UIF
University of Illinois Foundation

Financial Audit

Fiscal Year 2008

with

Independent Auditors' Report

Performed as Special Assistant Auditors
for the Auditor General, State of Illinois

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STATE OF ILLINOIS
UNIVERSITY OF ILLINOIS FOUNDATION
AGENCY OFFICIALS
For the Year Ended June 30, 2008

President	Dr. Sidney Micek
Treasurer	Mr. Walter Knorr
Secretary	Mr. Bradley Hatfield
Assistant Secretary	Ms. Kathy Calvert
Assistant Secretary	Ms. Bernice Freeman
Assistant Treasurer	Ms. Mary Millage
Assistant Treasurer	Mr. Douglas Beckmann
Assistant Treasurer	Ms. Laura Vossman
Assistant Treasurer	Mr. Dean Hagan
Legal Counsel	Mr. Thomas Bearrows
Internal Auditor	University of Illinois
Controller	Ms. Michelle White

Agency offices are located at:
Harker Hall
Urbana, IL 61801

FINANCIAL STATEMENT REPORT SUMMARY

The audit of the accompanying financial statements of the University of Illinois Foundation was performed by Clifton Gunderson, LLP.

Based on their audit, the auditors expressed an unqualified opinion on the Foundation's basic financial statements.

Clifton Gunderson LLP
Certified Public Accountants & Consultants

Independent Auditors' Report

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

As Special Assistant Auditors for the Auditor General, we have audited the accompanying basic financial statements of the University of Illinois Foundation (Foundation), a component unit of the University of Illinois, and a component unit of the State of Illinois, as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative information has been derived from the Foundation's 2007 financial statements and in our report dated November 26, 2007 we expressed an unqualified opinion on those financial statements.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the University of Illinois Foundation, as of June 30, 2008, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 29, 2008, on our consideration of the 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 that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Clifton Gunderson LLP

Peoria, Illinois
December 29, 2008

Offices in 13 states and Washington, DC

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UNIVERSITY OF ILLINOIS FOUNDATION
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2008

Introduction

The following Management's Discussion and Analysis (MD&A) provides an overview of the financial position and activities of the University of Illinois Foundation (the Foundation) for the year ended June 30, 2008. The financial statements are prepared in accordance with *Governmental Accounting Standards Board* (GASB) principles using the accrual basis of accounting and presents the financial position of the Foundation at a specific time, following Generally Accepted Accounting Principles (GAAP). The accrual basis of accounting recognizes revenue and assets when service is provided and recognizes expenses and liabilities when others provide service, regardless of when cash is exchanged. Assets and liabilities are generally stated at current fair market value. The Foundation emphasizes a long-term risk adjusted investment strategy, cost controls, and diligent use of resources.

The Foundation is a non-profit corporation responsible for encouraging and administering private gifts made to further the University of Illinois's (University) mission. 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 also evaluates, plans, and mounts long-term special fund drives or capital campaigns over and above regular ongoing fundraising efforts.

The Foundation provides support services to assist the Chicago, Springfield and Urbana-Champaign campus development efforts. These professional services include information processing; donor research; communications; mail marketing and telemarketing; recording, receipting and acknowledging private gifts; establishing and reporting of gift funds; investing, distributing and stewarding of gift funds; and counsel on planned giving.

Financial Highlights

As of June 30, 2008, the Foundation's total net assets were $1.201 billion; a decrease of $33.8 million from fiscal year 2007, directly as a result of financial market decline in the second half of the fiscal year. Since 90% of the Foundation's assets consist of endowment and other long-term investments, the market conditions and negative returns significantly impact the financial position of the Foundation's report. This weak investment return was offset by $37.1 million in new gifts to permanent endowments; a 31% increase from the previous year, reflecting the continued momentum of the Brilliant Futures Capital Campaign, publicly announced in June 2007. As the need for private support to benefit the University increases, the Foundation and campuses require additional financial resources to help meet those needs; careful planning and diligent use of these resources is required. The impact of these environmental forces are evident in the financial reports of the Foundation that follow.

Statement of Net Assets

The Statement of Net Assets (page 16) includes all assets and liabilities. A summarized comparison is displayed below for both fiscal year 2008 and 2007 (in thousands):

	2008	2007
Current assets	$ 27,569	$ 47,757
Capital assets, net	8,551	8,022
Other non-current assets	1,268,479	1,302,398
TOTAL ASSETS	$1,304,599	$1,358,177
Current liabilities	49,873	71,404
Non-current liabilities	53,524	51,820
TOTAL LIABILITIES	103,397	123,224
TOTAL NET ASSETS	1,201,202	1,234,953
TOTAL LIABILITIES AND NET ASSETS	$1,304,599	$1,358,177

Current Assets

Current Assets are resources that are expected to be realized in cash, sold or consumed within the next twelve months, the balance of which was $27.6 million at June 30, 2008.

The largest component of current assets consists of accounts receivable, representing security sales within the Foundation's investment portfolio that are pending settlement at year-end. This $22 million decrease in the accounts receivable balance primarily resulted from less fiscal year end pending trades and is a significant cause of the 42.3% decrease in total current assets at June 30, 2008.

The second largest component of current assets is the current portion of the pledges receivable balance, consisting of payments expected to be received within the next twelve months on new and existing pledges. This balance increased almost $2.0 million in fiscal year 2008, while the non-current portion remained virtually unchanged (the combined balance of pledge receivable, current and non-current, increased from $25 million in 2007 to $27 million in 2008.)

Other assets, the third largest component of current assets with a balance of $4.3 million, represent the cash surrender value of life insurance policies donated to the Foundation. These assets increased $129 thousand during the current fiscal year reflecting the increase in cash surrender value and new policies received as gifts.

Cash and cash equivalents represents the balance in the Foundation's unrestricted or operating funds. Restricted cash and cash equivalents includes the balances in current use and restricted gift funds. The net decrease in the two cash categories from fiscal year 2007 to 2008 was less than $100 thousand.

