

University of Illinois

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**Annual Financial Report  
Willard Airport Facility**

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**Year Ended June 30, 2006  
with Comparative Totals for 2005**

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**THE BOARD OF TRUSTEES**

MEMBER EX OFFICIO  
The Governor of Illinois

Honorable Rod R. Blagojevich ..... Springfield

**MEMBERS**

Term (2001-2007)

Lawrence C. Eppley ..... Palatine  
Marjorie E. Sodemann ..... Champaign  
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Term (2003-2009)

Devon C. Bruce ..... Chicago  
Niranjan S. Shah ..... Oak Brook  
Robert Y. Sperling ..... Glencoe

Term (2005-2011)

Frances G. Carroll ..... Chicago  
David V. Dorris ..... LeRoy  
Kenneth D. Schmidt ..... Riverwoods

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Umair Mamsa ..... Chicago Campus  
Sarah M. Doyle ..... Springfield Campus  
Christopher M. Kantas ..... Urbana-Champaign Campus

**OFFICERS**

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Stephen K. Rugg ..... Comptroller  
Thomas R. Bearrows ..... University Counsel  
Michele M. Thompson ..... Secretary

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Stephen K. Rugg ..... Vice President for Administration, Comptroller

Urbana-Champaign Campus

Richard H. Herman ..... Chancellor  
Michael B. Bass ..... Executive Assistant Vice President for Business and Finance  
C. Elaine McCoy ..... Director, Institute of Aviation

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## **From the Vice President for Administration, Comptroller**

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### **UNIVERSITY OF ILLINOIS**

Chicago • Springfield • Urbana-Champaign

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

October 4, 2006

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

I am pleased to transmit the Annual Financial Report of the University of Illinois Willard Airport Facility for the fiscal year ended June 30, 2006. This report supplements the financial statements of the University of Illinois presented in the Annual Financial Report.

The 2006 financial statements and accompanying notes appearing on pages 6 through 15 have been audited by Clifton Gunderson LLP, Independent Certified Public Accountants, as special assistants to the Auditor General of the State of Illinois, whose report on the financial statements and applicable notes appears on pages 4 and 5. The remainder of this report, which is unaudited, was compiled by the University and consists of ancillary data concerning operations.

Clifton Gunderson LLP will also prepare a report for the year ended June 30, 2006, containing special data requested by the Auditor General and another report covering their audit of the compliance of the University with applicable state and federal laws and regulations for the year ended June 30, 2006. These reports, which include some data related to the Willard Airport Facility, are not contained herein and are primarily for the use of the Auditor General and state and federal agencies.

Respectfully submitted,



Stephen K. Rugg  
Vice President for  
Administration,  
Comptroller

## Independent Auditor's Report

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

As Special Assistant Auditors for the Auditor General, we have audited the accompanying statement of net assets of the University of Illinois Willard Airport Facility (Facility), as of June 30, 2006, and the related statements of revenues, expenses, and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Facility's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative information has been derived from the Facility's 2005 financial statements and, in our report dated September 28, 2005 we expressed an unqualified opinion on those financial statements.

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

The accompanying financial statements were prepared for the purpose of complying with the requirements of the indenture for the Facility's Series 1997 Revenue Bonds, as described in Note 1, and are not intended to be a complete presentation of the University of Illinois' assets, liabilities, revenues, and expenses.

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

In connection with our audit, nothing came to our attention that caused us to believe that the Facility failed to comply with the terms, covenants, provisions, or conditions of the Resolutions of the Board of Trustees of the University of Illinois which provided for the issuance of the University of Illinois Willard Airport Project Revenue Refunding Bonds, Series 1997 insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

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In accordance with *Government Auditing Standards*, a report on our consideration of the Facility'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 a 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.

