

FINANCIAL STATEMENTS

University of Illinois Foundation
Years Ended June 30, 2023 and 2022
With Report of Independent Auditors

Ernst & Young LLP



University of Illinois Foundation

Financial Statements

Years Ended June 30, 2023 and 2022

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Report of Independent Auditors

The Board of Directors
University of Illinois Foundation

We have audited the financial statements of the University of Illinois Foundation (the Foundation), which comprise the statements of financial position as of June 30, 2023 and 2022, and the related statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes (collectively referred to as the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation at June 30, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Ernst + Young LLP

September 25, 2023

University of Illinois Foundation

Statements of Financial Position
(Dollars in Thousands)

	June 30	
	2023	2022
Assets		
Cash and cash equivalents	\$ 7,321	\$ 9,006
Receivables:		
Pledges (Note 3)	235,000	233,000
Investment	75,645	1,751
Accounts	74	75
Due from University of Illinois	2,038	2,521
Prepaid expenses	2,214	1,660
Investments (Note 4)	2,873,407	2,685,386
Beneficial interest in trusts (Note 4)	47,446	43,987
Irrevocable trusts held by other trustees (Note 4)	24,754	23,649
Property and equipment, net (Note 5)	60,309	48,175
Other assets	68	68
Total assets	<u>\$ 3,328,276</u>	<u>\$ 3,049,278</u>
Liabilities and net assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 74,715	\$ 14,293
Accrued vacation and sick pay	2,133	1,700
Annuities payable	36,431	47,475
Remainder interest due to others	2,369	2,158
Note payable (Note 6)	10,199	9,813
Total liabilities	<u>125,847</u>	<u>75,439</u>
Net assets (Notes 7 and 8):		
Without donor restrictions	82,167	75,390
With donor restrictions	3,120,262	2,898,449
Total net assets	<u>3,202,429</u>	<u>2,973,839</u>
Total liabilities and net assets	<u>\$ 3,328,276</u>	<u>\$ 3,049,278</u>

See accompanying notes.

University of Illinois Foundation

Statements of Activities and Changes in Net Assets (Dollars in Thousands)

	Year Ended June 30, 2023			Year Ended June 30, 2022		
	Without Donor	With Donor	Total	Without Donor	With Donor	Total
	Restrictions	Restrictions		Restrictions	Restrictions	
Revenues, gains, and other support:						
Contributions, gifts, and pledges	\$ 1,428	\$ 248,168	\$ 249,596	\$ 2,398	\$ 227,053	\$ 229,451
Nonfinancial asset contributions	-	9,694	9,694	-	30,691	30,691
Contributed services (Note 10)	576	-	576	565	-	565
Allocation from University of Illinois	9,579	-	9,579	9,441	-	9,441
Investment (loss) income	(5,880)	4,769	(1,111)	(3,027)	532	(2,495)
Net increase (decrease) in fair value of investments	3,802	232,407	236,209	(2,900)	(190,396)	(193,296)
Endowment property operations	-	1,226	1,226	13	1,079	1,092
Annual funds revenue	224	-	224	224	-	224
Other operating revenue	47	19,650	19,697	31	16,807	16,838
Actuarial adjustments	-	14,124	14,124	-	987	987
Total revenue, gains, and other support	9,776	530,038	539,814	6,745	86,753	93,498
Net assets released from restrictions:						
Service fee revenue	37,480	(37,480)	-	31,767	(31,767)	-
Endowment budgets	90,269	(90,269)	-	83,323	(83,323)	-
Distributions to University of Illinois	180,476	(180,476)	-	156,791	(156,791)	-
Total revenue, gains, other support, and net assets released from restrictions	318,001	221,813	539,814	278,626	(185,128)	93,498
Expenses:						
Program services:						
Fundraising	21,837	-	21,837	20,428	-	20,428
Distributions to University of Illinois (Note 10)	270,745	-	270,745	240,115	-	240,115
General and administrative	18,162	-	18,162	15,795	-	15,795
Interest on indebtedness	480	-	480	97	-	97
Total programs and expenses	311,224	-	311,224	276,435	-	276,435
Increase (decrease) in net assets	6,777	221,813	228,590	2,191	(185,128)	(182,937)
Net assets:						
Beginning	75,390	2,898,449	2,973,839	73,199	3,083,577	3,156,776
Ending	\$ 82,167	\$ 3,120,262	\$ 3,202,429	\$ 75,390	\$ 2,898,449	\$ 2,973,839

See accompanying notes.

University of Illinois Foundation

Statements of Cash Flows (Dollars in Thousands)

	Year Ended June 30	
	2023	2022
Operating activities		
Contributions, gifts, and pledges	\$ 157,818	\$ 157,892
Service fee revenue	37,480	31,767
Allocation from University of Illinois	9,525	7,736
Endowment property operations	1,226	1,092
Annual funds revenue	224	224
Other operating revenue	19,455	16,799
Payments for salaries and benefits	(27,778)	(24,409)
Payments for miscellaneous administrative expenses	(3,324)	(1,652)
Payments for equipment not meeting capitalization threshold	(1,825)	(1,755)
Payments for supplies and other	(6,257)	(6,132)
Distributions on behalf of University of Illinois	(261,659)	(222,908)
Net cash used in operating activities	(75,115)	(41,346)
Investing activities		
Proceeds from sales and maturities of investments	1,516,582	305,799
Purchase of investments	(1,488,202)	(302,793)
Purchase of property for University of Illinois	(750)	(2,298)
Purchase of property and equipment	(11,606)	(1,098)
Net cash provided by (used in) investing activities	16,024	(390)
Financing activities		
Proceeds from note payable	586	2,236
Payments on note payable	(200)	(200)
Investment loss restricted for long-term purposes	(28,242)	(28,140)
Gifts and grants received restricted for long-term purposes	91,275	74,015
Payments to annuitants	(6,013)	(6,619)
Net cash provided by financing activities	57,406	41,292
Decrease in cash and cash equivalents	(1,685)	(444)
Cash and cash equivalents:		
Beginning	9,006	9,450
Ending	\$ 7,321	\$ 9,006

See accompanying notes.

University of Illinois Foundation

Notes to Financial Statements (Dollars in Thousands)

June 30, 2023 and 2022

1. Nature of Activities and Significant Accounting Policies

Nature of Activities

The University of Illinois Foundation (the Foundation) is a nonprofit corporation responsible for encouraging and administering private gifts made to further the mission of the University of Illinois (the University). Although the Foundation is a separate legal entity from the University, the Foundation's sole reason for existence is to serve the University. The Foundation is considered a discretely presented component unit of the University and is therefore included in the University's government-wide financial statements.

