University of Illinois

# Annual Financial Report
# Willard Airport Facility

## Year Ended June 30, 2005
## with Comparative Totals for 2004

# TABLE OF CONTENTS

# THE BOARD OF TRUSTEES

# 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

September 28, 2005

Holders of University of Illinois
Willard Airport Project Revenue Refunding Bonds
and
The Board of Trustees
University of Illinois

I am pleased to transmit the Annual Financial Report of the University of Illinois Willard Airport Facility for the fiscal year ended June 30, 2005. This report supplements the financial statements of the University of Illinois presented in the Annual Financial Report.

The 2005 financial statements and accompanying notes appearing on pages 6 through 15 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, 2005, containing special data requested by the Auditor General and other reports covering their audits of the compliance of the University with applicable state and federal laws and regulations for the year ended June 30, 2005. These reports, which include some data related to the Willard Airport Facility, 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

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 statement of net assets of the University of Illinois Willard Airport Facility (Facility), as of June 30, 2005, 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 Facility'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 Facility's 2004 financial statements and, in our report dated October 15, 2004 we expressed an unqualified opinion on those financial statments.

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 Facility's Series 1997 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 Facility as of June 30, 2005, and the 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 Facility 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 University of Illinois Willard Airport Project Revenue Refunding Bonds, Series 1997 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 September 28, 2005, on our consideration of the Facility's internal control over financial reporting and our tests of the Facility's 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.

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 on 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, 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 Gunderson LLP

Peoria, Illinois
September 28, 2005

## Statement of Net Assets as of June 30, 2005 with Comparative Totals for 2004

| | 2005 | 2004 |
|---|---|---|
| **Assets:** | | |
| Current assets | | |
| Cash and cash equivalents | $ 833,073 | $ 972,063 |
| Cash and cash equivalents, restricted | 174,435 | 174,435 |
| Investments | 743,370 | 743,100 |
| Investments, restricted | 60,140 | 41,717 |
| Accrued investment income | 3,631 | 2,327 |
| Accounts receivable | 33,804 | 50,170 |
| Prepaid expenses | 4,522 | 4,522 |
| Total current assets | 1,852,975 | 1,988,334 |
| Noncurrent assets | | |
| Investments, restricted | 270,000 | 270,000 |
| Capital assets, net of accumulated depreciation | 32,056,303 | 31,204,568 |
| Prepaid expenses | 13,566 | 18,087 |
| Total noncurrent assets | 32,339,869 | 31,492,655 |
| **Total assets** | $ 34,192,844 | $ 33,480,989 |
| **Liabilities:** | | |
| Current liabilities | | |
| Accounts payable | $ 21,016 | $ 12,791 |
| Accrued liabilities | 130,013 | 124,393 |
| Accrued interest | 12,069 | 14,703 |
| Deferred revenue | 746,963 | 746,963 |
| Long term liabilities - current portion | 224,413 | 219,969 |
| Total current liabilities | 1,134,474 | 1,118,819 |
| Noncurrent liabilities | | |
| Bonds payable | 743,239 | 967,652 |
| Total noncurrent liabilities | 743,239 | 967,652 |
| **Total liabilities** | 1,877,713 | 2,086,471 |
| **Net assets:** | | |
| Invested in capital assets, net of related debt | 31,106,739 | 30,039,557 |
| Restricted - | | |
| Expendable for capital projects | 234,575 | 216,152 |
| Expendable for debt service | 270,644 | 270,201 |
| Unrestricted | 703,173 | 868,608 |
| **Total net assets** | 32,315,131 | 31,394,518 |
| **Total liabilities and net assets** | $ 34,192,844 | $ 33,480,989 |

