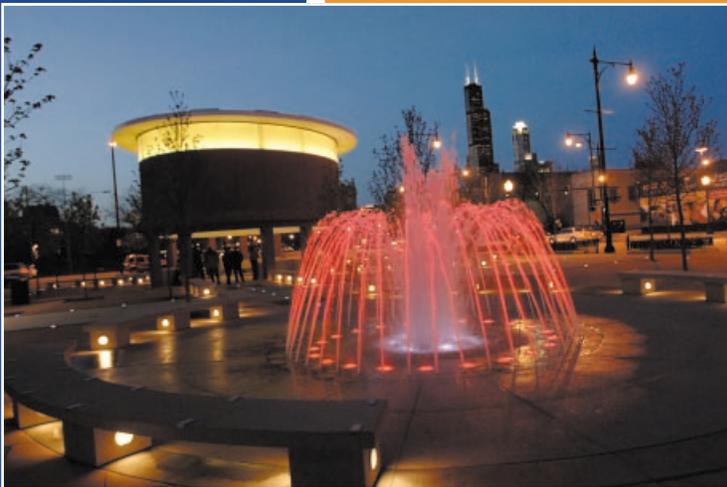




**ANNUAL
FINANCIAL
REPORT**



Fiscal Year

2006



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UNIVERSITY OF ILLINOIS BOARD OF TRUSTEES



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STUDENT TRUSTEES
Umair Mamsa, UIC
Sarah M. Doyle, UIS
Christopher M. Kantas, UIUC
July 1, 2006 - June 30, 2007

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

<http://www.uic.edu>



UIC



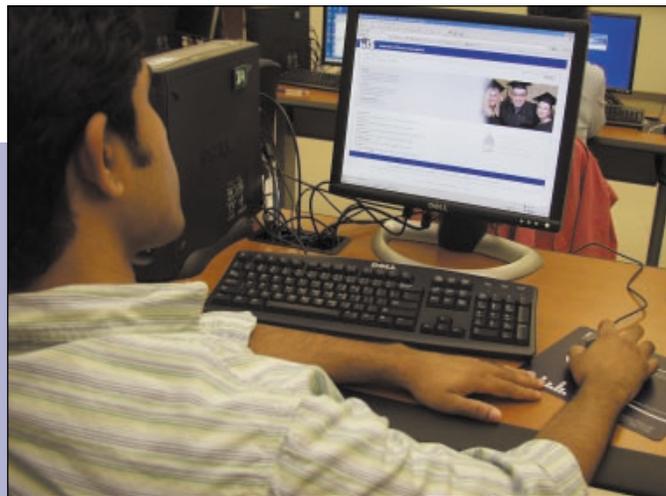
Since its founding in 1867, the University of Illinois at **Urbana-Champaign** has earned a reputation of international stature. Its distinguished faculty, outstanding resources, breadth of academic programs and research disciplines and large, diverse student body constitute an educational community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

<http://www.uiuc.edu>



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

<http://www.uis.edu>



MESSAGE FROM THE PRESIDENT



I am pleased to present the University of Illinois Financial Report for fiscal year 2006 on behalf of our Board of Trustees and our faculty, students and staff.

Here you will find detailed information about the University's financial position and performance for the year ended June 30, 2006. The graphs, table, charts and financial statements reflect that the U. of I. financial house is in order and that our resources have been prudently managed.

Besides the financial information, which begins on page 13, there are data points that tell the story behind the numbers. *Impact Illinois: 10 Ways You Benefit* translates dollars into achievements that have a positive economic and societal impact on the state of Illinois and beyond.

The University of Illinois' biggest single patron is the state of Illinois, through its elected legislature and officials. The state's direct annual investment in this University exceeds \$700 million; an additional \$328 million in state funds helps pay for medical and pension benefits for our 23,000 employees. *Impact Illinois* amply demonstrates that this investment pays excellent dividends. In fact, I believe that the University of Illinois is the state's most valuable asset in creating a prosperous future for the people of Illinois.

As always, I welcome your attention and comments.

Sincerely yours,

A handwritten signature in black ink that reads "B. Joseph White". The signature is written in a cursive, flowing style.

B. Joseph White
President



10 ways you benefit



1. The University pumps \$7 billion into the Illinois economy each year. That's \$3.1 billion spent directly on payroll, research, construction, library books, food, computers and all other goods and services. Our 70,000 students spend hundreds of millions more on rent, cell phones, movies, pizza, notebooks, clothing and utilities. And when our 30,000 employees spend their earnings and that spending creates more jobs, some \$2.4 billion flows through the Illinois economy.

Since 2000, University researchers have launched 48 companies, received 230+ patents and disclosed nearly 1,200 technologies. These are critical elements of a prosperous future.



102,000 JOBS

Hayat Onyuksel, professor of pharmaceuticals and bioengineering at Chicago, has eight patents and formed two start-up companies

2. We generate nearly 102,000 jobs in Illinois. We employ 30,000+ professors, auditors, programmers, physicians, cooks, librarians, secretaries and others. Plus, spending by students and visitors to our three campuses generates another 90,000 jobs, including nearly 2,000 in construction, 1,300 in manufacturing and more than 76,000 in services.

Federal Research Expenditures	
1.	University of California system
2.	Johns Hopkins University
3.	University of Texas system
5.	University of Michigan at Ann Arbor
7.	University of Pennsylvania
10.	University of Illinois (all campuses)

3. The University ranks 10th among all public and private U.S. universities for federal money spent on research. Urbana and Chicago received \$687 million in federal grants and contracts in 2002. Urbana is in the top 25 and UIC the top 50 of American research universities. Our brilliant future relies on great faculty working at the cutting edge.



4. More U of I graduates lead major U.S. corporations as chief executive officers, chief operating officers, chief financial officers, owners, presidents, general managers, etc., than grads of any other university in Illinois.

University of Illinois	1,018
Northwestern University	789
University of Chicago	525
DePaul University	271
Loyola University	205

5. The University's College of Medicine is the largest in the U.S. with more than 2,600 students and 4,000 faculty in Chicago, Peoria, Rockford and Urbana. One in six doctors in Illinois is a UIC graduate as are nearly half the dentists and one-third of the pharmacists. UIC's nursing school ranks in the top 10 in the country.



Pediatric hematologist/oncologist Mary Lou Schmidt, M.D., reads to Alexis in the Outpatient Care Center Pediatric Clinic.

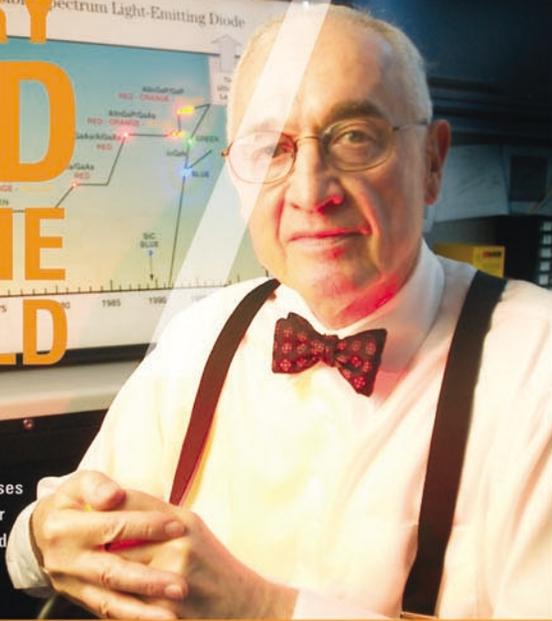
1:6 DOCTORS

6. We educate more students than any other Illinois college or university. We enroll 70,000 on-campus students, award more than 17,000 degrees and teach 22,000 students online. Together, our Chicago and Urbana campuses educate three-fourths of all Ph.D. and professional students in Illinois public universities. A U of I degree is not only a valuable personal credential, but it generates dividends in additional state income and sales tax: more than \$150,000 over a lifetime beyond what an Illinois high school graduate pays.

17,000 degrees

7. Downloadable music, eBay, online learning—in fact, all e-commerce—exist because of Mosaic, the Web browser created at the National Center for Supercomputing Applications in Urbana. The federal government tapped NCSA and three other institutions to build the world's fastest non-classified supercomputers.

EVERY DVD IN THE WORLD



Every DVD in the world uses technology that professor Nick Holonyak Jr. created at the Urbana campus.

Mary Welle, co-owner of All Creatures Animal Hospital in Urbana, is a 1990 graduate of the College of Veterinary Medicine.



1:4 VETS

8. We have, by far, the largest agriculture school in the state, and it is ranked fifth in the nation. The College of Agricultural, Consumer and Environmental Sciences spends more than \$50 million each year pursuing breakthroughs in biotechnology and its faculty are leaders in the exciting new field of genomics. U of I veterinarians treat more than 50,000 dogs, cats, horses, hogs, cattle, sheep and other livestock each year. One of four vets in Illinois graduated from the U of I College of Veterinary Medicine. More proof that the state, its largest industry and the University are inextricably linked.



635,000 fans

9. Visitors, employees and students spend about \$46 million a year on athletic and cultural events on the three campuses. Urbana sports draw 635,000 fans a year and more than 500,000 attend concerts, plays and other events at the Assembly Hall. At UIS, 125,000 attend events in Sangamon Auditorium in Springfield. And UIC attracts about 460,000 visitors a year to events; the Pavilion in Chicago has 110 events and student centers about 700.



Research professor and SmartSpark Energy Systems co-founder Philip Krein

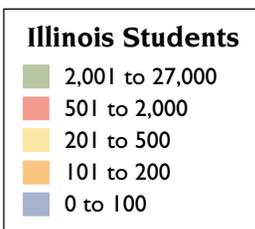
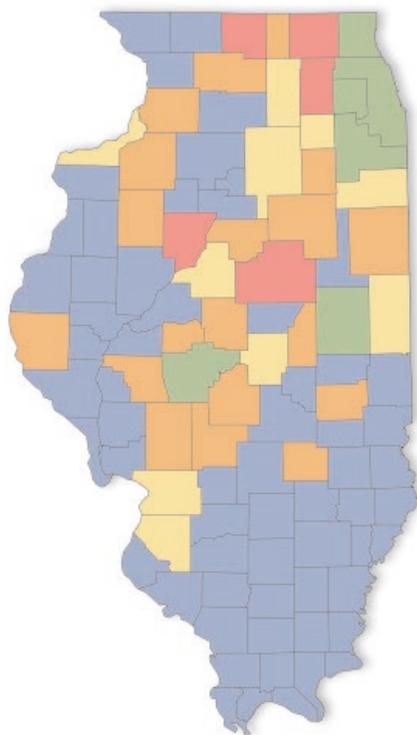
10. Fully half of Urbana-Champaign's engineering B.S. graduates stay in Illinois, providing a payback to the state in innovation and talent. The College of Engineering ranks fourth in the nation. The new Siebel Center for Computer Science is the most innovative computing habitat in the world and the Grainger Engineering Library Information Center is the largest in the country. UIC's engineering college is a leader in the field of electronic visualization. The future begins here.

A State University With A Global Reach

Total University enrollment for the fall semester of 2005 was approximately 68,325. Illinois residents account for 80% of the total enrollment. The remaining 20% of the University's enrollment is divided between students from other states and U.S. territories, 10%, and international students, 10%.

The primary focus of the University's educational program is to provide the highest quality educational experience to Illinois residents. Illinois taxpayers provide a direct subsidy to the University that represents about one-third of the University's operating budget. The enrollment of students from other states, U.S. territories and foreign countries help broaden the educational and life experience of all our students.

Enrollment by County, Fall 2005

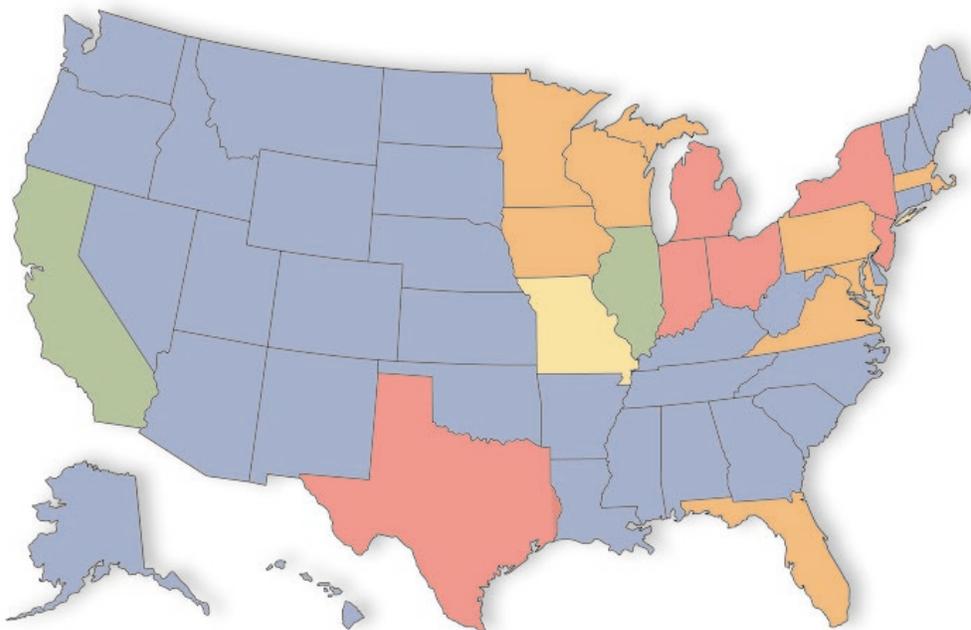


Adams	157	Henderson	11	Ogle	113
Alexander	5	Henry	138	Peoria	583
Bond	24	Iroquois	120	Perry	23
Boone	121	Jackson	79	Piatt	130
Brown	10	Jasper	39	Pike	43
Bureau	93	Jefferson	40	Pope	6
Calhoun	5	Jersey	39	Pulaski	3
Carroll	26	JoDaviess	27	Putnam	25
Cass	40	Johnson	10	Randolph	31
Champaign	5,123	Kane	1,237	Richland	34
Christian	152	Kankakee	238	Rock Island	274
Clark	29	Kendall	209	St. Clair	381
Clay	20	Knox	115	Saline	18
Clinton	48	Lake	3,396	Sangamon	2,270
Coles	130	La Salle	305	Schuyler	14
Cook	25,475	Lawrence	23	Scott	21
Crawford	49	Lee	76	Shelby	40
Cumberland	18	Livingston	103	Stark	21
Dekalb	222	Logan	140	Stephenson	81
Dewitt	43	McDonough	56	Tazewell	363
Douglas	85	McHenry	1,060	Union	16
Du Page	6,198	McClellan	633	Vermilion	208
Edgar	55	Macon	397	Wabash	19
Edwards	7	Macoupin	114	Warren	35
Effingham	115	Madison	453	Washington	26
Fayette	24	Marion	56	Wayne	17
Ford	74	Marshall	32	White	17
Franklin	31	Mason	46	Whiteside	111
Fulton	62	Massac	12	Will	2,316
Gallatin	3	Menard	108	Williamson	58
Greene	36	Mercer	32	Winnebago	646
Grundy	145	Monroe	96	Woodford	130
Hamilton	2	Montgomery	116	Unknown	12
Hancock	31	Morgan	154		
Hardin	0	Moultrie	53		