In 2017, the Foundation registered an entity in the United Kingdom (UK), University of Illinois Foundation UK Limited, to establish a dual qualified charity, allowing UK residents to advantageously make contributions to the Foundation. In 2019, the Foundation received approval of its charitable registration within the UK. During the years ended June 30, 2023 and 2022, financial activity of the dual qualified charity was immaterial to the financial statements as a whole and is not consolidated within the financial statements.

Significant Accounting Policies

Accounting estimates: 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 amount 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.

Basis of presentation: The Foundation maintains its accounts in accordance with the principles of fund accounting. Under this method of accounting, resources for various purposes are classified into funds that are in accordance with activities or objectives specified by donors. Separate accounts are maintained for each fund.

University of Illinois Foundation

Notes to Financial Statements (continued) (Dollars in Thousands)

1. Nature of Activities and Significant Accounting Policies (continued)

For financial reporting purposes, the Foundation classifies its net assets into net asset categories according to the existence or absence of donor-imposed restrictions. Descriptions of the two net asset categories and the types of transactions affecting each category follow:

Without donor restrictions – Net assets that are not subject to donor-imposed stipulations. Items that affect this net asset category consist of fees for service and related operating expenses associated with the mission of the Foundation. In addition to these transactions, unrestricted gifts to the Foundation, board-designated funds, and property/equipment are included.

With donor restrictions – Net assets subject to donor-imposed restrictions that will be met either by actions of the organization or the passage of time. Items that affect this net asset category include gifts with donor restrictions not met at year-end, annuity and life income gifts, endowments where the principal may be expended upon the passage of a stated period of time/event (term endowments), and gifts functioning as endowment funds (quasi-endowments). Also included in this category are net assets subject to donor-imposed restrictions to be maintained permanently by the Foundation. Generally, the donors stipulate that the corpus of the gift be held in perpetuity and that only the income be made available for program operations.

Net assets consisted of the following at June 30:

	2023	2022
Detail of net assets:		
Without donor restrictions:		
Unrestricted	\$ 11,623	\$ 10,525
Designated by Board of Directors	48,585	44,640
Plant and equipment	21,959	20,225
	82,167	75,390
With donor restrictions:		
Purpose restricted	1,473,829	1,328,291
Permanent endowment	1,646,433	1,570,158
	3,120,262	2,898,449
Total net assets	\$ 3,202,429	\$ 2,973,839

University of Illinois Foundation

Notes to Financial Statements (continued) (Dollars in Thousands)

1. Nature of Activities and Significant Accounting Policies (continued)

Revenue recognition: Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional; that is, when the conditions on which they depend are substantially met. Contributions to be received after one year are discounted at an appropriate rate commensurate with the risks involved. Contributions due in one year are expected to be paid at the end of the year and are discounted accordingly. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is provided based upon management's judgment, including such factors as prior collection history, type of contribution, and nature of fundraising activity. Uncollectible contributions receivable written off totaled \$5,876 and \$3,347 for the years ended June 30, 2023 and 2022, respectively. All other revenues are reported as increases in net assets when earned.

Contributions received in the same year in which the restriction is met are recorded as contributions with donor restrictions and released from restriction.

Net assets released from restrictions: Net assets were released from donor restrictions by satisfying restricted purposes. For accounting and reporting purposes, the Foundation classifies its released from restrictions into three categories.

Descriptions of the three categories follow:

Service fee revenue – The Foundation has a policy of appropriating for distribution each year a percentage (approximately 1.35% for the years ended June 30, 2023 and 2022) of the six-year moving average market value of the endowment and actual expenses incurred by the Foundation's investment office.

Endowment budgets – The Foundation has a policy of appropriating for distribution each year a percentage (approximately 4.00% for the years ended June 30, 2023 and 2022) of the six-year moving average market value of the endowment.

Distributions to University of Illinois – The Foundation makes distributions to the University in accordance with donor restrictions. These distributions include current use or restricted contributions for the University received by the Foundation.

University of Illinois Foundation

Notes to Financial Statements (continued)

(Dollars in Thousands)

1. Nature of Activities and Significant Accounting Policies (continued)

Contributed nonfinancial assets: Contributed art, books, printed materials, publications, equipment, and other items are received by the University of Illinois Foundation and used in accordance with donor intent. These in-kind contributions are recognized as revenue and a corresponding expense on the statement of activities in an amount approximating the estimated fair value at the time of donation. The University of Illinois Foundation records the contribution at the reasonably estimated fair market value determined by the donor. For in-kind gifts with an estimated value greater than \$5 an independent qualified appraisal is required for donations made by individuals.

Contributed interest in trusts include trusts held by other trustees that will be realized at a future date with the trustee sending the monetary proceeds to the Foundation for use in accordance with donor intent. The contributions also include gifts of beneficial interest trusts which are held by other trustees in perpetuity and the monetary income from the underlying assets in the trust will be distributed to the Foundation for use in accordance with donor intent. The contribution amount for these trusts is valued at the Foundation's interest in the fair market value of the trusts' underlying assets as provided by the trustee at the date of gift, discounted as appropriate. See Note 4.

Contributed property can be used by the University of Illinois in accordance with donor intent or, if allowed by the donor, monetized by placing the property for sale on the real estate market. Certain gifts of farmland are held by the Foundation and the income generated by the farm is transferred to the University of Illinois to be used in accordance with donor intent. During the years ended June 30, 2023 and 2022, there were \$407 and \$4,807 gifts of farmland, respectively. In addition, during the years ended June 30, 2023 and 2022, \$101 and \$8,810, respectively, of property contributions were held for use and \$295 and \$4,011, respectively, were monetized or held for sale.

University of Illinois Foundation

Notes to Financial Statements (continued) (Dollars in Thousands)

1. Nature of Activities and Significant Accounting Policies (continued)

The University of Illinois Foundation received the following contributions of nonfinancial assets for the years ended June 30:

	2023	2022
Art	\$ 1,039	\$ 766
Books, printed materials, publications	741	23
Equipment	3,482	3,013
Interest in trusts	960	7,197
Services	912	1,007
Property	803	17,628
Other	1,757	1,057
Total contributed nonfinancial assets	\$ 9,694	\$ 30,691

Other operating revenue: Other operating revenue includes nondeductible gifts to athletics that provided the option for preferential seating and other non-gift event and fundraising activities.