Accrued investment income, representing income earned but not yet received, decreased $112 thousand in the current fiscal year, mostly due to timing of the receipt of this income at year end. The notes receivable balance is a result of a gift in kind received during fiscal year 2008; an assignment of interest in a promissory note. Accounts receivable due from the University of Illinois decreased by $21 thousand and consist of outstanding balances from telemarketing/direct mail services and holding costs of properties purchased on behalf of the University. Prepaid expenses, known expenses paid in advance of actually incurring them, increased by $21 thousand in 2008 as expected expenses for the fiscal year were recognized.

Non-Current Assets

Non-current assets are resources not easily convertible to cash or not expected to become cash within the next year, the balance of which was $1.28 billion at June 30, 2008.

The Foundation's investments (both endowment and other long-term investments) comprise over 91% of the total assets; therefore current market conditions have a strong impact on the Foundation financial position from year to year. Endowment investments decreased over $33 million, or 3.0% in the current fiscal year. Other long-term investments (restricted gift funds and trust funds) decreased by slightly less than $3 million. These same market conditions also impact the administrative fee revenue to be discussed further in the operating revenue section of this report.

The next largest component of non-current assets is farms and real estate gifts held as property inventory. The Foundation received several significant gifts of farms and real estate during the year, increasing the balance to $27.5 million. Currently, the Foundation's policy is to liquidate real property assets upon receipt, unless there are sales restrictions placed on the property by the donor. The Foundation held over 5,500 acres of active farmland at June 30, 2008, most of which have sales restrictions and will continue to be held as income-producing assets.

The non-current balance of pledges receivable, the fourth largest balance within the non-current assets, remained unchanged in fiscal year 2008 at $20.5 million. However, when combined with the current portion of the pledges receivable mentioned previously, the overall increase in pledges receivable was $2 million for the year.

Other assets, making up 1% of the total non-current Assets with a balance of $15.6 million, increased by $307 thousand and includes the balance of several significant gifts of limited partnerships interests, mostly received in prior years. Capital assets increased during fiscal year 2008 by more than $500 thousand, the result of one significant purchase of land, netted by the sale of two. These assets are recorded at cost at the date of acquisition and include Foundation equipment inventory and real properties purchased on behalf of the University.

Irrevocable Trust Held by Other Trustees represents deferred 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. The balance of these trusts at the end of the fiscal year was $8.6 million.

Lastly, restricted cash and cash equivalents include the current month cash additions to endowments that will be invested in the endowment pool the following month.

Current Liabilities

Current liabilities consist of the Foundations debts or obligations that are due within one year; the balance of which was $49.9 million at June 30, 2008.

The largest component of current liabilities is accounts payable representing securities purchased within the Foundation's endowment investment portfolio pending settlement at year end. The balance of the settlements pending decreased by more than $22 million in the current year, mostly due to fiscal year end timing of investment purchases and sales, resulting in a balance of $34.7 million, down from $57.2 million in fiscal year 2007.

The next largest balance within current liabilities is notes payable, consisting of a line of credit the Foundation has with J.P. Morgan. The purpose of the note is to provide funds for the purchase of property on behalf of the University. Properties that are identified for acquisition by the University are purchased by the Foundation and leased back to the University until such time funds are available for the University to purchase the properties from the Foundation. The outstanding balance of the note at June 30, 2008 was $7.2 million, an increase of $812 thousand from the previous fiscal year, primarily the result of the purchase of one property, netted with the sale of two.

The Foundation administers several hundred charitable trusts and annuities. Reflected in the annuities payable balance of $6.9 million is the present value of amounts due to beneficiaries for the current year.

Lastly, the accumulated balance of unused vacation and sick pay earned by Foundation employees, at the end of the current fiscal year was $1.0 million. Deposits held for others represent cash and other non-gifts in transit that belong elsewhere for handling, most commonly the University Grants and Contracts office, pending transfer at fiscal year end.

Non-Current Liabilities

Non-current liabilities consist of debt not due to be paid within the next year, the balance of which was $53.5 million at June 30, 2008.

The largest component of non-current liabilities is annuities payable representing the present value of the obligation to make payments over the projected lifetime of the beneficiaries of annuities administered by the Foundation. The balance at the end of the current year increased $2.6 million to $46.9 million. This increase is a direct result of new deferred gifts being established during the fiscal year, increasing the obligation the Foundation has towards the donors and/or beneficiaries.

The Foundation will also accept the responsibility to administer charitable trusts where a minority percentage of the remainder interest is payable to other qualified philanthropic organizations. The balance of remainder interests the Foundation holds on behalf of other recipients at the end of fiscal year 2008 was $6.5 million.

Lastly, deferred distributions, with a balance of $46 thousand at June 30, 2008, consist of revenue earned on certain charitable trusts but not yet distributed to the beneficiary.

Net Assets

Net assets represent the residual interest in the Foundation's assets after liabilities are deducted. Total net assets at June 30, 2008 were $1.201 billion, compared to $1.235 billion from the previous year, a 2.7% decrease. Net assets are divided into four major categories: Invested in Capital Assets, Net of Related Debt, represents the Foundation's equity position in capital assets; Restricted for Nonexpendable Endowment represents those balances to be held and invested in perpetuity with earnings thereof to be used for purposes as determined by donors making the contribution; Restricted for Expendable net assets include current funds restricted gift assets, certain endowment assets that allow spending of principal, and trust assets; and Unrestricted net assets are balances available to the Foundation for authorized purposes as determined by the Board of Directors.