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

| | 2005 | 2004 |
|---|---|---|
| **Operating revenues:** | | |
| Rental and lease income | $ 1,306,306 | $ 1,339,942 |
| Parking operations | 612,691 | 469,731 |
| Farm sales | 150,000 | 150,000 |
| Other operating revenue | 118,811 | 181,994 |
| **Total operating revenues** | 2,187,808 | 2,141,667 |
| **Operating expenses:** | | |
| Salaries and wages | 1,495,803 | 1,495,715 |
| Professional and other contractual services | 157,403 | 71,275 |
| Utilities | 257,796 | 242,467 |
| Supplies | 228,646 | 181,041 |
| Other operating expense | 345,514 | 555,866 |
| Depreciation | 1,648,495 | 1,566,429 |
| Payments on behalf of the Facility | 135,495 | 305,361 |
| **Total operating expenses** | 4,269,152 | 4,418,154 |
| **Operating loss** | (2,081,344) | (2,276,487) |
| **Nonoperating revenues (expenses):** | | |
| State appropriations | 448,255 | 438,707 |
| Payments on behalf of the Facility | 135,495 | 305,361 |
| Investment income (net of related expenses) | 33,115 | 26,656 |
| Interest on capital asset-related debt | (56,432) | (66,887) |
| Net increase in the fair value of investments | 4,524 | 29,855 |
| Other nonoperating expenses | (8,243) | (5,109) |
| **Net nonoperating revenues** | 556,714 | 728,583 |
| Capital federal grants | 2,445,243 | 1,284,954 |
| **Increase (decrease) in net assets** | 920,613 | (262,950) |
| **Net assets, beginning of year** | 31,394,518 | 31,657,468 |
| **Net assets, end of year** | $ 32,315,131 | $ 31,394,518 |

See accompanying notes to financial statements.

## Statement of Cash Flows
## Year Ended June 30, 2005 with Comparative Totals for 2004

| | 2005 | 2004 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| System revenues | $ 2,204,174 | $ 2,171,919 |
| Payments to suppliers | (981,135) | (1,619,836) |
| Payments to employees and benefits | (1,490,183) | (1,520,374) |
| **Net cash used by operating activities** | (267,144) | (968,291) |
| **Cash flows from noncapital financing activities:** | | |
| State appropriations | 448,255 | 438,707 |
| **Net cash provided by noncapital financing activities** | 448,255 | 438,707 |
| **Cash flows from capital and related financing activities:** | | |
| Purchases of capital assets | (2,505,930) | (1,330,093) |
| Capital federal grants | 2,445,243 | 1,284,954 |
| Principal paid on capital debt and leases | (217,990) | (214,040) |
| Interest paid on capital debt and leases | (59,067) | (69,347) |
| **Net cash used by capital and related financing activities** | (337,744) | (328,526) |
| **Cash flows from investing activities:** | | |
| Interest on investments | 31,812 | 32,211 |
| Purchase of investments | (14,169) | (6,133) |
| **Net cash provided by investing activities** | 17,643 | 26,078 |
| **Net decrease in cash and cash equivalents** | (138,990) | (832,032) |
| **Cash and cash equivalents, beginning of year** | 1,146,498 | 1,978,530 |
| **Cash and cash equivalents, end of year** | $ 1,007,508 | $ 1,146,498 |

| | 2005 | 2004 |
|---|---|---|
| **Reconciliation of net operating loss to net cash used by operating activities:** | | |
| Operating loss | $ (2,081,344) | $ (2,276,487) |
| **Adjustments to reconcile operating loss to net cash used by operating activities:** | | |
| Depreciation | 1,648,495 | 1,566,429 |
| On-behalf payment of fringe benefits | 135,495 | 305,361 |
| Changes in assets and liabilities: | | |
| Accounts receivable | 16,366 | 30,252 |
| Accounts payable and accrued liabilities | 13,844 | (593,846) |
| **Net cash used by operating activities** | $ (267,144) | $ (968,291) |
| **Noncash capital and financing activities:** | | |
| State Appropriations for on-behalf payment of fringe benefits | $ 135,495 | $ 305,361 |
| Cancellation of capital lease | 2,566 | - |
| Loss on disposal of capital assets | 5,700 | - |

See accompanying notes to financial statements.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Organizational Background and Basis of Presentation

On May 8, 1943, the Illinois General Assembly authorized The Board of Trustees of the University of Illinois (Board) to purchase land for use as the site of an airport. During early 1944, under the Defense Landing Area Program of the federal government, the Board approved an agreement whereby federal funds would be appropriated for the construction of an airfield for potential defense use on land provided by a local government and after completion, the Board would subsequently own and operate the airport.

