

UNIVERSITY OF ILLINOIS
AUXILIARY FACILITIES SYSTEM
Annual Financial Report
June 30, 2021
(With Independent Auditor's Report Thereon)

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**UNIVERSITY OF ILLINOIS
AUXILIARY FACILITIES SYSTEM**

Annual Financial Report

June 30, 2021

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May 4, 2022

Holders of University of Illinois
Auxiliary Facilities System Revenue Bonds
and The Board of Trustees of the University of Illinois:

I am pleased to transmit the Annual Financial Report of the University of Illinois Auxiliary Facilities System for the fiscal year ended June 30, 2021. This report supplements the Annual Financial Report of the University of Illinois.

The Auxiliary Facilities System includes housing, and recreational and athletic facilities utilized by students, staff, faculty, alumni, and university guests. Although housing and student services were disrupted due to the COVID-19 pandemic, the System's strong financial position and the financial support provided by the federal government have allowed the auxiliaries to withstand these economic challenges.

The 2021 financial statements, accompanying notes and required supplementary information appearing on pages 5 through 33 have been audited by RSM US LLP, Independent Certified Public Accountants, as special assistants to the Auditor General of the State of Illinois, whose report on the financial statements appears on pages 2 through 4.

RSM US LLP also prepares a report for the year ended June 30, 2021, containing special data requested by the Auditor General and summarizing the University's compliance with applicable state and federal laws and regulations for the year ended June 30, 2021. This report, which includes some data related to the Auxiliary Facilities System, is not contained herein and is primarily for the use of the Auditor General and state and federal agencies.

Respectfully,

SIGNED ORIGINAL ON FILE

Paul Ellinger
Interim Vice President, Chief Financial Officer, and Comptroller



Independent Auditor's Report

RSM US LLP

Honorable Frank J. Mautino
Auditor General
State of Illinois

and

Board of Trustees
University of Illinois

Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the business-type activities of the University of Illinois Auxiliary Facilities System (System), a segment of the University of Illinois, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

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 opinions on these financial statements based on our audit. 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 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 respective financial position of the business-type activities of the System, as of June 30, 2021, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1(a), the financial statements of the System are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the business-type activities of the University of Illinois that is attributable to the transactions of the System. They do not purport to, and do not, present fairly the financial position of the University of Illinois as of June 30, 2021, and its changes in financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Schedule of University of Illinois Auxiliary Facilities System Proportionate Share of the Net Pension Liability on page 31 and the Notes to the Required Supplementary Information on page 32 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted management's discussion and analysis for the System that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 4, 2022, on our consideration of the System'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 solely 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 effectiveness of the System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

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Schaumburg, Illinois
May 4, 2022

**UNIVERSITY OF ILLINOIS
AUXILIARY FACILITIES SYSTEM**

Statement of Net Position

June 30, 2021

Assets and Deferred Outflow of Resources

Current assets:	
Claim on cash and on pooled investments	\$ 157,053,578
Claim on cash and on pooled investments, restricted	3,579,926
Cash and cash equivalents, restricted	10,696
Accrued investment income	283,128
Accounts receivable, net of allowance for uncollectible	7,397,395
Inventories	5,031,192
Prepaid expenses	766,129
Total current assets	174,122,044
Noncurrent assets:	
Cash and cash equivalents	19,923,802
Cash and cash equivalents, restricted	7,132,337
Investments, restricted	5,849,620
Capital assets, net of accumulated depreciation	1,224,647,226
Total noncurrent assets	1,257,552,985
Deferred outflow of resources	12,951,766
Total assets and deferred outflow of resources	\$ 1,444,626,795

Liabilities and Net Position

Current liabilities:	
Accounts payable	\$ 21,946,133
Accrued liabilities	3,520,275
Accrued compensated absences	563,883
Accrued interest	11,999,853
Unearned revenues	6,196,459
Notes payable to the University	1,643,561
Bonds and leaseholds payable, net	60,913,691
Total current liabilities	106,783,855
Noncurrent liabilities:	
Accrued compensated absences	6,319,050
Notes payable to the University	1,455,204
Bonds and leaseholds payable, net	1,077,013,887
Total noncurrent liabilities	1,084,788,141
Total liabilities	1,191,571,996
Net investment in capital assets	139,156,323
Restricted - Expendable for debt service	3,590,622
Unrestricted	110,307,854
Total net position	253,054,799
Total liabilities and net position	\$ 1,444,626,795

See accompanying notes to financial statements.

