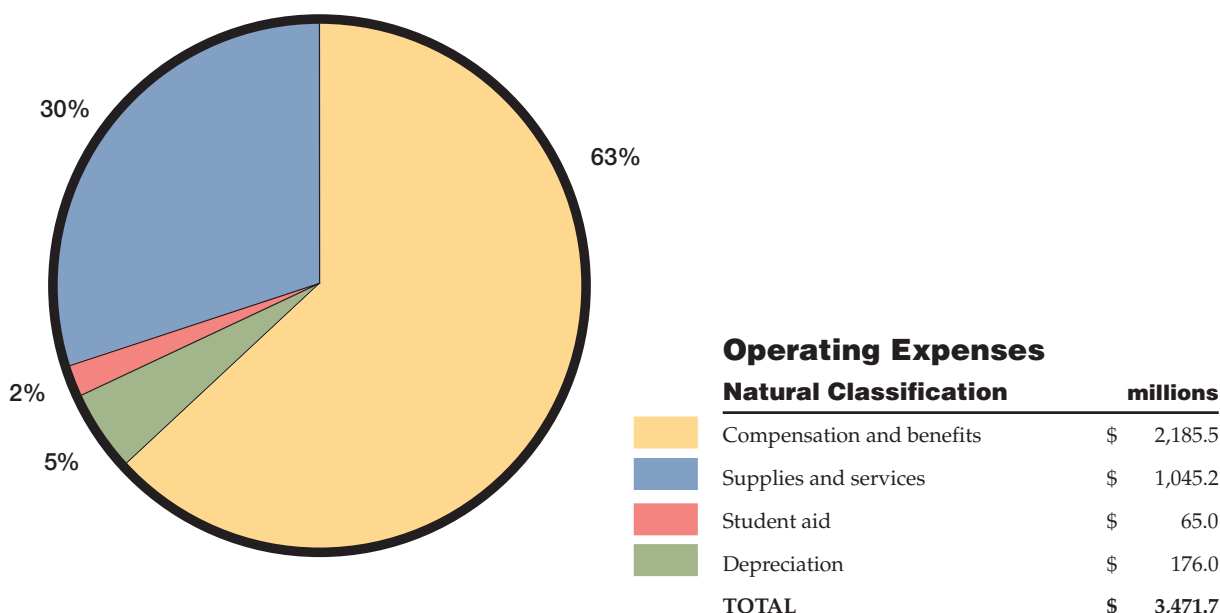
The University chooses to report their expenses by functional classifications in the Statement of Revenues, Expenses and Changes to Net Assets. For the reader's information, the expenses are displayed in their natural classification in Note 14. The following graphs illustrate the expenses for each method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



Operating Expenses

Functional Classification	millions
Instruction	\$ 677.9
Research	\$ 557.1
Public service	\$ 277.6
Support services	\$ 450.4
Hospital and medical activities	\$ 394.1
Auxiliary enterprises and independent operations	\$ 217.0
Scholarships and fellowships	\$ 175.2
Plant operations and maintenance	\$ 199.2
Depreciation	\$ 176.0
On behalf payments for fringe benefits	\$ 347.2
TOTAL	\$ 3,471.7





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, 2005 and 2004 is as follows:

	(in thousands)	
	2005	2004
Cash flows from operating activities:		
Total sources	\$ 2,294,791	\$ 2,137,860
Total uses	(2,879,173)	(2,739,899)
Net cash flows used by operating activities	(584,382)	(602,039)
Cash flows from noncapital financing activities:		
State appropriations	658,325	647,385
Gifts transferred from the Foundation	107,278	96,319
Other sources (uses), net	(2,467)	30,516
Net cash flows provided by noncapital financing activities	763,136	774,220
Cash flows from capital and related financing activities:		
Proceeds from debt issues	172,624	10,066
State capital appropriations	20,322	45,877
Payments of principal and interest on bonds and capital leases	(176,286)	(91,608)
Payment of bond issuance costs	(1,113)	(199)
Purchase of capital assets	(219,299)	(265,895)
Other sources, net	37,594	53,099
Net cash flows used by capital and related financing activities	(166,158)	(248,660)
Cash flows from investing activities:		
Interest and dividends received	30,586	29,723
Cash paid for investment purchases, net of proceeds from sales and maturities of investments	(52,657)	(8,188)
Net cash flows provided (used) by investing activities	(22,071)	21,535
Net decrease in cash and cash equivalents	(9,475)	(54,944)
Cash and cash equivalents, beginning of year	276,246	331,190
Cash and cash equivalents, end of year	\$ 266,771	\$ 276,246

The University's cash and cash equivalents decreased by \$9 million during fiscal year 2005. This slight decline is the net result of an increase related to the issuance of bonds during the year offset by the expenditure of existing bond proceeds and other plant funds for various construction projects.

THE UNIVERSITY'S ECONOMIC OUTLOOK

The University is well positioned to continue its strong financial condition and level of excellence in service to students, patients, the research community, the state and the nation. A critical element to the University's future continues to be a strong relationship with the State of Illinois. State appropriations from the Governor and General Assembly provide essential operating support for University programs. The direct appropriation for fiscal year 2006, signed into law by the Governor, reflects a slight decrease of approximately \$0.3 million from the fiscal year 2005 approved budget. The State of Illinois also appropriates funds for payments on behalf of University employees to CMS and SURS to pay benefits for our employees. The fiscal year 2006 budget is \$327.7 million.

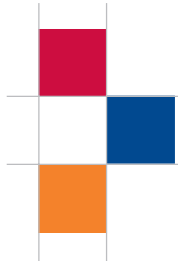
The University projects an increase in tuition and miscellaneous departmental revenue. The \$486.3 million fiscal year 2006 tuition and miscellaneous departmental revenue budget represents a \$32.7 million (7.2%) increase from fiscal year 2005. The estimated increase in tuition is due to a 7% tuition increase for continuing students and 9% for new undergraduate students who have a four year tuition guarantee, along with other rate changes for specific programs and adjustments for enrollment levels.

Private gifts are an important supplement to the University's sources of funding for operating costs, a significant factor in the growth of academic units, and essential for capital acquisition and construction. The University is working with the University of Illinois Foundation to strengthen the future of private giving to the University. Private gifts are budgeted to increase by 6.9% during fiscal year 2006.

