University of Illinois Foundation

Financial Statements
June 30, 2013

Contents

McGladrey

Independent Auditor's Report

To the Board of Directors
University of Illinois Foundation
Urbana, Illinois

Report on the Financial Statements

We have audited the accompanying financial statements of University of Illinois Foundation which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of University of Illinois Foundation as of June 30, 2013 and 2012, and the changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our reports for the years ended June 30, 2013 and 2012 dated October 16, 2013 and September 27, 2012, respectively, on our consideration of the University of Illinois Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of those reports are 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 internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering University of Illinois Foundation's internal control over financial reporting and compliance.

McGladrey LLP

Davenport, Iowa
October 16, 2013

University of Illinois Foundation

Statements of Financial Position
June 30, 2013 and 2012
(Dollars in Thousands)

Assets	**2013**	2012
Cash and cash equivalents	**$ 7,072**	$ 3,238
Receivables:		
Pledges (Note 2)	**231,000**	108,000
Investment	**5,848**	4,619
Accounts	**185**	79
Due from University of Illinois	**104**	522
Prepaid expenses	**666**	629
Notes receivable	**59**	66
Investments (Note 3)	**1,490,395**	1,310,533
Beneficial interest in trusts (Note 3)	**32,082**	30,289
Irrevocable trusts held by other trustees (Note 3)	**20,042**	15,483
Property and equipment, net (Note 4)	**8,381**	9,302
Other assets	**68**	68
Total assets	**$ 1,795,902**	$ 1,482,828

Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	**$ 13,069**	$ 11,518
Accrued vacation and sick pay	**897**	916
Annuities payable	**47,325**	46,102
Remainder interest due to others	**7,224**	7,575
Note payable (Note 9)	**3,378**	4,084
Total liabilities	**71,893**	70,195
Net Assets (Notes 6 and 7):		
Unrestricted:		
Undesignated	**(9,389)**	(28,754)
Designated for quasi-endowment	**13,965**	13,257
Temporarily restricted	**830,558**	661,460
Permanently restricted	**888,875**	766,670
Total net assets	**1,724,009**	1,412,633
	$ 1,795,902	$ 1,482,828

See Notes to Financial Statements.

University of Illinois Foundation

Statements of Activities
Years Ended June 30, 2013 and 2012
(Dollars in Thousands)

	2013			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Revenues, gains and other support:				
Contributions, gifts and pledges	$ -	$ 176,718	$ 122,205	$ 298,923
Contributed services (Note 8)	575	-	-	575
Allocation from the University of Illinois	7,631	-	-	7,631
Investment income	165	21,705	-	21,870
Net increase (decrease) in fair value of investments	33,563	109,490	-	143,053
Endowment property operations	-	1,485	-	1,485
Annual funds revenue	471	-	-	471
Other operating revenue	302	7,049	-	7,351
Total revenue and gains	42,707	316,447	122,205	481,359
Net assets released from restrictions and changes in donor restrictions:				
Service fee revenue	15,529	(15,529)	-	-
Endowment budgets	34,269	(34,269)	-	-
Distributions to University of Illinois	97,325	(97,325)	-	-
Total revenue, gains, other support and net assets released from restrictions	189,830	169,324	122,205	481,359
Expenses:				
Program services:				
Fundraising	11,902	-	-	11,902
Distributions to University of Illinois	144,058	-	-	144,058
General and administrative	13,750	-	-	13,750
Actuarial adjustments	-	226	-	226
Interest on indebtedness	47	-	-	47
Total programs and expenses	169,757	226	-	169,983
Change in net assets	20,073	169,098	122,205	311,376
Net assets:				
Beginning	(15,497)	661,460	766,670	1,412,633
Ending	$ 4,576	$ 830,558	$ 888,875	$ 1,724,009

See Notes to Financial Statements.

2012			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
$ -	$ 137,904	$ 40,021	$ 177,925
687	-	-	687
8,018	-	-	8,018
125	14,486	-	14,611
(3,129)	11,679	-	8,550
-	1,138	-	1,138
449	-	-	449
339	6,921	-	7,260
6,489	172,128	40,021	218,638
14,899	(14,899)	-	-
24,416	(24,416)	-	-
108,305	(108,305)	-	-
154,109	24,508	40,021	218,638
11,258	-	-	11,258
148,373	-	-	148,373
13,207	-	-	13,207
-	5,694	-	5,694
53	-	-	53
172,891	5,694	-	178,585
(18,782)	18,814	40,021	40,053
3,285	642,646	726,649	1,372,580
$ (15,497)	$ 661,460	$ 766,670	$ 1,412,633