**UNIVERSITY OF ILLINOIS
AUXILIARY FACILITIES SYSTEM**

Statement of Revenues, Expenses and Changes in Net Position

Year ended June 30, 2021

Operating revenues:	
Room and board, net	\$ 89,890,519
Merchandise and retail food sales	16,380,691
Student service fees	89,250,405
Public events and recreation fees	1,752,094
Parking income	20,645,351
Rental and lease income	29,923,272
Printing and vending income	1,448,215
Other operating revenue	<u>2,854,226</u>
Total operating revenues	<u>252,144,773</u>
Operating expenses:	
Salaries, wages and benefits	84,740,505
Merchandise and food for resale	19,463,823
Repair and maintenance	8,766,607
Professional and other contractual services	34,791,571
Utilities	25,698,030
Supplies	11,185,596
Noncapitalized renovations and equipment	14,284,143
Administrative services	14,226,051
Other operating expense	5,257,693
Depreciation	46,483,727
On-behalf for fringe benefits	10,062,730
Special funding situation for fringe benefits	<u>54,373,435</u>
Total operating expenses	<u>329,333,911</u>
Operating loss	<u>(77,189,138)</u>
Nonoperating revenues (expenses):	
On-behalf for fringe benefits	10,062,730
Special funding situation for fringe benefits	54,373,435
Federal grants	45,663,954
Investment income, net of related expenses	4,998,092
Interest on capital asset-related debt	(33,352,424)
Loss on disposal of capital assets	(119,600)
Other nonoperating expenses, net	<u>(1,756,232)</u>
Net nonoperating revenues	<u>79,869,955</u>
Increase in net position	2,680,817
Net position, beginning of year	<u>250,373,982</u>
Net position, end of year	<u>\$ 253,054,799</u>

See accompanying notes to financial statements.

**UNIVERSITY OF ILLINOIS
AUXILIARY FACILITIES SYSTEM**

Statement of Cash Flows

Year ended June 30, 2021

Cash flows from operating activities:	
Room and board	\$ 90,972,537
Merchandise and retail food sales	16,294,966
Student service fees	88,729,614
Public events and recreation fees	1,740,464
Parking income	20,631,534
Rental and lease income	29,851,764
Printing and vending income	1,444,109
Other sources	2,815,814
Payments to employees and for benefits	(84,381,557)
Payments to suppliers	<u>(133,503,089)</u>
Net cash provided by operating activities	<u>34,596,156</u>
Cash flows from noncapital financing activities:	
Federal grants	45,663,954
Other disbursements, net	<u>(4,953)</u>
Net cash provided by noncapital financing activities	<u>45,659,001</u>
Cash flows from capital and related financing activities:	
Proceeds from the issuance of bonds including premiums	100,745,414
Payment of bond issuance costs	(1,751,279)
Purchase of capital assets	(63,285,750)
Principal paid on bonds and capital leases	(131,476,141)
Repayment of notes payable to the University	(1,817,938)
Interest paid on bonds and notes payable	<u>(49,514,516)</u>
Net cash used in capital and related financing activities	<u>(147,100,210)</u>
Cash flows from investing activities:	
Interest on investments	2,343,554
Pooled cash allocated from University related to unrealized gains	3,067,022
Proceeds from sales and maturities of investments	42,028,852
Purchase of investments	<u>(22,508,597)</u>
Net cash provided by investing activities	<u>24,930,831</u>
Net decrease in cash and cash equivalents	<u>(41,914,222)</u>
Cash and cash equivalents, beginning of year	229,614,561
Cash and cash equivalents, end of year	<u><u>\$ 187,700,339</u></u>

UNIVERSITY OF ILLINOIS
AUXILIARY FACILITIES SYSTEM

Statement of Cash Flows

Year ended June 30, 2021

Reconciliation of operating loss to net cash provided by
operating activities:

Operating loss	\$ (77,189,138)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	46,483,727
On-behalf for fringe benefits	10,062,730
Special funding situation for fringe benefits	54,373,435
Changes in assets and liabilities:	
Accounts receivable (net)	150,623
Inventories	1,488,474
Prepaid expenses	(237,292)
Accounts payable	(1,080,757)
Accrued liabilities	358,948
Unearned revenues	185,406
Net cash provided by operating activities	\$ <u><u>34,596,156</u></u>

Noncash investing, capital and financing activities:

On-behalf for fringe benefits	\$ 10,062,730
Special funding situation for fringe benefits	54,373,435
Change in fair value of investments	(205,815)
Decrease of capital assets obligations in accounts payable	(6,064,467)
Capital appreciation on bonds payable	2,079,650
Net interest capitalized	6,212,899
Loss on disposal of capital assets	(119,600)

See accompanying notes to financial statements.