The initial construction of the University of Illinois Willard Airport Facility (Facility) began in May 1944, on land located in Champaign County approximately five miles south of the main campus of the University of Illinois (University). Dedication of the Facility occurred October 26, 1945 and commercial air service was initiated in the early 1950's.

The Facility is comprised of land, hangars, T-hangars, a terminal building, parking lots, runways, taxiways and related apron areas.

During April 1987, the Board and the County of Champaign, Illinois (County) entered into an intergovernmental agreement (Agreement) regarding the financing of a public airport expansion within the County. The Agreement specifically detailed the application of the revenues and resources of the Board and the County to fund the costs of the project and to service any debt requirements.

These financial statements have been prepared to satisfy the requirements of the Series 1997 bond indenture. The financial balances and activities of the Facility, included in these financial statements, are included in the University's financial statements. The financial statements of the Facility 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 Facility is not a separate legal entity and therefore has not presented management's discussion and analysis.

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 financial statements include prior year comparative information, which has been derived from the Facility'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 Facility'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 Facility'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 Facility 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 Facility 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 Facility's fiscal year activity as operating and nonoperating. Operating revenues generally result from exchange transactions such as payments received for providing goods and services.

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

Certain revenue sources that the Facility 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 net nonoperating revenues. The majority of the Facility's expenses are exchange transactions which GASB defines as operating expenses for financial statement presentation.

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 No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance,* the Facility reported payments made by the State on behalf of the Facility for contributions to State group insurance and retirement programs for Facility employees of $135,495 for the year ended June 30, 2005. On behalf payments are classified as nonoperating revenues and the corresponding expenses are reported in payments on behalf of the Facility as operating expenses.

The Facility 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.

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 Facility follows all applicable GASB pronouncements. In addition, the Facility 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 Facility has elected not to apply FASB pronouncements issued after November 30, 1989.

## NOTE 2 - CASH AND CASH EQUIVALENTS

The Facility has cash and certain investments which are pooled with other University funds for the purpose of securing a greater return on investments 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 Facility'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 fund 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, 2005, the Facility had no repurchase agreements.

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 Facility did not engage in any derivative transactions during 2005.

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, 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. The Facility does not participate in security lending transactions.

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 Facility's investments as of June 30, 2005:

| | |
|---|---|
| Mutual Funds - | |
| Money Market | $1,070,483 |
| Consolidated Group | |
| Investment Pool | 3,027 |
| TOTAL INVESTMENTS | $1,073,510 |

*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 Brother 1-3 year Government Credit Bond Index and the Lehman Brothers Intermediate Aggregrate Bond Index. The University's manager guidelines provide that the average weighted duration of the portfolio, including options positions, not vary from that of their respective performance benchmarks by more than +/-20 percent. At June 30, 2005, the University's operating funds pool portfolio had an effective duration of 1.7 years. The Facility's investments detailed above have maturities of less than one year.

*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. The Facility's investments are not exposed to credit risk.

*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 Facility'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 Facility'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. At June 30, 2005, the Facility was not exposed to foreign currency risk.

## NOTE 4 - CAPITAL ASSETS

Capital assets are carried at cost. Subsequent additions are recorded at the Facility's cost or fair value at the date of a gift. University policy requires the Facility to capitalize all land and collection purchases, equipment at $5,000, buildings and improvements at $100,000, and infrastructure at $1,000,000. Depreciation of the capital assets is calculated on a straight-line basis over the estimated useful lives (three to forty years) of the respective assets.

Capital asset activity for the year ended June 30, 2005 is summarized as follows:

Capital Assets for the Facility

| | Beginning Balance | Additions | Retirements | Ending Balance |
|---|---|---|---|---|
| Nondepreciable Capital Assets: | | | | |
| Land | $ 3,073,119 | $ - | $ - | $ 3,073,119 |
| Construction in process | 5,024,389 | 2,445,243 | (5,557,390) | 1,912,242 |
| Total nondepreciable capital assets | 8,097,508 | 2,445,243 | (5,557,390) | 4,985,361 |
| Depreciable Capital Assets: | | | | |
| Buildings | 13,498,140 | - | - | 13,498,140 |
| Improvements | 30,990,133 | 5,557,390 | | 36,547,523 |
| Equipment | 2,404,838 | 60,687 | (57,765) | 2,407,760 |
| Subtotal | 46,893,111 | 5,618,077 | (57,765) | 52,453,423 |
| Less accumulated depreciation | (23,786,051) | (1,648,495) | 52,065 | (25,382,481) |
| Total net depreciable capital assets | 23,107,060 | 3,969,582 | (5,700) | 27,070,942 |
| TOTAL CAPITAL ASSETS | $ 31,204,568 | $ 6,414,825 | $ (5,563,090) | $ 32,056,303 |

