

University of Illinois

**Annual Financial Report
Auxiliary Facilities System**

**Year Ended June 30, 2004 with
Comparative Totals for 2003**

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From the Vice President for Administration, Comptroller

UNIVERSITY OF ILLINOIS
Chicago • Springfield • Urbana-Champaign

Office of Vice President for Administration, Comptroller
349 Henry Administration Building
506 South Wright Street
Urbana, IL 61801

October 15, 2004

Holders of University of Illinois
Auxiliary Facilities System Revenue Bonds
and
The Board of Trustees
University of Illinois

I am pleased to transmit the Annual Financial Report of the University of Illinois Auxiliary Facilities System for the fiscal year ended June 30, 2004. This report supplements the financial statements of the University of Illinois presented in the Annual Financial Report.

The 2004 financial statements and accompanying notes appearing on pages 6 through 17 have been audited by Clifton Gunderson LLP, Independent Certified Public Accountants, as special assistants to the Auditor General of the State of Illinois, whose report on the financial statements and applicable notes appears on pages 4 and 5. The remainder of this report, which is unaudited, was compiled by the University and consists of ancillary data concerning operations.

Clifton Gunderson LLP will also prepare a report for the year ended June 30, 2004, containing special data requested by the Auditor General and another report covering their audit of the compliance of the University with applicable state and federal laws and regulations for the year ended June 30, 2004. These reports, which include some data related to the Auxiliary Facilities System, are not contained herein and are primarily for the use of the Auditor General and state and federal agencies.

Respectfully submitted,



Stephen K. Rugg,
Vice President for
Administration,
Comptroller

Independent Auditor's Report



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 statement of net assets of the University of Illinois Auxiliary Facilities System (System), as of June 30, 2004, and the related statements of revenues, expenses, and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative information has been derived from the System's 2003 financial statements and, in our report dated September 16, 2003 we expressed an unqualified opinion 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 our audit provides a reasonable basis for our opinion.

The accompanying financial statements were prepared for the purpose of complying with the requirements of the indenture for the System's Revenue Bonds, as described in Note 1, and are not intended to be a complete presentation of the University of Illinois' assets, liabilities, revenues, and expenses.

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

In connection with our audit, nothing came to our attention that caused us to believe that the System failed to comply with the terms, covenants, provisions, or conditions of the Resolutions of the Board of Trustees of the University of Illinois which provided for the issuance of the outstanding University of Illinois Auxiliary Facilities System Revenue Bonds insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

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

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Auditor General of the State of Illinois, the General Assembly, the Legislative Audit Commission, the Governor, the Comptroller, the Board of Trustees and the management of the University of Illinois, and the bondholders and is not intended to be and should not be used by anyone other than these specified parties.

Clifton Henderson LLP

Peoria, Illinois
October 15, 2004

Statement of Net Assets as of June 30, 2004 with Comparative Totals for 2003

	2004	2003
Assets:		
Current assets:		
Cash and cash equivalents	\$ 74,461,227	\$ 65,377,204
Investments	40,187,031	44,663,242
Investments, restricted	58,012,853	97,623,976
Accrued investment income	1,292,202	1,906,169
Trade receivables, net of allowance of \$823,928	7,012,035	7,052,344
Pledges receivable	-	1,974,840
Inventories	7,589,589	7,963,146
Prepaid expenses and deferred charges	792,345	461,946
Total current assets	189,347,282	227,022,867
Noncurrent assets:		
Investments, restricted	22,797,824	41,587,956
Land	15,254,677	15,254,677
Buildings, net of accumulated depreciation	363,548,470	326,704,777
Improvements, net of accumulated depreciation	10,616,960	11,404,540
Equipment, net of accumulated depreciation	3,756,861	4,699,763
Construction in progress	83,849,333	71,273,711
Prepaid expenses and deferred charges	3,596,764	3,766,283
Total noncurrent assets	503,420,889	474,691,707
Total assets	\$ 692,768,171	\$ 701,714,574
Liabilities:		
Current liabilities:		
Accounts payable	\$ 23,107,436	\$ 21,763,230
Accrued liabilities	1,748,217	3,045,265
Accrued interest	5,313,855	5,235,215
Deferred revenue	5,763,294	5,133,741
Long term liabilities - current portion	22,113,023	21,161,005
Total current liabilities	58,045,825	56,338,456
Noncurrent liabilities		
Accrued compensated absences	5,988,754	6,091,485
Notes payable to the University	2,665,705	3,573,122
Bonds payable	526,058,197	536,964,285
Total noncurrent liabilities	534,712,656	546,628,892
Total liabilities	592,758,481	602,967,348
Net assets:		
Invested in capital assets, net of related debt	4,431,257	3,978,847
Restricted -		
Expendable for debt service	22,114,902	22,648,887
Unrestricted	73,463,531	72,119,492
Total net assets	100,009,690	98,747,226
Total liabilities and net assets	\$ 692,768,171	\$ 701,714,574

See accompanying notes to financial statements.