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

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

*Clifton Gunderson LLP*

Peoria, Illinois  
October 4, 2006

**Statement of Net Assets as of June 30, 2006  
with Comparative Totals for 2005**

	<u>2006</u>	<u>2005</u>
<b>Assets:</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 747,339	\$ 833,073
Cash and cash equivalents, restricted	43,607	174,435
Investments	3,674	2,846
Investments, restricted	835,160	800,664
Accrued investment income	4,675	3,631
Accounts receivable	55,879	33,804
Prepaid expenses	4,522	4,522
<b>Total current assets</b>	<u>1,694,856</u>	<u>1,852,975</u>
<b>Noncurrent assets</b>		
Investments, restricted	270,000	270,000
Capital assets, net of accumulated depreciation	31,269,009	32,056,303
Prepaid expenses	9,044	13,566
<b>Total noncurrent assets</b>	<u>31,548,053</u>	<u>32,339,869</u>
<b>Total assets</b>	<u>\$ 33,242,909</u>	<u>\$ 34,192,844</u>
<b>Liabilities:</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 6,425	\$ 21,016
Accrued liabilities	181,323	130,013
Accrued interest	9,313	12,069
Deferred revenue	740,524	746,963
Long term liabilities - current portion	249,263	224,413
<b>Total current liabilities</b>	<u>1,186,848</u>	<u>1,134,474</u>
<b>Noncurrent liabilities</b>		
Bonds payable	508,826	743,239
<b>Total noncurrent liabilities</b>	<u>508,826</u>	<u>743,239</u>
<b>Total liabilities</b>	<u>1,695,674</u>	<u>1,877,713</u>
<b>Net assets:</b>		
Invested in capital assets, net of related debt	30,524,486	31,106,739
Restricted -		
Expendable for capital projects	138,243	234,575
Expendable for debt service	270,000	270,644
Unrestricted	614,506	703,173
<b>Total net assets</b>	<u>31,547,235</u>	<u>32,315,131</u>
<b>Total liabilities and net assets</b>	<u>\$ 33,242,909</u>	<u>\$ 34,192,844</u>

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**

	<u>2006</u>	<u>2005</u>
<b>Operating revenues:</b>		
Rental and lease income	\$ 1,656,918	\$ 1,306,306
Parking operations	624,284	612,691
Farm sales	175,000	150,000
Other operating revenue	83,022	118,811
<b>Total operating revenues</b>	<u>2,539,224</u>	<u>2,187,808</u>
<b>Operating expenses:</b>		
Salaries and wages	1,395,838	1,495,803
Professional and other contractual services	203,121	157,403
Utilities	303,730	257,796
Supplies	230,267	228,646
Repairs and maintenance	41,357	62,103
Other operating expense	486,188	283,411
Depreciation	1,727,143	1,648,495
Payments on behalf of the Facility	109,567	135,495
<b>Total operating expenses</b>	<u>4,497,211</u>	<u>4,269,152</u>
<b>Operating loss</b>	<u>(1,957,987)</u>	<u>(2,081,344)</u>
<b>Nonoperating revenues (expenses):</b>		
State appropriations	424,399	448,255
Payments on behalf of the Facility	109,567	135,495
Investment income (net of related expenses)	51,737	33,115
Interest on capital asset-related debt	(45,519)	(56,432)
Net increase in the fair value of investments	5,442	4,524
Other nonoperating expenses	(19,959)	(8,243)
<b>Net nonoperating revenues</b>	<u>525,667</u>	<u>556,714</u>
Capital federal grants	664,424	2,445,243
<b>Increase (decrease) in net assets</b>	(767,896)	920,613
<b>Net assets, beginning of year</b>	<u>32,315,131</u>	<u>31,394,518</u>
<b>Net assets, end of year</b>	<u>\$ 31,547,235</u>	<u>\$ 32,315,131</u>

See accompanying notes to financial statements.