Investments: The Foundation invests in both traditional and alternative investments. The majority of Foundation investments are carried at fair market value in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurement*. The Foundation's investments are liquidated on a periodic basis in accordance with the provisions of the respective investment fund agreements. Unrealized gains and losses are reported in net assets with and without donor restrictions. The Foundation is a limited partner in certain funds that employ investment strategies that require long holding periods to create value. These investments are typically accounted for using the equity method of accounting, based on the fund's financial information. Management has utilized the best available information for reported alternative investment values, which in some instances are valuations as of an interim date. See Note 4 regarding the valuation of the Foundation's investments.

Accrued vacation and sick pay: Accrued vacation and sick pay for Foundation personnel are charged as operating expenses, using the vesting method for sick leave and earned but unused for vacation. The Foundation's share of social security and Medicare taxes is included in these amounts. Accrued vacation and sick pay obligations are due and payable within one year.

University of Illinois Foundation

Notes to Financial Statements (continued)

(Dollars in Thousands)

1. Nature of Activities and Significant Accounting Policies (continued)

Accounts payable and accrued expenses: Accounts payable and accrued expenses are due and payable within one year.

Property and equipment: Property and equipment are stated at cost on the date of acquisition or fair value if acquired by gift. Depreciation is computed by the straight-line method over the estimated useful lives of the assets. The Foundation utilizes an estimated useful life of 5 years on most furniture and equipment. Buildings and site improvements are depreciated using an estimated useful life of 20 to 50 years.

Presentation of cash flows: For purposes of reporting cash flows, cash and cash equivalents include liquid accounts that are not designated for investment purposes. Cash and cash equivalents include deposit accounts and investments with original maturities of 90 days or less at the time of purchase. The Foundation has deposit accounts that exceed federal depository insurance limits. Management believes that credit risk related to these deposits is minimal.

Annuities payable: The Foundation's split interest agreements consist of charitable gift annuities, charitable remainder annuity trusts, charitable remainder unitrusts, and deferred gift annuities. The carrying value of these assets is consistent with the accounting policies for investments of the Foundation. The annuities payable to beneficiaries resulting from these agreements are reported as a liability at the present value of the estimated future payments to be distributed over the beneficiaries' lives. The Foundation recalculates the present value of these payments through the use of Internal Revenue Service (IRS) discount rates and IRS life expectancy tables. The amount due in the next 12 months of the annuities payable recorded on the statements of financial position is \$4,540 and \$5,894 as of June 30, 2023 and 2022, respectively.

Beneficial interest in trusts: The Foundation has beneficial interests in irrevocable trust agreements. These agreements are recorded at the present value of estimated future cash receipts, which is estimated to be the fair value of the assets contributed, based on quoted market prices at year-end, less the present value of any payments expected to be made to other beneficiaries.

Irrevocable trusts held by other trustees: These trusts are carried at fair value and represent gifts deposited with a trustee other than the Foundation (usually a bank) that will be transferred to the Foundation at the conclusion of the trust arrangement. Trusts held by other trustees are not expected to be liquidated in one year or less.

University of Illinois Foundation

Notes to Financial Statements (continued)

(Dollars in Thousands)

1. Nature of Activities and Significant Accounting Policies (continued)

Prepaid expenses: Prepaid expenses are expenses paid in advance of actually incurring them. They are expected to be expensed in one year or less.

Investment and accounts receivable: Investment receivables represent security sales within the Foundation's investment portfolio that are pending settlement at year-end. All accounts receivable are to be collected within one year or less. Management expects the accounts receivable to be fully collectible. Management evaluates the accounts receivable to determine any amounts that may be uncollectible and any amounts determined to be uncollectible are written off.

Income taxes: The Foundation is recognized as exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation may be subject to federal and state income taxes on any net income from unrelated business activities. The Foundation files a Form 990 (Return of Organization Exempt From Income Tax) annually and unrelated business income (UBI) is reported on Form 990-T, as appropriate. Management has evaluated its material tax positions, which include such matters as the tax-exempt status of each entity and various positions relative to potential sources of UBI. As of June 30, 2023 and 2022, there were no uncertain tax benefits identified or recorded as a liability. Forms 990 and 990-T filed by the Foundation are no longer subject to examination by the IRS for the fiscal years ended June 30, 2019, or prior.

University of Illinois Foundation

Notes to Financial Statements (continued)

(Dollars in Thousands)

1. Nature of Activities and Significant Accounting Policies (continued)

Recent accounting policy: In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which sets out the principles for the recognition, measurement, presentation, and disclosure of leases for both parties to a contract (i.e., lessees and lessors). The objective of this ASU is to increase transparency and comparability in financial reporting by requiring balance sheet recognition of leases and note disclosure of certain information about lease arrangements. The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether the lease is effectively a financed purchase by the lessee. This classification determines whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. A lessee is required to record a right-of-use (ROA) asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. The Foundation adopted ASU No. 2016-02 during the year ended June 30, 2023. The impact of adopting the standard was not material to the overall financial statements.

Subsequent events: The Foundation has evaluated all subsequent events through September 25, 2023, the date that the accompanying financial statements were available to be issued.

2. Liquidity and Availability

The following represents the Foundation's financial assets available within one year for general expenditure at June 30:

	<u>2023</u>	<u>2022</u>
Financial assets:		
Cash and cash equivalents	\$ 6,688	\$ 6,421
Due from University of Illinois	2,038	2,521
Investments	9,426	12,614
Board designated and quasi-endowments	22,046	21,282
Total financial assets available within one year	<u>\$ 40,198</u>	<u>\$ 42,838</u>

University of Illinois Foundation

Notes to Financial Statements (continued) (Dollars in Thousands)

2. Liquidity and Availability (continued)

The Foundation has certain board-designated and donor-restricted funds that are available for general expenditure within one year in the normal course of operations. These assets are part of the governing board-designated policy and included above. It is the Foundation's practice to utilize the income from the endowments for operations, which equated to \$1,465 and \$1,108 in the years ended June 30, 2023 and 2022, respectively. However, the entire amount could be made available, if necessary. The Foundation's target for the working capital reserve is between six and nine months of operating expenses. The target for capital reserve is accumulated depreciation for equipment and facilities. The target for special project reserve is the amount of planned, documented, unspent moneys for special projects as designated and approved by the board.