56,506

Enrollment by State, Fall 2005

Alabama	29
Alaska	8
Arizona	62
Arkansas	27
California	530
Colorado	72
Connecticut	51
Delaware	11
District of Columbia	13
Florida	159
Georgia	82
Hawaii	21
Idaho	20
Illinois	56,506
Indiana	243
Iowa	113
Kansas	83
Kentucky	85
Louisiana	30
Maine	8
Maryland	166
Massachusetts	114
Michigan	239
Minnesota	132
Mississippi	18
Missouri	337
Montana	10
Nebraska	46
Nevada	16
New Hampshire	20
New Jersey	219
New Mexico	33
New York	246



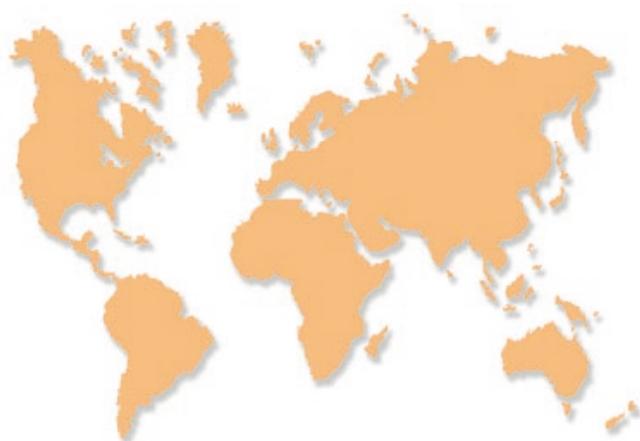
North Carolina	80	Texas	208
North Dakota	9	Utah	55
Ohio	271	Vermont	12
Oklahoma	37	Virginia	138
Oregon	39	Washington	80
Pennsylvania	150	West Virginia	14
Rhode Island	7	Wisconsin	181
South Carolina	27	Wyoming	3
South Dakota	8	Unknown	239
Tennessee	71	Other*	61

United States
(AK & HI inset)

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

*U.S. residents with foreign addresses

Enrollment by Continent, Fall 2005



North/Central America & W. Indies	254
U.S. and U.S. Territories	61,476
Subtotal North/Central America	61,730
Asia	5,292
Europe	710
South America	270
Africa	132
Oceania	50
Unknown - Foreign	141

STAFF AND STUDENT DATA AS OF OCTOBER 2005

Staff Full-Time Equivalent (all funds)

	Chicago	Springfield	Urbana-Champaign	Other University Administration	Total University
Faculty	2,422	226	2,940	5	5,593
Academic Professional	3,475	158	3,190	751	7,574
Support Staff	5,239	266	4,467	539	10,511
Graduate Assistant	2,135	130	2,618	17	4,900
TOTAL	13,271	780	13,215	1,312	28,578

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

Degrees Awarded FY 2005

	Chicago	Springfield	Urbana-Champaign	Total University
Certificates	—	—	12	12
Bachelors	3,149	672	6,752	10,573
Postbaccalaureate Certificates	—	3	—	3
Masters	1,785	470	2,622	4,877
Post-Masters Certificates	—	11	15	26
Doctorate	286	1	636	923
First-Professional	503	—	335	838
First-Professional-Certificates	25	—	—	25
TOTAL	5,748	1,157	10,372	17,277

Student Full-Time Equivalent Enrollment

Fall 2005 On-Campus Enrollment

	Chicago*	Springfield	Urbana-Champaign	Total University
Undergraduate	15,148	2,005	30,453	47,606
Graduate	6,766	1,373	9,112	17,251
Professional	2,439	0	1,029	3,468
TOTAL	24,353	3,378	40,594	68,325

*Includes 982 residents.

Note: Fte calculated based on IBHE definition

MESSAGE FROM THE VICE PRESIDENT

for Administration, Comptroller



I am pleased to present the Annual Financial Report of the University of Illinois for the fiscal year ended June 30, 2006. The University has built a firm foundation of fiscal strength that underpins a broad array of highly successful, top-quality academic programs. The current report documents continued positive growth in revenue and net assets, utilizing diverse sources of funding.

We are one University with three campuses sharing a common name, mission, governing body and unwavering commitment to academic excellence. We are an organization that is academically decentralized and financially centralized. Each of the more than 1,100 staff within the central administrative organization is committed to providing leadership for the operating units of the University and to follow best business practices to ensure the integrity of all University initiatives.

At the close of FY 2006, the University completed a strategic planning process encompassing all academic and support organizations. The goal for our support organizations is to align our roles, structure, and operating approach to financial and business functions in order to provide maximum flexibility while ensuring proper stewardship of the University resources. The University's President has created and the Board of Trustees has endorsed a compact to secure resources available from the State, from faculty scholarship and research, from private and corporate friends of the University, and from students and families, including the redirection of existing resources from lower to higher priorities. We must now focus our efforts on execution of the strategic plans and the compact's successful implementation.

The University community is working to create a brilliant future. With high aspiration strategic plans and a solid financial foundation, we are committed to building upon the University's tradition of excellence in teaching, research, public service, and economic development.

A handwritten signature in black ink that reads "Stephen K. Rugg". The signature is stylized and cursive.

Stephen K. Rugg
Vice President for Administration, Comptroller

October 4, 2006

INDEPENDENT AUDITOR'S REPORT



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

As Special Assistant Auditors for the Auditor General, we have audited the accompanying basic financial statements of the University of Illinois (University) and its aggregate discretely presented component units, collectively a component unit of the State of Illinois, as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year partial comparative information has been derived from the University's 2005 financial statements and, in our report dated September 28, 2005 we expressed unqualified opinions on those financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University and of its aggregate discretely presented component units as of June 30, 2006, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, a report on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters will be issued under separate cover. 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, upon issuance, is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Clifton Gunderson LLP

Peoria, Illinois
October 4, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis, or MD&A, provides an overview of the financial position and activities of The University of Illinois for the year ended June 30, 2006.

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

INTRODUCTION AND BACKGROUND

The following Management's Discussion and Analysis or MD&A provides an overview of the financial position and activities of the University of Illinois for the year ended June 30, 2006 with comparative information for the year ended June 30, 2005. The MD&A should be read in conjunction with the audited financial statements and footnotes appearing in this report.

The University of Illinois was founded in 1867 in response to the federal Land Grant Act of 1862. The University's evolution over nearly 140 years as a land-grant institution has produced a set of core values that underlie all aspects of its present and future programs. The University is a comprehensive public university, a family of three distinct campuses — Chicago, Springfield and Urbana-Champaign serving the people of Illinois through a shared commitment to our missions of excellence in teaching, research, public service and economic development.

Our campuses attract some of the most talented students in the world and currently enrolls greater than 68,000 on-campus students and thousands more take courses off campus and online. The University of Illinois is a world leader in research with internationally renowned faculty and currently employs approximately 5,600 faculty members on its three campuses. The University offers a diverse range of degree programs from baccalaureate to post-doctoral levels. Approximately 17,000 degrees are awarded annually. The operating budget for fiscal year 2006, from all fund sources, was approximately \$3.5 billion. We are a university that belongs to the people of Illinois. Our faculty, staff and students share their knowledge and expertise and the resources of the University with citizens in every corner of the state through more than 700 public service and outreach programs.

The University has a mission to transform lives and serve society by educating, creating knowledge, and putting knowledge to work on a large scale and with excellence. Our vision is to create a brilliant future for the University in which students, faculty, and staff thrive and citizens of Illinois, the nation, and the world benefit.

An integral part of the University's mission is a commitment to research. A knowledge-based economy requires ongoing investments in research, invention, and the discovery and application of new knowledge. The University's world-class faculty are the drivers of cutting-edge research, yielding inventions and the discovery of new knowledge, which can be commercialized into new processes, products, and services. The faculty members at the University generate external grants that bring employment, graduate students, and resources to Illinois. Students benefit greatly from this research enterprise through their participation in emerging research areas.

The University of Illinois serves as an essential partner with the state in sustaining growth in the economy and thriving, healthy communities. The University also has an impressive impact on the state's economy. Our very operation means billions in direct spending in Illinois and employment for more than 33,000. In addition, the increased earning power of hundreds of thousands of alumni living in Illinois results in additional tax revenue for our state.

The University is dedicated to using the resources at all three campuses in an integrated fashion to strengthen the services to the state through the education of a modern labor work force, research and development, technology commercialization, and partnership with business, government and community groups. Each campus makes specific and different contributions to the University's overarching mission and vision. The campuses are strengthened by intercampus cooperation and by university-wide services, yet carry out their academic functions with a high degree of delegated authority and autonomy. In addition to the three main campuses, the University also has health professions sites in the Illinois towns of Rockford, Peoria, and the Quad Cities, continuing education centers and offices across the State of Illinois and offers a variety of classes online.

University of Illinois at Chicago

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

University of Illinois at Springfield

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

University of Illinois at Urbana-Champaign

The University of Illinois at Urbana-Champaign is a place of excellence, innovation, and tradition. At our state's classic land-grant university, more than 2,000 faculty members lead 40,000 undergraduate, graduate and professional students from around the world in a process of discovery and learning in 16 colleges and schools, and more than 80 research centers and labs. Illinois faculty and students are engaged with top scholars from around the world and across disciplines to address humanity's critical issues. Their work has earned the world's top prizes and recognitions, including Nobel and Pulitzer Prizes, Tony Awards, MacArthur "genius" awards, and National Medals of Science and Technology. Many faculty members have been inducted into the nation's elite academies of arts and sciences. Unique campus resources include one of the world's largest university libraries, outstanding centers for the arts, and many world-class research facilities, including the National Center for Supercomputing Applications, Beckman Institute for Advanced Science and Technology, and Siebel Center for Computer Science.

USING THE FINANCIAL STATEMENTS

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

FINANCIAL HIGHLIGHTS AND KEY TRENDS

The fiscal year 2006 budget for direct state appropriations, as approved by the Governor, was approximately \$700 million, virtually the same as the approved fiscal year 2005 budget. Despite the lack of growth in our state appropriated funds, the overall budget utilized by the University increased by about 3%. This trend demonstrates the University's ability to rely on other diverse sources of funding to provide services to our students and support our mission.

Net assets, which represent the residual interest in the University's assets after liabilities, increased during the current year by \$61 million attributed largely to an increase of \$54 million in invested in capital assets and an increase of \$37 million in restricted expendable funds offset by decreases in unrestricted funds. As of June 30, 2006, the University's total assets were \$4.5 billion compared to total assets of \$4.3 billion as of June 30, 2005. This growth is largely due to an increase in capital assets and cash and investment balances from the proceeds of borrowings for capital projects during the fiscal year 2006. The University issued Auxiliary Facilities System Revenue Series 2005B Bonds in the amount of \$67.3 million to fund various improvements and additions to the System and Certificates of Participation Academic Facilities Projects, Series 2006A in the amount of \$81.9 million to fund various maintenance and improvement projects.