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 fiscal year 2006 sponsored project budget is an estimate of grant and contract awards for direct costs and represents a 5.1% increase from fiscal year 2005.

The University experienced growth from a variety of funding sources during fiscal year 2005 despite essentially unchanged State support. To achieve a continued strong financial position, the University continues to pursue multiple sources of revenue to support our mission of instruction, research, public service and economic development. The University's Board of Trustees and management are committed to strengthening the University's already outstanding academic reputation and believe the University's financial condition will remain strong.





Audited Financial Statements



Statement of Net Assets as of June 30, 2005
with Comparative Totals for 2004 (in thousands)

	University		University Related Organizations	
	2005	2004	2005	2004
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 202,418	\$ 194,586	\$ 4,714	\$ 4,921
Cash and cash equivalents, restricted	64,353	81,660	1,477	1,429
Investments	102,065	51,963		
Investments, restricted	11,869	36,380		
Accrued investment income	4,056	4,269	1,793	1,312
Accounts receivable, net of allowance for uncollectible	312,637	284,783	18,271	19,088
Receivable from State of Illinois General Revenue Fund	1,246	2,165		
Pledges receivable, net of allowance			4,445	3,362
Notes receivable, net of allowance for uncollectible	18,578	14,331		
Accrued interest on notes receivable	1,401	1,336		
Inventories	22,902	24,342	5	4
Prepaid expenses and deferred charges	22,631	27,173	279	218
Due from related organizations	500	1,265		
Other assets			3,484	3,277
Total Current Assets	764,656	724,253	34,468	33,611
Noncurrent Assets:				
Cash and cash equivalents, restricted			330	235
Investments	400,301	400,692	140,922	144,599
Investments, restricted	218,304	174,549	803,136	737,593
Pledges receivable, net of allowance			13,780	10,935
Notes receivable, net of allowance for uncollectible	35,421	47,028		
Real estate and farm properties	13,491	12,516	22,601	25,103
Prepaid expenses	7,706	7,490		
Due from related organizations	4,560	4,095		
Irrevocable trust held by other trustees			9,192	8,692
Capital assets, net of accumulated depreciation	2,867,380	2,746,524	11,814	8,809
Other assets	4,362	3,162	11,258	4,653
Total Noncurrent Assets	3,551,525	3,396,056	1,013,033	940,619
TOTAL ASSETS	\$ 4,316,181	\$ 4,120,309	\$ 1,047,501	\$ 974,230
LIABILITIES AND NET ASSETS				
Current Liabilities:				
Accounts payable and accrued liabilities	\$ 134,998	\$ 130,291	\$ 25,925	\$ 30,071
Accrued payroll	104,840	96,814	393	357
Accrued compensated absences, current portion	16,378	16,079	812	767
Accrued self-insurance, current portion	29,912	28,592		
Deferred revenue and student deposits	131,572	129,783	777	39
Accrued interest payable	15,262	14,448		60
Notes payable			9,875	7,513
Annuities payable			6,360	6,796
Bonds payable, current portion	23,813	24,849		
Due to related organizations, current portion			500	1,265
Leaseholds payable and other obligations, current portion	27,244	29,857		
Assets held for others	40,015	39,485		273
Total Current Liabilities	524,034	510,198	44,642	47,141
Noncurrent Liabilities:				
Bonds payable	756,459	670,451		
Leaseholds payable and other obligations	435,843	436,382		
Due to related organizations			4,560	4,095
Accrued compensated absences	178,059	155,454		
Accrued self-insurance	101,064	69,446		
Annuities payable			43,683	43,031
Remainder interest due to others			6,766	6,258
Deferred distributions			42	29
Total Noncurrent Liabilities	1,471,425	1,331,733	55,051	53,413
Total Liabilities	1,995,459	1,841,931	99,693	100,554
NET ASSETS				
Invested in capital assets, net of related debt	1,780,064	1,715,047	1,939	1,296
Restricted:				
Nonexpendable	45,119	30,809	631,778	569,006
Expendable	327,405	332,750	286,986	279,658
Unrestricted	168,134	199,772	27,105	23,716
Total Net Assets	2,320,722	2,278,378	947,808	873,676
TOTAL LIABILITIES AND NET ASSETS	\$ 4,316,181	\$ 4,120,309	\$ 1,047,501	\$ 974,230

See accompanying notes to financial statements.

Statement of Revenues, Expenses and Changes in Net Assets

Year Ended June 30, 2005 with Comparative Totals for 2004 (in thousands)

	University		University Related Organizations	
	2005	2004	2005	2004
OPERATING REVENUES:				
Student tuition and fees, net	\$ 507,137	\$ 448,476	\$	\$
Fee for services - state appropriation	46,117	47,869		
Federal appropriations	16,819	16,418		
Federal grants and contracts	608,403	572,996		
State of Illinois grants and contracts	62,710	74,440		
Private gifts, grants, and contracts	89,615	63,736	98,579	82,159
Educational activities	181,118	173,297		
Auxiliary enterprises, net	264,660	262,058		
Hospital and other medical activities, net	379,815	336,454		
Medical service plan	138,624	116,946		
Independent operations	8,744	7,858		
Interest and service charges on student loans	759	310		
On behalf - hospital and other medical activities	60,635	171,403		
Allocation from the University			7,325	5,808
Other sources			27,511	25,335
TOTAL OPERATING REVENUES	2,365,156	2,292,261	133,415	113,302
OPERATING EXPENSES:				
Instruction	677,928	602,025		
Research	557,058	548,969		
Public service	277,626	250,534		
Academic support	206,894	187,290		
Student services	79,616	75,644		
Institutional support	163,854	129,114	30,831	29,482
Operation and maintenance of plant	199,183	176,682		
Scholarships and fellowships	175,166	160,673		
Auxiliary enterprises	207,825	213,740		
Hospital and medical activities	394,122	353,861		
Independent operations	9,215	9,095		
Depreciation	175,978	153,022	314	390
On behalf payments for fringe benefits	347,232	937,354		
Distributions on behalf of the University			122,521	122,599
TOTAL OPERATING EXPENSES	3,471,697	3,798,003	153,666	152,471
Operating loss	(1,106,541)	(1,505,742)	(20,251)	(39,169)
NONOPERATING REVENUES (EXPENSES):				
State appropriations	653,913	639,227		
Private gifts	107,278	96,319		
On behalf payments for fringe benefits	286,597	765,951	1,517	1,276
Net investment income (net of interest expense of \$2,327 in 2005)	35,077	28,795	3,288	4,929
Net increase in the fair value of investments	11,593	18,691	66,724	99,928
Interest on capital asset related debt	(59,068)	(56,526)	(228)	(129)
Loss on disposals of capital assets	(3,933)	(1,747)		
Other nonoperating revenues	10,167	19,754		
Other nonoperating expenses			(1,363)	(145)
Net nonoperating revenues (expenses)	1,041,624	1,510,464	69,938	105,859
Income (loss) before other revenues, expenses, gains, or losses	(64,917)	4,722	49,687	66,690
Capital state appropriations	65,994	68,388		
Capital gifts and grants	40,011	59,126		
Private gifts for endowment purposes	1,256	2,273	24,445	40,519
INCREASE IN NET ASSETS	42,344	134,509	74,132	107,209
NET ASSETS, BEGINNING OF YEAR	2,278,378	2,143,869	873,676	766,467
NET ASSETS, END OF YEAR	\$ 2,320,722	\$ 2,278,378	\$ 947,808	\$ 873,676