The summary of net assets is shown below (in thousands):

	2008	2007
Invested in capital assets, net of related debt	$ 1,337	$ 1,620
Restricted net assets for		
Nonexpendable endowment	807,506	838,362
Expendable	375,852	377,944
Unrestricted net assets	16,507	17,027
TOTAL NET ASSETS	$1,201,202	$1,234,953

Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets (page 17) represents the operating results of the Foundation, as well as nonoperating revenues and expenses. Fiscal year 2008 activity resulted in a $33.8 million decrease in net assets, compared to a fiscal year 2007 net asset increase of $184.4 million. The following chart summarizes the Foundation's fiscal year 2008 and 2007 revenues, expenses, and change in net assets (in thousands):

	2008	2007
Operating Revenues	$ 156,863	$141,123
Operating Expenses	162,478	154,780
OPERATING LOSS	$ (5,615)	$(13,657)
NET NON OPERATING REVENUE (EXPENSE)	(65,244)	169,726
ADDITIONS TO PERMANENT ENDOWMENTS	37,108	28,353
INCREASE (DECREASE) IN NET ASSETS	$(33,751)	$184,422

Operating Revenues

Operating revenues increased for fiscal year 2008 from $141.1 million to $156.9 million.

The largest component of operating revenues is contributions, gifts and pledges. These revenues include outright and deferred cash and in-kind gifts and discounted pledge commitments. In 2008, contributions, gifts and pledges reflected the momentum of the Brilliant Futures capital campaign, with a 12% increase in gift activity over 2007.

Following GASB requirements, the Foundation does not include additions to permanent endowments in operating income, but rather, presents these gifts as nonoperating revenues. This exclusion does, and will likely continue to, cause a net operating loss to be reported, however, when including contributions to permanent endowments, the combined contributions, gifts and pledges more accurately reflect the following (in thousands):

	2008	2007
Contributions (excluding GIK)	$ 101,536	$ 98,528
Gifts-in-kind	22,598	12,591
Permanent endowment additions	37,108	28,353
Total Contributions, Gifts & Pledges	$ 161,242	$ 139,472

The second largest category of operating revenues is collected from an administrative fee charged on the endowment pool. The administrative fee approved by the Board of Directors for fiscal year 2008 was increased to 1.20% from 1.10% in fiscal year 2007 and is collected monthly, assessed on the current market value of the endowment pool. The impact of the current market environment was mitigated by a strong first half of the fiscal year, resulting in a $2.3 million increase in revenue for fiscal year 2008 from this source. The administrative fee funds approximately 60% of the Foundation's operating budget.

Another major revenue source is the allocation from the University of Illinois as payment on the contract with the Foundation for fundraising, gift and trust administration services. Approved annually, the contract provides approximately 40% of the revenue to support the Foundation's operating budget.

Other operating revenue primarily represents non-gifts, typically resulting from the non-deductible portion of gifts that include goods or services or fundraising proceeds (such as auction receipts and raffles.) The Foundation continues to record growth in this category as the campus' accelerate events, auctions and athletic contributions.

Operating Expenses

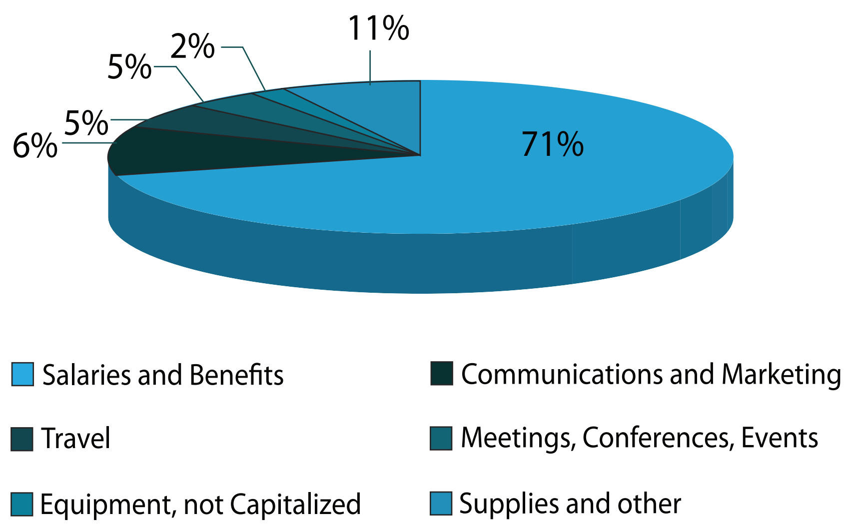
The largest component of operating expenses is, "Distributions on behalf of the University" and is perhaps the most telling of the results of private giving. Included in this category are cash gifts transferred to the University upon receipt, non-gift fundraising proceeds, construction gifts received in current or prior years transferred upon completion of construction phases, endowment income budgets, and gifts-in-kind. The breakdown is as follows (in millions):

	2008	2007
Cash gifts/non-gift transfers	$ 89.1	$ 85.1
Construction gifts	1.6	2.3
Endowment budgets	34.5	32.0
Gifts-in-kind	11.7	9.3
Total distributions to the University	$136.9	$128.7

The second largest operating expense is the Foundation's investment in human resources. Salaries and benefits increased from $14.6 million to $15.9 million, representing the salary investment as well as continuing education and staff development. The contribution to developing, training and retaining highly skilled professionals serving all campuses of the University, along with an annual salary program for existing employees, increased salaries and benefits costs by 9.5% for the fiscal year.

The continued impact of the investment in the capital campaign is reflected in other operating expenses such as marketing and communications, travel and meetings and conferences. As new staff is added, printing materials are developed and produced, travel is increased, and additional events are held, the campaign gains momentum, furthering donor commitments to the efforts of investing in Illinois. In fiscal year 2007 an extraordinary investment was made in marketing/communications design, development and production of materials for the campaign leadership forums and public announcement. In fiscal year 2008, that investment was maintained as materials continue to be produced, yet design and development costs were no longer incurred.