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

	<u>2004</u>	<u>2003</u>
Operating revenues:		
Room and board, net of waivers of \$1,945,164	\$ 80,577,086	\$ 77,392,756
Merchandise and food sales	28,520,802	32,333,767
Student service fees	53,870,647	49,466,183
Public events and recreation fees	8,275,554	8,282,059
Parking charges	16,239,157	18,200,808
Rental and lease income	7,200,793	5,994,803
Vending income	1,100,239	1,319,001
Other operating revenue	12,700,187	8,713,296
Total operating revenues	<u>208,484,465</u>	<u>201,702,673</u>
Operating expenses:		
Salaries and wages	59,686,986	57,101,448
Merchandise and food for resale	28,251,021	28,648,311
Repair and maintenance	17,392,463	18,775,981
Professional and other contractual services	22,297,447	17,593,340
Utilities	15,402,653	14,043,593
Supplies	9,571,822	8,278,453
Equipment rental	730,925	809,613
Administrative services	8,937,720	8,623,041
Other operating expense	5,139,215	5,945,623
Depreciation and amortization	11,622,717	13,715,135
Payments on behalf of the Facility	42,193,816	12,011,245
Total operating expenses	<u>221,226,785</u>	<u>185,545,783</u>
Operating (loss) income	<u>(12,742,320)</u>	<u>16,156,890</u>
Nonoperating revenues (expenses):		
Payments on behalf of the Facility	42,193,816	12,011,245
Investment income (net of related expenses)	4,518,774	8,568,880
Interest on capital asset-related debt	(32,120,480)	(29,871,101)
Amortization of issuance costs	(169,519)	(150,339)
Loss on disposal of capital assets	(621,049)	
Other nonoperating revenues	1,341,617	6,122,519
Other nonoperating expenses	(1,138,375)	(2,197,583)
Net nonoperating revenues (expenses)	<u>14,004,784</u>	<u>(5,516,379)</u>
Increase in net assets	1,262,464	10,640,511
Net assets, beginning of year	<u>98,747,226</u>	<u>88,106,715</u>
Net assets, end of year	<u>\$ 100,009,690</u>	<u>\$ 98,747,226</u>

See accompanying notes to financial statements.

Statement of Cash Flows Year Ended June 30, 2004 with Comparative Totals for 2003

	2004	2003
Cash flows from operating activities:		
Room and board	\$ 79,834,298	77,364,464
Merchandise and food sales	28,888,402	33,825,849
Student service fees	54,189,968	50,400,098
Public events and recreation fees	8,235,405	8,229,310
Parking charges	16,985,446	17,623,620
Rental and lease income	7,199,529	5,994,803
Vending income	1,128,857	1,360,750
Other sources	12,692,424	8,887,381
Payments to employees and benefits	(59,674,878)	(56,890,354)
Payments to suppliers	(110,196,536)	(104,216,809)
Net cash provided by operating activities	39,282,915	42,579,112
Cash flows from noncapital financing activities:		
Other, net	(244,039)	676,227
Cash flows from capital and related financing activities:		
Proceeds from issuance of bonds	0	75,276,321
Payments of bond issuance costs	0	(789,735)
Purchase of capital assets	(54,224,559)	(57,791,010)
Principal paid on bonds	(20,093,383)	(14,141,345)
Repayment of notes payable to the University	(1,743,351)	(1,538,725)
Interest paid on bonds and notes payable	(21,903,766)	(19,386,151)
Net cash used by capital and related financing activities	(97,965,059)	(18,370,645)
Cash flows from investing activities:		
Interest and dividends on investments, net	6,177,300	8,638,797
Proceeds from sales and maturities of investments	264,891,594	211,856,918
Purchase of investments	(203,058,688)	(237,911,822)
Net cash provided (used) by investing activities	68,010,206	(17,416,107)
Net increase in cash and cash equivalents	9,084,023	7,468,587
Cash and cash equivalents, beginning of year	65,377,204	57,908,617
Cash and cash equivalents, end of year	\$ 74,461,227	\$ 65,377,204

Statement of Cash Flows Year Ended June 30, 2004 with Comparative Totals for 2003 (cont)