See accompanying notes to financial statements.



Statement of Cash Flows

Year Ended June 30, 2005 with Comparative Totals for 2004 (in thousands)

	University		University Related Organizations	
	2005	2004	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:				
Student tuition and fees	\$ 506,419	\$ 441,743	\$	\$
Medical fees for service - state appropriations	46,117	47,869		
Federal, state, and local grants and contracts	685,111	655,497		
Nongovernmental sponsored programs	92,612	65,681	3,783	1,626
Sales and services of educational and other departmental activities	172,445	192,345		
Contributions and gifts			76,841	83,368
Service fee revenue			8,937	7,201
Auxiliary activities and independent operations	275,793	270,758	652	600
Hospital and other medical activities	370,042	331,015		
Medical service plan	125,842	117,433		
Distributions on behalf of the University			(105,538)	(112,507)
Allocation from the University			6,555	5,168
Payments to employees and benefits	(1,806,820)	(1,755,653)	(14,628)	(12,547)
Payments to suppliers	(994,966)	(916,504)	(8,799)	(7,943)
Payments to annuitants	(62,749)	(49,216)	(7,491)	(7,075)
Student loans issued	(14,638)	(18,526)		
Student loans collected	19,717	14,970		
Student loan interest and fees collected	693	549		
Other operating revenue			11,972	11,846
NET CASH USED BY OPERATING ACTIVITIES	(584,382)	(602,039)	(27,716)	(30,263)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
State appropriations	658,325	647,385		
Gifts transferred from University of Illinois Foundation	107,278	96,319		
Private gifts for endowment purposes	104	302	24,445	40,519
Advance and repayments to related organizations, net	300		(300)	
Other, net	(2,871)	30,214	(1,621)	(401)
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	763,136	774,220	22,524	40,118
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Proceeds from issuance of capital debt	172,624	10,066	2,582	
Capital state appropriations	20,322	45,877		
Capital gifts and grants	37,594	53,099		
Purchase of capital assets	(219,299)	(265,895)	(3,319)	(279)
Principal payments on bonds and capital leases	(129,486)	(55,725)		
Interest payments on bonds and capital leases	(46,800)	(35,883)	(228)	(129)
Payment on notes payable			(220)	24
Payments of bond issuance costs	(1,113)	(199)		
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES:	(166,158)	(248,660)	(1,185)	(384)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest and dividends on investments, net	30,586	29,723	4,887	6,340
Proceeds from sales and maturities of investments	8,139,616	11,703,249	882,368	1,069,611
Purchase of investments	(8,192,273)	(11,711,437)	(880,942)	(1,085,779)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(22,071)	21,535	6,313	(9,828)
Net decrease in cash and cash equivalents	(9,475)	(54,944)	(64)	(357)
Cash and Cash Equivalents, Beginning of Year	276,246	331,190	6,585	6,942
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 266,771	\$ 276,246	\$ 6,521	\$ 6,585

Statement of Cash Flows

Year Ended June 30, 2005 with Comparative Totals for 2004 (in thousands) - (continued)

	University		University Related Organizations	
	2005	2004	2005	2004
Reconciliation of operating loss to net cash used by operating activities				
Operating loss	\$ (1,106,541)	\$ (1,505,742)	\$ (20,251)	\$ (39,169)
Adjustments to reconcile operating loss to net cash used by operating activities:				
On behalf payments for reimbursement of hospital and medical activities	(60,635)	(171,403)		
On behalf payments for fringe benefits expense	347,232	937,354	1,517	1,276
Depreciation expense	175,978	153,022	314	390
Change in value of split interest agreements			(1,352)	3,195
Changes in assets and liabilities:				
Accounts receivable, net	(31,170)	(21,174)	(30)	12
Notes receivable, net	7,360	(2,841)		
Accrued interest on notes receivable	(65)	238		
Inventories	1,440	(564)	(1)	(3)
Prepaid expenses and deferred charges	3,315	(4,634)	(61)	207
Pledges receivable			(4,000)	7,000
Noncurrent assets other			(4,605)	(2,555)
Accounts payable	12,517	20,698	244	247
Accrued payroll	8,026	(19,558)	30	15
Deferred revenue and student deposits	1,789	22,967	707	(1,172)
Accrued compensated absences	22,904	(20,991)	45	40
Accrued self-insurance	32,938	7,077		
Assets held for others	530	3,512	(273)	254
Net cash used by operating activities	(584,382)	(602,039)	(27,716)	(30,263)
Noncash investing, capital, and financing activities:				
On behalf payments for fringe benefits	\$ 347,232	\$ 937,354	\$ 1,517	\$ 1,276
Gifts in kind	2,418	6,027	26,049	10,380
Capital assets in accounts payable	37,463	45,275		
Capital asset acquisitions by CDB	45,672	22,510		
Capital asset acquisitions via leaseholds payable	27,557	50,284		
Capital appreciation on bonds payable	10,217	9,799		
Net interest capitalized	4,028	2,740		
Other capital asset adjustments	9,606	26,226		
Loss on disposals of capital assets	3,934	1,747		

See accompanying notes to financial statements.