STATEMENT OF NET ASSETS

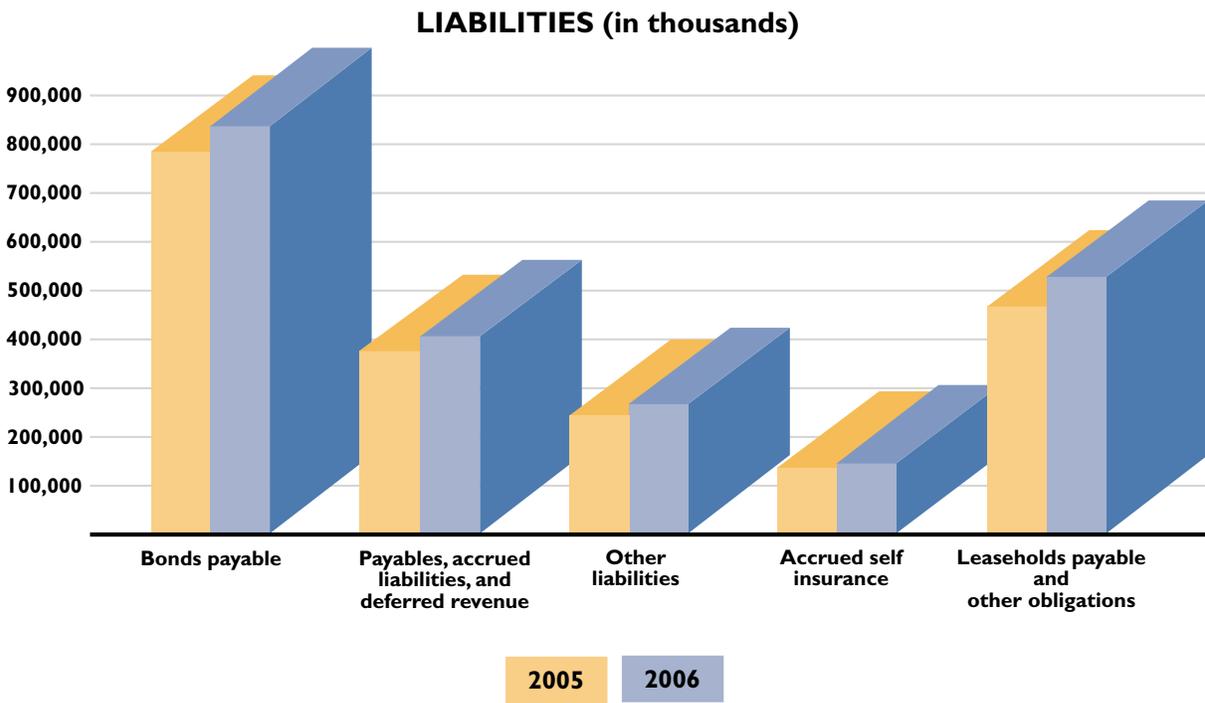
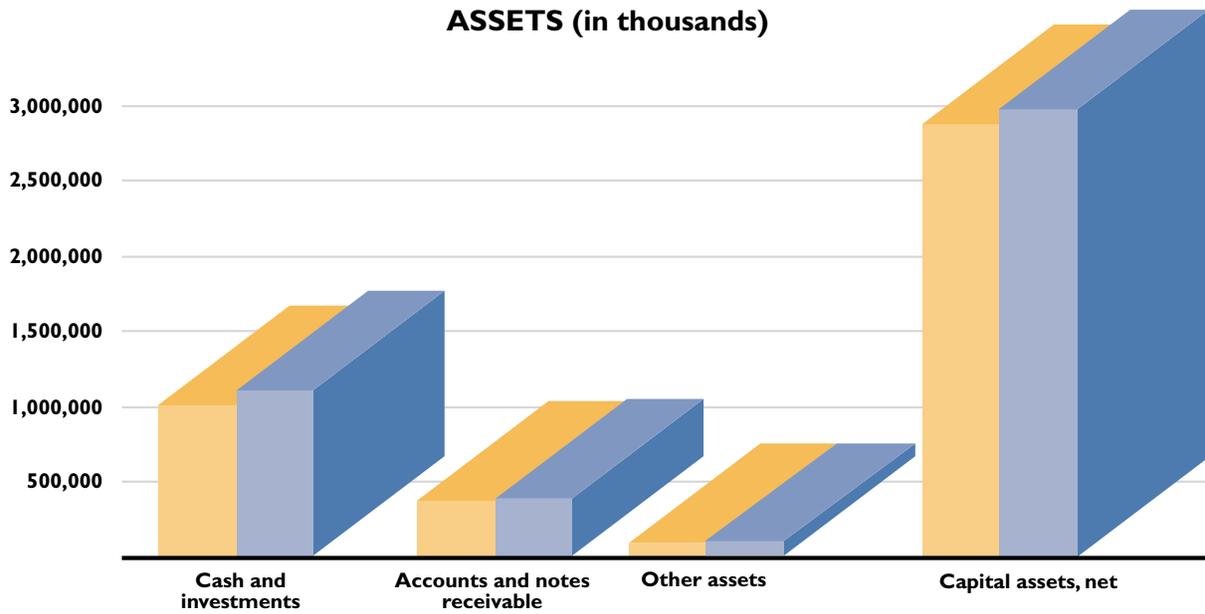
The Statement of Net Assets presents the financial position of the University at the end of the fiscal year and includes all assets and liabilities of the University using the accrual basis of accounting. The difference between total assets and total liabilities, net assets, is one indicator of the current financial condition of the University. The changes in net assets that occur over time indicate improvement or deterioration in the University's financial condition. Generally assets and liabilities are reported at cost with the exception of investments which are reported at fair value and capital assets which are stated at historical cost less accumulated depreciation. A summarized comparison of the University's assets, liabilities and net assets at June 30, 2006 and 2005 is as follows:

(in thousands)		
	2006	2005
Current assets:		
Cash and investments	\$ 479,317	\$ 380,705
Accounts and notes receivable	340,310	331,215
Other current assets	54,039	52,736
Noncurrent assets:		
Investments	616,118	618,605
Notes receivable	42,086	35,421
Capital assets, net of accumulated depreciation	2,969,989	2,867,380
Other assets	35,228	30,119
Total assets	\$ 4,537,087	\$ 4,316,181
Current liabilities:		
Accounts payable, accrued liabilities and deferred revenue	\$ 401,355	\$ 371,410
Bonds payable	29,133	23,813
Leaseholds payable and other obligations	32,691	27,244
Accrued self insurance	34,105	29,912
Other current liabilities	73,162	71,655
Noncurrent liabilities:		
Bonds payable	805,579	756,459
Leaseholds payable and other obligations	492,332	435,843
Accrued self insurance	108,109	101,064
Other noncurrent liabilities	190,636	189,697
Total liabilities	\$ 2,167,102	\$ 2,007,097
Net assets	\$ 2,369,985	\$ 2,309,084

Total assets increased by \$221 million or 5% to \$4.5 billion during fiscal year 2006. The change is attributed to an increase in cash and investments of \$96 million, an increase in accounts and notes receivable of \$16 million, an increase in capital assets of \$103 million, and an increase in other assets of \$6 million. The increase in total University cash and investments is largely due to the issuance of certificates of participation at the end of the fourth quarter for deferred maintenance projects. The increase in accounts and notes receivable was attributable to increases in receivables from sponsoring agencies, hospital and other medical activities, and the medical service plans during the fiscal year.

Total liabilities increased by approximately \$160 million or 8% during fiscal year 2006. Bonds payable increased by \$54 million primarily due to the sale of bonds for Auxiliary Facilities System capital projects. Leaseholds and other obligations payable increased by \$62 million because certificates of participation were issued during FY06 for deferred maintenance projects on academic facilities. Accrued self insurance increased by \$11 million as the result of actuarial studies which analyze future claims outstanding and estimate the possible outcome. The residual increase is due to a slight increase in accrued compensated absence balances and an increase in the accrued payroll and accounts payable at the end of fiscal year 2006.

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



Capital Assets

Capital assets, net, which includes the University's land, buildings, improvements, and equipment including capitalized software and library books, increased by \$103 million to approximately \$2.97 billion at June 30, 2006. The University's policy requires the capitalization of all land and collection purchases regardless of cost, equipment at \$5,000, buildings and improvements at \$100,000, and infrastructure at \$1,000,000. The University depreciates its capital assets on a straight-line basis, using estimated useful lives ranging from three to fifty years. Facilities under construction include projects funded from State capital appropriations, private gifts, revenue bonds, certificates of participation, and internal funds. No new State capital appropriation funding was received for fiscal year 2006 but funds reappropriated from prior years were utilized for costs related to the completion of the Classroom and Office Building at the Springfield campus, the College of Medicine Research Facility on the Chicago campus and survey facilities at the Urbana-Champaign campus. Revenue bonds were used to fund recreation facility upgrades and new construction at each of the campuses and a portion of the South Campus Project at the Chicago campus. The following chart illustrates the composition of the University's capital assets, net of accumulated depreciation, by category.

NET CAPITAL ASSETS				
(in thousand/s)				
	2006		2005	
Buildings	\$ 1,778,318	59.8%	\$ 1,684,972	58.8%
Improvements and infrastructure	336,615	11.3%	341,747	11.9%
Construction in progress	262,974	8.9%	230,729	8.0%
Land	121,851	4.1%	119,631	4.2%
Equipment and software	352,360	11.9%	378,051	13.2%
Collections	117,871	4.0%	112,250	3.9%
TOTAL	\$ 2,969,989		\$ 2,867,380	

Long - Term Debt

The University has historically utilized revenue bonds to finance auxiliary and health service facility needs, and more recently, the UIC South Campus Project. These activities generally have the ability to generate resources from student fees, users, and third parties sufficient to service the debt. During fiscal year 2006 the University issued Auxiliary Facilities System Revenue Bonds Series 2005B in the amount of \$67.3 million to fund various additions and improvements to the System. In addition, the University issued South Campus Development Bonds Series 2006A in the amount of \$53.7 million to provide for the advance refunding of the outstanding South Campus Development Bonds Series 1999. The following chart details the various bonded debt outstanding at June 30, 2006 and 2005:

BONDS PAYABLE		
(in thousands)		
	2006	2005
Auxiliary Facilities System	\$ 694,867	\$ 635,880
Health Services Facilities System	62,636	64,277
UIC South Campus	76,466	79,148
Other Issues	743	967
	\$ 834,712	\$ 780,272

The University has issued certificates of participation (COPS) for infrastructure projects that have a projected cost savings payback. The cost of updating its physical plant and utility infrastructure as well as the cost to replace existing mainframe legacy systems has been funded by the sale of COPS. During fiscal year 2006 the University issued Certificates of Participation Academic Facilities Project Series 2006A to finance, in combination with State-appropriated capital funds and University funds, the construction of a new Business Instructional Facility on the Urbana campus and various improvements to buildings across the three campuses as a part of the University's Facilities Renewal Program. The COPS are reported as leaseholds payable. The following chart details the various outstanding issues as of June 30, 2006 and 2005:

CERTIFICATES OF PARTICIPATION OUTSTANDING		
(in thousands)		
	2006	2005
Utility infrastructure projects	\$ 214,418	\$ 223,263
UI Integrate project	123,076	134,824
South Farms relocation project	23,854	24,858
UIC College of Medicine building	19,905	20,590
Academic facilities maintenance	83,661	
	<u>\$ 464,914</u>	<u>\$ 403,535</u>

Net Assets

The University's resources are classified into net asset categories in the Statement of Net Assets. These categories are defined as (a) Invested in capital assets, net of related debt—capital assets net of accumulated depreciation and outstanding debt balances, (b) Restricted nonexpendable—assets restricted by externally imposed stipulations, (c) Restricted expendable—assets subject to externally imposed restrictions that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time and (d) Unrestricted—assets not subject to externally imposed stipulations but may be designated for specific purposes by action of management or the Board of Trustees. The University's net assets increased by \$61 million during fiscal year 2006. Net assets balances are detailed below:

NET ASSETS		
(in thousands)		
	2006	2005
Net Assets:		
Invested in capital assets, net of related debt	\$ 1,834,372	\$ 1,780,064
Restricted:		
Nonexpendable	45,520	45,119
Expendable	364,599	327,405
Unrestricted:		
Designated	124,594	151,593
Undesignated	900	4,903
	<u>\$ 2,369,985</u>	<u>\$ 2,309,084</u>

Invested in capital assets, net of related debt increased by \$54 million or 3% as the result of increases in capital assets offset by the changes in bonds and capital leases outstanding. The restricted-expendable category of net assets increased by \$37 million due to an increase in restricted operating funds, loan funds, and service plan funds. Other categories combined decreased by \$30 million due to combined decreases in institutional designated and undesignated balances.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

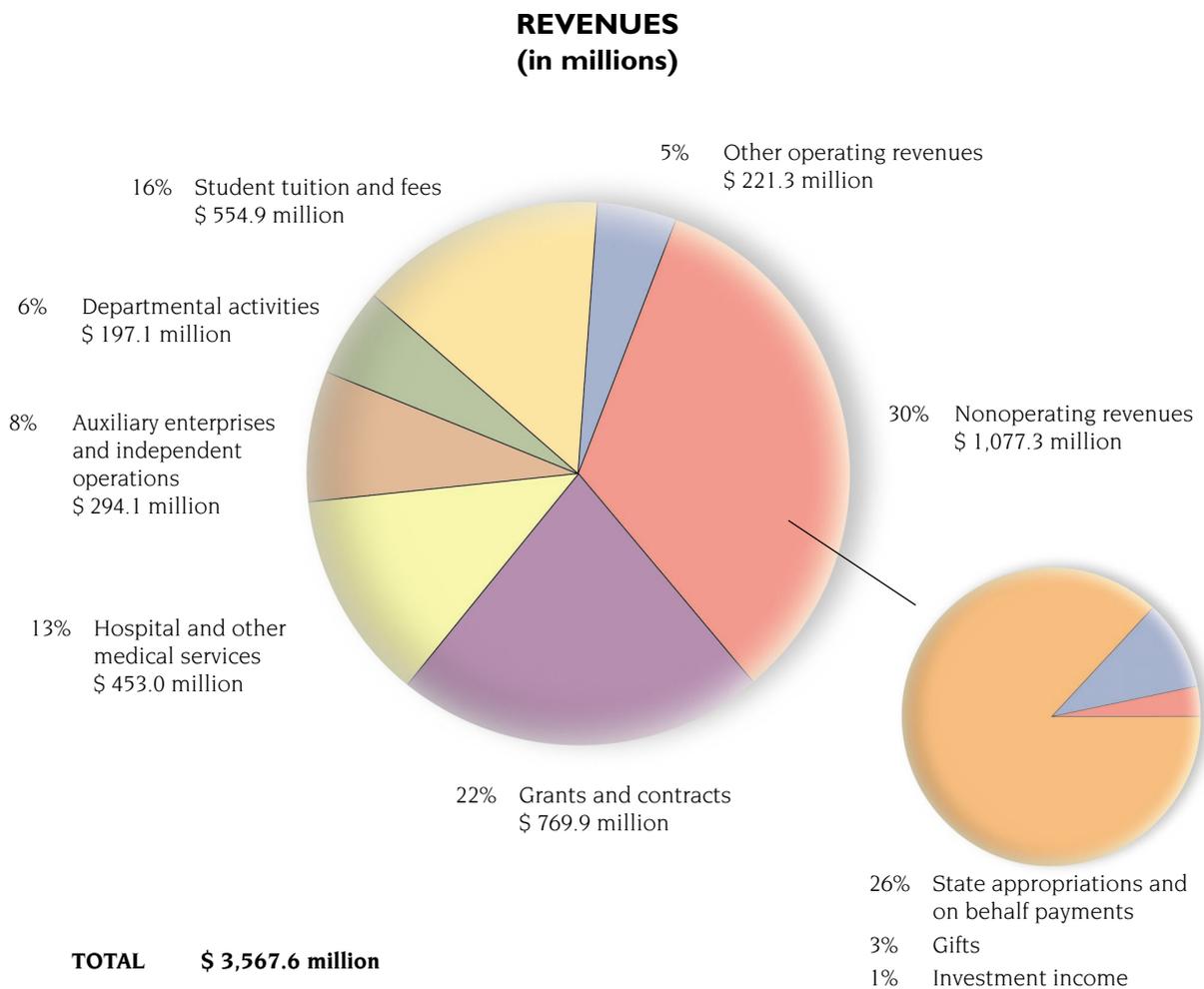
The Statement of Revenues, Expenses, and Changes in Net Assets presents the University's results of operations. In accordance with GASB reporting standards, revenues and expenses are classified as either operating or nonoperating. A summarized comparison of the University's Statement of Revenues, Expenses and Changes in Net assets for the years ended June 30, 2006 and 2005 is as follows:

