University of Illinois

Annual Financial Report
Auxiliary Facilities System

Year Ended June 30, 2009 with Comparative Totals for 2008

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UNIVERSITY OF ILLINOIS

Urbana-Champaign ● Chicago ● Springfield

Office of Vice President/Chief Financial Officer, Comptroller
349 Henry Administration Building
506 South Wright Street
Urbana, IL 61801

February 26, 2010

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, 2009. This report supplements the financial statements of the University of Illinois presented in the Annual Financial Report.

The 2009 financial statements and accompanying notes appearing on pages 6 through 22 have been audited by KPMG 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.

KPMG LLP will also prepare a report for the year ended June 30, 2009, 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, 2009. 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,

Walter K. Knorr,
Vice President/Chief Financial Officer,
Comptroller

KPMG LLP
303 East Wacker Drive
Chicago, IL 60601-5212

Independent Auditors' Report

The Honorable William G. Holland
Auditor General of the 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), a segment of the University of Illinois, as of June 30, 2009, 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 the 2009 financial statements based on our audit. The 2008 comparative information has been derived from the System's 2008 financial statements and the 2008 financial statements were audited by other auditors whose report thereon dated December 30, 2008 expressed an unqualified opinion on those 2008 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 opinion.

As discussed in note 1, the financial statements of the System are intended to present the financial position, the changes in its financial position, and cash flows of only that portion of the business-type activities of the University of Illinois that are attributable to the transactions of the System for complying with the requirements of the indentures for the System's Revenue Bonds. The financial statements do not purport to, and do not, present fairly the financial position of the University of Illinois as of June 30, 2009 or the changes in its financial position or its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the 2009 financial statements referred to above present fairly, in all material respects, the financial position of the System as of June 30, 2009, and the changes in its financial position and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

The System has not presented Management's Discussion and Analysis as required supplementary information that U.S. generally accepted accounting principles has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 26, 2010 on our consideration of the System'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.

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.

KPMG LLP

Chicago, Illinois
February 26, 2010

University of Illinois Auxiliary Facilities System
Statement of Net Assets as of June 30, 2009 with Comparative Totals for 2008

	2009	2008
Assets:		
Current assets:		
Cash and cash equivalents	$ 110,269,577	$ 141,141,205
Cash and cash equivalents, restricted	38,269,881	63,817,791
Investments	9,009,425	23,360,495
Accrued investment income	432,623	1,144,006
Accounts receivable, net of allowance of $2,569,511 in 2009	8,287,425	6,842,988
Inventories	7,907,381	7,305,804
Prepaid expenses and deferred charges	566,333	1,074,632
Total current assets	174,742,645	244,686,921
Noncurrent assets:		
Investments, restricted	14,764,709	16,846,167
Capital Assets:		
Land	19,238,069	18,900,667
Buildings, net of accumulated depreciation	821,111,618	640,469,891
Improvements, net of accumulated depreciation	20,757,362	14,996,850
Equipment, net of accumulated depreciation	5,211,243	4,960,473
Construction in progress	74,752,578	204,657,394
Prepaid expenses and deferred charges	6,038,606	6,244,189
Total noncurrent assets	961,874,185	907,075,631
Total assets	$ 1,136,616,830	$ 1,151,762,552
Liabilities:		
Current liabilities:		
Accounts payable	$ 28,194,242	$ 47,634,302
Accrued liabilities	3,157,519	2,907,499
Accrued compensated absences	629,176	631,610
Accrued interest	10,007,475	9,041,929
Deferred revenue	7,174,533	6,406,600
Notes payable to the University	3,137,092	1,920,698
Bonds and leaseholds payable	29,699,441	29,004,447
Total current liabilities	81,999,478	97,547,085
Noncurrent liabilities		
Accrued compensated absences	5,841,012	5,597,360
Notes payable to the University	12,387,147	8,742,767
Bonds and leaseholds payable	931,232,181	931,990,465
Total noncurrent liabilities	949,460,340	946,330,592
Total liabilities	1,031,459,818	1,043,877,677
Net assets:		
Invested in capital assets, net of related debt	2,854,854	9,579,919
Restricted -		
Expendable for debt service	22,340,612	21,744,008
Unrestricted	79,961,546	76,560,948
Total net assets	105,157,012	107,884,875
Total liabilities and net assets	$ 1,136,616,830	$ 1,151,762,552

See accompanying notes to financial statements.