University of Illinois Foundation

Statements of Cash Flows
Years Ended June 30, 2013 and 2012
(Dollars in Thousands)

	2013	2012
Cash Flows from Operating Activities:		
Contributions, gifts and pledges	$ 100,218	$ 125,170
Service fee revenue	15,529	14,899
Allocation from the University of Illinois	7,230	6,750
Endowment property operations	1,485	1,138
Annual funds revenue	471	449
Other operating revenue	7,241	7,284
Payments for salaries and benefits	(15,710)	(17,005)
Payments for marketing and communications	(644)	(604)
Payments for travel	(1,133)	(969)
Payments for meetings, conferences and special events	(1,082)	(1,099)
Payments for equipment not meeting capitalization threshold	(569)	(518)
Payments for supplies and other	(3,472)	(2,466)
Distributions on behalf of the University of Illinois	(138,158)	(133,678)
Net cash (used in) operating activities	(28,594)	(649)
Cash Flows from Investing Activities:		
Proceeds from sales and maturities of investments	425,356	546,441
Purchase of investments	(461,126)	(555,638)
Purchase of property and equipment for University of Illinois	-	(1,516)
Purchase of property and equipment	(213)	(128)
Proceeds from sale of property and equipment for University of Illinois	605	2,365
Net cash (used in) investing activities	(35,378)	(8,476)
Cash Flows from Financing Activities:		
Payments on notes payable	(706)	(848)
Investment income restricted for long-term purposes	8,730	2,057
Gifts and grants received restricted for long-term purposes	67,205	16,021
Payments to annuitants	(7,423)	(8,675)
Net cash provided by financing activities	67,806	8,555
Increase (decrease) in cash and cash equivalents	3,834	(570)
Cash and cash equivalents:		
Beginning	3,238	3,808
Ending	$ 7,072	$ 3,238

(Continued)

University of Illinois Foundation

Statements of Cash Flows (Continued)
Years Ended June 30, 2013 and 2012
(Dollars in Thousands)

	2013	2012
Reconciliation of Change in Net Assets to Net Cash Used in Operating Activities:		
Change in net assets	**$ 311,376**	$ 40,053
Adjustments to reconcile change in net assets to net cash (used in) operating activities:		
Depreciation	**529**	519
Actuarial adjustment	**1,329**	14,019
Gifts in-kind	**(9,760)**	(21,143)
Noncash distributions to the University of Illinois	**6,073**	14,906
Change in split interest agreements	**298**	55
Gifts and grants received for long-term purposes	**(122,205)**	(16,021)
Unrealized gains/losses on investments	**(143,053)**	(8,550)
Investment gains/losses earned for investing activities	**(6,340)**	288
Changes in assets and liabilities:		
Accounts receivable, University of Illinois	**418**	(320)
Prepaid expenses	**(37)**	(50)
Accounts and notes receivable	**(305)**	1,040
Pledge receivable	**(68,000)**	(24,000)
Accounts payable and accrued expenses	**1,102**	(1,494)
Accrued vacation and sick leave	**(19)**	49
Net cash (used in) operating activities	**$ (28,594)**	$ (649)

See Notes to Financial Statements.

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities:

The University of Illinois Foundation (Foundation) is a non-profit corporation responsible for encouraging and administering private gifts made to further the mission of the University of Illinois (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 discreetly presented component unit of the University; and therefore, included in the University's government-wide 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 classifies its net assets for accounting and reporting purposes into three net asset categories according to the existence or absence of donor-imposed restrictions.

Descriptions of the three net asset categories and types of transactions affecting each category follow:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations. The Foundation may designate portions of its unrestricted net assets as board-designated for various purposes.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that will be met either by actions of the University or the passage of time.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be permanently maintained by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned for general or specific purposes.

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 $10,697,000 and $7,452,000 for the years ended June 30, 2013 and 2012, respectively.

Contributions received in the same year in which the restriction is met are recorded as temporarily restricted contributions and released from restriction.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Contributed assets and services: Real estate and other objectively measurable assets that are available for financial support are recorded at their fair value at the date of contribution. Non-monetary assets, art objects, equipment and various services contributed to the University through the Foundation for direct benefit of a University department are not included in the financial statements, although donors receive recognition for such contributions. These items are transferred to the University upon receipt. Contributed services that enhance nonfinancial assets, that require specialized skills and are provided by individuals with those specialized skills, are recorded as contribution revenue and a corresponding expense. See Note 8.