(in thousands)		
	2006	2005
Operating revenues:		
Student tuition and fees	\$ 554,856	\$ 507,137
Sponsored programs	769,949	760,728
Hospital and other medical activities	453,032	425,932
Auxiliary enterprises and independent operations	294,107	273,404
Medical service plan	141,336	138,624
Other	277,028	259,331
Total operating revenues	2,490,308	2,365,156
Operating expenses	3,548,600	3,471,498
Operating loss	(1,058,292)	(1,106,342)
Nonoperating revenues (expenses)		
State appropriations and on behalf payments	922,227	940,510
Private gifts	116,111	120,844
Investment income	38,992	35,077
Other net operating revenues (expenses)	(23,945)	(41,241)
Net nonoperating revenues	1,053,385	1,055,190
Capital state appropriations and capital gifts and grants	65,600	92,439
Endowment gifts	208	1,256
Increase in net assets	60,901	42,543
Net assets, beginning of year	2,309,084	2,266,541
Net assets, end of year	\$ 2,369,985	\$ 2,309,084

Revenues

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

The following graphically illustrates the revenues by source (both operating and certain nonoperating) which were used to fund the University's operating activities for the year ended June 30, 2006:



Student tuition and state appropriations are primary sources of funding for the University's academic programs. State appropriation revenue remained relatively consistent between fiscal year 2005 and fiscal year 2006. Tuition revenue increased by \$48 million during fiscal year 2006. The increase in tuition is due to a 9% tuition increase approved by the Board of Trustees for fiscal year 2006 and additional tuition as the result of special tuition differentials in various graduate and undergraduate programs. Payments made by the State on behalf of the University to Central Management Services (CMS) and the State Universities Retirement System (SURS) for FY06 were \$328 million compared to \$347 million in FY05. This decrease is caused by reduced state funding for employer required contributions to the State Universities Retirement System. GASB reporting requires disclosure of all estimated allocations to the University be included in the current year statement of revenues, expenses and changes in net assets.

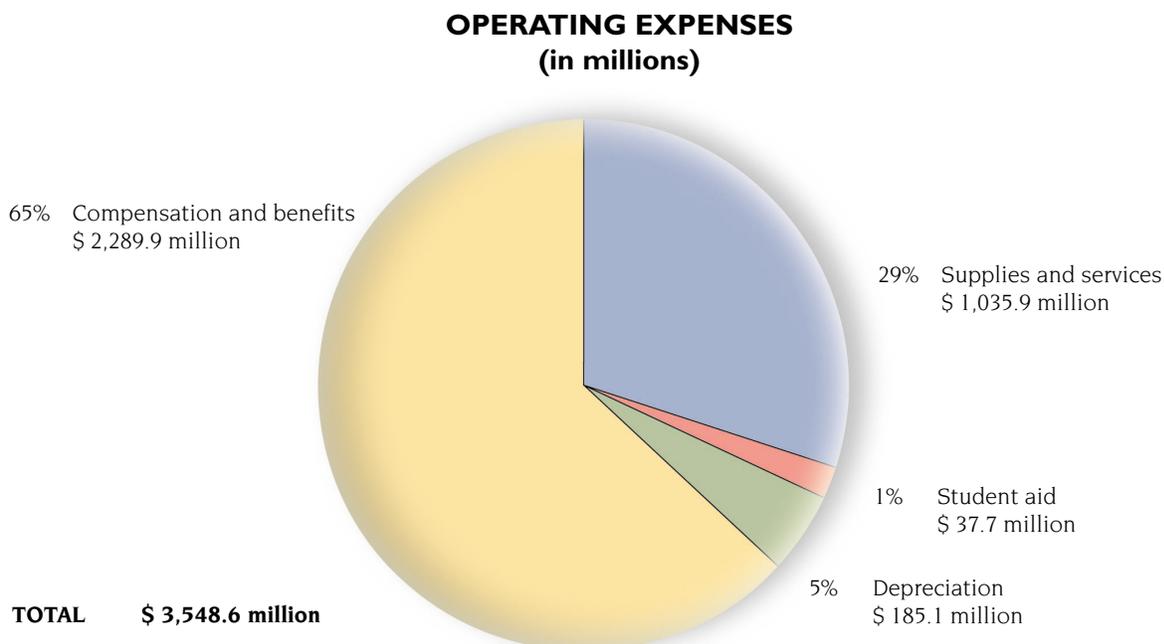
Expenses

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

OPERATING EXPENSES (in thousands)				
	2006		2005	
Instruction	\$ 666,200	18.8%	\$ 677,813	19.5%
Research	556,874	15.8%	557,058	16.0%
Public service	300,990	8.5%	277,626	8.0%
Support services	451,271	12.7%	450,280	13.0%
Hospital and medical activities	406,466	11.4%	394,122	11.4%
Auxiliary enterprises and independent operations	239,574	6.7%	217,040	6.3%
Scholarships and fellowships	185,155	5.2%	175,166	5.0%
Operation and maintenance of plant	229,038	6.5%	199,183	5.7%
Depreciation	185,105	5.2%	175,978	5.1%
On behalf payments for fringe benefits	327,927	9.2%	347,232	10.0%
	\$ 3,548,600		\$ 3,471,498	

Operating expenses per the Statement of Revenues, Expenses and Changes in Net Assets increased by \$77 million during fiscal year 2006. Expenses related to the University's mission of instruction, research and public service increased by 1%, or \$11.6 million in 2006. Hospital and medical activities expenses increased by \$12.3 million or 3% which correlates to normal inflationary increases during fiscal year 2006. Depreciation expense increased \$9.1 million due to new buildings and improvements being completed and placed in service in FY06. Other increases are attributable to self supporting operations and scholarship and fellowship expenses which correlate with inflation and corresponding revenue increases.

The University chooses to report their expenses by functional classifications in the Statement of Revenues, Expenses and Changes in Net Assets. For the reader's information, the expenses are displayed in their natural classification in Note 15. The following graph illustrates the expenses by natural classification:



STATEMENT OF CASH FLOWS

The Statement of Cash Flows provides information about the University's financial results, by reporting the major sources and uses of cash. A comparative summary of the statement of cash flows for the years ended June 30, 2006 and 2005 is as follows:

	(in thousands)	
	2006	2005
Cash flows from operating activities:		
Total sources	\$ 2,436,210	\$ 2,294,791
Total uses	(3,026,089)	(2,879,173)
Net cash flows used by operating activities	(589,879)	(584,382)
Cash flows from noncapital financing activities:		
State appropriations	655,838	658,325
Gifts transferred from the Foundation	116,111	107,278
Other sources, net	24,187	(2,467)
Net cash flows provided by noncapital financing activities	796,136	763,136
Cash flows from capital and related financing activities:		
Proceeds from debt issues	198,746	172,624
State capital appropriations	9,004	20,322
Payments of principal and interest on bonds and capital leases	(150,576)	(176,286)
Payment of bond issuance costs	(1,330)	(1,113)
Purchase of capital assets	(226,475)	(219,299)
Other sources, net	19,479	37,594
Net cash flows used by capital and related financing activities	(151,152)	(166,158)
Cash flows from investing activities:		
Interest and dividends received	37,820	30,586
Proceeds from sales and maturities of investments		
net of cash paid for investment purchases	27,369	(52,657)
Net cash flows provided (used) by investing activities	65,189	(22,071)
Net increase (decrease) in cash and cash equivalents	120,294	(9,475)
Cash and cash equivalents, beginning of year	266,771	276,246
Cash and cash equivalents, end of year	\$ 387,065	\$ 266,771

The University's cash and cash equivalents increased by \$120 million during fiscal year 2006. This increase is largely due to the issuance of certificates of participation during the fourth quarter of FY06 and increases in proceeds from sales and maturities of investments.

THE UNIVERSITY'S ECONOMIC OUTLOOK

The University is well positioned to continue its strong financial condition and level of excellence in service to students, patients, the research community, the state and the nation. A critical element to the University's future continues to be a strong relationship with the State of Illinois. State appropriations from the Governor and General Assembly provide essential operating support for University programs. The direct appropriation for fiscal year 2007, signed into law by the Governor, reflects an increase of approximately \$12.8 million (1.8%) from the fiscal year 2006 approved budget. The State of Illinois also appropriates funds for payments on behalf of University employees to CMS and SURS to pay benefits for our employees. The fiscal year 2007 budget is \$388.6 million, an increase of \$61.8 million from the prior year's budget.

The University projects an increase in tuition and miscellaneous departmental revenue. The recommended \$539.8 million fiscal year 2007 tuition and miscellaneous departmental revenue budget represents a \$53.5 million (11.0%) increase from fiscal year 2006. The estimated increase in tuition revenue is due to a general tuition increase for each full time student of \$586 at UIC, \$750 at UIS and \$666 at UIUC. In addition to these, there are several special programs which have differential rate increases along with adjustments for enrollment levels and investment income on tuition revenue. New undergraduate students will have a four year tuition guarantee, this is the third year of the tuition guarantee program.

Private gifts are an important supplement to the University's sources of funding for operating costs, a significant factor in the growth of academic units, and essential for capital acquisition and construction. The University is working with the Foundation to strengthen the future of private giving to the University. Private gifts are budgeted to increase by 8.5% during fiscal year 2007.

Research is a major component of the University's mission. Research leading to the development of new products and services is also the engine driving economic development, another component of the University's mission. The growth in externally sponsored research is testimony to the public and private sector confidence in the University's research faculty. The fiscal year 2007 sponsored project budget is an estimate of grant and contract awards for direct costs and represents a 2.7 % increase from fiscal year 2006.

Under State statute the University of Illinois generates its own power, steam and chilled water to heat, cool and power the University's physical plant. In recent years, the costs of fuel prices have been volatile and at the same time the University has added a significant amount of new building space. These conditions coupled with serious deferred maintenance issues across the campuses, particularly in the power plants, has resulted in substantial utility cost increases. Utility budget increases have been insufficient to keep pace with these large cost increases. As a result, the expenditures have exceeded the budgeted amount for this purpose during the last four years. The University is redoubling its efforts on conservation, deferred maintenance and appropriate funding of the utility production and distribution system to correct this situation.

The University experienced growth from a variety of funding sources during fiscal year 2006 despite essentially unchanged State support. To achieve a continued strong financial position, the University constantly pursues multiple and diverse sources of revenue to support our mission of instruction, research, public service and economic development. The University's Board of Trustees and management are committed to upholding the University's outstanding academic reputation and believe the University's financial condition will remain strong.



AUDITED FINANCIAL STATEMENTS



Statement of Net Assets as of June 30, 2006
with Comparative Totals for 2005 (in thousands)

	University		University Related Organizations	
	2006	2005	2006	2005
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 206,549	\$ 202,418	\$ 4,746	\$ 4,714
Cash and cash equivalents, restricted	180,516	64,353	1,157	1,477
Investments	21,274	102,065		
Investments, restricted	70,978	11,869		
Accrued investment income	5,228	4,056	1,800	1,793
Accounts receivable, net of allowance for uncollectible	326,248	312,637	15,284	18,271
Receivable from State of Illinois General Revenue Fund	929	1,246		
Pledges receivable, net of allowance			5,447	4,445
Notes receivable, net of allowance for uncollectible	14,062	18,578		
Accrued interest on notes receivable	3,011	1,401		
Inventories	25,232	22,902	3	5
Prepaid expenses and deferred charges	16,741	22,631	371	279
Due from related organizations	2,898	500		
Other assets			3,896	3,484
Total Current Assets	873,666	764,656	32,704	34,468
Noncurrent Assets:				
Cash and cash equivalents, restricted			591	330
Investments	353,934	400,301	143,122	140,922
Investments, restricted	262,184	218,304	923,111	803,136
Pledges receivable, net of allowance			17,769	13,780
Notes receivable, net of allowance for uncollectible	42,086	35,421		
Real estate and farm properties	13,468	13,491	26,021	22,601
Prepaid expenses	8,849	7,706		
Due from related organizations	6,774	4,560		
Irrevocable trust held by other trustees			9,562	9,192
Capital assets, net of accumulated depreciation	2,969,989	2,867,380	9,164	11,814
Other assets	6,137	4,362	14,777	11,258
Total Noncurrent Assets	3,663,421	3,551,525	1,144,117	1,013,033
TOTAL ASSETS	\$ 4,537,087	\$ 4,316,181	\$ 1,176,821	\$ 1,047,501
LIABILITIES AND NET ASSETS				
Current Liabilities:				
Accounts payable and accrued liabilities	\$ 144,472	\$ 134,998	\$ 41,196	\$ 25,925
Accrued payroll	115,608	104,840	457	393
Accrued compensated absences, current portion	16,671	16,378	922	812
Accrued self-insurance, current portion	34,105	29,912		
Deferred revenue and student deposits	141,275	131,572	761	777
Accrued interest payable	13,648	15,262		
Notes payable			6,657	9,875
Annuities payable			7,331	6,360
Bonds payable, current portion	29,133	23,813		
Due to related organizations, current portion			2,898	500
Leaseholds payable and other obligations, current portion	32,691	27,244		
Assets held for others	42,843	40,015		
Total Current Liabilities	570,446	524,034	60,222	44,642
Noncurrent Liabilities:				
Bonds payable	805,579	756,459		
Leaseholds payable and other obligations	492,332	435,843		
Due to related organizations			6,774	4,560
Accrued compensated absences	190,636	189,697		
Accrued self-insurance	108,109	101,064		
Annuities payable			44,359	43,683
Remainder interest due to others			6,660	6,766
Deferred distributions			46	42
Total Noncurrent Liabilities	1,596,656	1,483,063	57,839	55,051
Total Liabilities	2,167,102	2,007,097	118,061	99,693
NET ASSETS				
Invested in capital assets, net of related debt	1,834,372	1,780,064	2,507	1,939
Restricted:				
Nonexpendable	45,520	45,119	703,487	631,778
Expendable	364,599	327,405	328,947	286,986
Unrestricted	125,494	156,496	23,819	27,105
Total Net Assets	2,369,985	2,309,084	1,058,760	947,808
TOTAL LIABILITIES AND NET ASSETS	\$ 4,537,087	\$ 4,316,181	\$ 1,176,821	\$ 1,047,501

See accompanying notes to financial statements.