As part of the Foundation's liquidity management plan, cash in excess of daily requirements is invested in short-term investments and money market funds.

Additionally, the Foundation maintains a \$15,000 line of credit that can be utilized short term through maturity of October 2024, for specific capital projects. The line of credit is discussed in more detail in Note 6, of which \$4,801 and \$5,187 is available as of June 30, 2023 and 2022, respectively. In November 2022 the Foundation entered into an additional \$20,000 unsecured credit facility, due October 31, 2023, that remained undrawn as of June 30, 2023.

3. Pledges Receivable

A summary of the pledges receivable (unconditional promises to give) as of June 30 is as follows:

	<u>2023</u>	<u>2022</u>
Gross pledges receivable	\$ 248,535	\$ 245,215
Less present value discount: 2023 – \$5,821; 2022 – \$4,686; allowance for doubtful pledges: 2023 – \$7,714; 2022 – \$7,529	<u>(13,535)</u>	<u>(12,215)</u>
	<u>\$ 235,000</u>	<u>\$ 233,000</u>

University of Illinois Foundation

Notes to Financial Statements (continued) (Dollars in Thousands)

3. Pledges Receivable (continued)

Gross pledges receivable as of June 30 are expected to be collected as follows:

	<u>2023</u>	<u>2022</u>
In one year or less	\$ 57,619	\$ 67,605
Between one year and five years	145,406	133,971
More than five years	45,510	43,639
	<u>\$ 248,535</u>	<u>\$ 245,215</u>

Pledges receivable, net expected to be collected in one year or less are \$52,442 and \$62,305 as of June 30, 2023 and 2022, respectively. Pledges receivable from related parties were \$51,763 and \$902 as of June 30, 2023 and 2022, respectively. Conditional promises to give totaled \$83,056 and \$88,388 as of June 30, 2023 and 2022, respectively, but are not included in the financial statements. These gifts are conditional upon certain timing considerations or nonbinding agreements where the donor intends to recommend a gift but does not intend to be legally bound. Deferred revocable commitments, which depend on the occurrence of a specific and uncertain event, are not included in the financial statements and total \$1,011,817 and \$974,337 as of June 30, 2023 and 2022, respectively.

4. Investments and Fair Value Measurements

FASB ASC 820-10, *Fair Value Measurement – Overall*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The fair value hierarchy is as follows:

Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the Foundation has the ability to access as of the measurement date. Level 1 inputs would also include investments valued at prices in active markets that the Foundation has access to where transactions occur with sufficient frequency and volume to provide reliable pricing information.

University of Illinois Foundation

Notes to Financial Statements (continued)

(Dollars in Thousands)

4. Investments and Fair Value Measurements (continued)

Level 2 – Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or a liability.

A description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

Investments: Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would include highly liquid government bonds, exchange-traded equities, and mutual funds.

If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, and other valuation methodologies. Level 2 securities would include mortgage-backed agency securities, certain corporate securities, and other certain securities. These securities are valued primarily through a multidimensional relational model that includes standard inputs such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, offers, and reference data.

In certain cases where there is limited activity or less transparency regarding inputs to the valuation, including alternative investments, securities are classified within Level 3 of the valuation hierarchy and may include equity and/or debt securities issued by private entities. Level 3 investments include direct private investments and co-investments using performance multiples applicable to the investment's industry, determined through the use of a market-based approach, which utilizes comparable companies' data and equity mutual funds that have underlying marketable securities but have significant redemption restrictions.

University of Illinois Foundation

Notes to Financial Statements (continued)

(Dollars in Thousands)

4. Investments and Fair Value Measurements (continued)

Farms: The fair market value of the Foundation's farms is determined by a contracted professional agricultural services company. The company employs the use of several inputs in determining a farm's fair market value. Quarterly and annual publications by the federal government, professional farm managers, and rural appraisers that discuss current farm values, lease trends, and credit conditions are used as one input. The Foundation also uses comparative sales data for farmland in the area surrounding each specific farm, assembled from in-house real estate transactions, county assessor data, and other local data sources. These inputs serve as benchmarks and each farm is then evaluated based on soil productivity, drainage quality, topography, and other physical characteristics to determine the fair market value.

Beneficial interest in trusts and trusts held by others: The values of beneficial interest in trusts are derived from the underlying investments of the trusts. The value of those investments is determined in the same manner as investments described above. The value of trusts held by others is based on the Foundation owning an interest in the trust and not the underlying investments. The estimated future value of the interest in the trust is based on management's estimate of the trust's expected performance, which is then present valued back to the date of the financial statements based on life expectancy factors published by the IRS.

There have been no changes in valuation techniques used for any assets measured at fair value during the years ended June 30, 2023 or 2022.

University of Illinois Foundation

Notes to Financial Statements (continued) (Dollars in Thousands)

4. Investments and Fair Value Measurements (continued)

The following table summarizes assets measured at fair value on a recurring basis, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of June 30, 2023
Assets:				
Cash surrender value of life insurance	\$ —	\$ —	\$ 5,512	\$ 5,512
Certificate of deposit	—	185	—	185
Common stock:				
Domestic	146,235	—	—	146,235
International	96,419	—	—	96,419
Credit (including collateralized loan obligations)	—	—	51,712	51,712
Emerging markets equity	—	—	62,197	62,197
Emerging markets index linked equity	25	—	—	25
Farms	—	111,694	—	111,694
Fixed income asset backed securities	—	28,695	—	28,695
Fixed income bank loans	—	22,718	477	23,195
Fixed income corporate bonds	—	16,104	—	16,104
Fixed income non-government backed CMOs	—	28,374	189	28,563
Indexed equity	50,051	—	—	50,051
Money market mutual funds	181,343	—	—	181,343
Mutual funds:				
Blended, domestic	8,939	—	—	8,939
Bond	8,341	—	—	8,341
Equity, domestic	29,813	—	—	29,813
Equity, international	13,102	—	—	13,102
Fixed income	8,135	—	—	8,135
Non-U.S. developed markets equity	—	—	66,628	66,628
Private equity funds	—	—	111,620	111,620
Private real estate funds	—	—	52,897	52,897
U.S. treasury bonds and bills	—	2,402	—	2,402
Variable annuity contract	—	3,189	—	3,189
Total investments at fair value	<u>\$ 542,403</u>	<u>\$ 213,361</u>	<u>\$ 351,232</u>	<u>\$ 1,106,996</u>
Beneficial interest in trusts	\$ —	\$ —	\$ 47,446	\$ 47,446
Trusts held by others	\$ —	\$ —	\$ 24,754	\$ 24,754

The investments above exclude \$7,532 of real estate, which is carried at cost, without a readily determinable fair value; \$18,713 of private equities and other assets, which is carried at cost, without a readily determinable fair value; and \$1,740,166 of investments where values are based on net asset value (NAV) as a practical expedient.