**Statement of Cash Flows**  
**Year Ended June 30, 2006 with Comparative Totals for 2005**

	<u>2006</u>	<u>2005</u>
<b>Cash flows from operating activities:</b>		
System revenues	\$ 2,510,710	\$ 2,204,174
Payments to suppliers	(1,279,254)	(981,135)
Payments to employees and benefits	(1,344,528)	(1,490,183)
<b>Net cash used by operating activities</b>	<u>(113,072)</u>	<u>(267,144)</u>
<b>Cash flows from noncapital financing activities:</b>		
State appropriations	424,399	448,255
<b>Net cash provided by noncapital financing activities</b>	<u>424,399</u>	<u>448,255</u>
<b>Cash flows from capital and related financing activities:</b>		
Purchases of capital assets	(939,849)	(2,505,930)
Capital federal grants	664,424	2,445,243
Principal paid on capital debt and leases	(225,000)	(217,990)
Interest paid on capital debt and leases	(48,275)	(59,067)
<b>Net cash used by capital and related financing activities</b>	<u>(548,700)</u>	<u>(337,744)</u>
<b>Cash flows from investing activities:</b>		
Interest on investments	50,693	31,812
Purchase of investments	(29,882)	(14,169)
<b>Net cash provided by investing activities</b>	<u>20,811</u>	<u>17,643</u>
<b>Net decrease in cash and cash equivalents</b>	<u>(216,562)</u>	<u>(138,990)</u>
<b>Cash and cash equivalents, beginning of year</b>	<u>1,007,508</u>	<u>1,146,498</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 790,946</u>	<u>\$ 1,007,508</u>
<b>Reconciliation of operating loss to net cash used by operating activities:</b>		
Operating loss	\$ (1,957,987)	\$ (2,081,344)
<b>Adjustments to reconcile operating loss to net cash used by operating activities:</b>		
Depreciation	1,727,143	1,648,495
On-behalf payment of fringe benefits	109,567	135,495
Changes in assets and liabilities:		
Accounts receivable	(22,075)	16,366
Accounts payable and accrued liabilities	36,719	13,844
Deferred revenue	(6,439)	-
<b>Net cash used by operating activities</b>	<u>\$ (113,072)</u>	<u>\$ (267,144)</u>
<b>Noncash investing, capital, and financing activities:</b>		
State Appropriations for on-behalf payment of fringe benefits	\$ 109,567	\$ 135,495
Cancellation of capital lease	-	2,566
Loss on disposal of capital assets	-	5,700
Expenses incurred via notes payable to the University	<u>14,850</u>	<u>-</u>

See accompanying notes to financial statements.

## **Notes to Financial Statements**

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### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Organizational Background and Basis of Presentation**

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

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

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

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

These financial statements have been prepared to satisfy the requirements of the Series 1997 bond indenture. The financial balances and activities of the Facility, included in these financial statements, are included in the University's financial statements. The financial statements of the Facility are prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The Facility is not a separate legal entity and therefore has not presented management's discussion and analysis.

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

#### **Significant Accounting Policies**

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

The Statement of Revenues, Expenses, and Changes in Net Assets classifies the Facility's fiscal year activity as operating and nonoperating. Operating revenues generally result from exchange transactions such as payments received for providing goods and services. The majority of the Facility's expenses are exchange transactions which GASB defines as operating expenses for financial statement presentation

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

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

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

In accordance with GASB No.24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, the Facility reported payments made by the State on behalf of the Facility for contributions to State group insurance and retirement programs for Facility employees of \$109,567 for the year ended June 30, 2006. On behalf payments are classified as nonoperating revenues and the corresponding expenses are reported in payments on behalf of the Facility as operating expenses.

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

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

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

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

## **NOTE 2 - CASH AND CASH EQUIVALENTS**

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

## **NOTE 3 - INVESTMENTS**

Illinois Statutes and Board policy authorize the University to invest in obligations of the U. S. Treasury, agencies and instrumentalities (U.S. Government securities); bank and savings and loan time deposits; corporate bonds, stock and commercial paper; repurchase agreements; and mutual funds. These investments are stated at fair value, as determined by quoted market price. Investment income and the change in fair value of investments is recognized in the fund which owned such investments. Illinois Statutes require a third party custodian to perfect the University's security interest under repurchase agreements. The University follows industry standards and requires that securities underlying repurchase agreements must have a fair value of at least 102% of the cost of the repurchase agreement. At June 30, 2006, the Facility had no repurchase agreements.

Nearly all of the University's investments are managed by external professional investment managers. Many of these investments are made through commingled investment vehicles such as common trust funds and mutual funds. A number of the investment managers utilize derivatives in the execution of their investment strategies. In general, managers utilize derivatives to reduce or eliminate undesirable risks, to increase portfolio liquidity and flexibility or to increase investment return within the level of risk defined in the manager's investment guidelines. Examples of authorized derivative transactions would be the hedging of

foreign currency exposure through the use of currency forwards, owning mortgage securities with embedded prepayment options or utilizing treasury futures to change the duration of a fixed income portfolio. The Facility did not engage in any derivative transactions during 2006.