Statement of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2006 with Comparative Totals for 2005 (in thousands)

	University		University Related Organizations	
	2006	2005	2006	2005
OPERATING REVENUES:				
Student tuition and fees, net	\$ 554,856	\$ 507,137	\$	\$
Fee for services - state appropriation	44,626	46,117		
Federal appropriations	15,805	16,819		
Federal grants and contracts	601,846	608,403		
State of Illinois grants and contracts	59,944	62,710		
Private gifts, grants, and contracts	108,159	89,615	114,954	98,579
Educational activities	197,089	181,118		
Auxiliary enterprises, net	282,321	264,660		
Hospital and other medical activities, net	408,406	379,815		
Medical service plan	141,336	138,624		
Independent operations	11,786	8,744		
Interest and service charges on student loans	2,913	759		
On behalf - hospital and other medical activities	61,221	60,635		
Allocation from the University			8,642	7,325
Other sources			30,968	27,511
TOTAL OPERATING REVENUES	2,490,308	2,365,156	154,564	133,415
OPERATING EXPENSES:				
Instruction	666,200	677,813		
Research	556,874	557,058		
Public service	300,990	277,626		
Academic support	218,043	206,894		
Student services	82,656	79,616		
Institutional support	150,572	163,770	35,213	30,831
Operation and maintenance of plant	229,038	199,183		
Scholarships and fellowships	185,155	175,166		
Auxiliary enterprises	229,935	207,825		
Hospital and medical activities	406,466	394,122		
Independent operations	9,639	9,215		
Depreciation	185,105	175,978	328	314
On behalf payments for fringe benefits	327,927	347,232		
Distributions on behalf of the University			127,279	122,521
TOTAL OPERATING EXPENSES	3,548,600	3,471,498	162,820	153,666
Operating loss	(1,058,292)	(1,106,342)	(8,256)	(20,251)
NONOPERATING REVENUES (EXPENSES):				
State appropriations	655,521	653,913		
Private gifts	116,111	120,844		
On behalf payments for fringe benefits	266,706	286,597	1,770	1,517
Net investment income (net of interest expense of \$2,110 in 2006)	38,992	35,077	7,499	3,288
Net increase in the fair value of investments	3,200	11,593	85,957	66,724
Interest on capital asset related debt	(61,657)	(59,068)	(465)	(228)
Loss on sale/disposal of capital assets	(1,063)	(3,933)		
Other nonoperating revenues	35,575	10,167		
Other nonoperating expenses			(6,950)	(1,363)
NET NONOPERATING REVENUES (EXPENSES)	1,053,385	1,055,190	87,811	69,938
Income (loss) before other revenues, expenses, gains, or losses	(4,907)	(51,152)	79,555	49,687
Capital state appropriations	53,961	65,994		
Capital gifts and grants	11,639	26,445		
Private gifts for endowment purposes	208	1,256	31,397	24,445
INCREASE IN NET ASSETS	60,901	42,543	110,952	74,132
NET ASSETS, BEGINNING OF YEAR, AS RESTATED	2,309,084	2,266,541	947,808	873,676
NET ASSETS, END OF YEAR	\$ 2,369,985	\$ 2,309,084	\$ 1,058,760	\$ 947,808

See accompanying notes to financial statements.

Statement of Cash Flows

Year Ended June 30, 2006 with Comparative Totals for 2005 (in thousands)

	University		University Related Organizations	
	2006	2005	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:				
Student tuition and fees	\$ 559,611	\$ 506,419	\$	\$
Medical fees for service - state appropriations	44,626	46,117		
Federal, state, and local grants and contracts	680,459	685,111		
Nongovernmental sponsored programs	101,775	92,612	3,336	3,783
Sales and services of educational and other departmental activities	202,755	172,445		
Contributions and gifts			97,889	76,841
Service fee revenue			16,233	8,937
Auxiliary activities and independent operations	293,345	275,793		652
Hospital and other medical activities	407,355	370,042		
Medical service plan	131,910	125,842		
Distributions on behalf of the University			(116,802)	(105,538)
Allocation from the University			8,226	6,555
Payments to employees and benefits	(1,947,205)	(1,806,820)	(16,800)	(14,628)
Payments to suppliers	(1,025,991)	(994,966)	(11,039)	(8,799)
Payments to annuitants	(39,086)	(62,749)		(7,491)
Student loans issued	(13,807)	(14,638)		
Student loans collected	13,071	19,717	(8,088)	
Student loan interest and fees collected	1,303	693		
Other operating revenue			8,193	11,972
NET CASH USED BY OPERATING ACTIVITIES	(589,879)	(584,382)	(18,852)	(27,716)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
State appropriations	655,838	658,325		
Gifts transferred from University of Illinois Foundation	116,111	107,278		
Private gifts for endowment purposes	663	104	31,397	24,445
Advance and repayments to related organizations, net	(4,611)	300	(400)	(300)
Other, net	28,135	(2,871)	(78)	(1,621)
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	796,136	763,136	30,919	22,524
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Proceeds from issuance of capital debt	198,746	172,624		2,582
Capital state appropriations	9,004	20,322		
Capital gifts and grants	9,634	37,594		
Proceeds from the sale of capital assets	9,845		3,084	
Purchase of capital assets	(226,475)	(219,299)	(713)	(3,319)
Principal payments on bonds and capital leases	(100,707)	(129,486)		
Interest payments on bonds and capital leases	(49,869)	(46,800)	(396)	(228)
Payment on notes payable			(4,803)	(220)
Payment of bond issuance costs	(1,330)	(1,113)		
Other net			(323)	
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES:	(151,152)	(166,158)	(3,151)	(1,185)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest and dividends on investments, net	37,820	30,586	9,789	4,887
Proceeds from sales and maturities of investments	10,966,314	8,139,616	1,004,680	882,368
Purchase of investments	(10,938,945)	(8,192,273)	(1,023,412)	(880,942)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	65,189	(22,071)	(8,943)	6,313
Net increase (decrease) in cash and cash equivalents	120,294	(9,475)	(27)	(64)
Cash and Cash Equivalents, Beginning of Year	266,771	276,246	6,521	6,585
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 387,065	\$ 266,771	\$ 6,494	\$ 6,521

Statement of Cash Flows

Year Ended June 30, 2006 with Comparative Totals for 2005 (in thousands) - (continued)

	University		University Related Organizations	
	2006	2005	2006	2005
Reconciliation of operating loss to net cash used by operating activities:				
Operating loss	\$ (1,058,292)	\$ (1,106,342)	\$ (8,256)	\$ (20,251)
Adjustments to reconcile operating loss to net cash used by operating activities:				
On behalf payments for reimbursement of hospital and medical activities	(61,221)	(60,635)		
On behalf payments for fringe benefits expense	327,927	347,232	1,770	1,517
Depreciation expense	185,105	175,978	328	314
Change in value of split interest agreements				(1,352)
Changes in assets and liabilities:				
Accounts receivable, net	(14,042)	(31,170)	633	(30)
Notes receivable, net	(2,149)	7,360		
Accrued interest on notes receivable	(1,610)	(65)		
Inventories	(2,330)	1,440	2	(1)
Prepaid expenses and deferred charges	1,671	3,315	(90)	(61)
Pledges receivable			(5,000)	(4,000)
Noncurrent assets other			(8,289)	(4,605)
Accounts payable	(707)	12,517	(79)	244
Accrued payroll	10,768	8,026	4	30
Deferred revenue and student deposits	9,703	1,789	15	707
Accrued compensated absences	1,232	22,705	110	45
Accrued self-insurance	11,238	32,938		
Assets held for others	2,828	530		(273)
Net cash used by operating activities	\$ (589,879)	\$ (584,382)	\$ (18,852)	\$ (27,716)
Noncash investing, capital, and financing activities:				
On behalf payments for fringe benefits	\$ 266,706	\$ 286,597	\$ 1,770	\$ 1,517
Gifts in kind	2,005	2,418	19,406	26,049
Capital assets in accounts payable	48,961	37,463	49	
Capital asset acquisitions by CDB	44,957	45,672		
Capital asset acquisitions via leaseholds payable	11,096	27,557		
Capital appreciation on bonds payable	10,662	10,217		
Net interest capitalized	1,263	4,028		
Other capital asset adjustments	1,329	9,606		
Loss on sale/disposal of capital assets	1,063	3,934		

See accompanying notes to financial statements.

NOTE I - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Basis of Presentation

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

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

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

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

The Alumni Association was formed to promote the general welfare of the University and to encourage and stimulate interest among students, former students and others in the University's programs. In this capacity, the Alumni Association offers memberships in the Alumni Association to former students, conducts various activities for students and alumni, and publishes periodicals for the benefit of alumni. Complete financial statements for the Alumni Association may be obtained by writing the Director of Administration and Business Affairs, Alice Campbell Alumni Center, 601 S. Lincoln Avenue, Urbana, IL 61801.

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

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

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

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

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

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

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

The basic financial statements include prior year comparative information, which has been derived from the University's 2005 financial statements. Such information does not include all of the information required to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the University's financial statements for the year ended June 30, 2005.

Certain items in the June 30, 2005 financial statements have been reclassified to correspond to the June 30, 2006 presentation.

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

Significant Accounting Policies

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

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

Scholarships and fellowships of \$123,697,000 and \$2,186,000 are netted against student tuition and fees and auxiliary enterprises revenues, respectively. Stipends and other payments made directly to students are reported as scholarship and fellowship expense. Net tuition and fees, except for Summer Session, are recognized as revenues as they are assessed. The portion of Summer Session tuition and fees applicable to the following fiscal year is deferred.

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

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

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

In accordance with GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, the University reported payments made to the State Universities Retirement System on behalf of the Entity for contributions to retirement programs for Entity employees of approximately \$70,463,000 for the year ended June 30, 2006. Substantially all employees participate in group health insurance plans administered by the State of Illinois. The employer contributions to these plans for University employees paid by State appropriations and auxiliary enterprises are paid to Central Management Services on behalf of the University. The employer contributions to these plans on behalf of employees paid from other University-held funds are paid by the University. The on behalf payments are approximately \$257,464,000 for 2006. The cost of these benefits paid on behalf of the Hospital are reflected as operating revenues as the result of certain contractual agreements. All other on behalf payments are reflected as nonoperating revenues. In all cases, the corresponding on behalf expense is reflected as operating and reported in on behalf payments for fringe benefits.

With respect to the Hospital, net patient service revenue is reported at the estimated net realizable amounts due from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Approximately 92% of the Hospital's net patient service revenues were derived from Medicare, Medicaid, Blue Cross and managed care programs for the

year ended June 30, 2006. Payments under these programs are based on established program rates or costs, as defined, of rendering services to program beneficiaries. The Hospital provides contractual allowances on a current basis for the differences between charges for services rendered and the expected payments under these programs. For the year ended June 30, 2006, the contractual allowances totalled \$706,612,000.

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

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

Employment contracts for certain academic personnel provide for twelve monthly salary payments, although the contracted services are rendered during a nine month period. The liability for those employees who have completed their contracted services, but have not yet received final payment, was approximately \$46,428,000 at June 30, 2006 and is recorded in the accompanying financial statements. This amount will be paid from amounts specifically included in State of Illinois General Revenue Fund appropriations to the University for fiscal year 2007 rather than from the unrestricted net assets available at June 30, 2006.

Accrued compensated absences for Entity personnel are charged as an operating expense, using the vesting method, based on earned but unused vacation and sick leave days including the Entity's share of social security and medicare taxes. At June 30, 2006, the University estimates that \$134,689,000 of the accrued compensated absences liability will be paid out of State of Illinois General Revenue Fund appropriations to the University in subsequent years, rather than from unrestricted net assets available at June 30, 2006.

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

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

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

Capital assets are recorded at cost or fair value at the date of a gift. Depreciation of the capital assets is calculated on a straight-line basis over the estimated useful lives (three to fifty years) of the respective assets. The University's policy requires the capitalization of all land and collection purchases regardless of cost, equipment at \$5,000, buildings and improvements at \$100,000, and infrastructure at \$1,000,000. The Entity does not capitalize collections of works of art or historical treasures held for public exhibition, education, or research in furtherance of public service rather than capital gain, unless they were capitalized as of June 30, 1999. Proceeds from the sale, exchange, or other disposal of any item belonging to a collection of works of art or historical treasures must be applied to the acquisition of additional items for the same collection.

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

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

NOTE 2 - CASH, CASH EQUIVALENTS AND DEPOSITS

The carrying amount of the University's and the UROs' cash totalled \$(16,870,000) and \$4,831,000 at June 30, 2006, respectively.

The total bank account balances at June 30, 2006, of the University and the UROs, aggregated \$6,903,000, and \$4,131,000, respectively, of which \$6,903,000, and \$4,067,000, respectively, was covered by federal depository insurance or by collateral held by an agent in the Entity's name.

Certificates of Deposit, which are reported as investments per GASB Statement No. 9, for the University and the UROs totaled \$846,000 and \$33,000, respectively, at June 30, 2006 and were covered by federal depository insurance or collateral held by an agent in the Entity's name.

NOTE 3 - INVESTMENTS

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

Illinois Statutes and Board policy authorize the University to invest in obligations of the U.S. Treasury, agencies, and instrumentalities (U.S. Government securities); bank and savings and loan time deposits; corporate bonds, stock and commercial paper; repurchase agreements; and mutual funds. Illinois Statutes require a third party custodian to perfect the University's security interest under repurchase agreements. The University follows industry standards and requires that securities underlying repurchase agreements must have a fair value of at least 102% of the cost of the repurchase agreement. At June 30, 2006, the University and the UROs had repurchase agreements of \$37,600,000 and \$1,663,000, respectively and the market value of securities underlying these repurchase agreements was \$39,185,000 and \$1,663,000, respectively, at June 30, 2006.