Notes to Financial Statements

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Basis of Presentation

The University of Illinois (University), a federal land grant institution and a component unit of the State of Illinois, conducts education, research 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.

During fiscal year 2005, the University adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, which requires certain reporting changes for the disclosure of deposits and investment risk.

The basic financial statements include prior year comparative information, which has been derived from the University's 2004 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, 2004.

Certain items in the June 30, 2004 Financial Statements have been reclassified to correspond to the June 30, 2005 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 \$108,446,000 and \$2,188,000 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 \$114,280,000 for the year ended June 30, 2005. 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 \$232,952,000 for 2005. 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 92% 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, 2005. 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, 2005, the contractual allowances totalled \$615,969,000.

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 \$43,768,000 at June 30, 2005 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 2006 rather than from the unrestricted net assets available at June 30, 2005.

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, 2005, the University estimates that \$128,281,000 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, 2005.

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 University's policy requires the capitalization of all land and collection purchases regardless of cost, equipment at \$5,000, buildings and improvements at \$100,000, and infrastructure at \$1,000,000. The Entity does not capitalize collections of works of art or historical treasures held for public exhibition, education, or research in furtherance of public service rather than capital gain, unless they were capitalized as of June 30, 1999. Proceeds from the sale, exchange, or other disposal of any item belonging to a collection of works of art or historical treasures must be applied to the acquisition of additional items for the same collection.

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

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

NOTE 2 - CASH, CASH EQUIVALENTS AND DEPOSITS

The carrying amount of the University's and the Foundation's cash totalled \$17,015,000 and \$3,306,000 at June 30, 2005, respectively.

The total bank account balances at June 30, 2005, of the University and the Foundation, aggregated \$9,358,000, and \$3,554,000, respectively, of which \$9,358,000, and \$3,554,000, 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 \$402,000 at June 30, 2005 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, 2005, the University had no repurchase agreements.

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, 2005.

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, 2005, 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, 2005, approximately \$247,049,000 of the investments reported on the University's Statement of Net Assets were on loan, secured by collateral with a fair value of approximately \$252,339,000.

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, 2005 net appreciation of \$18,019,000 is available to be spent, of which \$17,324,000 is restricted to specific purposes.

The Board develops University policy on investments and delegates the execution of those policies to its administrative agents. The University follows the State of Illinois Uniform Management of Institutional Funds Act when investing its endowment and operating funds. The State of Illinois Public Funds Investment Act provides the context and framework for plant fund investments. The following details the carrying value of the Entity's investment portfolio as of June 30, 2005:

UNIVERSITY CASH EQUIVALENTS AND INVESTMENTS

(in thousands)

Certificates of Deposit	\$ 402
U.S. Treasury Put	4,345
U.S. Treasury Bonds and Bills	182,965
U.S. Government Agencies	116,661
Commercial Paper	44,818
Corporate Bonds	148,233
Bond Mutual Funds	60,227
Non Government Mortgage Backed Securities	29,588
Non U.S. Government Bonds	3,983
Subtotal	591,222
U.S. Equities	20,287
International Equities	37,778
Preferred Stock	3,611
U.S. Equity Mutual Funds	109,729
Limited Partnerships	1,734
Real Estate	315
Money Market Funds	168,797
Illinois Public Treasurer's Investment Pool	48,822
TOTAL	<u>\$ 982,295</u>

FOUNDATION INVESTMENTS

(in thousands)

U.S. and Other Government Securities	\$ 53,846
Municipal Bonds	382
Corporate Bonds and Notes	54,214
Mutual Funds - Bonds	135,842
Mutual Funds - Municipal Bonds	2,462
Subtotal	246,746
U.S. Equities	244,796
International Equities	132,822
Preferred Stock	214
Mutual Funds - Stocks	181,007
Mutual Funds - Bonds	64
Money Market Funds	31,741
Real Estate Trust and Partnerships	88,794
Other	3,469
TOTAL	<u>\$ 929,653</u>

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University employs multiple investment managers, of which each has specific maturity assignments related to the operating funds. The funds are structured with different layers of liquidity. Funds expected to be used within one year are invested in money market instruments. Core operating funds are invested in longer maturity investments. Core operating funds investment manager's performance benchmarks are Lehman Brothers 1-3 year Government Credit Bond Index and the Lehman Brothers Intermediate Aggregate Bond Index. The University's manager guidelines provide that the average weighted duration of the portfolio, including option positions, not vary from that of their respective performance benchmarks by more than +/-20 percent. The Entity's investments and maturities at June 30, 2005 are illustrated below:

UNIVERSITY INVESTMENT MATURITIES

(in thousands)

	Total	Less than 1	1 - 5	6 - 10	Greater than 10
Certificates of Deposit	\$ 402	\$ 402	\$	\$	\$
U.S. Treasury Put	4,345				4,345
U.S. Treasury Bonds and Bills	182,965	74,072	89,365	17,925	1,603
U.S. Government Agencies	116,661	5,749	49,722	7,798	53,392
Commercial Paper	44,818	44,818			
Corporate Bonds	148,233	11,817	101,123	20,003	15,290
Bond Mutual Funds	60,227	1,657	19,085	26,644	12,841
Non Government Mortgage Backed Securities	29,588	1	460		29,127
Non U.S. Government Bonds	3,983		3,308	675	
TOTAL	<u>\$ 591,222</u>	<u>\$ 138,516</u>	<u>\$ 263,063</u>	<u>\$ 73,045</u>	<u>\$ 116,598</u>

At June 30, 2005, the University's operating funds pool portfolio had an effective duration of 1.7 years.