The following graph depicts the breakdown of the Foudation operating expenses for fiscal year 2008:



The last major component of operating expenses is the actuarial adjustments category. This line item reflects a reporting standards requirement resulting in an annual actuarial adjustment calculation for the charitable trusts and annuities, reflecting payments to beneficiaries, net of any income received. This transaction will produce either a revenue or expense - a revenue transaction results if payments to annuitants are decreased, thus reducing the liability; an expense will result if the payments owed to annuitants increase, thus increasing the liability. Fiscal year 2008 resulted in a net actuarial adjustment of $3.1 million, decreasing 13.5% from 2007.

Nonoperating Revenues (Expenses)

As mentioned above, following GASB requirements, the Foundation does not include additions to permanent endowments in operating income, but rather, presents these gifts as nonoperating revenues. The effort of the capital campaign and emphasis on the importance of private support continues to build the Foundation's endowment; gifts to permanent endowments in fiscal year 2008 were $37.1 million, an increase of 31% from fiscal year 2007. The permanent endowment additions, offset by the fair value decline of the market and net decrease in fair value of those investments of $71.1 million, decreased the Foundation's net assets by $33.8 million from $1.235 billion to $1.201 billion.

Statement of Cash Flows

The Statement of Cash Flows provides information about the Foundation's sources and uses of cash. The following summarizes the Foundation's fiscal year 2008 and 2007 cash flows (in thousands):

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Total sources	$ 140,268	$ 127,690
Total uses	(153,757)	(148,346)
Net cash flows used by operating activities	(13,489)	(20,656)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Private gifts for endowment purposes	37,108	28,353
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from sale of capital assets for University of Illinois	718	0
Purchase of capital assets	(182)	(251)
Payment on notes payable	(471)	(255)
Interest on indebtedness	(300)	(325)
Net cash used by capital and related financing activities	(235)	(831)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	1,269,718	1,246,601
Investment income	9,191	12,792
Purchase of investments	(1,303,391)	(1,264,250)
Net cash used by investing activities	(24,482)	(4,857)
Net increase (decrease) in cash and cash equivalents	(1,098)	2,009
Cash and cash equivalents - beginning of year	4,913	2,904
Cash and cash equivalents, end of year	$ 3,815	$ 4,913

Factors Influencing the Future

The University of Illinois and the University of Illinois Foundation are working together to secure private gifts that will help create consistent excellence in teaching, research and public engagement; the cornerstones of our land-grant legacy. The largest and most ambitious campaign in the University's history, the $2.25 billion Brilliant Futures Campaign is about advancing the University's mission and the strategically planned goals that bring that mission to life.

A major goal of the Brilliant Futures Campaign is to build the endowment for the benefit of students, faculty, research and the campus environment. Major factors influencing this goal will be successful fundraising efforts of the dedicated development team, continued marketing and communications promoting the Brilliant Futures Campaign and finally, financial markets that allow the endowment to grow under the investment and asset allocation policies of the Foundation.

To address these factors the Foundation's Board of Directors have approved an operating budget which provides for adequate staffing and marketing and communications initiatives, and the Investment Policy Committee of the Board has made changes to the asset allocation policy of the endowment pool seeking enhanced investment returns over the long term.

UNIVERSITY OF ILLINOIS FOUNDATION

Statement of Net Assets

June 30, 2008 with Comparative Totals for 2007 (in thousands)

	2008	2007
ASSETS		
Current Assets		
Cash and cash equivalents	$ 511	$ 1,120
Restricted cash and cash equivalents	2,859	2,346
Accrued investment income	1,921	2,033
Notes receivable	93	-
Accounts receivable - University of Illinois	236	257
Accounts receivable	11,018	33,200
Pledges receivable	6,480	4,500
Prepaid expenses	139	118
Other assets	4,312	4,183
Total current assets	27,569	47,757
Noncurrent Assets		
Restricted cash and cash equivalents	445	1,447
Endowment investments	1,062,546	1,095,925
Other long-term investments	133,277	136,214
Pledges receivable	20,520	20,500
Farms and real estate	27,504	24,406
Capital assets, net	8,551	8,022
Irrevocable trust held by other trustees	8,591	8,617
Other assets	15,596	15,289
Total noncurrent assets	1,277,030	1,310,420
Total assets	$1,304,599	$1,358,177
LIABILITIES		
Current liabilities		
Accounts payable	34,718	57,229
Notes payable	7,214	6,402
Annuities payable	6,904	6,700
Accrued vacation and sick pay	1,036	984
Deposits held for others	1	89
Total current liabilities	49,873	71,404
Noncurrent liabilities		
Deferred distributions	46	52
Annuities payable	46,987	44,408
Remainder interest due to others	6,491	7,360
Total noncurrent liabilities	53,524	51,820
Total liabilities	103,397	123,224
NET ASSETS		
Invested in capital assets, net of related debt	1,337	1,620
Restricted for		
Nonexpendable endowment	807,506	838,362
Expendable	375,852	377,944
Unrestricted	16,507	17,027
Total net assets	1,201,202	1,234,953
Total liabilities and net assets	$1,304,599	$1,358,177

See notes to financial statements.

UNIVERSITY OF ILLINOIS FOUNDATION

Statement of Revenues, Expenses, and Changes in Net Assets

Year Ended June 30, 2008 with Comparative Totals for 2007 (in thousands)

	2008	2007
OPERATING REVENUES		
Contributions, gifts and pledges	$ 124,134	$ 111,119
Service fee revenue	13,716	11,343
Allocation from the University of Illinois	8,882	8,959
Endowment property operations	768	511
Annual funds revenue	419	401
Other operating revenue	8,944	8,790
Total operating revenues	156,863	141,123
OPERATING EXPENSES		
Salaries and benefits	15,960	14,580
Marketing and communications	1,296	1,518
Travel	1,133	989
Meetings, conferences, and special events	1,196	1,456
Equipment	522	534
Supplies and other	2,192	3,150
Distributions on behalf of the University of Illinois	136,866	128,731
Depreciation	218	244
Actuarial adjustments	3,095	3,578
Total operating expenses	162,478	154,780
OPERATING LOSS	(5,615)	(13,657)
NONOPERATING REVENUES (EXPENSES)		
Investment income-net of investment expense	6,145	10,101
Net increase (decrease) in fair value of investments	(71,089)	159,950
Interest on indebtedness	(300)	(325)
Net nonoperating revenues (expenses)	(65,244)	169,726
Income (Loss) before other revenues, expenses, gains, or losses	(70,859)	156,069
Additions to permanent endowments	37,108	28,353
INCREASE (DECREASE) IN NET ASSETS	(33,751)	184,422
NET ASSETS, BEGINNING OF YEAR	1,234,953	1,050,531
NET ASSETS, END OF YEAR	$1,201,202	$1,234,953

See notes to financial statements.