Nearly all of the Entity's investments are managed by external professional investment managers. Many of these investments are made through commingled investment vehicles such as common trust funds and mutual funds. A number of the investment managers utilize derivatives in the execution of their investment strategies. In general, managers utilize derivatives to reduce or eliminate undesirable risks, to increase portfolio liquidity and flexibility or to increase investment return within the level of risk defined in the manager's investment guidelines. Examples of authorized derivative transactions would be the hedging of foreign currency exposure through the use of currency forwards, owning mortgage securities with embedded prepayment options or utilizing treasury futures to change the duration of a fixed income portfolio. The Foundation invests in "To Be Announced" (TBA) GNMA and FNMA mortgage rolls. The Foundation does not intend to finance all of its TBA mortgage rolls. The Foundation reports its pending trades as accounts receivable and accounts payable on the gross basis. The Entity did not engage in any other significant derivative transactions during the year ended June 30, 2006.

The University, by the authorization of the Board of Trustees, increases its investment income by lending the University's securities, through its custodian, to independent third parties. Such loans are secured by collateral consisting of cash, cash equivalents or U.S. Government securities and irrevocable bank letters of credit in an amount not less than 102% of the fair value of the securities loaned. Any collateral securities cannot be pledged or sold by the University unless the borrower defaults. The University receives interest and dividends during the loan period as well as a fee from the custodian. At June 30, 2006, 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, 2006, approximately \$212,997,000 of the investments reported on the University's Statement of Net Assets were on loan, secured by collateral with a fair value of approximately \$216,478,000.

Distributions are made from the University Endowment Fund to the University entities that benefit from the endowment funds. The endowment spending rule provides for an annual distribution of 4.75% of the two-quarter lagged, seven-year moving average market value of fund units. At June 30, 2006 net appreciation of \$11,712,000 is available to be spent, of which \$11,022,000 is restricted to specific purposes.

The Board develops University policy on investments and delegates the execution of those policies to its administrative agents. The University follows the State of Illinois Uniform Management of Institutional Funds Act when investing its endowment and operating funds. The State of Illinois Public Funds Investment Act provides the context and framework for plant fund investments. The following details the carrying value of the Entity's investment portfolio as of June 30, 2006:

**UNIVERSITY CASH EQUIVALENTS
AND INVESTMENTS**
(in thousands)

Certificates of Deposit	\$	846
U.S. Treasury Put		4,345
U.S. Treasury Bonds and Bills		192,003
U.S. Government Agencies		115,352
Commercial Paper		71,490
Corporate Bonds		126,641
Bond Mutual Funds		62,196
Non Government Mortgage Backed Securities		74,897
Non U.S. Government Bonds		3,971
Repurchase Agreements		37,600
Subtotal		689,341
US Equities		20,175
International Equities		39,241
U.S. Equity Mutual Funds		111,715
Limited Partnerships		3,744
Real Estate		138
Money Market Funds		246,753
Illinois Public Treasurer's Investment Pool		1,198
TOTAL	\$	1,112,305

**URO CASH EQUIVALENTS
AND INVESTMENTS**
(in thousands)

Certificates of Deposit	\$	33
U.S. and Other Government Securities		65,022
Municipal Bonds		331
Corporate Bonds and Notes		61,026
Mutual Funds - Bonds		125,579
Mutual Funds - Municipal Bonds		2,244
Mutual Funds - Blended Bonds		4,562
Repurchase Agreements		1,663
Subtotal		260,460
U.S. Equities		286,381
International Equities		174,385
Preferred Stock		6
Mutual Funds - Stocks		202,794
Mutual Funds - Bonds		10,582
Money Market Funds		27,967
Real Estate Trust and Partnerships		101,623
Other		3,698
TOTAL	\$	1,067,896

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University employs multiple investment managers, of which each has specific maturity assignments related to the operating funds. The funds are structured with different layers of liquidity. Funds expected to be used within one year are invested in money market instruments. Core operating funds are invested in longer maturity investments. Core operating funds investment manager's performance benchmarks are Lehman Brothers 1-3 year Government Credit Bond Index and the Lehman Brothers Intermediate Aggregate Bond Index. The University's manager guidelines provide that the average weighted duration of the portfolio, including option positions, not vary from that of their respective performance benchmarks by more than +/-20 percent. The Entity's investments and maturities at June 30, 2006 are illustrated below:

UNIVERSITY INVESTMENT MATURITIES
(in thousands)

	Total	Less than 1	1 - 5	6 - 10	Greater than 10
Certificates of Deposit	\$ 846	\$ 846	\$	\$	\$
U.S. Treasury Put	4,345	4,345			
U.S. Treasury Bonds and Bills	192,003	112,050	59,434	18,380	2,139
U.S. Government Agencies	115,352	27,284	27,822	4,872	55,374
Commercial Paper	71,490	71,490			
Corporate Bonds	126,641	3,954	85,775	19,642	17,270
Bond Mutual Funds	62,196	5,193	8,073	37,733	11,197
Non Government Mortgage Backed Securities	74,897		566	1,259	73,072
Non U.S. Government Bonds	3,971		3,512	459	
Repurchase Agreements	37,600	37,600			
TOTAL	\$ 689,341	\$ 262,762	\$ 185,182	\$ 82,345	\$ 159,052

At June 30, 2006, the University's operating funds pool portfolio had an effective duration of 1.8 years.

URO INVESTMENT MATURITIES (in thousands)

	Total	Less than 1	1 - 5	6 - 10	Greater than 10
Certificates of Deposit	\$ 33	\$ 33	\$	\$	\$
U.S. and Other Government Securities	65,022		1,479	22,446	41,097
Municipal Bonds	331			331	
Corporate Bonds and Notes	61,026	119	2,769	2,019	56,119
Mutual Funds - Bonds	125,579	41,923	26,532	53,051	4,073
Mutual Funds - Municipal Bonds	2,244	248	711	926	359
Mutual Funds - Blended Bonds	4,562		3,586	976	
Repurchase Agreements	1,663	1,663			
TOTAL	\$ 260,460	\$ 43,986	\$ 35,077	\$ 79,749	\$ 101,648

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The University's policy requires that operating funds be invested in fixed income securities and money market instruments. Fixed income securities shall be rated investment grade or better by one or more nationally recognized statistical rating organizations. Securities not covered by the investment grade standard are allowed if, in the manager's judgment, those instruments are of comparable credit quality. Securities which fall below the stated minimum credit requirements subsequent to initial purchase may be held at the manager's discretion. It is expected that the average credit quality of the operating funds will not fall below Standard & Poor's AA- or equivalent. At June 30, 2006 the University and the UROs had debt securities and quality ratings as shown in the charts below:

UNIVERSITY INVESTMENTS QUALITY RATINGS (in thousands)

	Total	AAA/Aaa	AA/Aa	A/BA	BBB/Baa	BB/Ba	Less than BB or Not Rated
Certificates of Deposit	\$ 846	\$	\$	\$	\$	\$	\$ 846
U.S. Treasury Put	4,345						4,345
U.S. Treasury Bonds and Bills	192,003	192,003					
U.S. Government Agencies	115,352	115,352					
Commercial Paper	71,490	71,490					
Corporate Bonds	126,641	27,272	6,205	39,583	35,434	9,704	8,443
Bond Mutual Funds	62,196	46,655	1,651	1,905	4,032	6,525	1,428
Non Government Mortgage Backed Securities	74,897	70,823	856	555			2,663
Non U.S. Government Bonds	3,971	767	1,455	290	1,459		
Repurchase Agreements	37,600						37,600
TOTAL	\$ 689,341	\$ 524,362	\$ 10,167	\$ 42,333	\$ 40,925	\$ 16,229	\$ 55,325

URO INVESTMENTS QUALITY RATINGS (in thousands)

	Total	AAA/Aaa	AA/Aa	A/BA	BBB/Baa	BB/Ba	Less than BB or Not Rated
Certificates of Deposit	\$ 33	\$	\$	\$	\$	\$	\$ 33
U.S. Government Agencies	65,022	63,871		49	1,102		
Municipal Bonds	331	331					
Corporate Bonds and Notes	61,026	25,996	11,111	5,398	6,139	8,202	4,180
Mutual Funds - Bonds	125,579	101,494	8,583	10,126	2,063	3,292	21
Mutual Funds - Municipal Bonds	2,244	1,481	441	113	75	2	132
Mutual Funds - Blended Bonds	4,562	263	3,863	412			24
Repurchase Agreements	1,663						1,663
TOTAL	\$ 260,460	\$ 193,436	\$ 23,998	\$ 16,098	\$ 9,379	\$ 11,496	\$ 6,053

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, 2006, the University's investments and deposits have no custodial credit risk exposure.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the University's investment in a single issuer. The University's policy provides that the total operating funds portfolio will be broadly diversified across securities in a manner that is consistent with fiduciary standards of diversification. This diversification is achieved by employing multiple investment managers and imposing maximum position limits for each manager. The University's manager guidelines for operating investments provide that non-U.S. government obligations may not exceed 10% per issuer and private mortgage-backed and asset-backed securities may not exceed 10% per issuer (unless collateral is credit independent of the issuer and the security's credit enhancement is generated internally, in which case the limit is 25% per issuer). Obligations with other issuers, other than the U.S. government, U.S. agencies, or U.S. government sponsored corporations and agencies, may not exceed 5%. As of June 30, 2006, not more than 5% of the University's total investments were invested in securities of any one issuer, excluding securities issued or guaranteed by the U.S. government, mutual funds, and external investment pools or other pooled investments.

Foreign Currency Risk: Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The University's operating fund investments generally are not exposed to foreign currency risk. Under the manager's guidelines, the portfolio's foreign currency exposure may be unhedged or hedged back into U.S. dollars. Cross hedging is not permitted. The manager may invest up to 20% of the portfolio in emerging market securities. The U.S. dollar balances of the Entity's cash equivalents and investments exposed to foreign currency risk as of June 30, 2006 are categorized by currency below:

UNIVERSITY INVESTMENTS FOREIGN CURRENCY EXPOSURE

(in thousands)

	Total	Cash Equivalents	Equity Investments
European Euro	\$ 14,488	\$ 10	\$ 14,478
British Pound	8,950		8,950
Japanese Yen	2,665		2,665
Swedish Krona	1,404		1,404
All other currency	11,744		11,744
TOTAL	\$ 39,251	\$ 10	\$ 39,241

URO INVESTMENTS FOREIGN CURRENCY EXPOSURE

(in thousands)

	Total	Cash Equivalents	Equity Investments
European Euro	\$ 50,887	\$ 582	\$ 50,305
British Pound	48,118	248	47,870
Japanese Yen	40,392	439	39,953
Swiss Franc	11,064	5	11,059
Swedish Krona	6,002	3	5,999
All other currency	50,988	2,787	48,201
TOTAL	\$ 207,451	\$ 4,064	\$ 203,387

NOTE 4 - ACCOUNTS, NOTES, AND PLEDGES RECEIVABLE

The Entity provides allowances for uncollectible accounts and notes receivable based upon management's best estimate of uncollectible accounts and notes at the Statement of Net Assets date, considering type, age, collection history of receivables, and any other factors as considered appropriate. Accounts receivable are reported net of allowances of \$266,698,000 at June 30, 2006. Notes receivable are reported net of allowances of \$2,267,000 at June 30, 2006.

The composition of accounts receivable and notes and pledges receivable at June 30, 2006 is summarized as follows:

ACCOUNTS RECEIVABLE (in thousands)		NOTES AND PLEDGES RECEIVABLE (in thousands)	
Receivables from sponsoring agencies	\$ 163,655	Student notes - University:	
Hospital and other medical activities	80,842	Student notes outstanding	\$ 58,415
Student tuition and fees, net of allowances	22,342	Allowance for uncollectible loans	(2,267)
Auxiliaries, net of discounts and allowances	9,251	Total student notes, net	<u>\$ 56,148</u>
Medical service plan	37,572	Gift pledges outstanding - UROs:	
Educational activities	11,328	Operations	\$ 22,850
Other	1,258	Capital	<u>12,699</u>
TOTAL	<u>\$ 326,248</u>	Total gift pledges outstanding	35,549
		Less:	
		Allowance and unamortized discount to present value	(12,333)
		Total pledges receivable, net	<u>\$ 23,216</u>

NOTE 5 - CAPITAL ASSETS

Net interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Net interest of \$1,263,000 was capitalized during the year ended June 30, 2006.

Capital assets activity for the University and the UROs for the year ended June 30, 2006 is summarized as follows:

UNIVERSITY CAPITAL ASSETS (in thousands)					
	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Nondepreciable Capital Assets:					
Land	\$ 119,631	\$ 9,008	\$ (6,788)	\$	\$ 121,851
Construction in progress	230,729	197,758		(165,513)	262,974
Inexhaustible collections	13,681	338			14,019
Total nondepreciable capital assets	<u>364,041</u>	<u>207,104</u>	<u>(6,788)</u>	<u>(165,513)</u>	<u>398,844</u>
Depreciable Capital Assets:					
Buildings	2,486,514		(637)	152,531	2,638,408
Improvements and infrastructure	539,078			12,982	552,060
Equipment and software	1,054,881	68,971	(40,694)		1,083,158
Library materials	382,740	22,547			405,287
Subtotal	<u>4,463,213</u>	<u>91,518</u>	<u>(41,331)</u>	<u>165,513</u>	<u>4,678,913</u>
Less accumulated depreciation	<u>1,959,874</u>	<u>185,105</u>	<u>(37,211)</u>		<u>2,107,768</u>
Total net depreciable capital assets	<u>2,503,339</u>	<u>(93,587)</u>	<u>(4,120)</u>	<u>165,513</u>	<u>2,571,145</u>
TOTAL	<u>\$ 2,867,380</u>	<u>\$ 113,517</u>	<u>\$ (10,908)</u>	<u>\$</u>	<u>\$ 2,969,989</u>

URO CAPITAL ASSETS (in thousands)

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Nondepreciable Capital Assets:					
Land	\$ 934				\$ 934
Farmland	647				647
Buildings held for the University's further use	8,964		(3,084)		5,880
Total nondepreciable capital assets	10,545		(3,084)		7,461
Depreciable Capital Assets:					
Buildings	492				492
Leasehold improvements	92				92
Equipment and software	2,897	762			3,659
Subtotal	3,481	762			4,243
Less accumulated depreciation	2,212	328			2,540
Total net depreciable capital assets	1,269	434			1,703
TOTAL	\$ 11,814	\$ 434	\$ (3,084)	\$	\$ 9,164

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

The University's accrued self-insurance liability of \$142,214,000 at June 30, 2006 covers hospital patient liability; hospital and medical professional liability; estimated general and contract liability; and workers' compensation liability related to employees paid from local funds. The accrued self-insurance liability was discounted at a rate of 6% at June 30, 2006. Amounts increasing the accrued self-insurance liability are charged as expenses based upon estimates made by actuaries and the University's risk management division. The workers' compensation self-insurance liability of \$10,059,000 at June 30, 2006 related to employees who are paid from State appropriations is included in the University's accounts payable. These claims will be paid from State appropriations in the year in which the claims are finalized, rather than from unrestricted net assets as of June 30, 2006.