FOUNDATION INVESTMENT MATURITIES

(in thousands)

	Total	Less than 1	1 - 5	6 - 10	Greater than 10
U.S. and Other Government Securities	\$ 53,846	\$ 987	\$ 71	\$ 46,257	\$ 6,531
Municipal Bonds	382			382	
Corporate Bonds and Notes	54,214		2	37,701	16,511
Mutual Funds - Bonds	135,842	48,916	57,609	15,073	14,244
Mutual Funds - Municipal Bonds	2,462			2,462	
TOTAL	\$ 246,746	\$ 49,903	\$ 57,682	\$ 101,875	\$ 37,286

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The University's policy requires that operating funds be invested in fixed income securities and money market instruments. Fixed income securities shall be rated investment grade or better by one or more nationally recognized statistical rating organizations. Securities not covered by the investment grade standard are allowed if, in the manager's judgment, those instruments are of comparable credit quality. Securities which fall below the stated minimum credit requirements subsequent to initial purchase may be held at the manager's discretion. It is expected that the average credit quality of the operating funds will not fall below Standard & Poor's AA- or equivalent. At June 30, 2005 the University and Foundation had debt securities and quality ratings as shown in the charts below:

UNIVERSITY INVESTMENTS QUALITY RATINGS

(in thousands)

	Total	AAA/Aaa	AA/Aa	A/BA	BBB/Baa	BB/Ba	Less than BB or Not Rated
Certificates of Deposit	\$ 402	\$	\$	\$	\$	\$	\$ 402
U.S. Treasury Put	4,345						4,345
U.S. Treasury Bonds and Bills	182,965	182,965					
U.S. Government Agencies	116,661	116,661					
Commercial Paper	44,818	44,818					
Corporate Bonds	148,233	36,503	19,271	43,685	46,448	2,300	26
Bond Mutual Funds	60,227	39,185	4,858	1,586	6,163	6,561	1,874
Non Government Mortgage Backed Securities	29,588	26,812	878	1,898			
Non U.S. Government Bonds	3,983	852	1,384	349	1,398		
TOTAL	\$ 591,222	\$ 447,796	\$ 26,391	\$ 47,518	\$ 54,009	\$ 8,861	\$ 6,647

FOUNDATION INVESTMENTS QUALITY RATINGS

(in thousands)

	Total	AAA/Aaa	AA/Aa	A/BA	BBB/Baa	BB/Ba	Not Rated
U.S. and Other Government Securities	\$ 53,846	\$ 52,314	\$	\$	\$	\$ 1,532	\$
Municipal Bonds	382	382					
Corporate Bonds and Notes	54,214	16,121	8,016	3,737	10,214	12,661	3,465
Mutual Funds - Bonds	135,842	116,199	11,527	8,116			
Mutual Funds - Municipal Bonds	2,462	2,462					
TOTAL	\$ 246,746	\$ 187,478	\$ 19,543	\$ 11,853	\$ 10,214	\$ 14,193	\$ 3,465

Custodial Credit Risk: Custodial credit risk is the risk that in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Exposure to custodial credit risk relates to investment securities that are held by someone other than the University and are not registered in the University's name. The University has no formal policy in regard to custodial credit risk. At June 30, 2005, the University's investments and deposits have no custodial credit risk exposure.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the University's investment in a single issuer. The University's policy provides that the total operating funds portfolio will be broadly diversified across securities in a manner that is consistent with fiduciary standards of diversification. This diversification is achieved by employing multiple investment managers and imposing maximum position limits for each manager. The University's manager guidelines for operating investments provide that non-U.S. government obligations may not exceed 10% per issuer and private mortgage-backed and asset-backed securities may not exceed 10% per issuer (unless collateral is credit independent of the issuer and the security's credit enhancement is generated internally, in which case the limit is 25% per issuer). Obligations with other issuers, other than the U.S. government, U.S. agencies, or U.S. government sponsored corporations and agencies, may not exceed 5%. As of June 30, 2005, not more than 5% of the University's total investments were invested in securities of any one issuer, excluding securities issued or guaranteed by the U.S. government, mutual funds, and external investment pools or other pooled investments.

Foreign Currency Risk: Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The University's operating fund investments generally are not exposed to foreign currency risk. Under the manager's guidelines, the portfolio's foreign currency exposure may be unhedged or hedged back into U.S. dollars. Cross hedging is not permitted. The manager may invest up to 20% of the portfolio in emerging market securities. The U.S. dollar balances of the University's and Foundation's cash equivalents and investments exposed to foreign currency risk as of June 30, 2005 are categorized by currency below:

UNIVERSITY INVESTMENTS FOREIGN CURRENCY EXPOSURE

(in thousands)

	Total	Cash Equivalents	Equity Investments
European Euro	\$ 12,554	\$ 31	\$ 12,523
British Pound	7,454		7,454
Japanese Yen	4,259		4,259
Swedish Krona	2,105	4	2,101
All other currency	11,406		11,406
TOTAL	\$ 37,778	\$ 35	\$ 37,743

FOUNDATION INVESTMENTS FOREIGN CURRENCY EXPOSURE

(in thousands)

	Total	Cash Equivalents	Equity Investments
European Euro	\$ 43,788	\$ 590	\$ 43,198
British Pound	37,082	599	36,483
Japanese Yen	29,120	101	29,019
Swedish Krona	4,571	56	4,515
All other currency	43,405	1,678	41,727
TOTAL	\$ 157,966	\$ 3,024	\$ 154,942

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 \$239,690,000 at June 30, 2005. Notes receivable are reported net of allowances of \$4,442,000 at June 30, 2005.

The composition of accounts receivable and notes and pledges receivable at June 30, 2005 is summarized as follows:

ACCOUNTS RECEIVABLE (in thousands)		NOTES AND PLEDGES RECEIVABLE (in thousands)	
Receivables from sponsoring agencies	\$ 157,071	Student notes - University:	
Hospital and other medical activities	79,790	Student notes outstanding	\$ 58,441
Student tuition and fees, net of allowances	24,986	Allowance for uncollectible loans	(4,442)
Auxiliaries, net of discounts and allowances	8,353	Total student notes, net	<u>\$ 53,999</u>
Medical service plan	28,246	Gift pledges outstanding - Foundation:	
Educational activities	13,182	Operations	\$ 20,190
Other	1,009	Capital	8,246
TOTAL	<u>\$ 312,637</u>	Total gift pledges outstanding	<u>28,436</u>
		Less:	
		Allowance and unamortized discount	
		to present value	(10,436)
		Total pledges receivable, net	<u>\$ 18,000</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 \$4,028,000 was capitalized during the year ended June 30, 2005.