University of Illinois Foundation

Notes to Financial Statements (continued) (Dollars in Thousands)

4. Investments and Fair Value Measurements (continued)

The following table summarizes assets measured at fair value on a recurring basis, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of June 30, 2022
Assets:				
Cash surrender value of life insurance	\$ —	\$ —	\$ 6,032	\$ 6,032
Certificate of deposit	—	652	—	652
Common stock:				
Domestic	54,241	—	—	54,241
International	10,879	—	—	10,879
Emerging markets equity	—	—	20,709	20,709
Emerging markets index linked equity	63,054	—	—	63,054
Farms	—	95,859	—	95,859
International government bonds	—	6,505	—	6,505
International index linked government bonds	—	44,038	—	44,038
Money market mutual funds	173,545	—	—	173,545
Mutual funds:				
Blended, domestic	9,170	—	—	9,170
Bond	9,120	—	—	9,120
Equity, domestic	29,869	—	—	29,869
Equity, international	13,422	—	—	13,422
Fixed income	8,888	—	—	8,888
Non-U.S. developed markets equity	—	—	116,232	116,232
Private equity funds	—	—	101,159	101,159
Private real estate funds	—	—	43,696	43,696
U.S. treasury bonds and bills	—	1,776	—	1,776
U.S. index linked government bonds	—	35,411	—	35,411
Variable annuity contract	—	3,286	—	3,286
Total investments at fair value	<u>\$ 372,188</u>	<u>\$ 187,527</u>	<u>\$ 287,828</u>	<u>\$ 847,543</u>
Beneficial interest in trusts	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 43,987</u>	<u>\$ 43,987</u>
Trusts held by others	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 23,649</u>	<u>\$ 23,649</u>

The investments above exclude \$7,532 of real estate, which is carried at cost, without a readily determinable fair value; \$18,612 of private equities and other assets, which is carried at cost, without a readily determinable fair value; and \$1,811,699 of investments where values are based on net asset value (NAV) as a practical expedient.

University of Illinois Foundation

Notes to Financial Statements (continued)

(Dollars in Thousands)

4. Investments and Fair Value Measurements (continued)

The Foundation's Level 3 investments have been valued based on unadjusted account statement balances as reported by investment managers, insurance companies, or trustees. For Level 3, private real estate funds' appraisal values, as prepared by third parties and reported by the investment fund manager, are used as the fair value measure. As a result, there were no unobservable inputs that have been internally developed by the Foundation in determining the fair values of its investments at June 30, 2023 or 2022.

There are certain Level 3 investments subject to lock provisions that may limit the ability to redeem all or a portion of the investment for a given period, ranging from one to three years or, in the case of partnership investments, for the life of the partnership, which can be ten years or more. During the years ended June 30, 2023 and 2022, the Foundation did not have any transfers of assets between any levels of the fair value hierarchy.

University of Illinois Foundation

Notes to Financial Statements (continued)

(Dollars in Thousands)

4. Investments and Fair Value Measurements (continued)

The following tables present additional information about investments measured at fair value on a recurring basis for which the Foundation has utilized Level 3 inputs to determine fair value:

	Year Ended June 30, 2023									
	Beneficial Interest in Trusts	Cash Surrender Value of Life Insurance	Credit	Emerging Markets Equity	Fixed Income Bank Loans	Fixed Income Non-Government-Backed CMOs	Non-U.S. Developed Markets Equity	Private Equity Funds	Private Real Estate Funds	Trusts Held by Others
Purchases/additions	\$ -	\$ -	\$ 50,000	\$ 50,000	\$ 436	\$ 205	\$ -	\$ 32,116	\$ 1,053	\$ -
Sales/deductions	(7)	(516)	(237)	(8,704)	-	-	(60,715)	(4,539)	(532)	(3,930)

	Year Ended June 30, 2022						
	Beneficial Interest in Trusts	Cash Surrender Value of Life Insurance	Emerging Markets Equity	Non-U.S. Developed Markets Equity	Private Equity Funds	Private Real Estate Funds	Trusts Held by Others
Purchases/additions	\$ -	\$ 22	\$ -	\$ -	\$ 8,572	\$ 7,527	\$ 135
Sales/deductions	-	(467)	-	(687)	(16,280)	(3,858)	(763)

University of Illinois Foundation

Notes to Financial Statements (continued) (Dollars in Thousands)

4. Investments and Fair Value Measurements (continued)

The Foundation invests in alternative investment funds that include limited partnerships, private capital funds, and private real estate funds. The fair values of these investments are valued utilizing the NAV, as a practical expedient, provided by the underlying private investment companies when the NAVs of the investments are determined using a measurement basis consistent with U.S. GAAP for investment companies. The Foundation may only utilize the practical expedient if the investment does not have a readily determinable fair value and the investee is an investment company within the scope of ASC Topic 946, *Financial Services – Investment Companies*. The following table sets forth the Foundation’s investments whose fair value is determined using NAV per share (or its equivalent) as of June 30:

	NAV		Unfunded	Redemption Frequency and Notice Period	Redemption Notice Period
	2023	2022	Commitment 2023		
Credit (a)	\$ 201,570	\$ 274,654	\$ –	Daily, monthly, quarterly, or annually	**/** 5 to 120 days
Developed markets – non-U.S. equity (b)	99,878	161,115	6,800	Daily, monthly, quarterly, or annually	*** 5 to 120 days
Emerging markets (c)	159,296	110,975	–	Daily, monthly, quarterly, or annually	5 to 120 days
Global equity (d)	261,416	366,763	–	Daily, monthly, quarterly, or annually	*** 5 to 120 days
Global fixed income (e)	135,855	48,154	–	Daily, monthly, quarterly	5 to 120 days
Natural resources (f)	31,294	31,832	–	Daily, monthly, quarterly, or annually	5 to 120 days
Private credit (g)	51,064	77,033	8,078	Not eligible	* N/A
Private equity – entertainment/leisure (h)	18,093	18,709	13,232	Not eligible	* N/A
Private equity – global growth (i)	77,841	83,853	6,636	Not eligible	* N/A
Private equity – health care (j)	85,542	80,047	21,645	Not eligible	* N/A
Private equity – industrials (k)	40,051	21,786	–	Not eligible	* N/A
Private equity – middle market (l)	56,434	45,464	35,932	Not eligible	* N/A
Private equity – venture capital (m)	99,664	79,349	75,859	Not eligible	* N/A
Private natural resources (n)	109,844	126,201	7,321	Not eligible	* N/A
Real estate (o)	79,945	70,770	29,514	Not eligible	* N/A
U.S. equity (p)	232,379	214,994	–	Daily, monthly, quarterly, or annually	*** 5 to 120 days
	\$ 1,740,166	\$ 1,811,699	\$ 205,017		