University of Illinois Auxiliary Facilities System
Statement of Revenues, Expenses and Changes in Net Assets Year Ended June 30, 2009 with Comparative Totals for 2008

	2009	2008
Operating revenues:		
Room and board, net of waivers of $1,311,565 in 2009	$ 116,367,807	$ 106,275,425
Merchandise and food sales	32,034,691	29,945,184
Student service fees	82,522,186	77,228,815
Public events and recreation fees	7,628,246	6,638,567
Parking income	21,893,092	21,340,660
Rental and lease income	17,769,580	12,525,003
Vending income	1,296,914	1,561,831
Other operating revenue	10,485,042	10,700,266
Total operating revenues	289,997,558	266,215,751
Operating expenses:		
Salaries and wages	82,336,187	73,269,995
Merchandise and food for resale	32,968,192	30,782,260
Repair and maintenance	3,070,837	3,100,882
Professional and other contractual services	37,441,274	39,142,432
Utilities	25,945,477	24,319,605
Supplies	15,213,498	13,138,583
Noncapitalized equipment and equipment rentals	1,878,523	2,800,503
Administrative services	14,073,226	13,888,621
Other operating expense	12,554,148	10,307,623
Depreciation and amortization	24,845,142	20,055,790
On behalf payments for fringe benefits	20,369,977	18,287,684
Total operating expenses	270,696,481	249,093,978
Operating income	19,301,077	17,121,773
Nonoperating revenues (expenses):		
On behalf payments for fringe benefits	20,369,977	18,287,684
Investment income (net of related expenses)	4,911,137	12,229,399
Interest on capital asset-related debt	(45,627,849)	(41,446,495)
Amortization of issuance costs	(283,848)	(269,698)
Loss on disposal of capital assets	(422,389)	(82,461)
Other nonoperating expenses, net	(975,968)	(1,221,336)
Net nonoperating expenses	(22,028,940)	(12,502,907)
Increase (decrease) in net assets	(2,727,863)	4,618,866
Net assets, beginning of year	107,884,875	103,266,009
Net assets, end of year	$ 105,157,012	$ 107,884,875

See accompanying notes to financial statements.

University of Illinois Auxiliary Facilities System
Statement of Cash Flows Year Ended June 30, 2009 with Comparative Totals for 2008

	2009	2008
Cash flows from operating activities:		
Room and board	$ 116,193,977	$ 107,173,438
Merchandise and food sales	31,870,743	30,105,820
Student service fees	82,108,011	77,626,064
Public events and recreation fees	7,583,650	6,671,844
Parking income	22,167,241	21,087,898
Rental and lease income	17,691,255	12,598,840
Vending income	1,291,145	1,570,728
Other sources	10,415,031	10,734,720
Payments to employees and benefits	(81,844,948)	(72,194,474)
Payments to suppliers	(144,373,248)	(138,643,397)
Net cash provided by operating activities	63,102,857	56,731,481
Cash flows from noncapital financing activities:		
Other, net	(87,579)	(833,408)
Net cash used by noncapital financing activities	(87,579)	(833,408)
Cash flows from capital and related financing activities:		
Proceeds from issuance of bonds	86,284,909	20,800,000
Purchase of capital assets	(89,927,126)	(155,676,294)
Principal paid on bonds and capital leases	(95,658,189)	(27,168,323)
Repayment of notes payable to the University	(3,244,325)	(3,790,296)
Interest paid on bonds and notes payable	(38,175,224)	(39,023,600)
Payments of bond issuance costs	(769,909)	(266,845)
Net cash used by capital and related financing activities	(141,489,864)	(205,125,358)
Cash flows from investing activities:		
Interest and dividends on investments, net	4,974,119	11,881,217
Proceeds from sales and maturities of investments	19,386,843	39,289,093
Purchase of investments	(2,305,914)	(47,026,085)
Net cash provided by investing activities	22,055,048	4,144,225
Net decrease in cash and cash equivalents	(56,419,538)	(145,083,060)
Cash and cash equivalents, beginning of year	204,958,996	350,042,056
Cash and cash equivalents, end of year	$ 148,539,458	$ 204,958,996

(continued)

University of Illinois Auxiliary Facilities System
Statement of Cash Flows Year Ended June 30, 2009 with Comparative Totals for 2008 (cont)