**UNIVERSITY OF ILLINOIS
AUXILIARY FACILITIES SYSTEM**

Notes to Financial Statements

June 30, 2021

(1) Organization and Summary of Significant Accounting Policies

Organizational Background and Basis of Presentation

The University of Illinois (University) Auxiliary Facilities System (System) was created in June 1978 pursuant to the University of Illinois Revenue Bond Financing Act for Auxiliary Facilities, 110 ILCS 405/1, which authorized the University's Board of Trustees (Board) to combine and consolidate facilities into a single system. These financial statements have been prepared to satisfy the requirements of the System's Revenue Bonds master indenture. The financial balances and activities of the System, included in these financial statements, are included in the University's financial statements. The financial statements of the System are prepared in accordance with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The System is not a separate legal entity and has not presented management's discussion and analysis.

System financial activity mainly comprises housing, parking and student activities, which span across the three campuses of the University. The operating revenues of the System largely consist of student service fees, various user fees, room and board charges, sales from merchandise/vending and rental of certain facilities. Facilities primarily consist of buildings and other structures that have been constructed or remodeled with funding provided from issuance of related revenue bonds. System facilities include Memorial Stadium, the State Farm Center, student unions, housing residence halls, parking and other structures.

Certain System revenues are derived from the rental of Memorial Stadium and the State Farm Center, directly from the University's Division of Intercollegiate Athletics, and are reflected as rental income within the System's financial statements. Such rental payments are determined based on the amount of debt service requirements and/or certain operation and maintenance considerations that apply to the facilities. Ticket revenues received by the University for events occurring at these facilities are not included within the System's reporting structure, in accordance with the related bond indentures. Housing revenues consist of charges for room, board and meal plans. Student activities buildings consist of student unions, recreation and athletic facilities and student service buildings that generate lease and rental income, student fees and various other types of revenue. Operating expenses of the System include all necessary current maintenance charges, expenses of reasonable upkeep and repairs, allocations of a share of certain charges for insurance and other expenses incidental to the operations of all of the various activities and facilities of the System in accordance with the bond indentures.

Significant Accounting Policies

(a) Financial Statement Presentation and Basis of Accounting

The System prepared its financial statements as a business-type Activity, as defined by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, using the economic resources measurement focus and the accrual basis of accounting. Business-type Activities are those financed in whole or in part by fees charged to external parties for goods and services.

The financial statements of the System are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the business-type activities of the University of Illinois that is attributable to the transactions of the System. They do not purport to, and do not, present fairly the financial position of the University as of June 30, 2021, and its changes in financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Under the accrual basis, revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Advances are classified as unearned revenue.

(b) Cash and Cash Equivalents

The Statement of Cash Flows details the change in the cash and cash equivalents balance for the fiscal year. Cash and all liquid investments with original maturities of 90 days or less are defined as cash and cash equivalents.

(c) Investments

Investments are reported at fair value in accordance with guidelines defined by GASB Statement No. 72. Fair value is determined for the System's investments based upon a framework described in Note 2(f). Bank deposits and money market funds are recorded at cost.

Net investment income includes interest, dividends, realized gains and losses of \$2,136,884 along with changes in fair value of \$2,861,208.

(d) Accounts Receivable

Accounts receivable are reported net of allowance for uncollectible. This allowance was \$4,486,214 at June 30, 2021.