Capital assets activity for the University and the Foundation for the year ended June 30, 2005 is summarized as follows:

CAPITAL ASSETS FOR THE UNIVERSITY (in thousands)					
	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Nondepreciable Capital Assets:					
Land	\$ 117,014	\$ 4,904	\$ (2,287)	\$	\$ 119,631
Construction in progress	510,828	132,512		(412,611)	230,729
Inexhaustible collections	12,883	798			13,681
Total nondepreciable capital assets	<u>640,725</u>	<u>138,214</u>	<u>(2,287)</u>	<u>(412,611)</u>	<u>364,041</u>
Depreciable Capital Assets:					
Buildings	2,186,871	42,400	(116)	257,359	2,486,514
Improvements and infrastructure	383,826			155,252	539,078
Equipment and software	984,889	100,845	(30,853)		1,054,881
Library materials	361,144	21,596			382,740
Subtotal	<u>3,916,730</u>	<u>164,841</u>	<u>(30,969)</u>	<u>412,611</u>	<u>4,463,213</u>
Less accumulated depreciation	<u>1,810,931</u>	<u>175,978</u>	<u>(27,035)</u>		<u>1,959,874</u>
Total net depreciable capital assets	<u>2,105,799</u>	<u>(11,137)</u>	<u>(3,934)</u>	<u>412,611</u>	<u>2,503,339</u>
TOTAL	<u>\$2,746,524</u>	<u>\$ 127,077</u>	<u>\$ (6,221)</u>	<u>\$</u>	<u>\$ 2,867,380</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	5,964	3,000	(22)		8,942
Total nondepreciable capital assets	7,545	3,000	(22)		10,523
Depreciable Capital Assets:					
Equipment and software	490	233			723
Less accumulated depreciation	315	41	(22)		334
Total net depreciable capital assets	175	192	22		389
TOTAL	\$ 7,720	\$ 3,192	\$	\$	\$ 10,912

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

The University's accrued self-insurance liability of \$130,976,000 at June 30, 2005 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, 2005. 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 \$10,093,000 at June 30, 2005 related to employees who are paid from State appropriations is included in the University's accounts payable. These claims will be paid from State appropriations in the year in which the claims are finalized, rather than from unrestricted net assets as of June 30, 2005.

Accrued self-insurance includes \$91,263,000 at June 30, 2005 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, 2005. 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)

	2005	2004
Balance, beginning of year	\$ 98,038	\$ 90,961
Claims incurred and changes in estimates	79,137	32,408
Claim payments	(46,199)	(25,331)
Balance, end of year	130,976	98,038
Less current portion	(29,912)	(28,592)
Balance, end of year - noncurrent portion	\$ 101,064	\$ 69,446

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	\$ 171,533
Additions/(Deductions)	22,904
Balance, end of year	194,437
Less current portion	(16,378)
Balance, end of year	<u>\$ 178,059</u>

NOTE 7 - BONDS AND NOTES PAYABLE

On March 31, 2005, the University issued Auxiliary Facilities System Revenue Bonds Series 2005A in the amount of \$163,905,000. Series 2005A Bonds were issued to fund various additions and improvements to the System, to provide for the advance refunding of portions of the outstanding Auxiliary Facilities System Revenue Bonds, Series 1996, Series 1999A, Series 2000, and Series 2001B, to pay debt service during construction and to pay all costs incidental to the issuance of the bonds.

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	2004-2034	\$ 399,875	\$ 163,905	\$ 89,745	\$ 474,035	\$ 15,120
Capital Appreciation Bonds	2004-2030	287,850		3,905	283,945	3,890
WILLARD AIRPORT -	2004-2009	1,185		215	970	225
HEALTH SERVICES FACILITIES SYSTEM -	2004-2026	66,495		1,595	64,900	1,670
UIC SOUTH CAMPUS -	2004-2023	81,900		2,570	79,330	3,175
		<u>\$ 837,305</u>	<u>\$ 163,905</u>	<u>\$ 98,030</u>	903,180	24,080
Unaccrued Appreciation					(131,393)	(196)
					771,787	23,884
Unamortized debt premium					21,815	775
Unamortized loss on refunding					(13,330)	(846)
TOTAL					<u>\$ 780,272</u>	<u>\$ 23,813</u>

Capital appreciation bonds of \$283,945,000 outstanding at June 30, 2005 do not require current interest payments and have a net unappreciated value of \$152,552,000. 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 2.28% over the life of the bonds. Other bond issues bear interest at fixed rates ranging from 2% to 7.96%.

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, Series 2003A, and Series 2005A 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 2005, the debt service payments related to the Series 1999, Series 2000, and Series 2003 Bonds were \$7,630,000. Proceeds from the sale of land of \$1,243,000 and revenue from other legally available sources of \$6,387,000 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, Series 2003A, and Series 2005A 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 3.81% and principal outstanding of \$9,875,000. The change in the balance for fiscal year 2005 is as follows:

CHANGE IN NOTES PAYABLE	
(in thousands)	
Balance, beginning of year	\$ 7,513
New proceeds	2,582
Payments	(220)
Balance, end of year	<u>\$ 9,875</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, 2005 consists of the following:

ADVANCE REFUNDED BONDS	
(in thousands)	
Series	Outstanding at June 30, 2005
1978-M	\$ 43,865
1978-N	2,305
1996	44,830
1999A	86,825
2000	10,785
2001B	3,625
TOTAL	<u><u>\$ 192,235</u></u>

Future debt service requirements for all bonds outstanding at June 30, 2005 are as follows:

DEBT SERVICE REQUIREMENTS

(in thousands)

	Principal	Interest
2006	\$ 24,080	\$ 32,565
2007	29,710	32,677
2008	30,015	32,740
2009	31,340	32,694
2010	32,230	33,543
2011-2015	180,100	164,769
2016-2020	219,450	154,766
2021-2025	182,250	81,096
2026-2030	144,680	35,381
2031-2034	29,325	2,863
TOTAL	\$ 903,180	\$ 603,094

Certain bonds of the University have debt service reserve requirements. The Maximum Annual Net Debt Service for those bonds, as defined, is \$15,490,000.