* In the case of private funds, capital is returned as monetization events occur that may be infrequent in nature and the timing is not known. Generally, capital is committed to a partnership for a period of up to ten years with the ability of the general partner to extend the life of the fund one to three additional years. Generally in the early years of a fund’s life, the general partner, in order to facilitate its funding of investments, will call capital from the limited partners up to the amount of its commitment. As of June 30, 2023 and 2022, unfunded commitments of \$205,017 and \$169,018, respectively, were related to private fund investments. The unfunded commitments at June 30, 2023, include \$60,000 commitments to funds that have not called any capital as of June 30, 2023, and therefore do not appear in the balances on the statement of financial position or activities or elsewhere in the footnote disclosures.

University of Illinois Foundation

Notes to Financial Statements (continued)

(Dollars in Thousands)

4. Investments and Fair Value Measurements (continued)

** There are certain investments with a fair value of \$33,313 at June 30, 2023, in the above categories that are subject to certain lock provisions that may limit the ability to redeem all or a portion of the investment for a given period of time, typically ranging from one to three years.

***There are certain investments in the above categories for which redemption has been requested and will occur during fiscal year 2024. The fair value of the redemption requests at June 30, 2023, total \$281,859.

- (a) This category includes investments with both long and short positions in both debt and equity related to leveraged or distressed companies, residential mortgage-backed securities, risk arbitrage, and financial instruments that are subject to legal or contractual restrictions. These investments include both U.S. and non-U.S. securities/companies.
- (b) This category includes investments with both long and short positions in equity or equity-related securities primarily in Western Europe.
- (c) This category includes investments with both long and short positions in equity or equity-related securities in global emerging markets.
- (d) This category includes investments with both long and short positions in equity or equity-related securities listed or traded on an exchange or a regulated market on a global basis.
- (e) This category includes investments in primarily debt or debt-like securities that are globally diversified.
- (f) This category includes investments with both long and short positions in both debt and equity or related securities in energy, gas, mining, and oilfields. These investments include both public and private companies.
- (g) This category includes investment positions in both distressed debt and equity securities and other event-driven investments such as broker merger or acquisition deals. These investments include both U.S. and non-U.S. securities/companies.
- (h) This category includes investments in private equity related to travel, lodging, leisure, entertainment, and similar businesses.
- (i) This category includes investments in private equity within growth sectors around the globe, including China, Indonesia, and Sub-Saharan Africa.
- (j) This category includes investments in private equity in the health care industry.
- (k) This category includes investments in private equity related to the industrial sector.
- (l) This category includes investments in private equity specializing in the acquisition and recapitalization of private middle-market companies.
- (m) This category includes investments in venture capital private equity.
- (n) This category includes investments in both debt and equity positions in the sectors of agriculture; oil and gas exploration; and power, utility, and energy infrastructure.
- (o) This category includes investments in both debt and equity positions in real estate and real-estate-related securities and businesses.
- (p) This category includes investments with both long and short positions in equity or equity-related securities in the U.S. in a range of industries.

University of Illinois Foundation

Notes to Financial Statements (continued)
(Dollars in Thousands)

5. Property and Equipment

Property and equipment as of June 30 are as follows:

	2023	2022
Buildings held for the University's future use	\$ 57,770	\$ 44,720
Furniture, fixtures, equipment, and leases	18,742	18,530
	76,512	63,250
Less accumulated depreciation and amortization	16,203	15,075
Property and equipment	\$ 60,309	\$ 48,175
 Depreciation and amortization expense	 \$ 1,138	 \$ 1,299

6. Note Payable

The note payable is to provide funds to purchase property that is to be held for the University:

	2023	2022
\$15,000 unsecured line of credit to bank, due October 2024, interest rate negotiated in irregular intervals (6.02% as of June 30, 2023), contains certain financial and nonfinancial covenants	\$ 10,199	\$ 9,813

In November 2022 the Foundation entered into an additional \$20,000 unsecured credit facility, due October 31, 2023, that remained undrawn as of June 30, 2023.

The Foundation was in compliance with all covenants at June 30, 2023 and 2022.

The changes in the note payable balance consist of the following:

	2023	2022
Balance, beginning	\$ 9,813	\$ 7,777
Proceeds	586	2,236
Payments	(200)	(200)
Balance, ending	\$ 10,199	\$ 9,813

University of Illinois Foundation

Notes to Financial Statements (continued)

(Dollars in Thousands)

7. Net Assets With Donor Restrictions

Net assets with donor restrictions as of June 30 were purpose restricted for the following:

	2023	2022
Purpose restricted:		
Research	\$ 35,189	\$ 33,569
Student support	159,148	147,357
Academic programs	180,698	167,280
Facilities	142,437	120,872
Faculty support	118,081	111,319
Public support	10,905	9,862
Other	34,337	30,291
Program support*	793,034	707,741
	1,473,829	1,328,291
Permanent endowment:		
Research	70,261	70,647
Student support	544,971	519,059
Academic programs	352,740	324,780
Facilities	8,248	11,261
Faculty support	324,940	314,192
Public support	25,438	22,494
Other	56,066	56,078
Program support*	263,769	251,647
	1,646,433	1,570,158
Total net assets with donor restrictions	\$ 3,120,262	\$ 2,898,449

* Donor-designated funds to be used by the institution, campus, college, or department with no restriction as to how the funds should be spent.