UNIVERSITY OF ILLINOIS FOUNDATION

Statement of Cash Flows

June 30, 2008 with Comparative Totals for 2007 (in thousands)

CASH FLOWS FROM OPERATING ACTIVITIES	2008	2007
Contributions, gifts, and pledges	$ 108,441	$ 98,304
Service fee revenue	13,716	11,343
Allocation from the University of Illinois	8,158	8,272
Endowment property operations	769	511
Annual funds revenue	328	470
Other operating revenue	8,856	8,790
Payments for salaries and benefits	(15,118)	(13,919)
Payments for marketing and communications	(1,295)	(1,518)
Payments for travel	(1,134)	(984)
Payments for meetings, conferences and special events	(1,205)	(1,419)
Payments for equipment	(522)	(535)
Payments for supplies and other	(2,142)	(2,766)
Distribution on behalf of the University of Illinois	(125,203)	(119,352)
Payments to annuitants	(7,138)	(7,853)
Net cash used by operations	(13,489)	(20,656)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Gifts and grants received for other than capital purposes:		
Private gifts for endowment purposes	37,108	28,353
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from notes payable	1,283	-
Purchase of capital assets for University of Illinois	(1,283)	-
Purchase of capital assets	(182)	(251)
Proceeds from sale of capital assets for University of Illinois	718	-
Payment on notes payable	(471)	(255)
Interest on indebtedness	(300)	(325)
Net cash used by capital and related financing activities	(235)	(831)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	1,269,718	1,246,601
Investment income	9,191	12,792
Purchase of investments	(1,303,391)	(1,264,250)
Net cash used by investing activities	(24,482)	(4,857)
Net increase (decrease) in cash and cash equivalents	(1,098)	2,009
Cash and cash equivalents - beginning of year	4,913	2,904
Cash and cash equivalents end of year	$ 3,815	$ 4,913

See notes to financial statements.

UNIVERSITY OF ILLINOIS FOUNDATION

Statement of Cash Flows

June 30, 2008 with Comparative Totals for 2007 (in thousands)

Reconciliation of operating loss to net cash used by operating activities:	**2008**	**2007**
Operating loss	$ (5,615)	$(13,657)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation	218	244
Actuarial adjustment	(63)	(3,117)
Change in assets and liabilities:		
Accounts receivable - University of Illinois	(90)	69
Prepaid expenses	(21)	50
Notes receivable	(93)	
Other assets	(5,897)	(2,691)
Pledge receivable	(2,000)	(2,000)
Accounts Payable	109	295
Accrued vacation and sick leave	51	62
Deposits held for others	(88)	89
Net cash used by operating activities	$(13,489)	$(20,656)
Noncash noncapital financing activities:		
On-behalf payments of fringe benefits	724	687
Gifts in kind	$ 22,599	$ 12,291
Noncash capital and related financing activities:		
Farmland acquired in exchange for land, farmland, and buildings	-0-	2,497

See notes to financial statements.

1. Summary of Significant Accounting Policies

Nature of Institution

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.

Measurement Focus and Basis of Accounting

The financial statements of the Foundation have been prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place. Internal activity and balances are eliminated in preparation of the financial statements unless they relate to services provided and used internally. Operating revenues and expenses include exchange transactions. Investment income and interest on capital asset-related debt are included in nonoperating revenues and expenses. The Foundation first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

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

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

The basic financial statements include prior year comparative information, which has been derived from the Foundation's 2007 financial statements. Such information does not include all of the information required to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2007.

Rather than issuing fund-type financial statements, GASB Statement No. 35 requires a Management's Discussion and Analysis, notes to the financial statements, and basic financial statements including a Statement of Net Assets; a Statement of Revenues, Expenses, and Changes in Net Assets; and a Statement of Cash Flows.

Use of 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 amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Foundation considers all liquid investments with original maturities of three months or less to be cash equivalents, except for money market mutual funds held in the endowment.

At June 30, 2008, cash equivalents consisted primarily of money market savings accounts and similar funds.

Receivables

Notes receivable consists of an assignment of interest in a promissory note received as a gift in kind. The accounts receivable from the University of Illinois represents payments for services performed for direct mail and telemarketing yet to be collected from the campus units. Accounts receivable consists primarily of security sales within the Foundation's investment portfolio that are pending settlement at year end. Pledges receivable that are expected to be collected in future years are recorded at the present value of their estimated cash flows, after allowing for a collectibility allowance. Ten percent is allowed for if no payments were received during the current year, 50% if no payments were received during the previous two years, 90% if no payments were received in the previous three years, and 100% if no payments had been received in greater than four years. The collectible pledges are expected to be collected over a period of five years and are discounted at a rate of 6.4%.

Investments

Investments are recorded at fair value, as determined by quoted market prices. Investments in real estate trusts and partnerships are recorded at their estimated market value as determined by the investment managers. Substantially all of the investments are managed by external professional investment managers. Many of these investments are made through commingled investment vehicles such as common trust funds and mutual funds. A number of the investment managers have been delegated the authority to utilize derivatives in the execution of their investment strategies. In general, managers utilize derivatives to reduce or eliminate undesirable risks, to increase portfolio liquidity and flexibility or to increase investment return within the level of risk defined in the manager's investment guidelines. Examples of authorized derivative transactions would be the hedging of foreign currency exposure through the use of currency forwards, owning mortgage securities with embedded prepayment options or utilizing treasury futures to change the duration of a fixed income portfolio. At June 30, 2008 the Foundation had a foreign currency contract with a notional value of $11,137,000 and a fair value of zero.