Accrued self-insurance includes \$99,806,000 at June 30, 2006 for the currently estimated ultimate cost of uninsured medical malpractice liabilities. Ultimate cost consists of amounts estimated by the University's risk management division and independent actuaries for asserted claims, unasserted claims arising from reported incidents, expected litigation expenses, and amounts determined by actuaries using relevant industry data and Hospital specific data to cover projected losses for claims incurred but not reported. Because the amounts accrued are estimates, the aggregate claims actually incurred could differ significantly from the accrued self-insurance liability at June 30, 2006. Changes in these estimates will be reflected in the Statement of Revenues, Expenses and Changes in Net Assets in the period when additional information is available.

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

CHANGES IN ACCRUED SELF-INSURANCE (in thousands)

	2006	2005
Balance, beginning of year	\$ 130,976	\$ 98,038
Claims incurred and changes in estimates	45,563	79,137
Claim payments	(34,325)	(46,199)
Balance, end of year	142,214	130,976
Less current portion	(34,105)	(29,912)
Balance, end of year - noncurrent portion	\$ 108,109	\$ 101,064

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

**CHANGES IN
COMPENSATED ABSENCES BALANCE**
(in thousands)

Balance, beginning of year	\$ 206,075
Additions/(Deductions)	1,232
Balance, end of year	<u>207,307</u>
Less current portion	<u>(16,671)</u>
Balance, end of year - noncurrent portion	<u>\$ 190,636</u>

NOTE 7 - BONDS AND NOTES PAYABLE

On February 2, 2006 the University issued UIC South Campus Development Project Revenue Bonds Series 2006A in the amount of \$53,700,000 to refund in advance of maturity and defease all of the \$49,365,000 outstanding principal amount of the UIC South Campus Development Project Revenue Bonds Series 1999 and to pay costs incidental to the issuance of the Series 2006A bonds. The refunding resulted in savings of \$5,500,000 over the life of the issue at a present value of approximately \$4,950,000. The difference between the reacquisition price and the net carrying amount of the old debt, loss on refunding, was \$4,189,000. 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.

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

BONDS PAYABLE
(in thousands)

	Maturity Dates	Beginning Balance	New Debt	Principal Paid/Debt Refunded	Ending Balance	Current Portion
AUXILIARY FACILITIES SYSTEM -						
Current Interest Bonds	2007-2035	\$ 474,035	\$ 67,305	\$ 15,120	\$ 526,220	\$ 9,515
Capital Appreciation Bonds	2007-2030	283,945		3,890	280,055	15,015
WILLARD AIRPORT	2007-2009	970		225	745	235
HEALTH SERVICES FACILITIES SYSTEM	2007-2026	64,900		1,670	63,230	1,755
UIC SOUTH CAMPUS	2007-2023	79,330	53,700	52,540	80,490	3,190
		<u>\$ 903,180</u>	<u>\$ 121,005</u>	<u>\$ 73,445</u>	950,740	29,710
Unaccrued appreciation					(120,729)	(453)
					<u>830,011</u>	29,257
Unamortized debt premium					21,266	790
Unamortized loss on refunding					(16,565)	(914)
TOTAL					<u>\$ 834,712</u>	<u>\$ 29,133</u>

Capital appreciation bonds of \$280,055,000 outstanding at June 30, 2006 do not require current interest payments and have a net unappreciated value of \$159,326,000. The University records the annual increase in the principal amount of these bonds as interest expense and accretion on bonds payable.

The UIC South Campus Series 2006A Bonds, the Auxiliary Facilities System Series 2005B Bonds, and the Health Services Facilities System Series 1997B Bonds are variable rate bonds which bear interest at a defined weekly rate and are paid monthly. The required future interest payments for the Series 2006A, Series 2005B, and Series 1997B Bonds have been calculated using the current interest rate, based upon short term tax exempt rates, of 3.98%, 3.95%, and 4%, respectively, over the life of the bonds. Other outstanding bond issues bear interest at fixed rates ranging from 2.25% to 7.96%.

To facilitate the advance refunding of the UIC South Campus Development Project Series 1999 Bonds and, as a means to lower its borrowing costs, when compared against fixed-rate bonds at the time of issuance in February 2006, the University entered into two interest rate swaps in connection with its \$53,700,000 variable-rate Bonds (UIC South Campus Development Project) Series 2006A. The intention of the swaps was to effectively change the University's variable interest rate on the Bonds to a synthetic fixed rate of 1.030% through August 1, 2007 and 4.292% thereafter, which includes the Bonds' current liquidity facility fee. In addition, there is a 0.070% current remarketing fee.

The Bonds and related swap agreements mature on January 15, 2022, and the swaps' initial notional amount of \$53,700,000 matches the \$53,700,000 variable-rate Bonds. The swaps were entered at the same time as the Bonds were issued (February 2006). Starting in fiscal year 2011, the notional value of the swaps and the principal amount of the associated bonds decline. Under the swaps, the University pays the counterparties a fixed payment of 0.830% through August 1, 2007 and 4.092% thereafter and receives a variable payment equal to its cost-of-funds through February 3, 2010 and thereafter receives a variable payment equal to 68% of LIBOR. The counterparty credit rating by Standard & Poor's was AA- and by Moody's Investors Service was Aa2 for the first Counterparty. The counterparty credit rating by Standard & Poor's was A+ and by Moody's Investors Service was Aa3 for the second Counterparty.

The University engaged a third-party consultant to calculate the "mark to market" or "market value" of the swap transaction. On June 30, 2006, the combined mark to market value of the two swaps was \$1,129,000. Since this is a positive number it represents an approximation of the amount of money that a swap provider may have been willing to pay the University to terminate the swap. In accordance with governmental accounting standards, this amount is not required to be included in the accompanying financial statements.

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

Using the actual rate of 3.980% in effect as of June 30, 2006, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, were as follows. As rates vary, variable-rate bond interest payments and net swap payments will also vary.

VARIABLE-RATE DEBT SERVICE REQUIREMENTS
(in thousands)

	Variable-Rate Bonds		Interest Rate	Total
	Principal	Interest	Swaps, Net	
2007	\$	\$ 2,138	\$ (1,692)	\$ 446
2008		2,143	(238)	1,905
2009		2,137	60	2,197
2010		2,137	60	2,197
2011	215	2,133	61	2,409
2012-2016	16,490	9,475	309	26,274
2017-2021	29,950	4,585	222	34,757
2022-2025	7,045	153	27	7,225
TOTAL	\$ 53,700	\$ 24,901	\$ (1,191)	\$ 77,410

None of the University's bonds described above constitute obligations of the State of Illinois. Series 1979, Series 1991, Series 1993, Series 1996, Series 1999A, Series 1999B, Series 2000, Series 2001A, Series 2001B, Series 2001C, Series 2003A, Series 2005A, and Series 2005B Auxiliary Facilities System Bonds are payable solely from net revenues of the Auxiliary Facilities System, student tuition and fees and certain restricted plant funds. Series 1997 Bonds are payable solely from the net revenues of the Airport and related restricted plant funds. Series 1997A and 1997B Bonds are payable solely from net revenues of the Health System, Medical Service Plan revenue net of bad debt expense, and College of Medicine net tuition revenue. Series 2000, Series 2003, and 2006A Bonds are payable from revenue derived from the defined tax increment financing (TIF) district, student tuition and fees, and funds on deposit in the Bond and Interest Sinking Fund. In addition, the Series 2000 Bonds are payable from the sales proceeds derived from the sale of certain land in the University of Illinois UIC South Campus Development Project.

During fiscal year 2006, the debt service payments related to the Series 1999, Series 2000, Series 2003, and Series 2006A Bonds were \$8,194,000. Proceeds from the sale of land of \$1,787,000 and revenue from other legally available sources of \$6,407,000 funded these payments.

Costs associated with the issuance of the Series 1991, Series 1993, Series 1996, Series 1999A, Series 1999B, Series 2000, Series 2001A, Series 2001B, Series 2001C, Series 2003A, Series 2005A and Series 2005B Auxiliary Facilities System Bonds; Series 1997 Willard Airport Bonds; Series 1997A and Series 1997B Health Services Facilities Bonds; and Series 2000, Series 2003 and Series 2006A UIC South Campus Bonds have been recorded as deferred charges and are being amortized over the life of the related bond issue.

The Foundation has a demand note outstanding with interest at 5.27% and principal outstanding of \$6,657,000. The change in the balance for fiscal year 2006 is as follows:

CHANGE IN NOTES PAYABLE	
(in thousands)	
Balance, beginning of year	\$ 9,875
Payments	<u>(3,218)</u>
Balance, end of year	<u>\$ 6,657</u>

The University has defeased bonds through advanced funding in prior years and, accordingly, they are not reflected in the accompanying statements. The amount of bonds which have been defeased as of June 30, 2006 consists of the following:

ADVANCE REFUNDED BONDS	
(in thousands)	
Series	Outstanding at June 30, 2006
1978-M	\$ 40,735
1996	43,110
1999	49,365
1999A	85,300
2000	10,785
2001B	<u>3,625</u>
TOTAL	<u>\$ 232,920</u>

Future debt service requirements for all bonds outstanding at June 30, 2006 are as follows:

DEBT SERVICE REQUIREMENTS		
(in thousands)		
	Principal	Interest
2007	\$ 29,710	\$ 32,078
2008	30,305	32,804
2009	31,640	32,098
2010	32,540	31,183
2010	33,710	30,247
2012-2016	191,810	135,185
2017-2021	231,535	104,360
2022-2026	164,695	65,088
2027-2031	141,445	30,809
2032-2036	<u>63,350</u>	<u>5,521</u>
TOTAL	<u>\$ 950,740</u>	<u>\$ 499,373</u>

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

NOTE 8 - LEASEHOLDS AND OTHER OBLIGATIONS

Leaseholds payable and other obligations activity for the year ended June 30, 2006 consist of the following:

LEASEHOLDS AND OTHER OBLIGATIONS (in thousands)					
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
University:					
Certificates of Participation	\$ 407,475	\$ 81,930	\$ (22,105)	\$ 467,300	\$ 26,530
Unamortized debt premium	12,868	1,735	(1,403)	13,200	1,487
Unamortized deferred loss on refunding	(16,808)		1,222	(15,586)	(1,222)
	403,535	83,665	(22,286)	464,914	26,795
Other capital leases	52,411	8,131	(5,157)	55,385	5,587
Environmental remediation liability	7,141		(2,417)	4,724	309
Total University	\$ 463,087	\$ 91,796	\$ (29,860)	\$ 525,023	\$ 32,691
UROs:					
Annuities payable	\$ 50,043	\$ 1,647	\$	\$ 51,690	\$ 7,331
Other liabilities	6,766		(106)	6,660	
Total UROs	\$ 56,809	\$ 1,647	\$ (106)	\$ 58,350	\$ 7,331

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

On June 6, 2006 the University issued Certificates of Participation (Academic Facilities Projects) Series 2006A in the amount of \$81,930,000. The Series 2006A Certificates were issued to acquire, construct and install, and equip a business instructional facility on the Urbana Campus and to finance various improvements to buildings on the University's three campuses.

To facilitate the advance refunding of the Certificates of Participation (Utility Infrastructure Projects) Series 2001 A & B; and, as a means to lower its borrowing costs, when compared against fixed-rate bonds at the time of issuance in March 2004, the University entered into an interest rate swap in connection with its \$143,665,000 variable-rate Certificates of Participation (Utility Infrastructure Projects) Series 2004. The intention of the swap was to effectively change the University's variable interest rate on the Certificates to a synthetic fixed rate of 4.059%, which includes the Certificates' current liquidity facility fee. In addition, there is a 0.05% current remarketing fee.

The Certificates and related swap agreement mature on August 15, 2021, and the swap's initial notional amount of \$143,665,000 matches the \$143,665,000 variable-rate Certificates. The swap was entered at the same time as the Certificates were issued (March 2004). Starting in fiscal year 2006, the notional value of the swap and the principal amount of the associated Certificates decline. Under the swap, the University pays the counterparty a fixed payment of 3.765% and receives a variable payment computed as 100% of the Bond Market Association Municipal Swap Index™ (BMA). Conversely, the Certificates' variable interest rates are expected to approximate BMA. Since issuance, the Certificates' average variable interest rate has been 0.01% below BMA. The counterparty credit rating by Standard & Poor's was A+ and by Moody's Investors Service was Aa3.

The University engaged a third-party consultant to calculate the "mark to market" or "market value" of the swap transaction. On June 30, 2006, the mark to market value of the swap was \$4,747,000. Since this is a positive number, it represents an approximation of the amount of money that a swap provider may have been willing to pay the University to terminate the swap. In accordance with governmental accounting standards, this amount is not required to be included in the accompanying financial statements.

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

Using the actual rate of 3.970% in effect as of June 30, 2006, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, were as follows. As rates vary, variable-rate bond interest payments and net swap payments will also vary.