Investments: Investments are recorded at fair value, except for real estate held for investment, which is carried at lower of cost or fair value. The Foundation elected to report the fair value of alternative investments, comprised of hedge funds and private capital funds, included in managed separate investment accounts using the practical expedient. The practical expedient allows for the use of net asset value (NAV), either as reported by the investee fund or as adjusted by the Foundation based on various factors. See Note 3 for discussion of fair value measurements. The Foundation has the ability to liquidate its alternative investments on a periodic basis in accordance with the provisions of the respective investment fund agreements. Unrealized gains and losses on non-endowment investments are reported in unrestricted net assets. Unrealized gains and losses on endowment investments are reported in temporarily restricted net assets until appropriated by the Board.

Fair value of financial instruments: The carrying amount of cash and cash equivalents, accounts and notes receivable, accounts payable and accrued expenses approximates fair value because of the short maturity of these instruments. The carrying amount of contributions receivable, irrevocable trusts held by others and beneficial interest in trusts approximates fair value because the present value discount is included in the carrying amount. The investments in marketable debt and equity securities are carried at fair value based upon quoted market prices. For all other investments, the carrying amount would approximate fair value. The carrying amount of notes payable, which carry current interest rates, approximates fair value. The fair value of obligations related to split interest agreements is determined as the present value of expected future cash flows discounted at an appropriate interest rate.

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

Accounts payable and accrued expenses: The largest component of accounts payable represent securities purchased within the Foundation’s endowment investment portfolio pending settlement at year end. Accounts payable and accrued expenses are due and payable within one year.

Property and equipment: Property and equipment is 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 five years on most furniture and equipment. Buildings and site improvements are depreciated using an estimated useful life of 20-50 years.

Functional expenses: Program expenses have been noted on the statement of activities. Fundraising costs are charged to expense as incurred. Total fundraising costs for the years ended June 30, 2013 and 2012 were $11,902,000 and $11,258,000, respectively. The other portion of operating expenses consists of general and administrative expense for the years ended June 30, 2013 and 2012.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Presentation of cash flows: For purposes of reporting cash flows, cash and cash equivalents includes 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 which 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 current portion of the annuities payable recorded in the statement of financial position is $6,461,000 and $6,310,000 as of June 30, 2013 and 2012, 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. The present value of payments to be made to other beneficiaries was determined using the discount rate appropriate for each agreement and life expectancies from IRS annuity tables.

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.

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

Investment and accounts receivables: Investment receivables represent security sales within the Foundation's investment portfolio that are pending settlement at year end. All accounts and notes receivable are to be collected within one year or less. Management expects the accounts and notes receivable to be fully collectible. Management evaluates the accounts and notes 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 their material tax positions, which include such matters as the tax exempt status of each entity and various positions relative to potential sources of UBIT. As of June 30, 2013 and 2012, there were no uncertain tax benefits identified and 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, 2009 and prior.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Adopted and pending accounting pronouncements: In 2013, the Foundation adopted ASU 2011-09, *Compensation-Retirement Benefits-Multiemployer Plans (Subtopic 715-80): Disclosures about an Employer's Participation in a Multiemployer Plan*. This ASU requires additional quantitative and qualitative disclosures about an employer's involvement in multiemployer plans including, the significant multiemployer plans in which the Foundation participates, the level of the Foundation's participation and contributions, financial health and an indication of funded status, and the nature of the employer commitments to the plan. The ASU impacted the disclosure in Note 10 only, and did not have any impact on the Foundation's financial position, changes in net assets or cash flows.

In October 2012, the FASB issued ASU 2012-05, *Statement of Cash Flows (Topic 230): Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows,* which requires not-for-profit entities to classify cash receipts from the "nearly immediate" sale of donated financial assets as an operating activity in the consolidated statement of cash flows when received with no donor-imposed restrictions. When the donor has restricted the use of the cash receipts from the sale of donated financial assets, classification as a financing activity would be required. When financial assets are not "nearly immediately" sold, classification as an investing activity would be appropriate. The amendments in ASU 2012-05 are effective prospectively for fiscal years beginning after June 15, 2013. Management is in the process of evaluating the potential impact this standard will have on its financial statements.

In May 2013, the FASB issues ASU 2013-06, *Not-for-Profit Entities (Topic 958)—Services Received from Personnel of an Affiliate*. These amendments require a recipient not-for-profit entity to recognize all services received from personnel of an affiliate that directly benefit the recipient not-for-profit entity. Those services should be measured at the cost recognized by the affiliate for the personnel providing those services. However, if measuring such service at cost will significantly overstate or understate the value of the service received, the recipient not-for-profit entity may elect to recognize that service at either: (a) the cost recognized by the affiliate for the personnel providing that service, or (b) the fair value of that service. These amendments are effective on a prospective basis for fiscal years beginning after June 15, 2014, and interim and annual periods thereafter. Management is in the process of evaluating the potential impact this standard will have on its financial statements.