	2004	2003
Reconciliation of operating income to net cash provided by operating activities:		
Operating (loss) income	\$ (12,742,320)	\$ 16,156,890
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	11,622,717	13,715,135
On-behalf payment of fringe benefits	42,193,816	12,011,245
Accounts receivable (net)	40,309	1,917,820
Inventories	373,557	116,806
Prepaid expenses and deferred charges	(330,399)	(156,573)
Accounts payable	(1,104,540)	(1,328,430)
Accrued liabilities	(1,399,778)	80,436
Deferred revenue	629,553	65,783
Net cash provided by operating activities	\$ 39,282,915	\$ 42,579,112
Noncash investing, capital, and financing activities:		
On-behalf payment of fringe benefits	\$ 42,193,816	\$ 12,011,245
Capital asset acquisition via notes payable to the University	\$ 748,117	\$ 1,213,022
Capital assets in accounts payable	\$ 18,644,145	\$ 16,172,015
Capital appreciation on bonds payable	\$ 9,799,851	\$ 9,409,621
Net interest capitalized	\$ 1,961,278	\$ 1,505,706
Other capital asset adjustments	\$ 520,448	\$ 2,703,383
Loss on disposal of capital assets	\$ 621,049	

See accompanying notes to financial statements.

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organizational Background and Basis of Presentation

The University of Illinois Auxiliary Facilities System (System) is comprised of all University of Illinois (University) owned housing units, student unions and similar auxiliary service units, including parking, at the three campuses; recreation and athletic facilities, including the Assembly Hall, Intramural Physical Education facility, Ice Rink Arena, and Memorial Stadium at the Urbana-Champaign campus; the Pavilion and Flames Athletic Center at the Chicago campus; and the Gymnasium at the Springfield campus.

These financial statements have been prepared to satisfy the requirements of the System's Revenue Bonds master indenture. The financial balances and activities of the System, included in these financial statements, are included in the University's financial statements. The financial statements of the System are prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The System is not a separate legal entity and therefore has not presented management's discussion and analysis.

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

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

The System'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 System 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 System 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 System's fiscal year activity as operating and nonoperating. Operating revenues generally result from exchange transactions such as payments received for providing goods and services. The majority of the System's expenses are exchange transactions which GASB defines as operating expenses for financial statement presentation.

Certain revenue sources that the System relies on for operations including state appropriations 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 expenses.

Housing charges billed or received in advance are deferred and recognized as revenue during the period of occupancy. Student service fees for the summer academic term are deferred and recognized as revenue over the summer semester. In accordance with GASB No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, the System reported payments made by the State on behalf of the System for contributions to State group insurance and retirement programs for System employees of \$42,193,816 for the year ended June 30, 2004. During fiscal year 2004, SURS received supplemental funding from the State of Illinois. The System's calculated share of that funding is \$26,887,858. On behalf payments are classified as nonoperating revenues and the corresponding expenses are reported in payments on behalf of the System as operating expenses.

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

Inventories are stated at the lower of cost or market with cost determined as follows:

Books and other merchandise for resale - principally the retail inventory method

Food - average cost method

Other inventories - principally the first-in, first-out method.

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.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the System follows all applicable GASB pronouncements. In addition, the System follows 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 System has elected not to apply FASB pronouncements issued after November 30, 1989.

NOTE 2 - CASH AND CASH EQUIVALENTS

The System has cash and certain investments which are pooled with other University funds for the purpose of securing a greater return on investment and providing an equitable distribution of investment return. Pooled investments, which consist principally of U. S. Government and government agency securities and time deposits, are stated at fair value, as determined by quoted market price. Income is distributed based upon average quarterly balances invested in the pool. It is not feasible to separately categorize the System's claim on cash and pooled investments by level of custodial credit risk assumed.

NOTE 3 - INVESTMENTS

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. These investments are stated at fair value, as determined by quoted market price. Investment income and the change in fair value of investments is recognized in the entity which owned such investments. Illinois Statutes require a third party custodian to perfect the University's security interest under repurchase agreements. The University follows industry standards and requires that securities underlying repurchase agreements must have a fair value of at least 102% of the cost of the repurchase agreement. At June 30, 2004, the University had repurchase agreements of \$68,618,000. The fair value of securities underlying these repurchase agreements was \$71,041,000 at June 30, 2004.

Nearly all of the University'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 University did not engage in any other significant derivative transactions during 2004.

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

The System's share of University investments is categorized below to give an indication of the level of credit risk assumed at June 30, 2004. Category 1 includes investments that are insured or registered or for which the securities are held by the University or its agent in the University's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the financial institution's trust department or agent in the University's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the financial institution, or by its trust department or agent but not in the University's name. Mutual funds and money market investments are not required to be categorized.