VARIABLE-RATE DEBT SERVICE REQUIREMENTS (in thousands)

	Variable-Rate Certificates		Interest Rate Swaps, Net	Total
	Principal	Interest		
2007	\$ 955	\$ 5,667	\$ (311)	\$ 6,311
2008	995	5,629	(309)	6,315
2009	1,035	5,605	(323)	6,317
2010	1,075	5,549	(307)	6,317
2011	6,570	5,506	(408)	11,668
2012-2016	37,095	23,411	(1,920)	58,586
2017-2021	76,285	13,639	(2,154)	87,770
2022-2025	18,740	369	(16)	19,093
TOTAL	\$ 142,750	\$ 65,375	\$ (5,748)	\$ 202,377

The University leases various properties from the Foundation under capital lease obligations amounting to \$85,000 at June 30, 2006.

Assets held under capital leases are included in capital assets at June 30, 2006 as follows:

ASSETS HELD UNDER CAPITAL LEASE (in thousands)

Land	\$ 8,709
Buildings	74,837
Improvements	263,642
Equipment	171,094
Subtotal	518,282
Less accumulated depreciation	140,736
Total net depreciable assets	\$ 377,546

The net present value of outstanding capital leases at June 30, 2006 is:

OUTSTANDING CAPITAL LEASES (in thousands)		
Certificates of Participation		
Series 1997 Utility Infrastructure	\$	19,900
Series 2001 UI Integrate		86,285
Series 2003 South Farms		23,280
Series 2003 UI Integrate		31,700
Series 2003 Utility Infrastructure		61,550
Series 2004 Utility Infrastructure		142,750
Series 2005 College of Medicine		19,905
Series 2006A Academic Facilities		81,930
Other capital leases		55,385
NET PRESENT VALUE	\$	522,685

As of June 30, 2006, future minimum lease payments under capital leases is as follows:

FUTURE MINIMUM LEASE PAYMENTS UNDER CAPITAL LEASES (in thousands)		
2007	\$	54,611
2008		53,321
2009		52,439
2010		51,660
2011		51,058
2012-2016		214,506
2017-2021		154,798
2022-2026		86,000
Total minimum lease payments		718,393
Amount representing interest		(195,708)
NET PRESENT VALUE	\$	522,685

The University monitors environmental matters and records an estimated liability for identified environmental remediation costs. The estimated liability at June 30, 2006 is \$4,724,000.

The University also leases various buildings and equipment under operating lease agreements. Total rental expense under these agreements was \$9,769,000 for the year ended June 30, 2006. The future minimum lease payments (excluding those leases renewed on an annual basis) are as follows:

FUTURE MINIMUM OPERATING LEASE PAYMENTS (in thousands)		
2007	\$	7,844
2008		5,894
2009		4,275
2010		2,925
2011		1,382
2012-2016		2,344
TOTAL	\$	24,664

At June 30, 2006, the Foundation had annuities payable outstanding of \$51,690,000. Annuities payable represent an actuarial computation of the present value of future payments to annuitants.

NOTE 9 - NET ASSETS

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

UNIVERSITY NET ASSETS (in thousands)	
Invested in capital assets, net of related debt	\$ 1,834,372
Restricted - nonexpendable	
Invested in perpetuity to produce income expendable for - scholarships, fellowships and research	45,520
Restricted - expendable for -	
Scholarships, fellowships and research	217,487
Loans	77,938
Service plans	45,488
Retirement of indebtedness	23,686
Unrestricted	
Designated for:	
Auxiliary	26,457
Hospital	54,181
Capital projects	56,795
Self supporting activities	9,687
Institutional Support	77,273
Quasi endowments	91,124
Amount expected to be financed in future years	(190,923)
Undesignated	900
TOTAL	\$ 2,369,985

URO NET ASSETS (in thousands)	
Invested in capital assets, net of related debt	\$ 2,507
Restricted - nonexpendable	
Invested in perpetuity to produce income expendable for - scholarships, fellowships and research	703,487
Restricted - expendable for -	
Scholarships, fellowships and research	328,947
Unrestricted	23,819
TOTAL	\$ 1,058,760

NOTE 10 - FUNDS HELD IN TRUST BY OTHERS

The University and Foundation are income beneficiaries of several irrevocable trusts which are held and administered by outside trustees. The University and Foundation have no control over these funds as to either investment decisions or income distributions, thus the principal is not recorded in the accompanying financial statements. The fair value of these funds at June 30, 2006 and the amount of income received from these trusts during the year then ended were as follows:

FUNDS HELD IN TRUST BY OTHERS		
(in thousands)		
	University	Foundation
Fair value of funds held in trust by others	\$ 40,408	\$ 26,709
Income received from funds held in trust by others	\$ 1,087	\$ 907

NOTE 11 - STATE UNIVERSITIES RETIREMENT SYSTEM

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

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

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

Plan members are required to contribute 8.0% of their annual covered salary and substantially all employer contributions are made by the State of Illinois on behalf of the individual employers at an actuarially determined rate. The current rate is 10.18% 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, 2006, 2005, and 2004 were \$101,570,000, \$145,752,000 and \$755,398,000 respectively, equal to the required contributions for each year. The 2004 contribution includes an annual calculated contribution of \$158,153,000 and additional funding from the State of Illinois of \$597,245,000. The Foundation's contributions to SURS for the years ended June 30, 2006, 2005, and 2004 were \$521,000, \$475,000 and \$418,000 respectively.

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

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

NOTE 12 - POSTEMPLOYMENT BENEFITS

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

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

NOTE 13 - COMMITMENTS AND CONTINGENCIES

At June 30, 2006 the University had commitments on various construction projects and contracts for repairs and renovation of facilities of approximately \$152,112,000.

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

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

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

NOTE 14 - PRIOR PERIOD ADJUSTMENT

During fiscal year 2006, the University reviewed and corrected its calculation of accrued compensated absences. The accompanying financial statements for 2005 have been restated to correct the calculation errors. The effect of this restatement was to decrease operating expenses and increase net assets by \$199,000 for the fiscal year ended June 30, 2005. The net assets at the beginning of 2005 decreased by \$11,837,000, which was restated to reflect an increase in the accrued compensated absences as of June 30, 2004.

UNIVERSITY PRIOR PERIOD ADJUSTMENT		
(in thousands)		
	2006	2005
Net assets beginning of year	\$ 2,309,084	\$ 2,278,378
Prior period adjustment		(11,837)
Net assets beginning of year, as restated	\$ 2,309,084	\$ 2,266,541

NOTE 15 - OPERATING EXPENSES BY NATURAL CLASSIFICATION

Operating expenses by natural classification for the year ended June 30, 2006 for the University and the UROs are summarized as follows:

UNIVERSITY OPERATING EXPENSES BY NATURAL CLASSIFICATION (in thousands)

	Compensation and benefits	Supplies and services	Student aid	Depreciation	Total
Instruction	\$ 567,006	\$ 95,903	\$ 3,291	\$	\$ 666,200
Research	368,371	185,901	2,602		556,874
Public service	179,154	120,152	1,684		300,990
Academic support	140,795	72,725	4,523		218,043
Student services	52,271	28,269	2,116		82,656
Institutional support	116,801	33,637	134		150,572
Operations and maintenance of plant	66,877	162,158	3		229,038
Scholarships and fellowships	167,252	797	17,106		185,155
Payments on behalf of the University	327,927				327,927
Auxiliary enterprises	77,539	146,186	6,210		229,935
Hospital and medical activities	224,280	182,182	4		406,466
Independent operations	1,687	7,952			9,639
Depreciation				185,105	185,105
TOTAL	\$ 2,289,960	\$ 1,035,862	\$ 37,673	\$ 185,105	\$ 3,548,600

URO OPERATING EXPENSES BY NATURAL CLASSIFICATION (in thousands)

	Distribution on behalf of the University	Institutional support	Depreciation	Total
Salaries and benefits	\$	\$ 16,894	\$	\$ 16,894
Distributions on behalf of the University	127,279			127,279
Marketing and communications		5,285		5,285
Travel		964		964
Equipment		378		378
Meeting, conferences and special events		964		964
Supplies and other		10,728		10,728
Depreciation			328	328
TOTAL	\$ 127,279	\$ 35,213	\$ 328	\$ 162,820

NOTE 16 - SEGMENT INFORMATION

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

(in thousands)				
	AUXILIARY FACILITIES SYSTEM	HEALTH SERVICES FACILITIES SYSTEM	WILLARD AIRPORT FACILITY	TOTAL
Condensed Statement of Net Assets				
ASSETS:				
Current assets	\$ 236,869	\$ 135,592	\$ 1,695	\$ 374,156
Noncurrent assets				
Capital assets, net of accumulated depreciation	575,683	181,513	31,269	788,465
Other noncurrent assets	30,761	3,068	279	34,108
TOTAL ASSETS	\$ 843,313	\$ 320,173	\$ 33,243	\$ 1,196,729
LIABILITIES				
Current liabilities	\$ 72,552	\$ 63,285	\$ 1,187	\$ 137,103
Noncurrent liabilities				
Long term debt	673,921	77,742	509	752,093
Other liabilities	5,291	19,536		24,827
TOTAL LIABILITIES	751,764	160,563	1,696	914,023
NET ASSETS:				
Invested in capital assets, net of related debt	(1,536)	101,997	30,524	130,675
Restricted				
Expendable	16,304	2,436	408	19,148
Unrestricted	76,781	55,177	615	132,883
TOTAL NET ASSETS	91,549	159,610	31,547	282,706
TOTAL LIABILITIES AND NET ASSETS	\$ 843,313	\$ 320,173	\$ 33,243	\$ 1,196,729
Condensed Statement of Revenues, Expenses and Changes in Net Assets				
Operating revenues	\$ 227,035	\$ 532,464	\$ 2,539	\$ 762,127
Operating expenses	203,227	504,404	2,770	710,490
Depreciation expense	16,601	19,073	1,727	37,401
Operating income (loss)	7,207	8,987	(1,958)	14,236
Nonoperating revenues (expenses)	(13,018)	(5,143)	526	(17,635)
Capital and endowment additions			664	664
Increase (decrease) in net assets	(5,811)	3,844	(768)	(2,735)
Net assets, beginning of year	97,360	155,766	32,315	285,441
NET ASSETS, END OF YEAR	\$ 91,549	\$ 159,610	\$ 31,547	\$ 282,706
Condensed Statement of Cash Flows				
Net cash flows provided (used) by operating activities	\$ 35,949	\$ 37,059	\$ (113)	\$ 72,895
Net cash flows provided by noncapital financing activities	1,509	142	424	2,075
Net cash flows used by capital and related financing activities	(40,581)	(31,616)	(549)	(72,746)
Net cash flows provided by investing activities	8,475	1,138	21	9,634
Net increase (decrease) in cash and cash equivalents	5,352	6,723	(217)	11,858
Cash and cash equivalents, beginning of year	78,303	40,081	1,007	119,391
Cash and cash equivalents, end of year	\$ 83,655	\$ 46,804	\$ 790	\$ 131,249

NOTE 17 - UNIVERSITY RELATED ORGANIZATIONS

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

(in thousands)				
	FOUNDATION	ALUMNI ASSOCIATION	WWT	TOTAL
Condensed Statement of Net Assets				
Assets:				
Current assets	\$ 28,630	\$ 2,168	\$ 1,906	\$ 32,704
Noncurrent assets				
Capital assets, net of accumulated depreciation	8,183	641	340	9,164
Other noncurrent assets	1,120,517	14,436		1,134,953
Total assets	\$ 1,157,330	\$ 17,245	\$ 2,246	\$ 1,176,821
Liabilities:				
Current liabilities	\$ 55,743	\$ 2,355	\$ 2,124	\$ 60,222
Noncurrent liabilities				
Long term debt		3,986	2,788	6,774
Other noncurrent liabilities	51,056	9		51,065
Total liabilities	106,799	6,350	4,912	118,061
Net assets:				
Invested in capital assets, net of related debt	1,526	641	340	2,507
Restricted				
Nonexpendable	703,487			703,487
Expendable	328,947			328,947
Unrestricted	16,571	10,254	(3,006)	23,819
Total net assets	1,050,531	10,895	(2,666)	1,058,760
Total liabilities and net assets	\$ 1,157,330	\$ 17,245	\$ 2,246	\$ 1,176,821
Condensed Statement of Revenues, Expenses and Changes in Net Assets				
Operating revenues	\$ 140,053	\$ 8,220	\$ 6,291	\$ 154,564
Operating expenses	148,277	8,706	5,509	162,492
Depreciation expense	106	21	201	328
Operating income (loss)	(8,330)	(507)	581	(8,256)
Nonoperating revenues (expenses)	92,591	(4,668)	(112)	87,811
Contributions to endowments	31,397			31,397
Increase in net assets	115,658	(5,175)	469	110,952
Net assets, beginning of year	934,873	16,070	(3,135)	947,808
Net assets, end of year	\$ 1,050,531	\$ 10,895	\$ (2,666)	\$ 1,058,760
Condensed Statement of Cash Flows				
Net cash flows provided (used) by operating activities	\$ (20,439)	\$ 753	\$ 834	\$ (18,852)
Net cash flows provided (used) by noncapital financing activities	31,397		(478)	30,919
Net cash flows used by capital and related financing activities	(991)	(2,043)	(117)	(3,151)
Net cash flows provided (used) by investing activities	(10,369)	1,560	(134)	(8,943)
Net increase (decrease) in cash and cash equivalents	(402)	270	105	(27)
Cash and cash equivalents, beginning of year	3,306	1,597	1,618	6,521
Cash and cash equivalents, end of year	\$ 2,904	\$ 1,867	\$ 1,723	\$ 6,494

NOTE 18 - SUBSEQUENT EVENTS

On September 13, 2006, the University sold Auxiliary Facilities System Revenue Bonds Series 2006 in the amount of \$318,155,000. The anticipated closing date is October 5, 2006. The proceeds of the Series 2006 Bonds will be used to fund various improvements and additions to the System, fund the cost of refunding portions of the outstanding Auxiliary Facilities System Revenue Bonds, pay a portion of the interest during construction, and to pay all costs incidental to the issuance of the bonds.

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

Printed by the authority of the State of Illinois
October 2006
Copies Printed 1,750
Total Cost \$7,799
Cost per Copy \$4.46
Printed by Illinois Graphics
Graphic Design by Jody Boles