Subsequent events: The Foundation has evaluated all subsequent events through October 16, 2013, the date that the financial statements were available to be issued. Through this date, there were no subsequent events requiring disclosure.

Reclassification: Certain amounts included in prior year financial statements have been reclassified with no effect on change in net assets or net assets to conform with the current presentation.

Note 2. Pledges Receivable

A summary of the pledges receivable (unconditional promises to give) as of June 30, 2013 and 2012 is as follows:

	2013	2012
	(Dollars in Thousands)	
Gross pledges receivable	$ 248,727	$ 116,450
Less present value discount 2013 $3,612,000; 2012 $1,904,000; allowance for doubtful pledges 2013 $14,115,000; 2012 $6,546,000	(17,727)	(8,450)
	$ 231,000	$ 108,000

Note 2. Pledges Receivable (Continued)

Gross pledges receivable as of June 30, 2013 and 2012 are expected to be collected as follows:

	2013	2012
	(Dollars in Thousands)	
In one year or less	$ 30,762	$ 37,195
Between one year and five years	146,770	51,264
More than five years	71,195	27,991
	$ 248,727	$ 116,450

Pledges receivable collected in one year or less, net are $28,633,000. Conditional promises to give totaled $7,205,000 and $933,000 as of June 30, 2013 and 2012, respectively, which are not included on the financial statements. These gifts are conditional upon certain timing issues. Pledges receivable from related parties were $14,986,000 and $12,468,000 as of June 30, 2013 and 2012, respectively. Deferred revocable commitments are not included on the financial statements and total $755,773,000 and $733,481,000 as of June 30, 2013 and 2012, respectively.

Note 3. Fair Value Measurements

Accounting guidance for fair value 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.

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 2 investments also include alternative investments, measured using the practical expedient, that do not have any significant redemption restrictions, lock up periods, gates or other characteristics that would cause liquidation and report date NAV to be significantly different, if redemption were requested at report date.

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 liability. The Foundation reports the fair value of certain level 3 investments using the practical expedient. The practical expedient allows for the use of NAV, either as reported by the investee fund or as adjusted by the Foundation based on various factors, to be used to determine fair value, under certain conditions. The fair value of the investment is based on a combination of audited financial statements of the investees and monthly or quarterly statements received from the investees. These investments could have significant redemption and other restrictions that would limit the Foundation's ability to redeem out of the fund at report date NAV.

Note 3. Fair Value Measurements (Continued)

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, mutual funds of level 1 securities where values are based on NAV provided by the investment manager, emerging market funds where the value is based on the NAV provided by the investment manager and other certain securities. These securities are valued primarily through a multi-dimensional relational model including standard inputs such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, offers, reference data and NAV provided by the investment manager.

In certain cases where there is limited activity or less transparency around 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 and certain corporate bonds. The Foundation's private equity, hedge and real estate investment funds do not have a readily determinable fair value. These funds are valued using the practical expedient.

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 trusts' 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 year ended June 30, 2013 and 2012.

Note 3. Fair Value Measurements (Continued)

The following table summarizes assets measured at fair value on a recurring basis as of June 30, 2013 and 2012, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	2013			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(Dollars in Thousands)			
Assets:				
U.S. treasury bonds and bills	$ 5,435	$ -	$ 5,435	$ -
International government bonds	1,126	-	33	1,093
U.S. government agencies	19,392	-	19,392	-
International government agencies	599	-	599	-
Municipal bonds	568	-	568	-
Corporate bonds and notes	14,362	-	14,362	-
Commercial mortgage-backed securities	1,052	-	1,052	-
Asset backed securities	3,063	-	2,926	137
Non-government backed c.m.o.s	2,784	-	2,625	159
Other fixed income	2,503	-	2,503	-
Common stock, domestic:				
Consumer goods	56,208	56,208	-	-
Energy	10,358	10,358	-	-
Financial services	24,106	23,100	1,006	-
Health care	27,078	27,078	-	-
Industrials	18,141	18,141	-	-
Information technology	31,313	31,313	-	-
Materials	11,448	11,448	-	-
Telecommunications	418	418	-	-
Utilities	1,166	1,166	-	-
Common stock, foreign:				
Consumer goods	27,943	27,943	-	-
Energy	4,127	4,127	-	-
Financial services	11,673	11,673	-	-
Health care	12,696	12,696	-	-
Industrials	14,561	14,561	-	-
Information technology	1,271	1,271	-	-
Materials	2,661	2,661	-	-
Miscellaneous	13,540	-	-	13,540
Hedged/alternative investments	410,358	-	-	410,358
Private equity	102,759	-	-	102,759
Real estate trusts and partnerships	71,336	-	-	71,336
Subtotal forward	$ 904,045	$ 254,162	$ 50,501	$ 599,382