NOTE 8 - LEASEHOLDS AND OTHER OBLIGATIONS

Leaseholds payable and other obligations activity for the year ended June 30, 2005 consist of the following:

LEASEHOLDS AND OTHER OBLIGATIONS

(in thousands)

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
University:					
Certificates of Participation	\$ 405,780	\$ 20,590	\$ (18,895)	\$ 407,475	\$ 22,105
Unamortized Debt Premium	14,267		(1,399)	12,868	1,399
Unamortized Deferred Loss on Refunding	(18,029)		1,221	(16,808)	(1,222)
Total Certificates of Participation	402,018	20,590	(19,073)	403,535	22,282
Other Capital Leases	51,501	7,291	(6,381)	52,411	4,763
Natural Gas Contract	6,320		(6,320)		
Environmental Remediation Liability	6,400	741		7,141	199
Total University	\$ 466,239	\$ 28,622	\$ (31,774)	\$ 463,087	\$ 27,244
Foundation:					
Annuities Payable	\$ 49,827	\$ 216	\$	\$ 50,043	\$ 6,360
Other Liabilities	6,258	508		6,766	
Total Foundation	\$ 56,085	\$ 724	\$	\$ 56,809	\$ 6,360

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 February 24, 2005, the University issued Certificates of Participation UIC College of Medicine Research Building Project Series 2005 in the amount of \$20,590,000. The Series 2005 Certificates were issued to finance, in combination with state appropriated capital funds and University funds, the construction of a new College of Medicine Research Building at the Chicago campus, as well as the demolition of buildings and structures currently on the site of the new building, and modifications to adjacent buildings to facilitate the construction of, and connection to, the new building.

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, 2005, the mark to market value of the swap was (\$4,119,000). Since this is a negative number it represents an approximation of the amount of money that the University would be required to pay the swap provider to terminate the swap. In accordance with governmental accounting standards, this amount is not required to be included in the accompanying financial statements.

The University has the option to terminate the swap early. The University or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. The University may terminate the swap if both credit ratings of the counterparty fall below BBB+ as issued by Standard & Poor's and Baa1 as issued by Moody's Investors Service. 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, 2005, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, were as follows. As rates vary, variable-rate bond interest payments and net swap payments will also vary.

VARIABLE-RATE DEBT SERVICE REQUIREMENTS

(in thousands)

	Variable-Rate Certificates		Interest Rate Swaps, Net	Total
	Principal	Interest		
2006	\$ 915	\$ 3,276	\$ 2,116	\$ 6,307
2007	955	3,255	2,102	6,312
2008	995	3,233	2,087	6,315
2009	1,035	3,219	2,063	6,317
2010	1,075	3,187	2,055	6,317
2011-2015	35,650	14,258	8,602	58,510
2016-2020	66,290	9,342	4,827	80,459
2021-2023	36,750	1,052	345	38,147
TOTAL	\$ 143,665	\$ 40,822	\$ 24,197	\$ 208,684

The University leases various properties from the Foundation under capital lease obligations amounting to \$85,000 at June 30, 2005.

Assets held under capital leases are included in capital assets at June 30, 2005 as follows:

ASSETS HELD UNDER CAPITAL LEASE

(in thousands)

Land	\$ 8,776
Buildings	63,080
Improvements	273,470
Equipment	169,039
Subtotal	514,365
Less accumulated depreciation	63,820
Total net depreciable assets	<u>\$ 450,545</u>

The net present value of outstanding capital leases at June 30, 2005 is:

OUTSTANDING CAPITAL LEASES

(in thousands)

Certificates of Participation	
Series 1997 Utility Infrastructure	\$ 24,220
Series 2001 UI Integrate	97,335
Series 2003 South Farms	24,250
Series 2003 UI Integrate	31,700
Series 2003 Utility Infrastructure	65,715
Series 2004 Utility Infrastructure	143,665
Series 2005 College of Medicine	20,590
Other Capital Leases	52,411
NET PRESENT VALUE	<u><u>\$ 459,886</u></u>

As of June 30, 2005, future minimum lease payments under capital leases is as follows:

**FUTURE MINIMUM LEASE PAYMENTS
UNDER CAPITAL LEASES**

(in thousands)

2006	\$ 46,557
2007	45,899
2008	45,032
2009	44,481
2010	44,268
2011-2015	199,974
2016-2020	123,010
2021-2025	78,996
Total minimum lease payments	628,217
Amount representing interest	(168,331)
NET PRESENT VALUE	<u>\$ 459,886</u>

The University monitors environmental matters and records an estimated liability for identified environmental remediation costs. The estimated liability at June 30, 2005 is \$7,141,000.

The University also leases various buildings and equipment under operating lease agreements. Total rental expense under these agreements was \$8,584,000 for the year ended June 30, 2005. The future minimum lease payments (excluding those leases renewed on an annual basis) are as follows:

**FUTURE MINIMUM
OPERATING LEASE PAYMENTS**

(in thousands)

2006	\$ 6,821
2007	4,645
2008	2,764
2009	1,662
2010	857
2011-15	616
TOTAL	<u>\$ 17,365</u>

At June 30, 2005, the Foundation had annuities payable outstanding of \$50,043,000. 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	\$ 1,780,064
Restricted - nonexpendable	
Invested in perpetuity to produce income expendable for scholarships, fellowships and research	45,119
Restricted - expendable for -	
Scholarships, fellowships and research	203,986
Loans	74,792
Service plans	24,224
Retirement of indebtedness	24,403
Unrestricted	
Designated for:	
Auxiliary	29,384
Hospital	48,010
Capital projects	73,224
Self supporting activities	8,446
Institutional Support	93,552
Quasi endowments	92,756
Amount expected to be financed in future years	(182,141)
Undesignated	4,903
TOTAL	\$ 2,320,722

FOUNDATION NET ASSETS (in thousands)

Invested in capital assets, net of related debt	\$ 1,037
Restricted - nonexpendable	
Invested in perpetuity to produce income expendable for scholarships, fellowships and research	631,778
Restricted - expendable for -	
Scholarships, fellowships and research	286,911
Unrestricted	15,147
TOTAL	\$ 934,873

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, 2005 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	\$ 37,367	\$ 24,653
Income received from funds held in trust by others	\$ 983	\$ 699

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 11.12% 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, 2005, 2004, and 2003 were \$145,752,000, \$755,398,000 and \$139,955,0000 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, 2005, 2004, and 2003 were \$475,000, \$418,000 and \$392,000 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, 2005 the University had commitments on various construction projects and contracts for repairs and renovation of facilities of approximately \$58,901,000.