## NOTE 5 - BONDS PAYABLE

On July 16, 1997, the University of Illinois Willard Airport Project Revenue Refunding Bonds, Series 1997 (Series 1997 Bonds) were issued in the principal amount of $4,155,000. The Series 1997 Bonds bear interest at rates ranging from 3.95% to 5.00% per annum, payable semi-annually, commencing October 1, 1997. They mature annually, beginning April 1, 1998 through April 1, 2009. At June 30, 2005, the Facility had $970,000 principal outstanding on the Series 1997 Bonds. Costs associated with the issuance of the Series 1997 Bonds have been recorded as prepaid expense and are being amortized over the life of the bond issue. Bonds payable activity for the year ended June 30, 2005 was as follows:

Bonds Payable

| | Maturity Dates | Beginning Balance | Principal Paid | Ending Balance | Current Portion |
|---|---|---|---|---|---|
| Series 1997 Bonds - | 2006-2009 | $ 1,185,000 | $ 215,000 | $ 970,000 | $ 225,000 |
| Unamortized Debt Discount | | | | (2,348) | (587) |
| TOTAL BONDS PAYABLE | | | | $ 967,652 | $ 224,413 |

Proceeds from the sale of the Series 1997 Bonds, were used (a) to fund the full retirement of The Board of Trustees of the University of Illinois Willard Airport Project Revenue Bonds, Series 1987, and (b) to pay certain expenses relating to the issuance of the Series 1997 Bonds.

The resolution authorizing the University of Illinois Willard Airport Project Revenue Bonds provides 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 Facility revenues, including student tuition and fees as provided for by the Bond Resolution, are to be deposited in the Current Unrestricted Fund and used to pay necessary operation and maintenance expenses of the Facility. The Bond Resolution also requires 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 Resolution 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 Resolution to provide for the cost of unusual maintenance and repairs.

**Equipment Reserve** - an amount approved by the Board for the acquisition of movable equipment to be installed in the Facility. The reserve may not exceed 20% of the book value of the movable equipment of the Facility. Additions of $491 were made to the Equipment Reserve during the year ended June 30, 2005. Expenditures of $35,598 were made to replace movable equipment during the year ended June 30, 2005. The fund balance of the Equipment Reserve was $26,845 at June 30, 2005.

**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 Debt Service Reserve Requirement, as defined. The Debt Service Reserve Requirement means the lesser of (a) the amount transferred from the refunded bond's Debt Service Reserve, or (b) Maximum Annual Net Debt Service. Maximum Annual Net Debt Service means the Maximum Annual Net Debt Service payable in any future fiscal year. As of June 30, 2005, the Debt Service Reserve was funded in excess of the Debt Service Reserve Requirement. If at any time the Debt Service Reserve is less than the

Debt Service Reserve Requirement, the Facility is required to restore the Debt Service Reserve to the Debt Service Reserve Requirement by the end of the next fiscal year.

**Development Reserve** - an amount approved by the Board for Facility development. No transfers were authorized by the Board during the year ended June 30, 2005 and there was no balance in the reserve at June 30, 2005.

The Facility made all required transfers for the year ended June 30, 2005.

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 Facility which are subject to early redemption, (b) to purchase any outstanding bonds for cancellation, or (c) to advance refund any bonds outstanding.