Note 3. Fair Value Measurements (Continued)

	Fair Value Measurements as of June 30, 2013 Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(Dollars in Thousands)			
Subtotal forwarded	$ 904,045	$ 254,162	$ 50,501	$ 599,382
Bond mutual funds:				
U.S. government	28,087	849	27,238	-
Mortgages	24,947	659	24,288	-
Corporate bonds and notes	12,908	397	12,511	-
High yield	2,874	83	2,791	-
Municipals	4,360	111	4,249	-
International	9,827	309	9,518	-
Equity mutual funds:				
Small cap	630	454	176	-
Mid cap	12,808	12,808	-	-
Large cap	139,909	38,135	101,774	-
International	109,728	8,981	100,747	-
Money market mutual funds	159,963	159,963	-	-
Other investments	2,953	-	-	2,953
Farms	58,254	-	58,254	-
Cash surrender value of life insurance	5,732	-	-	5,732
Other assets	7,517	-	7,517	-
Total investments at fair value	$ 1,484,542	$ 476,911	$ 399,564	$ 608,067
Beneficial interest in trusts	$ 32,082	$ -	$ -	$ 32,082
Trusts held by others	20,042	-	-	20,042

The investments above exclude $5,853,000 of real estate which is carried at cost.

Note 3. Fair Value Measurements (Continued)

	2012			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(Dollars in Thousands)			
Assets:				
U.S. treasury bonds and bills	$ 4,840	$ -	$ 4,840	$ -
International government bonds	941	-	158	783
U.S. government agencies	24,887	-	24,797	90
International government agencies	539	-	539	-
Municipal bonds	1,065	-	1,065	-
Corporate bonds and notes	22,781	-	22,781	-
Commercial mortgage-backed securities	1,139	-	1,139	-
Guaranteed fixed income	141	-	141	-
Asset backed securities	3,460	-	3,330	130
Non-government backed c.m.o.s.	2,511	-	2,511	-
Other fixed income	3,358	-	3,358	-
Common stock, domestic:				
Consumer goods	45,172	45,172	-	-
Energy	11,075	11,075	-	-
Financial services	13,477	12,471	1,006	-
Health care	21,827	21,827	-	-
Industrials	15,673	15,673	-	-
Information technology	29,685	29,685	-	-
Materials	9,679	9,679	-	-
Telecommunications	1,096	1,096	-	-
Utilities	2,721	2,721	-	-
Common stock, foreign:				
Consumer goods	21,225	21,225	-	-
Energy	4,670	4,670	-	-
Financial services	9,148	9,148	-	-
Health care	6,721	6,721	-	-
Industrials	11,832	11,832	-	-
Information technology	1,709	1,709	-	-
Materials	3,754	3,754	-	-
Miscellaneous	13,221	-	-	13,221
Hedged/alternative investments	365,988	-	-	365,988
Private Equity	103,634	-	-	103,634
Real estate trusts and partnerships	74,952	-	-	74,952
Subtotal forward	$ 832,921	$ 208,458	$ 65,665	$ 558,798

Note 3. Fair Value Measurements (Continued)

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(Dollars in Thousands)			
Subtotal forwarded	$ 832,921	$ 208,458	$ 65,665	$ 558,798
Bond mutual funds:				
U.S. government	34,099	1,001	33,098	-
Mortgages	27,804	757	27,047	-
Corporate bonds and notes	15,877	474	15,403	-
High yield	2,888	102	2,786	-
Municipals	5,541	130	5,411	-
International	12,184	390	11,794	-
Equity mutual funds:				
Small cap	603	574	29	-
Mid cap	10,228	10,228	-	-
Large cap	120,179	37,110	83,069	-
International	87,634	11,147	76,487	-
Money market mutual funds	92,802	92,802	-	-
Other investments	2,750	-	-	2,750
Farms	46,599	-	46,599	-
Cash surrender value of life insurance	5,363	-	-	5,363
Other assets	6,633	-	6,633	-
Total investments at fair value	$ 1,304,105	$ 363,173	$ 374,021	$ 566,911
Beneficial interest in trusts	$ 30,289	$ -	$ -	$ 30,289
Trusts held by others	15,483	-	-	15,483

The investments above exclude $6,428,000 of real estate which is carried at cost.