(e) Inventories

Inventories are stated at the lower of cost or market with cost determined as follows:

- Books and other merchandise for resale – principally the retail inventory method
- Food – average cost method
- Other inventories – principally the first-in, first-out method

(f) Capital Assets

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

Estimated useful lives for capital assets are as follows:

	<u>Useful life (in years)</u>		<u>Useful life (in years)</u>
Buildings:		Improvements other than buildings:	
Shell	50	Site improvements	20
Service systems	25	Infrastructure	25
Fixed equipment	15		
Remodeling	25	Moveable Equipment	3 – 20

(g) *Deferred Outflow of Resources*

Unamortized losses on refundings for the System’s bonds of \$12,951,766 are reported as deferred outflow of resources on the accompanying Statement of Net Position. The losses on refundings are amortized over the life of the debt using the straight-line method.

(h) *Compensated Absences*

Accrued compensated absences for System personnel are charged as an operating expense, using the vested method based on earned and unused vacation and sick leave days including the System’s share of Medicare taxes.

Section 14a of the State Finance Act (30 ILCS 105/14a) provides that employees eligible to participate in the State Universities Retirement System or the Federal Retirement System are eligible for compensation at time of resignation, retirement, death or other termination of System employment for one-half (1/2) of the unused sick leave earned between January 1, 1984 and December 31, 1997. Any sick leave days that were earned before or after this period of time are noncompensable.

<u>Changes in Compensated Absences Balance</u>	
Balance, beginning of year	\$ 7,031,407
Additions	345,374
Deductions	<u>(493,848)</u>
Balance, end of year	6,882,933
Less current portion	<u>563,883</u>
Balance, end of year – noncurrent portion	<u>\$ 6,319,050</u>

(i) *Premiums*

Premiums for the System’s bonds are reported within bonds and leaseholds payable and amortized over the life of the debt issue using the effective interest method.

(j) Net Position

The System's resources are classified into net position categories and reported in the Statement of Net Position. These categories are defined as (a) Net investment in capital assets – capital assets net of accumulated depreciation and related outstanding debt balances attributable to the acquisition, construction, or improvement of those assets, (b) Restricted – net position subject to externally imposed restrictions that can be fulfilled by actions of the System pursuant to those stipulations or that expire by the passage of time, and (c) Unrestricted – net position not subject to externally imposed stipulations but may be designated for specific purposes by action of management or the Board. The System first applies resources included in restricted net position when an expense or outlay is incurred for purposes for which resources in both restricted and unrestricted net positions are available.

(k) Classification of Revenues

The Statement of Revenues, Expenses and Changes in Net Position classifies the System's fiscal year activity as operating and nonoperating. Operating revenues generally result from exchange transactions such as payments received for providing goods and services.

Certain revenue sources that the System relies on for operations, including on-behalf for fringe benefits, special funding situation for fringe benefits, certain federal grants and investment income, are defined by GASB Statement No. 35 as nonoperating. In addition, certain transactions related to capital and financing activities are components of net nonoperating revenue.

Housing charges billed or received in advance are unearned and recognized as revenue during the period of occupancy. Student service fees for the summer academic term are unearned and recognized as revenue over the summer semester.

(l) Classification of Expenses

The majority of the System's expenses are exchange transactions which GASB defines as operating expenses for financial statement presentation. Nonoperating expenses include capital financing costs.

(m) On-Behalf for Fringe Benefits

In accordance with GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, the System has reported outside sources of financial assistance provided by other entities on behalf of the System during the year ended June 30, 2021, as described below.

Substantially all active employees participate in group health insurance plans provided by the State and administered by the Illinois Department of Central Management Services (CMS). The State contributed, on-behalf of the System, an estimated \$10,062,730 which is reflected as nonoperating revenues and operating expenses within the System's financial statements.

(n) Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the plan net position of the State Universities Retirement System (SURS) and additions to/deductions from the SURS' plan net position has been determined on the same basis as they are reported by the SURS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

For financial reporting purposes, the State and its public universities and community colleges are under a special funding situation. A special funding situation exists when a non-employer entity (the State) is legally responsible for making contributions directly to a pension plan that is used to provide pensions to the employees of another entity (the University, including the System) and the non-employer (the State) is the only entity with a legal obligation to make contributions directly to a pension plan. The System recognizes its proportionate share of the State's pension expense relative to the System's employees as non-operating revenue and special funding situation for fringe benefits expense.