The Foundation increases its investment income by lending the Foundation's securities, through its custodian, to independent third parties. Such loans are secured by collateral consisting of cash, cash equivalents or U.S. Government securities in an amount approximating 103% of the fair value of the securities loaned. The collateral cannot be pledged or sold unless the borrower defaults. As of June 30, 2008, $105,008,000 of the Foundation's investments were on loan. At year-end, the Foundation has no credit risk exposure to borrowers because the amounts the Foundation owes the

borrowers exceed the amounts the borrowers owe the Foundation.
The Foundation invests in "To Be Announced" (TBA) GNMA and FNMA mortgage rolls. The Foundation does not intend to finance all of its TBA mortgage rolls. The Foundation reports its pending trades as accounts receivable and accounts payable on the gross basis in the accompanying financial statements.

Board policy authorizes the Foundation to invest in obligations of the U. S. Treasury, agencies, and instrumentalities (U. S. Government securities); bank and savings and loan time deposits; corporate bonds, stock and commercial paper; repurchase agreements; and mutual funds. At June 30, 2008, the Foundation had no repurchase agreements.

Farms and Real Estate

Real estate and farms received as gifts and to be held for investment purposes are recorded at fair market value at the date of gift. The Foundation does not record depreciation on these assets. Farms and Real Estate are recorded at carrying value, which is the fair market value of the asset at the time of gift.

Capital Assets

Capital assets are recorded at cost on the date of acquisition or fair value if acquired by gift. The Foundation's policy requires capitalization of assets at $5,000. Depreciation is computed using the straight-line method over the estimated useful life of each asset. 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.

Accrued Compensated Absences

Accrued compensated absences for the Foundation personnel are charged as an operating expense, using the vesting method for sick leave, based on earned but unused vacation and sick leave days including the Foundation's share of social security and medicare taxes.

Federal Income Tax Status

The U.S. Treasury Department issued a determination letter dated September 9, 1983 holding that the Foundation is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

2. 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 $724,000 in 2008) are included in the amounts shown as

allocation from the University of Illinois and salaries and benefits.
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.

- The University provided 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. Such costs (estimated at $375,000 in 2008) are not reflected in the accompanying financial statements.

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 (approximately $47 million in 2008) 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 Board Members were $4,031,000 in 2008.

Gifts received from the University of Illinois Alumni Association were approximately $324,000 in 2008. Conversely, disbursements to the Alumni Association from the Foundation were $164,000 in 2008.

The Foundation transferred $483,200 directly to the University of Illinois on behalf of the Alumni Association. The funds were received from pledges collected that were restricted to the construction of the Alumni Center.

Gifts and gift related income transferred from the Foundation to the University of $136,866,000 in 2008 are reflected in the statement of revenues, expenses, 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 $6,036,000 at June 30, 2008. Payments by the University to the Foundation, which approximate the Foundation's cost of carrying the properties, were $300,000 in 2008. The Foundation also holds $1,740,000 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 2008 through the University for which the Foundation reimbursed the University at cost.

3. Cash and Cash Equivalents (in thousands)

The Foundation implemented GASB Statement No. 40, Deposit and Investment Risk Disclosure (an amendment of GASB Statement No. 3) for fiscal year ending June 30, 2005. Cash and cash equivalents consist of the following at June 30, 2008:

	2008		
	Unrestricted	Restricted	Total
Demand deposits at banks	$511	$ 139	$ 650
Money market and similar deposits at banks	-0-	2,478	2,478
Other	-0-	687	687
Total cash and cash equivalents	$511	$3,304	$3,815

Custodial Credit Risk-Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Foundation's deposits may not be returned to it. The Foundation has a deposit policy in which collateral security is obtained from any financial institution that balances exceed the $100,000 federally insured threshold.

As of June 30, 2008, the Foundations unadjusted bank balances and carrying values, of which $2,576,000 and $3,118,000, respectively, was covered by federal depository insurance or by collateral held by an agent in the entity's name. Uninsured and uncollateralized balances as of June 30, 2008 was $697,000.

4. Investments

During 2008, the Foundation realized net gains of $45,802,000 from the sale of investments. The calculation of realized gains is independent of the calculation of the net increase in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year. The net change in the fair value of investments during 2008 was a loss of $71,089,000. The unrealized gain on investments held at year-end was $68,018,000 at June 30, 2008. The carrying value of the investment portfolio of the Foundation at June 30, 2008 is as follows, in thousands:

	2008
U. S. Treasury bonds and bills	$ 11,930
International government bonds	123
U. S. government agencies	28,493
International government agencies	105
Corporate bonds and notes	57,037
Preferred stock	484
International preferred stock	1,680
Common stock	235,000
International common stock	166,875
Real estate trust and partnerships	377,491
Mutual funds	
Bonds	96,322
Stocks	173,694
Blended	849
Money market	42,417
Other	3,323
Total investments	$1,195,823

The Board of Directors has established an investment policy that embraces the total-return concept. The focus is to preserve the real value or purchasing power of endowment pool assets and the annual support the assets provide over the long term. The Foundation's total portfolio is broadly diversified across major asset classes in order to minimize investment risk and enhance investment performance. For fiscal year 2008, 4.75% of the four year moving average market value will be distributed for the educational purposes specified in the individual fund agreements between the Foundation and the donors. The net appreciation on investments of donor-restricted endowments available for authorization for expenditure approximates $199,781,000 at June 30, 2008.