There were no transfers between levels 1 or 2 of the fair value hierarchy during the years ended June 30, 2013 and 2012.

Note 3. 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.

June 30, 2013 (Dollars in Thousands)

	International Government Bonds	U.S. Government Agencies	Asset Backed Securities	Non-government Backed C.M.O.S.	Municipal Bonds	Corporate Bonds/Notes	Miscellaneous Common Stock	Hedged/ Alternative Investments	Private Equity	Real Estate Trusts & Partnerships	Other Investments	Cash Surrender Value of Life Insurance	Beneficial Interest in Trusts	Trusts Held by Others
Balance, beginning	$ 783	$ 90	$ 130	$ -	$ -	$ -	$ 13,221	$ 365,988	$ 103,634	$ 74,952	$ 2,750	$ 5,363	$ 30,289	$ 15,483
Purchases	804	-	-	-	-	-	266	-	6,677	412	-	-	-	-
Sales (distributions)	(450)	(8)	-	(19)	-	-	-	-	(18,413)	(8,443)	(90)	-	-	-
Total gains or losses (realized/unrealized) included in change in net assets	(44)	(27)	7	19	-	-	53	44,370	10,861	4,415	293	369	1,793	4,559
Net transfers in/out of level 3	-	(55)	-	159	-	-	-	-	-	-	-	-	-	-
Balance, ending	$ 1,093	$ -	$ 137	$ 159	$ -	$ -	$ 13,540	$ 410,358	$ 102,759	$ 71,336	$ 2,953	$ 5,732	$ 32,082	$ 20,042
Total gains or losses included in change in net assets attributable to the change in unrealized gains or losses relating to financial instruments still held at fiscal year-end	$ (90)	$ -	$ 7	$ 19	$ -	$ -	$ 53	$ 44,370	$ 5,165	$ 3,790	$ 293	$ 369	$ 1,793	$ 4,559

June 30, 2012 (Dollars in Thousands)

	International Government Bonds	U.S. Government Agencies	Asset Backed Securities	Non-government Backed C.M.O.S.	Municipal Bonds	Corporate Bonds/Notes	Miscellaneous Common Stock	Hedged/ Alternative Investments	Private Equity	Real Estate Trusts & Partnerships	Other Investments	Cash Surrender Value of Life Insurance	Beneficial Interest in Trusts	Trusts Held by Others
Balance, beginning	$ -	$ 267	$ 309	$ 464	$ 397	$ 312	$ 15,388	$ 363,426	$ 97,141	$ 81,847	$ 3,026	$ 5,299	$ 28,969	$11,851
Purchases	743	98	130	1	-	-	251	-	10,946	813	-	-	-	4,037
Sales (distributions)	-	(10)	(41)	(11)	(25)	(317)	-	-	(7,223)	(8,739)	(140)	-	-	-
Total gains or losses (realized/unrealized) included in change in net assets	40	(7)	11	1	21	5	(2,418)	2,562	2,770	1,031	(136)	64	1,320	(405)
Net transfers in/out of level 3	-	(258)	(279)	(455)	(393)	-	-	-	-	-	-	-	-	-
Balance, ending	$ 783	$ 90	$ 130	$ -	$ -	$ -	$ 13,221	$ 365,988	$ 103,634	$ 74,952	$ 2,750	$ 5,363	$ 30,289	$15,483
Total gains or losses included in change in net assets attributable to the change in unrealized gains or losses relating to financial instruments still held at fiscal year-end	$ 40	$ (7)	$ 11	$ -	$ -	$ -	$ (2,418)	$ 2,562	$ 2,063	$ 1,293	$ (136)	$ 64	$ 1,320	$ (405)

Gains and losses on level 3 investments included in change in net assets for the periods above are reported as realized and unrealized gains (losses) on investments.

Note 3. Fair Value Measurements (Continued)

The following table sets forth additional disclosure of the Foundation's investments whose fair value is estimated using NAV per share (or its equivalent) as of June 30, 2013 and 2012:

	Fair Value 2013	Fair Value 2012	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
	(Dollars in Thousands)				
Investments:					
Hedged/alternative investments (A)	$ 410,358	$ 365,988	$ -	(A)	(A)
Private equity (B)	102,759	103,634	15,986	(B)	(B)
Real estate trusts and partnerships (B)	71,336	74,952	2,787	(B)	(B)
Large cap equity mutual fund (C)	101,774	83,069	-	Daily	Trade Date Plus 1-3 Days
International equity mutual fund (D)	100,747	76,487	-	Daily-10 days	Trade Date Plus 1 day-30 Days
	$ 786,974	$ 704,130	$ 18,773		

(A) The partnerships in this category consist of funds that invest in multiple limited partnerships with various investment strategies and long and short positions in equity securities of companies within the outside of the Index in the United States of America (USA) and outside of the USA. These funds can be redeemed daily, monthly, quarterly or annually depending on the partnership agreement within redemption notice periods of none to 90 days. The fund values of these investments have been estimated using the NAV per share of the investments provided by the fund manager.