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, 2005 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	\$ 557,300	\$ 117,293	\$ 3,335	\$	\$ 677,928
Research	357,919	196,662	2,477		557,058
Public service	163,275	112,886	1,465		277,626
Academic support	126,135	76,172	4,587		206,894
Student services	48,916	28,572	2,128		79,616
Institutional support	120,572	43,252	30		163,854
Operations and maintenance of plant	64,124	135,059			199,183
Scholarships and fellowships	127,245	2,843	45,078		175,166
Payments on behalf of the University	347,232				347,232
Auxiliary enterprises	72,834	129,063	5,928		207,825
Hospital and medical activities	198,307	195,814	1		394,122
Independent operations	1,654	7,561			9,215
Depreciation				175,978	175,978
TOTAL	\$ 2,185,513	\$ 1,045,177	\$ 65,029	\$ 175,978	\$ 3,471,697

FOUNDATION OPERATING EXPENSES BY NATURAL CLASSIFICATION

(in thousands)

	Distribution on behalf of the University	Institutional support	Depreciation	Total
Salaries and benefits	\$	\$ 11,132	\$	\$ 11,132
Distributions on behalf of the University	122,521			122,521
Printing		758		758
Travel		750		750
Equipment		491		491
Meeting, conferences and special events		757		757
Supplies and other		4,693		4,693
Depreciation			41	41
TOTAL	\$ 122,521	\$ 18,581	\$ 41	\$ 141,143

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	\$ 221,934	\$ 129,719	\$ 1,853	\$ 353,506
Noncurrent assets				
Capital assets, net of accumulated depreciation	519,553	171,075	32,056	722,684
Other noncurrent assets	39,241	3,120	284	42,645
TOTAL ASSETS	\$ 780,728	\$ 303,914	\$ 34,193	\$ 1,118,835
LIABILITIES				
Current liabilities	\$ 57,971	\$ 53,621	\$ 1,135	\$ 112,727
Noncurrent liabilities				
Long term debt	619,991	76,545	743	697,279
Other liabilities	5,406	17,982		23,388
TOTAL LIABILITIES	683,368	148,148	1,878	833,394
NET ASSETS:				
Invested in capital assets, net of related debt	7,699	94,217	31,107	133,023
Restricted				
Expendable	23,014	2,454	505	25,973
Unrestricted	66,647	59,095	703	126,445
TOTAL NET ASSETS	97,360	155,766	32,315	285,441
TOTAL LIABILITIES AND NET ASSETS	\$ 780,728	\$ 303,914	\$ 34,193	\$ 1,118,835
Condensed Statement of Revenues, Expenses and Changes in Net Assets				
Operating revenues	\$ 211,024	\$ 510,638	\$ 2,188	\$ 723,850
Operating expenses	192,287	479,172	2,621	674,080
Depreciation expense	14,250	17,829	1,648	33,727
Operating income (loss)	4,487	13,637	(2,081)	16,043
Nonoperating revenues (expenses)	(7,137)	(3,550)	556	(10,131)
Capital and endowment additions			2,445	2,445
Increase (decrease) in net assets	(2,650)	10,087	920	8,357
Net assets, beginning of year	100,010	145,679	31,395	277,084
NET ASSETS, END OF YEAR	\$ 97,360	\$ 155,766	\$ 32,315	\$ 285,441
Condensed Statement of Cash Flows				
Net cash flows provided (used) by operating activities	\$ 36,433	\$ 30,696	\$ (267)	\$ 66,862
Net cash flows provided by noncapital financing activities	3,188		448	3,636
Net cash flows provided (used) by capital and related financing activities	706	(16,781)	(338)	(16,413)
Net cash flows provided (used) by investing activities	(36,485)	1,004	18	(35,463)
Net increase (decrease) in cash and cash equivalents	3,842	14,919	(139)	18,622
Cash and cash equivalents, beginning of year	74,461	25,162	1,146	100,769
Cash and cash equivalents, end of year	\$ 78,303	\$ 40,081	\$ 1,007	\$ 119,391

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	\$ 30,557	\$ 2,121	\$ 1,790	\$ 34,468
Noncurrent assets				
Capital assets, net of accumulated depreciation	10,912	527	375	11,814
Other noncurrent assets	986,714	14,505		1,001,219
Total assets	\$ 1,028,183	\$ 17,153	\$ 2,165	\$ 1,047,501
Liabilities:				
Current liabilities	\$ 42,828	\$ 1,074	\$ 740	\$ 44,642
Noncurrent liabilities				
Long term debt			4,560	4,560
Other noncurrent liabilities	50,482	9		50,491
Total liabilities	93,310	1,083	5,300	99,693
Net assets:				
Invested in capital assets, net of related debt	1,037	527	375	1,939
Restricted				
Nonexpendable	631,778			631,778
Expendable	286,910	76		286,986
Unrestricted	15,148	15,467	(3,510)	27,105
Total net assets	934,873	16,070	(3,135)	947,808
Total liabilities and net assets	\$ 1,028,183	\$ 17,153	\$ 2,165	\$ 1,047,501
Condensed Statement of Revenues, Expenses and Changes in Net Assets				
Operating revenues	\$ 119,898	\$ 7,375	\$ 6,142	\$ 133,415
Operating expenses	141,102	7,219	5,031	153,352
Depreciation expense	41	16	257	314
Operating income (loss)	(21,245)	140	854	(20,251)
Nonoperating revenues (expenses)	69,417	688	(167)	69,938
Contributions to endowments	24,445			24,445
Increase in net assets	72,617	828	687	74,132
Net assets, beginning of year	862,256	15,242	(3,822)	873,676
Net assets, end of year	\$ 934,873	\$ 16,070	\$ (3,135)	\$ 947,808
Condensed Statement of Cash Flows				
Net cash flows provided (used) by operating activities	\$ (30,388)	\$ 1,577	\$ 1,095	\$ (27,716)
Net cash flows provided (used) by noncapital financing activities	24,445	(1,363)	(558)	22,524
Net cash flows used by capital and related financing activities	(1,099)		(86)	(1,185)
Net cash flows provided (used) by investing activities	6,450	(167)	30	6,313
Net increase (decrease) in cash and cash equivalents	(592)	47	481	(64)
Cash and cash equivalents, beginning of year	3,898	1,550	1,137	6,585
Cash and cash equivalents, end of year	\$ 3,306	\$ 1,597	\$ 1,618	\$ 6,521

NOTE 17 - SUBSEQUENT EVENTS

On August 10, 2005, the University issued Auxiliary Facilities System Revenue Bonds Series 2005B in the amount of \$67,305,000. Bonds were issued to fund various improvements and additions to the System, pay a portion of the interest during construction and to pay all costs incidental to the issuance of the bonds.

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