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

Credit Risk

Credit risk is the risk that an issuer or other counterparty to a debt investment will not fulfill its obligations. The Foundation's investment policy requires that short-term funds be invested in obligations of the U.S. government and other fixed income securities and money market instruments rated investment grade by a recognized rating agency. Manager guidelines for long-term fixed income investments require that at least 70 percent of each manager's portfolio be investment grade and that the weighted average of each portfolio not fall below Standard & Poor's AA- or equivalent. Managers of long-term funds have discretion to invest in unrated securities if such securities in their judgment are of comparable credit quality. The Foundation also invests in bond mutual funds with average credit quality of Moody's B to Aaa.

Footnote 4 – Credit Risk
June 30, 2008

		QUALITY RATING								
	Carrying Amount (in thousands)	**AAA**	**AA**	**A**	**BAA**	**BA**	**BBB**	**BB**	**B**	**UNRATED**
U.S. treasury bonds and bills	$ 11,707	11,707								
International government bonds	123						123			
U.S. government agencies	28,493	28,493								
International government agencies	105			105						
Municipal bonds	223	111	80							32
Corporate bonds and notes	57,037	21,321	5,911	3,399			7,472	3,704	4,386	10,844
Bond mutual Funds	94,168	60,393	14,778	9,113			2,728	4,596	1,915	645
Municipal bond mutual funds	2,154	788	1,019	249			92			6
Blended bond mutual funds	849	210	235	280	121					3
Money market mutual funds	42,417	42,417								
Total by Risk Category	$ 237,276	$165,440	$22,023	$13,146	$121		$10,415	$8,300	$6,301	$11,530
Preferred stock	484									
International preferred stock	1,680									
Common stock	235,000									
International common stock	166,875									
Real estate trust & partnerships	377,491									
Mutual Funds										
Stocks	173,694									
Other	3,323									
Total Investments	$ 1,195,823									

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counter-party, the Foundation will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Exposure to custodial credit risk relates to investment securities that are held by someone other than the Foundation and are not registered in the Foundation's name. Foundation investment policy does not limit the value of investments that may be held by an outside party. At June 30, 2008, the Foundation's investments had no custodial credit risk exposure.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Foundation's investment policy provides that short-term funds shall be broadly diversified. The Foundation's manager guidelines for long-term fixed income investments provide that non-U.S. government obligations may not exceed 10% per issuer, private mortgage-backed and asset-backed securities may not exceed 10% per issuer (unless collateral is credit-independent of the issuer and the security's credit enhancement is generated internally, in which case the limit is 25% per issuer), and obligations of other issuers (other than the U.S. government, U.S. agencies, or U.S. government-sponsored corporations and agencies) may not exceed 5%.

As of June 30, 2008 not more than 5 percent of the Foundation's total investments were invested in securities of any one issuer, excluding securities issued or guaranteed by the U.S. government, mutual funds, and external investment pools or other pooled investments.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. To manage its exposure to fair value losses arising from increasing interest rates, the Foundation invests its short-term investments in money market funds and other commingled vehicles with average maturities of up to approximately two years. The Foundation's manager guidelines for long-term fixed income investments provide that the average weighted duration of the portfolio (including options positions) not vary from that of the Lehman Brothers Aggregate Bond Index by more than +/- 20 percent.

		Investment Maturities (in years)			
	Carrying Amount (in thousands)	Less than 1	1-5	6-10	More than 10
U.S. treasury bonds and bills	$ 11,707		3,079		8,628
International government bonds	123				123
U.S. government agencies	28,493			223	28,270
International government agencies	105		105		
Municipal bonds	223			223	
Corporate bonds and notes	57,037		2,496	1,795	52,746
Bond Mutual Funds	94,168	9,204	39,294	45,623	47
Municipal bond mutual funds	2,154	159	672	907	416
Blended bond mutual funds	849			849	
Money market mutual funds	42,417	42,417			
Total by Risk Category	$ 237,276	$51,780	$45,646	$49,620	$90,230
Preferred stock	484				
International preferred stock	1,680				
Common stock	235,000				
International common stock	166,875				
Real estate trust & partnerships	377,491				
Mutual Funds					
Stocks	173,694				
Other	3,323				
Total Investments	$ 1,195,823				

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Foundation's short-term investments generally are not exposed to foreign currency risk.

The Foundation's investment policy provides that long-term investments may be exposed to foreign currency risk as follows: fixed income managers may invest up to 30% of their portfolios in non-U.S. dollar denominated securities; non-U.S. equity managers invest at least 90% of their portfolios in non-U.S. securities.

The U.S. dollar balances of the Foundation's investments exposed to foreign currency risk as of June 30, 2008 are listed below. Amounts listed for U.S. dollar are primarily ADR's (American Depository Receipts) with exposure to various foreign currencies.

	Cash Equivalents (U.S. dollars)	International common stock	International preferred stock	International equity mutual funds	International bond mutual funds	Real Estate Trusts and Partnerships	Total (In thousands)
Australian dollar	$ 114	$ 6,070	$ -	$ 411	$ 36	$ -	$ 6,631
Brazilian real	1	-	-	822	53	-	876
British pound sterling	480	46,226	-	3,700	15	-	50,421
Canadian dollar	34	10,269	-	378	4	-	10,685
Danish krone	12	1,953	-	493	-	-	2,458
Euro	709	34,958	778	7,232	152	7,879	51,708
Hong Kong dollar	32	5,268	-	1,217	-	286	6,803
Hungarian forint	36	243	-	-	-	-	279
Indian rupee	38	332	-	-	-	-	370
Indonesian rupiah	-	-	-	164	-	-	164
Israel shekel	-	-	-	362	-	-	362
Japanese yen	165	25,009	-	2,171	9	1,830	29,184
Malaysian ringgit	145	845	-	-	-	-	990
Mexican peso	7	-	-	115	14	-	136
New Taiwan dollar	76	1,202	-	164	-	3,432	4,874
New Zealand dollar	1	-	-	-	-	-	1
Norwegian krone	751	4,715	-	148	-	-	5,614
Polish zloty	-	-	-	-	3	-	3
Russian ruble	-	-	-	148	-	-	148
Singapore dollar	27	1,649	-	132	-	-	1,808
South African rand	37	690	-	16	22	1,620	2,385
South Korean won	65	1,796	-	313	-	-	2,174
Swedish krona	38	6,837	-	592	-	-	7,467
Swiss franc	578	14,643	-	1,365	-	-	16,586
Thai baht	21	783	-	-	-	-	804
Turkish lira	9	226	-	49	-	-	284
United States dollar	12,257	3,161	902	5,572	1,061	4,286	27,239
Uruguayan peso	-	-	-	-	1	-	1
Total Foreign Currency	$ 15,633	$ 166,875	$ 1,680	$ 25,564	$ 1,370	$ 19,333	$ 230,455