The following details the System's investments at June 30, 2004:

	System Investments			Carrying Amount
	1	2	3	
Certificates of Deposit	\$ 4,345,000	\$ -		\$ 4,345,000
U.S. Government Securities	67,713,581	-		67,713,581
Repurchase Agreements		34,918,214		34,918,214
Commercial Paper	4,978,798			4,978,798
	<u>\$ 77,037,379</u>	<u>\$ 34,918,214</u>	<u>\$</u>	<u>111,955,593</u>
Mutual Funds - Money Market				5,264,444
Consolidated Group Investment Pool				<u>3,777,671</u>

NOTE 4 - CAPITAL ASSETS

Capital assets are carried at the System's cost or fair value at the date of a gift. System interest is charged to expense as incurred except for interest related to borrowings used for construction projects which is capitalized net of interest earned on construction funds borrowed. Net interest capitalized during fiscal year 2004 amounted to a net increase in construction costs of \$1,961,278. 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 buildings are located on land primarily owned by the University for which there is no charge to the System other than for maintenance.

Capital asset activity for the year ended June 30, 2004 is summarized as follows:

Capital Assets for the System

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Nondepreciable Capital Assets:					
Land	\$ 15,254,677	\$ -	\$ -	\$ -	\$ 15,254,677
Construction in progress	71,273,711	56,991,034		(44,415,412)	83,849,333
Total nondepreciable capital assets	86,528,388	56,991,034	-	(44,415,412)	99,104,010
Depreciable Capital Assets:					
Buildings	480,914,060	2,356,800		44,415,412	527,686,272
Improvements	33,307,784	225,056	515,767		33,017,073
Equipment	10,275,368	353,642	574,091		10,054,919
Subtotal	524,497,212	2,935,498	1,089,858	44,415,412	570,758,264
Less accumulated depreciation	181,688,132	11,622,717	474,876		192,835,973
Total net depreciable capital assets	342,809,080	(8,687,219)	614,982	44,415,412	377,922,291
Total Capital Assets	\$ 429,337,468	\$ 48,303,815	\$ 614,982	\$ -	\$ 477,026,301

NOTE 5 - BONDS PAYABLE

On July 26, 2001, the University issued Auxiliary Facilities System Revenue Bonds Series 2001B and 2001C in the amount of \$135,630,000 and \$18,925,000, respectively. Series 2001B and 2001C Bonds were issued to fund various additions and improvements to the System, to pay debt service during construction, and to pay all costs incidental to the issuance of the bonds.

On June 5, 2003, the University issued Auxiliary Facilities System Revenue Bonds Series 2003A in the amount of \$65,870,000 to fund various additions and improvements to the System, to pay debt service during construction, and to pay all costs incidental to the issuance of the bonds. Bonds payable activity for the year ended June 30, 2004 was as follows:

Bonds Payable

Series	Yield on Outstanding Debt	Maturity Dates	Beginning Balance	New Debt/ Accretion	Principal Paid/Debt Refunded	Ending Balance	Current Portion
1979	3%	2004-2018	\$ 1,020,000		\$ 60,000	\$ 960,000	\$ 60,000
1991	5.95% - 7.35%	2004-2021	102,118,987	7,487,288	3,915,000	105,691,275	3,709,153
1993	3.5% - 5.875%	2004-2021	1,790,000		610,000	1,180,000	645,000
1993	5.7% - 5.95%	2007-2009	25,968,631	1,534,160		27,502,791	
1996	4.0% - 5.60%	2004-2022	51,490,000		1,710,000	49,780,000	1,805,000
1999A	4.5% - 6.125%	2004-2018	23,955,000		1,905,000	22,050,000	1,500,000
1999A	6.05% - 6.33%	2004-2030	12,268,151	778,403		13,046,554	-
1999B	7.41% - 7.56%	2005-2015	6,000,000			6,000,000	100,000
2000	5.5% - 5.75%	2005-2031	11,485,000		30,000	11,455,000	50,000
2001A	4.0% - 5.50%	2006-2030	106,030,000			106,030,000	-
2001B	4.0% - 5.55%	2004-2032	129,465,000		10,880,000	118,585,000	11,430,000
2001C	5.08% - 7.00%	2004-2021	18,925,000		845,000	18,080,000	945,000
2003A	2.00% - 5.50%	2004-2034	65,870,000		115,000	65,755,000	605,000
Total Payable			\$ 556,385,769	\$ 9,799,851	\$ 20,070,000	546,115,620	20,849,153
Unamortized Debt Premium						10,432,996	336,402
Unamortized Deferred Loss on Refunding						(9,979,489)	(674,625)

The \$105,691,275, \$27,502,791, and \$13,046,554 of Series 1991, Series 1993, and Series 1999A Bonds, respectively, outstanding at June 30, 2004, are capital appreciation bonds which do not require current interest payments. The System records the annual increase in the principal amount of these bonds as interest expense on bonds payable.