The University, by authorization of the Board, increases its investment income by lending the University’s securities, through its custodian, to independent third parties. Such loans are secured by collateral consisting of cash, cash equivalents or U.S. Government securities and irrevocable bank letters of credit in an amount not less than 102% of the fair value of the securities loaned. Any collateral securities cannot be pledged or sold by the University unless the borrower defaults. The University receives interest and dividends during the loan period as well as a fee from the custodian. At June 30, 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. The Facility does not participate in security lending transactions.

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

Mutual Funds -	
Money Market	\$1,104,983
Consolidated Group	
Investment Pool	<u>3,851</u>
Total Investments	<u>\$1,108,834</u>

*Interest Rate Risk:* Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University employs multiple investment managers, of which each has specific maturity assignments related to the operating funds. The funds are structured with different layers of liquidity. Funds expected to be used within one year are invested in money market instruments. Core operating funds are invested in longer maturity investments. Core operating funds investment manager’s performance benchmarks are Lehman Brother 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 options positions, not vary from that of their respective performance benchmarks by more than +/-20 percent. At June 30, 2006, the University’s operating funds pool portfolio had an effective duration of 1.8 years. The Facility’s investments detailed above have maturities of less than one year.

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

*Custodial Credit Risk:* Custodial credit risk is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Exposure to custodial credit risk relates to investment securities that are held by someone other than the University and are not registered in the University’s name. The University has no formal policy in regard to custodial credit risk. At June 30, 2006, the Facility’s investments and deposits have no custodial credit risk exposure.

*Concentration of Credit Risk:* Concentration of credit risk is the risk of loss attributed to the magnitude of the University’s investment in a single issuer. The University’s policy provides that the total operating funds portfolio will be broadly diversified across securities in a manner that is consistent with fiduciary standards of diversification. This diversification is achieved by

employing multiple investment managers and imposing maximum position limits for each manager. The University's manager guidelines for operating investments provide that non-U.S. government obligations may not exceed 10% per issuer and private mortgage-backed and asset-backed securities may not exceed 10% per issuer (unless collateral is credit independent of the issuer and the security's credit enhancement is generated internally, in which case the limit is 25% per issuer). Obligations with other issuers, other than the U.S. government, U.S. agencies, or U.S. government sponsored corporations and agencies, may not exceed 5%. As of June 30, 2006, not more than 5% of the Facility's total investments were invested in securities of any one issuer, excluding securities issued or guaranteed by the U.S. government, mutual funds, and external investment pools or other pooled investments.

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

#### NOTE 4 - CAPITAL ASSETS

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

Capital asset activity for the year ended June 30, 2006 is summarized as follows:

Capital Assets for the Facility					
	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
<b>Nondepreciable Capital Assets:</b>					
Land	\$ 3,073,119	\$ -	\$ -	\$ -	\$ 3,073,119
Construction in process	1,912,242	751,629	-	(2,262,384)	401,487
Total nondepreciable capital assets	4,985,361	751,629	-	(2,262,384)	3,474,606
<b>Depreciable Capital Assets:</b>					
Buildings	13,498,140		-	131,801	13,629,941
Improvements	36,547,523	176,220		2,130,583	38,854,326
Equipment	2,407,760	12,000	(9,045)	-	2,410,715
Subtotal	52,453,423	188,220	(9,045)	2,262,384	54,894,982
Less accumulated depreciation	(25,382,481)	(1,727,143)	9,045	-	(27,100,579)
Total net depreciable capital assets	27,070,942	(1,538,923)	-	2,262,384	27,794,403
Total Capital Assets	\$ 32,056,303	\$ (787,294)	\$ -	\$ -	\$ 31,269,009

## NOTE 5 - BONDS PAYABLE

On July 16, 1997, the University of Illinois Willard Airport Project Revenue Refunding Bonds, Series 1997 (Series 1997 Bonds) were issued in the principal amount of \$4,155,000. The Series 1997 Bonds bear interest at rates ranging from 3.95% to 5.00% per annum, payable semi-annually, commencing October 1, 1997. They mature annually, beginning April 1, 1998 through April 1, 2009. At June 30, 2006, the Facility had \$745,000 principal outstanding on the Series 1997 Bonds. Costs associated with the issuance of the Series 1997 Bonds have been recorded as prepaid expense and are being amortized over the life of the bond issue. Bonds payable activity for the year ended June 30, 2006 was as follows:

Bonds Payable					
	Maturity Dates	Beginning Balance	Principal Paid	Ending Balance	Current Portion
Series 1997 Bonds -	2007-2009	\$ 970,000	\$ 225,000	\$ 745,000	\$ 235,000
Unamortized Debt Discount				(1,761)	(587)
Total Bonds Payable				<u>\$ 743,239</u>	<u>\$ 234,413</u>

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

The resolution authorizing the University of Illinois Willard Airport Project Revenue Bonds provides for the establishment of separate funds as follows: Current Unrestricted Fund, Unexpended Fund, Repair and Replacement Reserve, Equipment Reserve, Bond and Interest Sinking Fund, Debt Service Reserve, and Development Reserve. All Facility revenues, including student tuition and fees as provided for by the Bond Resolution, are to be deposited in the Current Unrestricted Fund and used to pay necessary operation and maintenance expenses of the Facility. The Bond Resolution also requires transfers to funds as follows:

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

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

**Equipment Reserve** - an amount approved by the Board for the acquisition of movable equipment to be installed in the Facility. The reserve may not exceed 20% of the book value of the movable equipment of the Facility. Additions of \$502 were made to the Equipment Reserve during the year ended June 30, 2006. Expenditures of \$4,406 were made to replace movable equipment during the year ended June 30, 2006. The fund balance of the Equipment Reserve was \$22,941 at June 30, 2006.

**Bond and Interest Sinking Fund and Debt Service Reserve**- amounts into the Bond and Interest Sinking Fund sufficient to pay principal and interest as it becomes due on the outstanding bonds and amounts to fund a Debt Service Reserve, at least equal to the Debt Service Reserve Requirement, as defined. The Debt Service Reserve Requirement means the lesser of (a) the amount transferred from the refunded bond's Debt Service Reserve, or (b) Maximum Annual Net Debt Service. Maximum Annual Net Debt Service means the Maximum Annual Net Debt Service payable in any future fiscal year. As of June 30, 2006, the Debt Service Reserve was funded in excess of the Debt Service Reserve Requirement. If at any time the Debt Service Reserve is

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

**Development Reserve** - an amount approved by the Board for Facility development. No transfers were authorized by the Board during the year ended June 30, 2006 and there was no balance in the reserve at June 30, 2006.

The Facility made all required transfers for the year ended June 30, 2006.

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

### Debt Service Requirements and Security

Future debt service requirements for the Series 1997 Bonds at June 30, 2006 are as follows:

Debt Service Requirements		
	Principal	Interest
2007	\$ 235,000	\$ 34,312
2008	250,000	22,375
2009	260,000	9,750
Total Debt Service	\$ 745,000	\$ 66,437
Unamortized Discount	(1,761)	
Total Bonds Payable	\$ 743,239	

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

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

### NOTE 6 - OTHER OBLIGATIONS

In June 2006, the Facility financed construction costs related to FAA-approved infrastructure projects and a new T-hanger with two internal financing notes with the University. The notes have varying repayment terms and interest rates. The approved loan amounts total \$2,010,000 and will be drawn down over an eighteen month construction period starting in June 2006.

Notes Payable						
	Maturity Dates	Beginning Balance	New Debt	Principal Paid	Ending Balance	Current Portion
Payable to the University -	2007-2017	\$ -	\$ 14,850	\$ -	\$ 14,850	\$ 14,850

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## **NOTE 7 - RETIREMENT AND POSTEMPLOYMENT BENEFITS**

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

SURS was established July 21, 1941 to provide retirement annuities and other benefits for staff members and employees of the State universities, certain affiliated organizations, and certain other State educational and scientific agencies and for survivors, dependents, and other beneficiaries of such employees. SURS is considered a component unit of the State of Illinois' financial reporting entity and is included in the State's financial reports as a pension trust fund. SURS is governed by Section 5/15, Chapter 40, of the *Illinois Compiled Statutes*. SURS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to SURS, 1901 Fox Drive, Champaign, IL 61820 or by calling 1-800-275-7877.