5. Farms and Real Estate

The carrying value and approximate fair value of farms and non-farm real estate owned by the Foundation at June 30, 2008 are as follows, in thousands:

	2008 Carrying Value	2008 Fair Value
Farms	$17,472	$30,967
Non-farm real estate	10,032	10,147
Total farms and real estate	$27,504	$41,114

6. Capital Assets (in thousands)

A summary of the changes in capital assets is as follows

2008	Cost				
	Balance June 30, 2008	Additions	Transfers	Retirements	Balance June 30, 2008
Land held for the University's future use	$ 639	$ -0-	$ -0-	$ (458)	$ 181
Farmland held for the University's future use	2,497	1,283	-0-	(-0-)	3,780
Buildings held for the University's future use	4,171	-0-	-0-	(260)	3,911
Furniture, fixtures, and equipment	1,274	187	-0-	(44)	1,417
	$ 8,581	$ 1,470	$ -0-	$ (762)	$ 9,289

	Accumulated Depreciation				
	Balance June 30, 2008	Additions	Transfers	Retirements	Balance June 30, 2008
Buildings held for the University's future use	$ 64	$ 32	$ -0-	$ (-0-)	$ 96
Furniture, fixtures, and equipment	495	186	-0-	(39)	642
	$ 559	$ 218	$ -0-	$ (39)	$ 738
					$ 8,551

7. Note Payable

Note payable includes the following, in thousands:

	2008
$28,000 line of credit to bank, due on January 31, 2009, interest rate negotiated in irregular intervals (2.98% at June 30, 2008), unsecured	$ 7,214

The note payable is to provide funds to purchase property that is to be held for the University of Illinois. The changes in the note payable balance consists of the following, in thousands:

Balance at June 30, 2007	$ 6,402
Proceeds	1,283
Payments	(471)
Balance at June 30, 2008	$ 7,214

8. Annuities Payable

Several donors have entered into split-interest agreements with the Foundation. These agreements are in the form of charitable gift annuities, charitable remainder annuity trusts, charitable remainder unitrusts and deferred gift annuities. 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 IRS discount rates and IRS life expectancy tables. The Foundation utilized discount rates based upon the applicable month and year in which the split interest agreements were initiated within these calculations.

9. Retirement Plan and Post-Employment 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 Statutes*. SURS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by accessing the website at www.SURS.org or by calling 1-800-275-7877.

Plan members are required to contribute 8.0% of their annual covered salary and substantially all employer contributions are made by the State of Illinois on behalf of the individual employers at an actuarially determined rate. The current rate is 10.75% 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 ending June 30, 2008, 2007, and 2006 were approximately $727,000, $658,000, and $521,000, respectively, equal to the required contributions for each year.

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 post-employment 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 sixty are equal to their annual salary at the time of retirement; life insurance benefits for annuitants age 60 or older are limited to five thousand dollars 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. 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.

10. 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 noncancellable lease terms in excess of one year as of June 30, 2008, in thousands:

	Year Ending June 30	Amount
	2009	$359
	2010	288
	2011	293
	2012	298
	2013	303
	2014	308
	2015	313
	2016	318
	2017	323
	2018	329
	2019	55
Total minimum payments required		$3,187

The following schedule shows the composition of total rental expense for all operating leases except those with terms of a month or less that were not renewed, in thousands:

	Year Ending June 30
	2008
Minimum rentals	$288

11. Funds Held by Others

Beneficial Interests - The Foundation is an income beneficiary of several irrevocable trusts, the assets of which are held and administered by others in perpetuity; thus, the principal is not reported in the accompanying financial statements. Income received from these assets was $1,577,000 in 2008. The aggregate fair value of these assets was approximately $26,287,000 at June 30, 2008.

Supporting Organizations - The Foundation and/or the University is the supported organization of three independent foundations that were established under Internal Revenue Code Section 509(a). The Foundation actively participates in establishing such supporting organizations upon donor requests. The Foundation is represented on each governing board and, when appropriate, provides accounting and investment services. During fiscal year 2008, the Foundation received contributions of $40,000 from these supporting organizations.

12. Subsequent Event

During fiscal year 2008, financial markets as a whole have incurred declines in values. Subsequent to fiscal year end, the Foundation's investment portfolio has also incurred a decline in the values reported in the accompanying financial statements. However, because the values of individual investments fluctuate with market conditions, the amount of investment losses that the Foundation will recognize in its future financial statements, if any, cannot be determined.

Clifton Gunderson LLP
Certified Public Accountants & Consultants

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

As Special Assistant Auditors for the Auditor General, we have audited the basic financial statements of the University of Illinois Foundation (Foundation), as of and for the year ended June 30, 2008, and have issued our report thereon dated December 29, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Foundation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.
A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters which we have reported to management of the University of Illinois Foundation in a separate letter dated December 29, 2008.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the Audit Committee, the Board of Directors of the Foundation, and Foundation management, and is not intended to be and should not be used by anyone other than these specified parties.

Clifton Gunderson LLP

Peoria, Illinois
December 29, 2008

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