Costs associated with the issuance of the Series 1991, Series 1993, Series 1996, Series 1999A, Series 1999B, Series 2000, Series 2001A, Series 2001B, Series 2001C and Series 2003A Bonds have been recorded as a prepaid expense and are being amortized over the life of the related bond issue.

Certain bonds of the System (Series 1991, Series 1993, and Series 1996 Bonds) have debt service reserve requirements. The Maximum Annual Net Debt Service for those bonds, as defined, is \$18,868,664.

None of the System's bonds constitute obligations of the State of Illinois, but are payable solely by the Board from net revenues of the System, student tuition and fees, and Retirement of Indebtedness funds.

The resolutions authorizing the University of Illinois Auxiliary Facilities System Revenue Bonds provide for the establishment of separate funds as follows: Current Unrestricted Fund, Unexpended Fund, Repair and Replacement Reserve, Equipment Reserve, Bond and Interest Sinking Fund, Debt Service Reserve, and Development Reserve. All System revenues, including student tuition and fees as provided for by the Bond Resolutions, are to be deposited in the Current Unrestricted Fund and used to pay necessary operation and maintenance expenses of the System. The Bond Resolutions also require transfers to funds as follows:

Unexpended Fund - amounts, as determined by the Board, not needed to complete construction and renovation projects specified in the Bond Resolutions are required to be transferred from the Unexpended Fund to the Bond and Interest Sinking Fund.

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

Equipment Reserve - an amount approved by the Board for the acquisition of movable equipment to be installed in the facilities constituting the System. The reserve may not exceed twenty percent of the book value of the movable equipment of the System. Additions of \$42,765 were made to the Equipment Reserve during the year ended June 30, 2004. No expenditures were made during the year ended June 30, 2004. The fund balance of the Equipment Reserve was \$2,786,975 at June 30, 2004.

Bond and Interest Sinking Fund and Debt Service Reserve - amounts into the Bond and Interest Sinking Fund sufficient to pay principal and interest as it becomes due on the outstanding bonds and amounts to fund a Debt Service Reserve at least equal to the Maximum Annual Net Debt Service, as defined. If at any time the Debt Service Reserve is less than the Maximum Annual Net Debt Service, the System is required to restore the Debt Service Reserve to the Maximum Annual Net Debt Service by the end of the next fiscal year. At June 30, 2004 the Debt Service Reserve was funded in excess of the Maximum Annual Net Debt Service.

Development Reserve - an amount approved by The Board of Trustees of the University of Illinois (Board) for System development. No transfers were authorized by the Board during the year ended June 30, 2004, and there were no balances in the reserve at June 30, 2004.

The System made all required transfers for the year ended June 30, 2004.

After fulfillment of the provisions described above, the surplus, if any, remaining in the Current Unrestricted Fund may be used (a) to redeem bonds of the System which are subject to early redemption, (b) to purchase any outstanding bonds for cancellation, or (c) to advance refund any bonds outstanding.

Advance Refunded Bonds

On August 30, 2001, the University issued Auxiliary Facilities System Revenue Bonds Series 2001A in the amount of \$106,030,000 to advance refund portions of various outstanding Auxiliary Facilities System bond issues. The refunding resulted in a reduction in debt service of approximately \$7,900,000 and an economic gain of approximately \$8,169,000.

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

Advance Refunded Bonds	
Series	Outstanding at June 30, 2004
1964	\$ 170,000
1978-M	43,865,000
1978-N	7,395,000
1999A	73,460,000

Debt Service Requirements and Security

Future debt service requirements for the Series 1979, 1991, 1993, 1996, 1999A, 1999B, 2000, 2001A, 2001B, 2001C and 2003A Bonds are as follows:

Debt Service Requirements		
	Principal	Interest
2005	\$ 20,849,153	\$ 21,180,832
2006	21,811,322	20,555,291
2007	21,829,841	21,412,722
2008	21,276,776	21,753,512
2009	21,234,671	22,007,394
2010-2014	99,086,680	118,323,897
2015-2019	102,238,632	119,057,006
2020-2024	104,519,782	79,740,194
2025-2029	83,980,163	33,812,497
2030-2034	49,288,600	9,952,619

NOTE 6 - RELATED PARTY TRANSACTIONS

The University charged the System administrative and other service charges totaling \$8,937,720 in 2004, based upon the gross expenditures and debt service transfers of various operations of the System. These charges represent a portion of estimated administrative and other service costs incurred by the University in support of the System.

The System includes certain athletic facilities and office space utilized by the Division of Intercollegiate Athletics. Student fees provide the primary funding for the operation of these athletic facilities and office space. The Division of Intercollegiate Athletics transferred funds to the System of \$3,066,394 in 2004, to fund the operations not covered by student fees.