	2009	2008
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 19,301,077	$ 17,121,773
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	24,845,142	20,055,790
On-behalf payment of fringe benefits	20,369,977	18,287,684
Changes in assets and liabilities:		
Accounts receivable (net)	(1,444,437)	435,397
Inventories	(601,577)	325,938
Prepaid expenses and deferred charges	505,300	(308,701)
Accounts payable	(1,131,796)	(1,092,678)
Accrued liabilities	491,238	988,077
Deferred revenue	767,933	918,201
Net cash provided by operating activities	$ 63,102,857	$ 56,731,481
Noncash investing, capital, and financing activities:		
On-behalf payment of fringe benefits	$ 20,369,977	$ 18,287,684
Capital assets acquisition via notes payable to the University	8,011,541	5,675,241
Capital assets obligations in accounts payable	25,703,655	44,011,922
Capital appreciation on bonds payable	10,415,308	10,596,692
Net interest capitalized	2,693,796	6,683,888
Other capital asset adjustments	28,928	(363,670)
Loss on disposal of capital assets	(422,389)	(82,461)

See accompanying notes to financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organizational Background and Basis of Presentation

The University of Illinois (University) Auxiliary Facilities System (System) was created in June 1978 pursuant to the provisions of the Act which authorized the University's Board of Trustees (Board) to combine and consolidate into a single System, facilities which were then pledged to secure outstanding indebtedness of the Board. 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 U.S. generally accepted accounting principles 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.

System financial activity is mainly comprised of housing, parking and student activities, which span across the three campuses of the University. The operating revenues of the system largely consist of student service fees, various user fees, room and board charges, sales from merchandise/vending and rental of certain facilities. Facilities consist of buildings and other structures that have been constructed or remodeled with funding provided from issuance of related revenue bonds. System facilities include Memorial Stadium, the Assembly Hall, student unions, housing residence halls, parking and other structures.

Certain System revenues are derived from the rental of Memorial Stadium and the Assembly Hall, directly from the University's Division of Intercollegiate Athletics department, and are reflected as rental income within the System's financial statements. Such rental payments are determined based on the amount of debt service requirements and/or certain operation and maintenance consideration that apply to the facilities. Ticket revenues received by the University for events occurring at these facilities are not included within the System's reporting structure, in accordance with the related bond indentures. Housing revenues consist of charges for room, board and meal plans. Student activities buildings consist of student unions, and recreation and athletic facilities and student service buildings which generate lease and rental income, student fees and various other types of revenue. Operating expenses of the system include all necessary current maintenance charges, expenses of reasonable upkeep and repairs, allocations of a share of certain charges for insurance and other expenses incidental to the operations of all of the various activities and facilities of the System in accordance with the bond indentures.

The financial statements include certain prior year comparative information, which has been derived from the System's 2008 financial statements. Such information does not include all of the information required to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the System's financial statements for the year ended June 30, 2008.

Significant Accounting Policies

Financial Statement Presentation and Basis of Accounting

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.

Under the accrual basis revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Advances are classified as deferred revenue.

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.

Cash and Cash Equivalents

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.

Investments

Investments are recorded at fair value. Fair value is determined by quoted market prices for the System's investments.

Changes in fair value during the reporting period are reported as a net increase (decrease) in the fair value of investments.

Inventories

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.

Capital Assets

Capital assets are recorded at cost or, if donated, at 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 over $5,000, buildings and improvements over $100,000, and infrastructure over $1,000,000. The System 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 previously 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.

Compensated Absences

Accrued compensated absences for System personnel are charged to operations using the vested method based on earned but unused vacation and sick leave days including the System's share of Social Security and Medicare taxes. The estimated outstanding liability at June 30, 2009 and June 30, 2008 was $6,470,188 and $6,228,970 respectively.

Premiums, Issuance Costs, and Losses on Refundings

Premiums, issuance costs, and losses on refundings for the System's bonds are deferred and amortized over the life of the debt issue using the straight-line method.

Net Assets

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 related 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. 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.

Classification of Revenues

The Statement of Revenues, Expenses, and Changes in Net Assets classifies the System's fiscal year activity as operating and non-operating. Operating revenues generally result from exchange transactions such as payments received for providing goods and services. Certain revenue transactions related to capital and financing activities, including investment income, are components of non-operating income, as defined by GASB Statement No. 35.