University of Illinois Foundation

Notes to Financial Statements (continued)

(Dollars in Thousands)

8. Endowments and Net Asset Classification

The Foundation's endowment fund consists of approximately 6,800 individual funds established for a variety of purposes. Its endowment fund includes donor-restricted endowment funds and funds designated as endowment and quasi-endowment by the Board of Directors. Net assets associated with the endowment fund are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law: The Board of Directors of the Foundation interprets the Illinois Uniform Prudent Management of Institutional Funds Act (UPMIFA) to require consideration of the following factors, if relevant, in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the endowment fund
- The purposes of the institution and the endowment fund
- General economic conditions
- The possible effect of inflation or deflation
- The expected total return from income and the appreciation of investments
- Other resources of the institution
- The investment policy of the institution

University of Illinois Foundation

Notes to Financial Statements (continued)

(Dollars in Thousands)

8. Endowments and Net Asset Classification (continued)

In accordance with the Foundation’s interpretation of UPMIFA, absent explicit donor stipulations to the contrary, the Foundation shall classify as permanently restricted net assets the original value of the gifts donated to the permanent endowment, but such classification does not limit the expenditures from the endowment fund only to income, interest, dividends or rents, issues, or profits. The portion of the fund’s value spendable annually for the donor-designated purpose is to be determined, from time to time, by the Foundation’s Board of Directors, acting in good faith, with the care that an ordinarily prudent person in a like position would exercise under similar circumstances, considering the above relevant factors. The Board of Directors approved spending was \$124,546 and \$109,267 for the fiscal years ended June 30, 2023 and 2022, respectively.

	2023			
	Board- Designated Without Donor Restrictions	Quasi and Term With Donor Restrictions	Permanent With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 33,417	\$ 969,656	\$ 1,570,158	\$ 2,573,231
Investment loss:				
Investment loss	(72)	(4,224)	–	(4,296)
Net appreciation (realized and unrealized)	3,802	222,549	–	226,351
Total investment return	3,730	218,325	–	222,055
Contributions	72	21,507	76,275	97,854
Appropriation of endowment assets for expenditure	(2,092)	(122,454)	–	(124,546)
Endowment net assets, end of year	\$ 35,127	\$ 1,087,034	\$ 1,646,433	\$ 2,768,594

University of Illinois Foundation

Notes to Financial Statements (continued) (Dollars in Thousands)

8. Endowments and Net Asset Classification (continued)

	2022			
	Board- Designated Without Donor Restrictions	Quasi and Term With Donor Restrictions	Permanent With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 38,189	\$ 1,240,574	\$ 1,487,405	\$ 2,766,168
Investment loss:				
Investment loss	(47)	(2,761)	–	(2,808)
Net depreciation (realized and unrealized)	(2,900)	(170,772)	–	(173,672)
Total investment loss	(2,947)	(173,533)	–	(176,480)
Contributions	–	10,057	82,753	92,810
Appropriation of endowment assets for expenditure	(1,825)	(107,442)	–	(109,267)
Endowment net assets, end of year	\$ 33,417	\$ 969,656	\$ 1,570,158	\$ 2,573,231

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Foundation to retain as a fund of perpetual duration. Deficiencies of this nature are reported in net assets with donor restrictions. As of June 30, 2023, funds with an original gift value of \$101,121 were underwater by \$3,601. As of June 30, 2022, funds with an original gift value of \$145,361 were underwater by \$8,789. Deficiencies resulted from unfavorable market fluctuations.

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board of Directors, the investment objective of the endowment is to seek maximum total return consistent with the preservation of principal, diversification, and avoidance of excessive risk. The Foundation will exercise reasonable care, skill, and caution with regard to the investment of funds in the context of the entire portfolio, which incorporates risk and return objectives reasonably suitable to the purposes of the Foundation. The assets are to be managed in a manner that seeks to meet these investment objectives, while at the same time attempting to reduce volatility in year-to-year spending. Actual returns in any given year may vary.

University of Illinois Foundation

Notes to Financial Statements (continued) (Dollars in Thousands)

8. Endowments and Net Asset Classification (continued)

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation.

9. Functional Classification of Expenses

The following table represents functional expenses by natural category reported for program services, general and administrative costs, and fundraising costs. Included in general and administrative costs are the functions of financial operations, general communications, general overhead, gift and trust administration, human resources, IT enterprise applications, legal counsel, and the President's office general operating expenses and 50% of the President's compensation and direct expenses, allocated based on direct supervision of activities. The fundraising costs function includes the areas of annual giving, advancement data analytics, board and donor relations, campaigns, development programs, development research, gift planning, principal gifts, and 50% of the President's compensation and direct expenses, allocated based on direct supervision of activities.

	2023			
	Program Services	General and Administrative	Fundraising	Total
Salaries and benefits	\$ —	\$ 11,916	\$ 15,856	\$ 27,772
Communication and marketing	—	67	256	323
Travel	—	160	903	1,063
Meetings and special events	—	113	1,811	1,924
Equipment and software (not capitalized)	—	1,678	302	1,980
Professional services	—	1,281	1,882	3,163
Supplies and other	—	1,813	646	2,459
Depreciation and amortization	—	1,134	—	1,134
Interest	—	480	—	480
Distributions to the University	270,745	—	181	270,926
Total	\$ 270,745	\$ 18,642	\$ 21,837	\$ 311,224

University of Illinois Foundation

Notes to Financial Statements (continued) (Dollars in Thousands)

9. Functional Classification of Expenses (continued)

	2022			
	Program Services	General and Administrative	Fundraising	Total
Salaries and benefits	\$ —	\$ 10,335	\$ 14,956	\$ 25,291
Communication and marketing		122	298	420
Travel	—	78	376	454
Meetings and special events	—	41	800	841
Equipment and software (not capitalized)	—	1,401	321	1,722
Professional services	—	796	2,973	3,769
Supplies and other	—	1,727	599	2,326
Depreciation and amortization	—	1,295	—	1,295
Interest	—	97	—	97
Distributions to the University	240,115	—	105	240,220
Total	\$ 240,115	\$ 15,892	\$ 20,428	\$ 276,435

10. Transactions With the University of Illinois, State of Illinois, and Related Parties

The Foundation was formed for the purpose of providing fundraising services and other assistance to the University in order to attract private gifts to support the University's instructional, research, and public services activities. In this capacity, the Foundation solicits, receives, holds, and administers gifts for the benefit of the University.

The Foundation enters into annual contracts with the University that require the Foundation to perform the above-described functions and supervise University employees who maintain University donor records and perform support functions for Foundation fundraising activities.

The Foundation is required to recognize as revenue and expense those on-behalf payments for pension benefits made by the State of Illinois (the State) for University employees who are supervised by the Foundation. These payments (estimated to be \$537 and \$602 for the years ended June 30, 2023 and 2022, respectively) are included in the amounts shown as allocation from the University of Illinois and as salaries and benefits expense (see Note 10).