At June 30, 2004, the System had borrowings of \$4,267,798 under multiple internal financing notes with the University for construction of System facilities. The notes have varying repayment terms and interest rates.

Paid/Debt

3

Future Debt Service requirements for the outstanding loans as of June 30, 2004 is as follows:

	Notes Payable to the University	
	Debt Service Requirements	
	Principal	Interest
2005	\$ 1,602,093	\$ 175,322
2006	753,834	129,140
2007	439,835	93,141
2008	400,356	70,944
2009	1,071,680	100,969

NOTE 7 - RETIREMENT AND POSTEMPLOYMENT BENEFITS

Substantially all employees of the System participate in the State Universities Retirement System of Illinois (SURS), a cost-sharing multiple-employer defined-benefit pension plan. The University contributes to the plan with a special funding situation whereby the State of Illinois makes substantially all actuarially determined required contributions on behalf of the participating employers. The University contributions include payments for System employees covered under the plan.

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 University employees ineligible to participate, the majority are students at the University.

Plan members are required to contribute 8.0% of their annual covered salary and substantially all employer contributions are made by the State of Illinois on behalf of the individual employers at an actuarially determined rate. The current rate is 9.65% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the Illinois General Assembly. The University's contributions to SURS for the years ended June 30, 2004, 2003, and 2002 were \$755,398,000, \$139,955,000, and \$123,613,000, respectively, equal to the required contributions for each year. The 2004 contribution includes an annual calculated contribution of \$158,153,000 and additional funding from the State of Illinois of \$597,245,000.

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 System. Substantially all State employees, including the employees of the System, 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 by the State on a pay-as-you-go basis. These costs are funded by the State and are not an obligation of the System or the University.

NOTE 8 - CONSTRUCTION AND COMMITMENTS

At June 30, 2004, the System had commitments on various construction projects and contracts for repairs and renovation of auxiliary facilities of \$40,112,000. These projects will be funded from the proceeds of the Series 1999B, 2001B, 2001C, and 2003A Bonds Unexpended Fund and the Repair and Replacement Reserve.

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

Supplemental Information
University Enrollment Data as of October 2003 (unaudited)

	Undergraduate			Graduate & Professional			Total Enrollment
	Chicago ⁽¹⁾	Springfield	Urbana - Champaign	Chicago ⁽²⁾	Springfield	Urbana - Champaign	
Headcount							
Fall -							
1999	16,160	1,954	27,855	9,465	1,874	8,835	66,143
2000	16,131	1,785	27,882	9,391	1,711	9,054	65,954
2001	15,887	1,889	28,110	9,625	1,702	9,569	66,782
2002	16,543	1,999	28,243	10,129	1,658	10,010	68,582
2003	16,012	2,052	28,589	10,198	1,588	10,275	68,714
Full-time Equivalent⁽³⁾							
Fall -							
1999	14,575	1,315	27,740	9,694	901	10,162	64,387
2000	14,564	1,183	27,968	9,838	784	10,456	64,793
2001	14,499	1,296	28,244	10,030	833	11,142	66,044
2002	14,990	1,416	28,343	10,533	836	11,755	67,873
2003	14,602	1,481	28,795	10,583	788	12,034	68,283

(1) Regional Nursing enrollments are included.

(2) Residents completing internships in Medicine, Dentistry, and Pharmacy are included in these figures.

(3) Based on Illinois Board of Higher Education definition of full-time equivalency. Undergraduate student full-time equivalent is computed as the total number of fall term semester and quarter credit hours divided by 15. Graduate and professional student full-time equivalent is computed as the total number of fall semester and quarter credit hours divided by 12.

Occupancy Report for Fiscal Year 2004 (unaudited)

	Normal Capacity	Average Occupancy	Percent of Occupancy
Urbana-Champaign Campus:			
Residence Halls -			
Busey-Evans Halls	398	382	95.98%
Lincoln-Allen Residence Halls	1,158	1,120	96.72%
Fourth Street Halls	275	256	93.09%
Taft and Van Doren Halls	406	388	95.57%
Gregory Drive Residence Halls	1,400	1,380	98.57%
Daniels Hall Units #1 and #2	279	267	95.70%
Peabody Drive Residence Halls	1,405	1,364	97.08%
Pennsylvania Avenue Residence Halls	1,043	987	94.63%
Illinois Street Residence Halls	1,200	1,203	100.25%
Sherman Hall	459	435	94.77%
Florida Avenue Residence Halls	1,262	1,181	93.58%
Total Residence Halls	9,285	8,963	96.53%
Student-Staff Apartments -			
Goodwin-Green Street Apartments	201	183	91.04%
Orchard Downs Apartments	778	685	88.05%
Total Apartments	979	868	88.66%
Chicago Campus:			
Residence Halls -			
Student Residence Hall	285	280	98.25%
Polk Street Residence	125	115	92.00%
Single Student Residence	575	550	95.65%
Student Residence and Commons	1,330	1,320	99.25%
Thomas Beckham Hall	447	420	93.96%
Marie Robinson Hall	347	325	93.66%
Total Residence Halls	3,109	3,010	96.82%
Springfield Campus:			
Apartments -			
Single Units	380	340	89.47%
Family Units	41	40	97.56%
Total Apartments	421	380	90.26%
Residence Hall -			
Lincoln	214	188	87.85%
Total Residence Halls	214	188	87.85%