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.

Classification of Expenses

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

On-behalf Payments for Retirement Benefits

In accordance with GASB Statement 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 including postemployment benefits for System employees and its retirees of $20,369,977 for the year ended June 30, 2009. On behalf payments are classified as non-operating revenues and the corresponding expenses are reported in on behalf payments for fringe benefits of the System as operating expenses.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Pronouncements

Effective for the year ended June 30, 2009, the System adopted GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which establishes standards of accounting and financial reporting for pollution remediation obligations. These obligations address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities. Implementation of the Standard requires an entity to accrue a reasonable, estimated liability in the event the entity needs to take remediation action. No event has occurred related to the System; therefore, the implementation of this standard had no impact on the System's financial statements.

Effective for the year ending June 30, 2010, the System will adopt GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets,* which establishes accounting and financial reporting for intangible assets. The System has not yet determined the impact on the System's financial statements as a result of adopting this statement.

Effective for the year ending June 30, 2010, the System will adopt GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments,* which establishes accounting and financial reporting for derivative instruments. The System has not yet determined the impact on the System's financial statements as a result of adopting this statement.

NOTE 2 – CASH, CASH EQUIVALENTS, AND INVESTMENTS

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. Income is distributed based upon average quarterly balances invested in the investment pool. It is not feasible to separately categorize the System's claim on cash and pooled investments by level of custodial credit risk assumed.

The System classifies repurchase agreements as cash equivalents on the statement of net assets. 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, 2009, the System had repurchase agreements of $38,426,441. The market value of securities underlying these repurchase agreements was $40,745,687 at June 30, 2009.

Illinois Statutes govern the investment policies of the University. Allowable investments under these policies include:

- Obligations of the U.S. Treasury, other federal agencies, and instrumentalities
- Interest-bearing savings accounts and time deposits of any bank as identified by the Illinois Banking Act
- Corporate bonds, stocks, and equities
- Commercial paper
- Repurchase agreements
- Mutual funds

Nearly all of the University's investments are managed by external professional investment managers, who have full discretion to manage their portfolios subject to investment policy and manager guidelines established by the University, and in the case of mutual funds and other commingled vehicles, in accordance with the applicable prospectus.

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 Prudent Management of Institutional Funds Act when investing its endowment funds. The State of Illinois Public Funds Investment Act provides the context and framework for other investments.

The following details the carrying value of the System's investments as of June 30, 2009:

U.S. Government Securities	$ 6,438,067
U.S. Government Treasuries	7,638,716
Repurchase Agreement	38,426,441
U.S. Treasury Put	4,345,000
Mutual Funds - Money Market	26,939,643
University Investment Pool	5,352,351
Total	$ 89,140,218

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 Barclays 1-3 year Government Credit Bond Index and the Barclays Capital 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 System's investments and maturities at June 30, 2009 are illustrated as follows:

	Maturities (in years)				
	Less than 1	1 - 5	6 - 10	Greater than 10	Total
Mutual Funds - Money Markets	$ 26,939,643				$ 26,939,643
Repurchase Agreements	38,426,441				38,426,441
Total Cash Equivalents	$ 65,366,084	$ -	$ -	$ -	$ 65,366,084
US Treasury Puts				$ 4,345,000	$ 4,345,000
US Treasuries	1,125,510	6,513,206			7,638,716
US Government Securities	2,531,564	3,906,503			6,438,067
University Investment Pool	5,352,351				5,352,351
Total Cash Equivalents and Investments	$ 74,375,509	$ 10,419,709	$ -	$ 4,345,000	$ 89,140,218

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The University's investment 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, 2009, all of the System's investments carried a AAA quality rating except for the U.S. Treasury Put, which is not rated.

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 investment policy does not limit the value of investments that may be held by an outside party. At June 30, 2009, the System'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 (other national governments) 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, 2009, except for two issuers, 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. The University held securities of Federal Home Loan Mortgage Company and Federal Home Loan Bank that represented approximately 5.3% and 5.9% of the University's total 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. The University does not have an overarching policy related to foreign currency risk; however, under the investment manager's guidelines, the portfolio's foreign currency exposure may be unhedged or hedged back into U.S. dollars. Cross hedging is not permitted.