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

Plan members are required to contribute 8.0% of their annual covered salary and substantially all employer contributions are made by the State of Illinois on behalf of the individual employers at an actuarially determined rate. The current rate is 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 included an annual calculated contribution of \$158,153,000 and additional funding from the State of Illinois of \$597,245,000.

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

Currently the State does not segregate payments made to annuitants from those made to current employees for health, dental and life insurance benefits. The cost of health, dental and life insurance benefits is recognized by the State as incurred. These costs are funded by the State and are not an obligation of the Facility or the University.

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

**Supplemental Information**  
**Schedule of Insurance in Force as of July 1, 2006 (unaudited)**

Property	Insurance Valuation			
	Building	Contents	Business Interruption	Total
Airport operations garage (657)	\$ 809,375	\$ 20,000	\$ 20,000	\$ 849,375
Airport rescue and firefighting (677)	743,350	95,000	50,000	\$ 888,350
Airport residence (684)	175,263			\$ 175,263
Hangars (678/679/680)	2,197,283		384,000	\$ 2,581,283
Parking lot booth and related equipment (662)	56,733	25,000	75,000	\$ 156,733
Snow removal equipment building (656)	1,232,463	50,000	100,000	\$ 1,382,463
Terminal building (675)	13,494,918	1,250,000	700,000	\$ 15,444,918
Total (1)	\$ 18,709,385	\$ 1,440,000	\$ 1,329,000	\$ 21,478,385

Total amount of insurance (100%)(2) \$ 21,478,385

- (1) The buildings are valued at replacement costs, which are predicated on the Engineering News Record (ENR) building replacement cost index and insurer recommendations. This value approximates the replacement value at June 30, 2006. The contents are also valued at replacement value.
- (2) An insurance policy was issued by Lexington Insurance for the policy period July 1, 2006 through June 30, 2007.

**Rental Rates and Occupancy Report**  
**Year Ended June 30, 2006 (unaudited)**

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Facility	Normal Rental Rates	Average Capacity	Occupancy
Terminal building	\$ 29.68 per sq. ft./ per year (maximum)	18,364 sq. ft.	80%
Parking -			
Commercial spaces -			
Long term and	\$ 5.00 per day	550 spaces	70%
Short term combined	\$ 1.50 per hour	Shared	Shared
University departments and special	\$ 300.00 per year		
Employees	\$ 105.00 per year	250 spaces	100%
Control tower	\$ 5.09 per sq. ft./ per year	4,913 sq. ft.	100%
T-hangars	\$ 105.00 per month	25 planes	100%
	\$ 137.00 per month	5 planes	100%
	\$ 147.00 per month	2 planes	100%
Fixed base operation -			
Land and building lease - fixed	\$48,286		
Commissions	\$213,969		
Total	\$262,255 per year		

**University Enrollment Data as of October 2005 (unaudited)**

	Undergraduate			Graduate & Professional			Total Enrollment
	Chicago <sup>(1)</sup>	Springfield	Urbana - Champaign	Chicago <sup>(2)</sup>	Springfield	Urbana - Champaign	
<b>Headcount</b>							
Fall -							
2001	15,887	1,889	28,110	9,625	1,702	9,569	66,782
2002	16,543	1,999	28,243	10,129	1,658	10,010	68,582
2003	16,012	2,052	28,589	10,198	1,588	10,275	68,714
2004	15,448	1,965	29,287	8,959	1,419	10,258	67,336
2005	15,148	2,005	30,453	9,205	1,373	10,141	68,325

**Full-time Equivalent<sup>(3)</sup>**

Fall -							
2001	14,499	1,296	28,244	10,030	833	11,142	66,044
2002	14,990	1,416	28,343	10,533	836	11,755	67,873
2003	14,602	1,481	28,795	10,583	788	12,034	68,283
2004	14,389	1,536	29,544	9,367	772	11,679	67,287
2005	14,212	1,603	30,991	9,611	815	11,485	68,717

(1) Regional Nursing enrollments are included.

(2) Residents completing internships in Medicine, Dentistry, and Pharmacy are included in the counts for Fall 2001-Fall 2003.

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