Schedule of Insurance in Force as of July 1, 2004 (unaudited)

	Insurance Valuation			Total
	Buildings	Contents	Business Interruption	
Urbana Campus				
Allen Hall	\$ 19,305,537	\$ 1,247,600	\$ ----(1)----	\$ 20,553,137
Admissions and Records Building	3,494,794			3,494,794
Bielfeldt Athletic Administration Building	5,828,632	1,663,444		7,492,076
Busey-Evans Residence Halls	19,608,655	1,396,200	1,801,900	22,806,755
Central Food Stores	8,629,098	3,112,700	2,303,000	14,044,798
Florida Avenue Residence Hall	39,773,149	4,292,400	6,243,700	50,309,249
Fourth Street Residence Halls	14,081,851	914,500	587,900	15,584,251
Goodwin-Green Street Apartments	21,479,046	605,700	952,000	23,036,746
Graduate Student Residence	27,085,430	949,600	939,000	28,974,030
Gregory Drive Residence Halls	43,184,031	4,586,300	7,214,200	54,984,531
Illinois Street Residence Hall	35,689,145	3,994,300	5,772,000	45,455,445
Irwin Academic Services Center	1,989,000	100,000		2,089,000
Lincoln Avenue Residence Hall	31,644,982	2,877,200	3,670,100	38,192,282
Orchard Apartments - Phase IV	10,466,162	279,000	----(2)----	10,745,162
Orchard Downs Apartments	30,477,912	2,768,400	52,000	33,298,312
Orchard Place Apartments	7,190,108	614,300	3,863,600	11,668,008
Peabody Drive Residence Halls	40,242,516	4,601,100	7,050,100	51,893,716
Pennsylvania Avenue Residence Halls	32,123,087	3,745,000	3,458,200	39,326,287
Post Office and Snack Bar	3,056,749	1,197,800	408,600	4,663,149
Stuart Pratt Sherman Hall	19,207,452	852,900	1,125,900	21,186,252
Taft and Van Doren Residence Halls	8,994,824	824,300	921,600	10,740,724
Student Services Arcade Building	7,575,725			7,575,725
Assembly Hall	46,283,864	2,200,000	5,000,000	53,483,864
Atkins Tennis Facility	4,633,675	130,000	400,000	5,163,675
Baseball Stadium	3,067,000	115,000		3,182,000
Campus Bookstore	14,926,538	5,500,000	4,000,000	24,426,538
Ice Rink Arena	10,147,848	450,000	2,000,000	12,597,848
Illini Union Building	65,882,993	7,700,000	6,000,000	79,582,993
Illini Union Warehouse	1,179,120	89,000	125,000	1,393,120
Intramural Physical Education Building	39,799,961	1,000,000	3,000,000	43,799,961
McKinley Hospital and Health Center Addition	20,599,387	2,000,000	5,000,000	27,599,387
Memorial Stadium	74,337,760	2,200,000	5,000,000	81,537,760
Satellite Recreation Facility	2,413,085	250,000	1,000,000	3,663,085
Student Services Building	8,231,925	547,400	284,800	9,064,125
Krannert Center Parking	6,729,955		500,000	7,229,955
Parking Structure, Lot C10	4,634,854		1,000,000	5,634,854
Parking Structure, Lot C7	4,824,032		1,000,000	5,824,032
Parking Structure, Lot F29	13,810,800			13,810,800
Total Urbana Campus	\$ 752,630,682	\$ 62,804,144	\$ 80,673,600	\$ 896,108,426