Securities Lending: To enhance the return on investments, the Board of Trustees of the University has authorized participation in a securities lending program. Through its custodian bank, Northern Trust, the University loans securities 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. Noncash collateral cannot be pledged or sold by the University unless the borrower defaults. Cash collateral is invested by Northern Trust in a short-term investment pool. As of June 30, 2009, the short-term investment pool has a weighted average maturity of fifteen days. The University receives interest and dividends during the loan period as well as a fee from the custodian. Marking to market is performed every business day and the borrower is required to deliver additional collateral when necessary so that the total collateral held by the custodian will equal at least the fair value plus accrued interest of the borrowed securities. All security loans can be terminated on demand by either the University or the borrowers. The University's pro rata share of cash received as securities lending collateral was approximately $106,229,200 at June 30, 2009, and is recorded as an asset and corresponding liability on the University's Statement of Net Assets. As of June 30, 2009, approximately $103,910,000 of the investments reported on the University's Statement of Net Assets were on loan, secured by collateral with a fair value of approximately $106,534,000. At June 30, 2009, 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. However, due to an impairment of the short-term investment pool of cash collateral, the University has an exposure of $1,244,000, which has been recorded as an unrealized loss on investments in the University's financial statements. The System does not directly participate in this security lending program and hence, no amounts have been recorded in the accompanying financial statements related to securities lending transactions.

NOTE 3 - 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 $2,693,796 was capitalized during the year ended June 30, 2009.

Capital asset activity for the year ended June 30, 2009 is summarized as follows:

Capital Assets for the System

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Nondepreciable Capital Assets:					
Land	$ 18,900,667			337,402	$ 19,238,069
Construction in progress	204,657,394	80,847,521	73,873	(210,678,464)	74,752,578
Total nondepreciable capital assets	223,558,061	80,847,521	73,873	(210,341,062)	93,990,647
Depreciable Capital Assets:					
Buildings	863,626,316			203,297,994	1,066,924,310
Improvements	42,206,908			7,043,068	49,249,976
Equipment	13,125,825	1,505,605	1,312,789		13,318,641
Total depreciable capital assets	918,959,049	1,505,605	1,312,789	210,341,062	1,129,492,927
Less accumulated depreciation:					
Buildings	223,156,425	22,656,267			245,812,692
Improvements	27,210,058	1,282,556			28,492,614
Equipment	8,165,352	906,319	964,273		8,107,398
Total accumulated depreciation	258,531,835	24,845,142	964,273		282,412,704
Total net depreciable capital assets	660,427,214	(23,339,537)	348,516	210,341,062	847,080,223
TOTAL	$ 883,985,275	$ 57,507,984	$ 422,389	$	$ 941,070,870

NOTE 4 - BONDS PAYABLE

On March 19, 2009 the University issued Auxiliary Facilities System Revenue Bonds, Series 2009A in the amount of $84,100,000. Proceeds of these bonds will be used to fund various improvements and additions to the System, and provide for the refunding of the outstanding Variable Rate Demand Auxiliary Facilities System Revenue Bonds, Series 2005B, and fund all costs incidental to the issuance of the Series 2009A Bonds. The refunding resulted in a projected cost of $1,981,000 over the life of the issue at a present value of ($710,000).

The difference between the reacquisition price and the net carrying amount of the old debt, loss on refunding, was $610,000. This loss is 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.

Bonds payable activity for the year ended June 30, 2009 was as follows:

Bonds Payable

Series	Rate on June 30 Outstanding Debt	Fiscal Year Maturity Dates	Beginning Balance	New Debt	Principal Paid/Debt Refunded	Ending Balance	Current Portion
1979	3.00%	2009-2018	$ 720,000		$ 60,000	$ 660,000	$ 65,000
1991	7.20% - 7.35%	2009-2021	199,075,000		3,835,000	195,240,000	16,270,000
1993	-	2009	11,140,000		11,140,000	-	-
1996	5.10% - 5.20%	2009-2011	640,000		205,000	435,000	210,000
1999A	5.20%	2009-2010	3,630,000		1,720,000	1,910,000	1,910,000
1999A	6.05% - 6.33%	2015-2030	39,820,000		-	39,820,000	-
1999B	7.56%	2009-2015	4,970,000		560,000	4,410,000	715,000
2000	5.50%	2009-2010	330,000		150,000	180,000	180,000
2001A	5.00% - 5.50%	2009-2030	101,825,000		2,150,000	99,675,000	1,345,000
2001B	4.40% - 5.50%	2009-2032	39,095,000		1,020,000	38,075,000	555,000
2001C	6.30% - 7.00%	2009-2021	13,710,000		970,000	12,740,000	1,085,000
2003A	3.25% - 5.50%	2009-2034	61,790,000		1,210,000	60,580,000	1,270,000
2005A	4.625% - 5.50%	2009-2031	158,380,000		3,425,000	154,955,000	3,710,000
2005B	-	2009	67,015,000		67,015,000	-	-
2006	4.00% - 5.00%	2009-2036	316,995,000		1,835,000	315,160,000	1,565,000
2008	variable	2009-2038	20,800,000		315,000	20,485,000	365,000
2009A	2.00% - 5.75%	2010-2038	-	84,100,000		84,100,000	665,000
			$ 1,039,935,000	$ 84,100,000	$ 95,610,000	1,028,425,000	29,910,000
Unaccreted Appreciation						(88,954,471)	(838,247)
						939,470,529	29,071,753
Unamortized Debt Premium						34,289,887	1,338,802
Unamortized Deferred Loss on Refunding						(12,936,575)	(755,949)
Total Bonds Payable						$ 960,823,841	$ 29,654,606

Capital appreciation bonds (Series 1991 and 1999A) of $235,060,000 outstanding at June 30, 2009 do not require current interest payments and have a net unappreciated value of $146,105,529. The System records the annual increase in the principal amount of these bonds as interest expense and accretion on bonds payable.

Costs associated with the issuance of the Series 1991, 1996, 1999A, 1999B, 2000, 2001A, 2001B, 2001C, 2003A, 2005A, 2006, 2008, and 2009A 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 and Series 1996 Bonds) have debt service reserve requirements. The Maximum Annual Net Debt Service for those bonds, as defined, is $15,138,394.

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 20% of the book value of the movable equipment of the System. Additions of $45,191 were made to the Equipment Reserve during the year ended June 30, 2009. Expenditures of $1,229,422 were made to replace movable equipment during the year ended June 30, 2009. The fund balance of the Equipment Reserve was $2,443,856 at June 30, 2009.

Bond and Interest Sinking Fund and Debt Service Reserve - amounts are transferred into the Bond and Interest Sinking Fund sufficient to pay principal and interest as it becomes due on the outstanding bonds and amounts fund a Debt Service Reserve at least equal to the Maximum Annual Net Debt Service, as defined. At June 30, 2009 the Debt Service Reserve was funded in excess of the Maximum Annual Net Debt Service. 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.

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, 2009, and there was no balance in the reserve at June 30, 2009.

The table below shows the amount of revenues pledged for future principal and interest payments on the bonds:

PLEDGED REVENUES

BOND ISSUE(S)	PURPOSE	SOURCE OF REVENUE PLEDGED	FUTURE REVENUES PLEDGED[1]	TERM OF COMMITMENT	DEBT SERVICE TO PLEDGED REVENUES (CURRENT YEAR)
AUXILIARY FACILITIES SYSTEM (AFS)	Refundings, various improvements and additions to the System	Net AFS revenue, student tuition and fees	$ 1,670,783	2038	8.84%

[1]Total future principal and interest payments on debt (in thousands)

The System made all required transfers for the year ended June 30, 2009.

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

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 advance refunded as of June 30, 2009 are as follows:

Advance Refunded Bonds

Series	Outstanding at June 30, 2009
1999A	85,300,000
2000	10,785,000
2001B	55,315,000
Total Advance Refunded Bonds	$ 151,400,000

Debt Service Requirements

Future debt service requirements for the Series 1979, 1991, 1996, 1999A, 1999B, 2000, 2001A, 2001B, 2001C, 2003A, 2005A, 2006, 2008, and 2009A Bonds are as follows:

Debt Service Requirements

	Principal	Interest
2010	$ 29,910,000	$ 39,916,770
2011	31,035,000	39,098,891
2012	32,180,000	38,406,655
2013	33,390,000	37,628,028
2014	34,710,000	36,772,580
2015-2019	193,920,000	169,330,795
2020-2024	204,580,000	138,139,476
2025-2029	206,695,000	94,714,151
2030-2034	198,815,000	44,000,397
2035-2038	63,190,000	4,350,051
Total Debt Service	$ 1,028,425,000	$ 642,357,794
Unaccreted Appreciation	(88,954,471)	
Unamortized Debt Premium	34,289,887	
Unamortized Deferred Loss on Refunding	(12,936,575)	
Total Bonds Payable	$ 960,823,841	