### Debt Service Requirements and Security

Future debt service requirements for the Series 1997 Bonds at June 30, 2005 are as follows:

Debt Service Requirements

| | Principal | Interest |
|---|---|---|
| 2006 | $ 225,000 | $ 45,519 |
| 2007 | 235,000 | 34,312 |
| 2008 | 250,000 | 22,375 |
| 2009 | 260,000 | 9,750 |
| Total Debt Service | $ 970,000 | $ 111,956 |
| Unamortized Discount | (2,348) | |
| TOTAL BONDS PAYABLE | $ 967,652 | |

The Maximum Annual Net Debt Service, as defined, for the Series 1997 Bonds is $252,753.

The Series 1997 Bonds do not constitute obligations of the State of Illinois, but are payable solely by the Board from net revenues of the Facility.

## NOTE 6 - RETIREMENT AND POSTEMPLOYMENT BENEFITS

Substantially all employees of the Facility 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 Facility 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 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 $139,955,000, respectively, equal to the required contributions for each year. The 2004 contribution included 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 Facility. Substantially all State employees, including the employees of the Facility, 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 Facility or the University.

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

## Supplemental Information
## Schedule of Insurance in Force as of July 1, 2005 (unaudited)

| | Insurance Valuation | | | |
|---|---|---|---|---|
| Property | Building | Contents | Business Interruption | Total |
| Airport operations garage | $ 793,505 | $ 20,000 | $ 20,000 | $ 833,505 |
| Airport rescue and firefighting | 728,920 | 95,000 | 50,000 | 873,920 |
| Airport residence | 171,826 | | | 171,826 |
| Hangars | 2,154,200 | | 38,400 | 2,192,600 |
| Parking lot booth and related equipment | 55,260 | 25,000 | 75,000 | 155,260 |
| Snow removal equipment building | 1,208,297 | 50,000 | 100,000 | 1,358,297 |
| Terminal building | 13,230,312 | 1,250,000 | 700,000 | 15,180,312 |
| Total (1) | $18,342,320 | $ 1,440,000 | $983,400 | $20,765,720 |
| Total amount of insurance (100%)(2) | | | | $ 20,765,720 |

(1) 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, 2005. The contents are also valued at replacement value.

(2) An insurance policy was issued by Lexington Insurance for the policy period July 1, 2005 through June 30, 2006.

## Rental Rates and Occupancy Report
## Year Ended June 30, 2005 (unaudited)

| Facility | Normal Rental Rates | | Average Capacity | | Occupancy |
|---|---|---|---|---|---|
| Terminal building | $ 29.68 | per sq. ft./ per year | 18,364 | sq. ft. | 80% |
| | (maximum) | | | | |
| Parking - | | | | | |
| Commercial spaces - | | | | | |
| Long term and | $ 5.00 | per day | 550 | spaces | 65% |
| Short term combined | $ 1.50 | per hour | | | |
| University departments | | | | | |
| and special | $ 265.00 | per year | | | |
| Employees | $ 90.00 | per year | 250 | spaces | 100% |
| Control tower | $ 5.09 | per sq. ft./ per year | 4,913 | sq. ft. | 100% |
| T-hangars | $ 105.00 | per month | 25 | planes | 100% |
| | $ 137.00 | per month | 5 | planes | 100% |
| | $ 147.00 | per month | 2 | planes | 100% |
| Fixed base operation - | | | | | |
| Land and building lease - fixed | $48,286 | | | | |
| Commissions | $200,179 | | | | |
| Total | $248,465 | per year | | | |

## University Enrollment Data as of October 2004 (unaudited)

| | Undergraduate | | | Graduate & Professional | | | |
|---|---|---|---|---|---|---|---|
| | Chicago (1) | Springfield | Urbana - Champaign | Chicago (2) | Springfield | Urbana - Champaign | Total Enrollment |
| **Headcount** | | | | | | | |
| Fall - | | | | | | | |
| 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 |
| 2004 | 15,448 | 1,965 | 29,287 | 8,959 | 1,419 | 10,258 | 67,336 |
| **Full-time Equivalent (3)** | | | | | | | |
| Fall - | | | | | | | |
| 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 |
| 2004 | 14,389 | 1,536 | 29,544 | 9,367 | 772 | 11,679 | 67,287 |

(1) Regional Nursing enrollments are included.

(2) Residents completing internships in Medicine, Dentistry, and Pharmacy are included in the counts for Fall 2000-Fall 2003.

(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.