(B) The partnerships in this category consist of funds that invest in the following types of investments in the USA and outside of the USA: venture capital partnerships, buyout partnerships, mezzanine/subordinated debt partnerships, restructuring/distressed debt partnerships and special situation partnerships and real estate. These investments cannot be redeemed during the life of the partnership which can be up to 12 years; however they can be transferred to another eligible investor. Distributions will be received as the underlying investments of the funds are liquidated over time. The fair value of this investment has been estimated using the NAV provided by the fund manager and an adjustment determined by management for the time period between the date of the last available NAV from the investment manager and June 30, 2013.

(C) These funds invest in marketable equities that are all exchange traded in the USA and that are categorized as large cap. These funds can be redeemed at the month end NAV per share based on the fair value of the underlying assets. The fair values of these investments have been estimated using the NAV per share of the investments provided by the fund manager.

(D) These funds invest in international equities that are all exchange traded in countries outside of the USA. These funds can be redeemed at the month end NAV per share based on the fair value of the underlying assets. The fair values of these investments have been estimated using the NAV per share of the investments provided by the fund manager.

All investments are considered noncurrent assets.

Note 4. Property and Equipment

Property and equipment as of June 30, 2013 and 2012 are as follows:

	2013	2012
	(Dollars in Thousands)	
Farmland held for the University's future use	$ 1,516	$ 1,516
Buildings held for the University's future use	4,276	4,881
Furniture, fixtures, equipment and leasehold improvements	8,869	8,656
	14,661	15,053
Accumulated depreciation and amortization	6,280	5,751
	$ 8,381	$ 9,302
Depreciation and amortization expense	$ 529	$ 519

Note 5. Operating Leases

The Foundation is obligated under certain leases accounted for as operating leases.

The following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2013.

The maturities of the principal amounts on the lease obligation are as follows (dollars in thousands):

Year ending June 30:	
2014	$ 420
2015	425
2016	420
2017	323
2018	328
Thereafter	55
	$ 1,971

Note 6. Temporarily Restricted and Permanently Restricted Net Assets

Temporarily restricted net assets as of June 30, 2013 and 2012 were restricted for the following:

	2013	2012
	(Dollars in Thousands)	
Academic programs	$ 393,042	$ 331,010
Student support	140,575	118,262
Faculty support	105,133	90,431
Research	37,671	29,876
Other	154,137	91,881
	$ 830,558	$ 661,460

Permanently restricted (endowed) net assets as of June 30, 2013 and 2012 are restricted for investment in perpetuity, the income from which is expendable for the following:

	2013	2012
	(Dollars in Thousands)	
Academic programs	$ 232,155	$ 206,262
Student support	280,781	226,880
Faculty support	233,133	206,601
Research	56,482	48,426
Other	86,324	78,501
	$ 888,875	$ 766,670

Note 7. Endowments and Net Asset Classification

The Foundation’s endowment fund consists of approximately 4,900 individual funds established for a variety of purposes. Its endowment fund includes donor-restricted endowment funds and funds designated as endowment, 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

Note 7. 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 approved spending was $63,152,000 and $71,991,000 for fiscal years ended June 30, 2013 and 2012, respectively.

Endowment net assets as of June 30, 2013 and 2012 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	2013 (Dollars in Thousands)			
Donor-restricted endowment funds	$ (19,554)	$ 540,596	$ 888,875	$ 1,409,917
Board-designated (quasi) endowment funds:	13,965	-	-	13,965
Total endowment funds	$ (5,589)	$ 540,596	$ 888,875	$ 1,423,882
	2012 (Dollars in Thousands)			
Donor-restricted endowment funds	$ (39,611)	$ 458,811	$ 766,670	$ 1,185,870
Board-designated (quasi) endowment funds:	13,257	-	-	13,257
Total endowment funds	$ (26,354)	$ 458,811	$ 766,670	$ 1,199,127

Changes in endowment, not total, net assets for the fiscal years ended June 30, 2013 and 2012 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	2013 (Dollars in Thousands)			
Endowment net assets, beginning of year	$ (26,354)	$ 458,811	$ 766,670	$ 1,199,127
Investment return:				
Interest Income	165	20,670	-	20,835
Net appreciation (realized and unrealized)	33,563	98,259	-	131,822
Total investment return	33,728	118,929	-	152,657
Contributions	-	13,045	122,205	135,250
Appropriation of endowment assets for expenditure	(12,963)	(50,189)	-	(63,152)
Endowment net assets, end of year	$ (5,589)	$ 540,596	$ 888,875	$ 1,423,882