Auxiliary Facilities System Variable Rate Debt

The System's variable rate bonds mature serially through April 2038 and have variable interest rates that are adjusted periodically (i.e. daily, weekly, or monthly), generally with interest paid at the beginning of each month. The bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest on seven days notice and delivery to the System's remarketing agents. The System pays the remarketing agent fees on the outstanding bond balance. If the remarketing agent is unable to resell any bonds that are "put" to the agent, the System has a standby bond purchase agreement with a liquidity facility entity.

The System, in the event a liquidity facility is utilized, has a reimbursement agreement with different financial entities. Generally the payback period is five to seven years, at an interest rate initially set at slightly above prime or the federal funds rate. The required future interest payments for these variable rate bonds have been calculated using the current interest rate, based upon short term tax exempt rates, or the synthetic fixed rate, as illustrated in the table below:

VARIABLE RATE BONDS
AT JUNE 30, 2009

	Interest Rate	Remarketing		Liquidity Facility			
Bond Issue	at June 30, 2009	Agent	Remarketing Fee	Bank	Expiration	Insurer	Liquidity Fee
AFS, Series 2008	0.27%	Loop Capital	0.075%	JPMorgan Chase	6/18/2011	None	0.30%

NOTE 5 - LEASEHOLDS PAYABLE

Leaseholds payable activity for the year ended June 30, 2009 consisted of the following:

Leaseholds Payable

Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
$155,970		$48,189	$107,781	$44,835

Capital lease obligations have maturity dates from 2010 through 2012 and have interest rates ranging from 4.3% to 5%. As of June 30, 2009, future minimum lease payments are as follows:

	Principal	Interest
2010	$ 44,835	$ 3,686
2011	44,842	1,875
2012	18,104	311
Total minimum payments	$ 107,781	$ 5,872

NOTE 6 - RELATED PARTY TRANSACTIONS

The University charged the System administrative service charges totaling $14,073,226 in 2009, 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 $8,898,573 in 2009, to fund the operations not covered by student fees. This transfer has been recorded as rental and lease income on the statement of revenue, expenses, and changes in net assets.

At June 30, 2009, the System had borrowings of $15,524,239 under multiple internal financing notes with the University for construction of System facilities. The notes have varying repayment terms and interest rates of 4.5% to 5.4%.

Notes Payable to the University

	Maturity Date	Beginning Balance	New Debt	Principal Paid/Debt Refunded	Ending Balance	Current Portion
Payable to the University -	2010-2018	$10,663,465	$8,105,099	$3,244,325	$15,524,239	$3,137,092

Future Debt Service requirements for the outstanding notes payable as of June 30, 2009 are as follows:

Notes Payable to the University
Debt Service Requirements

	Principal	Interest
2010	$ 3,137,092	$ 794,983
2011	3,271,717	635,858
2012	3,042,754	469,837
2013	3,136,564	313,237
2014	2,013,479	151,488
2015-2018	922,633	61,035
TOTAL	$ 15,524,239	$ 2,426,438

NOTE 7 – RETIREMENT AND POSTEMPLOYMENT BENEFITS

Retirement 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 for the year ended June 30, 2009 and are reflected within on-behalf payments for fringe benefits within the accompanying financial statements.

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 accessing the website at www.SURS.org, 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 18.61% 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, 2009, 2008, and 2007 were $219,441,000, $174,318,000, and $138,499,000, respectively, equal to the required contributions for each year. The calculated allocation of these contributions that relate to the System was approximately $8,133,000 for the year ended June 30, 2009 and are reflected within on-behalf payments for fringe benefits within the accompanying financial statements.

Postemployment Benefits

The State Employees Group Insurance Act of 1971 (Act), as amended, authorizes the State to provide health, dental, vision, and life insurance benefits for certain retirees and their dependents. Substantially all State and university employees become eligible for these other postemployment benefits (OPEB) if they eventually become annuitants of one of the State sponsored pension plans. The Department of Healthcare and Family Services and the Department of Central Management Services administer these benefits for annuitants with the assistance of the State's sponsored pension plans. The portions of the Act related to OPEB establishes a cost-sharing multiple-employer defined benefit OPEB plan (plan) with a special funding situation in which the State funds substantially all nonparticipant contributions. The plan does not issue a stand-alone financial report but is included as a part of the State's financial statements. A copy of the financial statements of the State can be obtained at www.ioc.state.il.us.