University of Illinois Foundation

Notes to Financial Statements (continued)

(Dollars in Thousands)

10. Transactions With the University of Illinois, State of Illinois, and Related Parties (continued)

Pursuant to the contracts, the Foundation is required to comply with Section VI of “University Guidelines 1982,” as adopted by the University Board of Trustees on November 12, 1982, and amended in 1997 by the State of Illinois Legislative Audit Commission. The contracts require the University to make payments to the Foundation for the cost of services provided up to specified limits and to provide other support as described below.

- On October 6, 1989, the Foundation Board of Directors agreed to renovate the University Facility now known as the Karnes Center in Historic Harker Hall at Swanlund Plaza at a cost of approximately \$5,500 in exchange for the University President’s pledge to provide the facility to the Foundation rent free through December 2023. This amount was capitalized as a leasehold improvement in fiscal year 1993 and annual depreciation is recorded in the amount of \$183. The value of rent provided to the Foundation is \$498 and is recorded in contributed services with a corresponding rent expense for the years ended June 30, 2023 and 2022.
- The University provides certain services for which no separate charges will be assessed. Such services will include, but not be limited to, routine business and financial services as needed, on a regular or ad hoc basis, in such areas as risk management, cash management, and limited human resource services. The estimated value of such services was \$78 and \$67 for the years ended June 30, 2023 and 2022, respectively, and is reflected on the statements of activities and changes in net assets as revenue and a corresponding expense.

Gifts received by the Foundation include some donations attributable to solicitations by development personnel of the University. Amounts received directly by the Foundation through these fundraising efforts are generally not quantifiable. Conversely, private gifts and grants received by the University include some gifts attributable to direct and indirect solicitations by Foundation personnel. Amounts received directly by the University through these fundraising efforts are not quantifiable.

Gifts received from Foundation board members were \$9,291 and \$1,725 for the years ended June 30, 2023 and 2022, respectively. There were no gifts received from the University of Illinois Alumni Alliance in 2023 or 2022. Conversely, disbursements to the Alumni Association from the Foundation were approximately \$14 and \$29 in 2023 and 2022, respectively.

University of Illinois Foundation

Notes to Financial Statements (continued)

(Dollars in Thousands)

10. Transactions With the University of Illinois, State of Illinois, and Related Parties (continued)

Gifts and gift-related income transferred from the Foundation to the University totaled \$270,745 and \$240,115 for the years ended June 30, 2023 and 2022, respectively. These amounts are reflected on the statements of activities and changes in net assets. Other transactions between the Foundation and the University include the following:

- The University leases from the Foundation various properties with a carrying value of \$9,123 and \$8,373 as of June 30, 2023 and 2022, respectively. Payments by the University to the Foundation, which approximate the Foundation's cost of carrying the properties, were \$404 and \$77 for the years ended June 30, 2023 and 2022, respectively. The Foundation also holds \$48,647 of properties for the University's future use that are not covered by the lease agreement as of June 30, 2023 or 2022.
- The Foundation obtained certain goods and services (supplies, telephone, printing, etc.) during the years ended June 30, 2023 and 2022, through the University for which the Foundation reimbursed the University at cost.

11. Retirement Plan and Postemployment Benefits

The Foundation contributes to the State Universities Retirement System of Illinois (SURS), a cost-sharing multiple-employer defined benefit plan with a special funding situation whereby the State 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 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's financial reporting entity and is included in the State's financial reports as a pension trust fund. SURS is governed by Section 5/15, Chapter 40 of the Illinois Compiled Statutes. SURS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by accessing the website at SURS.org.

University of Illinois Foundation

Notes to Financial Statements (continued)

(Dollars in Thousands)

11. Retirement Plan and Postemployment Benefits (continued)

Benefits provided: A traditional benefit plan was established in 1941. Public Act 90-0448, enacted effective January 1, 1998, established an alternative defined benefit program known as the portable benefit package. The traditional and portable plan Tier 1 refers to members who began participation prior to January 1, 2011. Public Act 96-0889 revised the traditional and portable benefit plans for members who begin participation on or after January 1, 2011, and who do not have other eligible Illinois reciprocal system services. The revised plan is referred to as Tier 2. New employees are allowed six months after their date of hire to make an irrevocable election. A summary of the benefit provisions as of June 30, 2019, can be found in the SURS comprehensive annual financial report notes to the financial statements.

Contributions: The State is primarily responsible for funding SURS on behalf of the individual employers at an actuarially determined amount. Public Act 88-0593 provides a statutory funding plan consisting of two parts: (i) a ramp-up period from 1996 to 2010 and (ii) a period of contributions equal to a level percentage of the payroll of active members of SURS to reach 90% of the total actuarial accrued liability by the end of fiscal year 2045. Employer contributions from “trust, federal, and other funds” are provided under Section 15-155(b) of the Illinois Pension Code and require employers to pay contributions that are sufficient to cover the accruing normal costs on behalf of applicable employees. The employer normal cost for fiscal years 2023 and 2022 was 12.83 % and 12.32% of employee payroll, respectively. The Foundation made contributions of approximately \$1,606 and \$1,449 for the years ended June 30, 2023 and 2022, respectively. The normal cost is equal to the value of the current year’s pension benefit and does not include any allocation for the past unfunded liability or interest on the unfunded liability. Plan members are required to contribute 8.0% of their annual covered salary. The contribution requirements of plan members and employers are established and may be amended by the Illinois General Assembly.

In addition to providing pension benefits, the State provides certain health, dental, and life insurance benefits to annuitants. This includes annuitants of the Foundation. Substantially all State employees, including the Foundation’s employees, 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 or older are limited to \$5,000 per annuitant. Currently, the State does not segregate payments made to annuitants from those made to current

University of Illinois Foundation

Notes to Financial Statements (continued)

(Dollars in Thousands)

11. Retirement Plan and Postemployment Benefits (continued)

employees for health, dental, or life insurance benefits. The Foundation remits the employer cost of current Foundation employees for health, dental, and life insurance benefits. The Foundation made contributions of approximately \$3,515 and \$3,298 for the years ended June 30, 2023 and 2022, respectively.

Employees of the Foundation may also elect to participate in several tax-deferred annuity plans and defined contribution plans. These are single employer plans under which benefits are provided to participating employees through contracts issued to each individual. Participation and the level of employee contributions are voluntary. The Foundation is not required to make contributions.

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