Note 7. Endowments and Net Asset Classification (Continued)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	2012			
	(Dollars in Thousands)			
Endowment net assets, beginning of year	$ (7,153)	$ 484,589	$ 726,649	$ 1,204,085
Investment return:				
Interest Income	125	14,507	-	14,632
Net appreciation (depreciation) (realized and unrealized)	(3,129)	11,239	-	8,110
Total investment return	(3,004)	25,746	-	22,742
Contributions	23	4,247	40,021	44,291
Appropriation of endowment assets for expenditure	(16,220)	(55,771)	-	(71,991)
Endowment net assets, end of year	$ (26,354)	$ 458,811	$ 766,670	$ 1,199,127

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 $19,554,000 and $39,611,000 are reported in unrestricted net assets as of June 30, 2013 and 2012, respectively. These deficiencies resulted from unfavorable market fluctuations which occurred during the holding period.

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.

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.

Note 8. 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 which 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 fringe benefits made by the State of Illinois for University employees who are supervised by the Foundation. These payments (estimated at $822,000 and $947,000 in 2013 and 2012, respectively) are included in the amounts shown as allocation from the University of Illinois and as salaries and benefits expense.

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 $5.5 million in exchange for the University President's pledge to provide the facility to the Foundation rent free through fiscal year 2023. This amount was capitalized as a leasehold improvement in fiscal year 1993 and annual depreciation is recorded in the amount of $183,000. The rent provided to the Foundation is $498,000 and is recorded in contributed services with a corresponding rent expense for the years ended June 30, 2013 and 2012.
- The University provides the Foundation with certain administrative services in the areas of purchasing, accounting, cashiering, internal auditing, benefits and investment management and electronic data processing systems at no cost. The allocated costs, $77,000 and $189,000 for the years ended June 30, 2013 and 2012, respectively, are reflected in the statement of activities as a revenue and 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 $6,710,000 and $11,014,000 in 2013 and 2012, respectively. Gifts received from the University of Illinois Alumni Association were none and approximately $1,000 in 2013 and 2012, respectively. Conversely, disbursements to the Alumni Association from the Foundation were approximately $76,500 and $60,000 in 2013 and 2012, respectively.

Note 8. 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 $144,058,000 and $148,373,000 for the years ended June 30, 2013 and 2012, respectively. These amounts are reflected in the statement of activities. Other transactions between the Foundation and the University include the following:

- The University leases from the Foundation various properties with a carrying value of $2,951,000 and $3,556,000 as of June 30, 2013 and 2012, respectively. Payments by the University to the Foundation, which approximate the Foundation's cost of carrying the properties, were $24,000 and $38,000 for the years ended June 30, 2013 and 2012, respectively. The Foundation also holds $2,841,000 of properties for the University's future use that is not covered by the lease agreement.
- The Foundation obtained certain goods and services (supplies, telephone, printing, etc.) during the years ended June 30, 2013 and 2012 through the University for which the Foundation reimbursed the University at cost.

Note 9. Note Payable

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

	2013	2012
	(Dollars in Thousands)	
$15,000,000 unsecured line of credit to bank, due February 2015, interest rate negotiated in irregular intervals (1.048% as of June 30, 2013), contains certain financial and nonfinancial covenants	$ 3,378	$ 4,084

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

	2013	2012
	(Dollars in Thousands)	
Balance, beginning	$ 4,084	$ 4,932
Payments	(706)	(848)
Balance, ending	$ 3,378	$ 4,084

Note 10. Retirement Plan and Postemployment Benefits

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

SURS federal tax identification number is 376006008. The plan is underfunded by $19,220,300 as of June 30, 2012, the most recent actuarial valuation date, which includes actuarial value of assets totaling $13,949,900 and accrued actuarial liabilities totaling $33,170,200.

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 rate for the years ended June 30, 2013 and 2012 was 11.91% and 12.71%, respectively, of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the Illinois General Assembly. The Foundation's contributions to SURS for the years ended June 30, 2013 and 2012 was approximately $879,000 and $875,000, respectively.

Participation in SURS does not exempt an employee or the Foundation from contributing to Social Security, under which all employees are covered.

In addition to providing pension benefits, the State of Illinois 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 employees for health, dental and life insurance benefits. These costs are funded by the State and are not an obligation of the Foundation.

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.