The health, dental, and vision benefits provided to and contribution amounts required from annuitants are the result of collective bargaining between the State and various unions that represent the State's and the university employees in accordance with limitations established in the Act. Therefore, the benefits provided and contribution amounts are subject to periodic change. The Act requires the State to provide life insurance benefits for annuitants equal to their annual salary as of the last day of employment until age 60, at which time the benefit amount becomes $5,000.

The State makes substantially all of the contributions for OPEB on-behalf of the State universities. Since the State contributes substantially all of the employer contributions, the single-employer provisions of GASB Statement No. 45 have been followed for reporting the plan. The State is not required to and does not fund the plan other than the pay-as-you-go amount necessary to provide the current benefits.

Annuitants may be required to contribute towards health, dental, and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State or a university, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants who retired prior to January 1, 1998, and who are vested in one of the State's sponsored pension plans do not contribute towards health, dental, and vision benefits. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced five percent for each year of credited service with the State allowing those annuitants with twenty or more years of credited service to not have to contribute towards health, dental, and vision benefits. For fiscal year 2009, the annual cost of health, dental, and vision benefits before the State's contribution was $6,222 ($2,383 if Medicare eligible) if the annuitant chose benefits provided by a health maintenance organization (HMO) and $9,390 ($2,371 if Medicare eligible) if the annuitant chose other benefits. Additional contributions by annuitants for dependents ranging from $984 to $2,712 ($924 to $2,436 if Medicare eligible) are also required depending on the benefits selected and whether there is one or multiple dependents.

For current employees, contributions are dependent upon annual salary and whether or not the employee chooses to receive benefits through an HMO. Current employee contribution amounts to the plan for fiscal year 2009 are shown as follows.

Annual Employee Health, Dental, and Vision Contribution Requirements

	Benefits Provided Through	
Employee Annual Salary	HMO	Others
$29,500 and below	$ 546	$ 846
$29,501 - $44,600	606	906
$44,601 - $59,300	636	936
$59,301 - $74,300	666	966
$74,301 and above	$ 696	$ 996

Additional contributions by employees for dependents ranging from $840 to $2,568 ($780 to $2,292 if Medicare eligible) are also required depending on the benefits selected and whether there is one or multiple dependents.

NOTE 8 - CONSTRUCTION AND COMMITMENTS

At June 30, 2009, the System had commitments on various construction projects and contracts for repairs and renovation of auxiliary facilities of $35,667,600. These projects will be funded from the proceeds of the Series 2005A, 2006, 2008, and 2009A Bonds Unexpended Fund and the Repair and Replacement Reserve.

NOTE 9 - SUBSEQUENT EVENTS

On August 26, 2009, the Honorable Governor of Illinois, Pat Quinn, appointed two new members to the Board of Trustees of the University. In addition, Quinn appointed four new members and reappointed Edward L. McMillan to the Board on September 4, 2009. These appointments and re-appointment were to fill positions made vacant by resignations of Lawrence C. Eppley, Niranjan S. Shah, David V. Dorris, Robert F. Vickrey, Devon C. Bruce, Kenneth D. Schmidt, and Edward L. McMillan.

After this reorganization, the Board consists of the following individuals, their terms of appointment, and city of residence:

Term 2005-2011
Frances G. Carroll, Chicago

Term 2009-2011
Karen A. Hasara, Springfield
Carlos E. Tortolero, Berwyn

Term 2007-2013
James D. Montgomery, Chicago

Term 2009-2013
Timothy N. Koritz, Roscoe
Lawrence Oliver II, Orland Park

Term 2009-2015
Christopher G. Kennedy, Kenilworth
Edward L. McMillan, Greenville
Pamela B. Strobel, Winnetka

Christopher G. Kennedy was elected Chairperson of the Board at the first meeting of the new Board on September 10, 2009.

On October 3, 2009, the Board accepted the resignation of the University President, Dr. B. Joseph White, effective December 31, 2009, and appointed Dr. Stanley O. Ikenberry as Interim President effective January 1, 2010.