	Insurance Valuation			Total
	Buildings	Contents	Business Interruption	
Chicago Campus				
Residence Hall for Men	\$ 19,711,020	\$ 1,528,752	\$ 802,221	\$ 22,041,993
Women's Residence Hall	10,525,736	369,824	526,046	11,421,606
Single Student Residence Hall - Health Sciences Center	25,503,189	1,708,275	2,498,720	29,710,184
Student Residence & Commons	36,112,672	4,118,386	2,484,107	42,715,165
Chilled Water Facility	739,506	3,600,000	1,000,000	5,339,506
Flames Athletic Center	11,958,795	8,095	3,000,000	14,966,890
Satellite Union	797,549	241,795	315,627	1,354,971
Student Services Building	23,597,035	2,854,556	869,708	27,321,299
Union Building - Health Sciences Center	21,482,624	5,696,809	3,576,419	30,755,852
University Center	70,452,205	17,843,253	6,707,649	95,003,107
University Center Pavilion	22,828,805	1,099,116	2,191,860	26,119,781
Parking Structure - Health Sciences Center	13,086,674	70,842	570,891	13,728,407
Parking Structure - University Center	9,892,456	55,162	378,033	10,325,651
Parking Structure #2 - University Center	11,603,827	92,934	504,045	12,200,806
Parking Structure - Wood & Taylor	26,520,863	59,795	304,827	26,885,485
Total Chicago Campus	304,812,956	39,347,594	25,730,153	369,890,703
Springfield Campus				
Homer L. Butler Housing Commons	614,252	44,466		658,718
Student Apartments	13,425,319	897,120	1,144,692	15,467,131
Student Life Building	2,618,895	178,311	500,000	3,297,206
Pennyroyal Crt. Townhouse Apts.	2,871,255	164,700	285,117	3,321,072
Marigold Crt. Townhouse Apts.	5,344,324	350,000	288,576	5,982,900
Vachel Lindsay Dr. Townhouse Apts.	4,580,850	350,000	276,552	5,207,402
Lincoln Residence Hall	10,184,700	460,400	974,835	11,619,935
Total Springfield Campus	39,639,595	2,444,997	3,469,772	45,554,364

(1) Included with Lincoln Avenue Residence Hall.

(2) Included with Orchard Place Apartments.

(3) The buildings are valued at replacement costs, which are predicated on the Engineering News Record (ENR) building replacement cost index and insurer recommendations. This value approximates the replacement value at June 30, 2004. The contents are also valued at replacement value.

(4) An insurance policy was issued by Lexington Insurance for the policy period July 1, 2004 through June 30, 2005.

Rental Rates for Residence Halls and Student-Staff Apartments (unaudited)

	<u>2003-04</u> <u>Rates</u>
Residence Halls (room and board for the academic year)	
Singles	\$ 7,092
Doubles	6,172
Triples	5,816
Quadruples	5,562
Rates are \$100 more for comparable space in air conditioned halls	
Residence halls (room only for academic year)	
Singles	
Daniels Hall	4,532
Sherman Hall	3,560
Doubles	
Daniels Hall	4,120
Sherman Hall	3,400
Apartments (monthly rates, heat included)	
Student Rate	
Sleeping	439
Zero Bedroom	516
One Bedroom	614
Staff Rate	
Sleeping	467
Zero Bedroom	549
One Bedroom	653
Orchard Place, Orchard Downs and Orchard Downs Addition Apartments (monthly rates - per unit)	
One Bedroom (Furnished)	510
Two Bedroom (Furnished)	572
Two Bedroom (Unfurnished)	455

Rental Rates for Residence Halls and Student-Staff Apartments - continued (unaudited)

	<u>2003-04</u> <u>Rates</u>
Chicago Campus - Health Sciences Center	
Residence Halls	
(room only for the academic year)	
Singles	
Student Residence Hall	\$ 4,894
Student Residence Hall and Commons	<u>5,050</u>
Doubles	
Student Residence Hall	<u>4,318</u>
Polk Street Residence Hall	<u>4,634</u>
Student Residence Hall and Commons	<u>4,544</u>
Apartments - (SSR)	
(monthly rates - per unit)	
Two Person Apartment	<u>1,269</u>
Three Person Apartment	<u>1,849</u>
Four Person Apartment	<u>2,478</u>
Two Person Suite	<u>1,072</u>
Three Person Suite	<u>1,608</u>
Apartments - (South Campus)	
(monthly rates - per unit)	
One Person Apartment	796
Two Person Apartment	<u>1,347</u>
Four Person Apartment	<u>2,646</u>

	<u>2003-04</u> <u>Rates</u>
Springfield Campus	
Apartments - Family	
(unit only for the academic year)	
One Bedroom (Furnished)	<u>4,194</u>
Two Bedroom (Furnished)	<u>5,328</u>
One Bedroom (Unfurnished)	<u>3,924</u>
Two Bedroom (Unfurnished)	<u>4,968</u>
Apartments - Other	
(per person for the academic year)	
One Bedroom - Two Person	<u>2,097</u>
Two Bedroom - Four Person	<u>1,521</u>
Four Bedroom - Four Person	<u>2,754</u>
Four Bedroom - Four Person - Townhouse	<u>3,006</u>
Residence Hall	
Lincoln	<u>4,302</u>