(o) Other postemployment benefits (OPEB)

The State Employees Group Insurance Act of 1971 (Act) (5 ILCS 375) authorizes the State Employees Group Insurance Program (SEGIP), which includes activity for both active employees and retirees, as a single-employer defined benefit OPEB plan not administered as a trust. Substantially all State and state public universities' unit employees become eligible for these OPEB plan benefits when they become annuitants of one of the State sponsored pension plans. CMS administers these benefits for the annuitants with the assistance of the public retirement systems sponsored by the State General Assembly Retirement System (GARS), Judges Retirement System (JRS), State Employees Retirement System (SERS), Teachers' Retirement System (TRS), and SURS.

In order to fund SEGIP's pay-as-you-go obligations for both current employees and retirees, the Act (5 ILCS 375/11) requires contributions based upon total employee compensation paid from any State fund, including the University's State Appropriations Funds. Additionally, the University shall not be required to make contributions for employees who are fully compensated from the System's operating funds. Pursuant to a long-standing State policy, the State's General Fund covers the contributions for employees who are fully compensated from the System's operating funds. This relationship may be modified through the enactment of a Public Act by the State's highest level of decision-making authority exercised by the Governor and the General Assembly pursuant to the State's Constitution.

The University has two separate components of OPEB administered within SEGIP. The (1) State of Illinois and its public universities are under a special funding situation for employees not paid from trust, federal, and other similar funds, while (2) the University is responsible for OPEB employer contributions when University employees are paid from trust, federal, and other similar funds. The System is under a special funding situation since its employees are not paid from trust, federal, and other similar funds.

A special funding situation exists when a non-employer entity (the State) is legally responsible for making contributions directly to an OPEB plan that is used to provide OPEB to the employees of another entity (the University, including the System) and the non-employer (the State) is the only entity with a legal obligation to make contributions directly to an OPEB plan. The System recognizes the proportionate share of the State's OPEB expense relative to the System's employees as non-operating revenue and special funding situation for fringe benefits operating expense.

(p) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

(q) *New Accounting Pronouncements*

The System adopted the provisions of GASB Statement No. 84, *Fiduciary Activities*, which was effective for periods beginning after December 15, 2019. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Implementation of this pronouncement did not impact the System’s financial statements.

The System adopted the provisions of GASB Statement No. 90, *Majority Equity Interests – an Amendment of GASB Statements No. 14 and No. 61*, which was effective for periods beginning after December 15, 2019. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government’s majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government’s holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. This requirement is to be applied on a prospective basis. Implementation of this pronouncement did not impact the System’s financial statements.

The System adopted the provisions of GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*; portions relating to defined benefit plans were effective immediately upon issuance in June 2020. The primary objectives of this Statement are to increase consistency and comparability related to the reporting of fiduciary component units, mitigate costs associated with the reporting of certain defined contribution pension plans and other postemployment benefit plans, and enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code Section 457 deferred compensation plans. Implementation of this pronouncement did not impact the System’s financial statements.

(2) *Cash, Cash Equivalents and Investments*

The System has cash and certain investments that are pooled with other University funds for the purpose of securing a greater return on investment and providing an equitable distribution of investment return. Income is distributed based upon average quarterly balances invested in the investment pool.

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

The Board follows the State of Illinois Uniform Prudent Management of Institutional Funds Act, 760 ILCS 51/1-11, when managing the University’s investments. The Board fulfills its fiduciary responsibility for the management of investments, including endowment farm real estate, by adopting policies to maximize investment return with a prudent level of risk.

The following details the carrying value of the System's cash, cash equivalents and investments as of June 30, 2021:

Money market funds	\$ 24,967,500
Commercial paper	<u>7,948,955</u>
Subtotal	32,916,455
Claim on cash and on pooled investments	<u>160,633,504</u>
Total cash, cash equivalents and investments	<u><u>\$ 193,549,959</u></u>

(a) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, the University employs multiple investment managers, of which each has specific maturity assignments related to the operating funds. The funds are structured with different layers of liquidity. Funds expected to be used within one year are invested using the Barclay's Capital 90-Day and Bank of America Merrill Lynch 12-month Treasury Bill Index as performance benchmarks. Core operating funds are invested in longer maturity investments. Core operating funds investment managers' performance benchmarks are the Barclays Capital one-year to three-year Government Bond Index, the Barclays Capital one-year-to-three-year Government Credit Bond Index, Barclays Capital Intermediate Government Credit Bond Index and the Barclays Capital Intermediate Aggregate Bond Index.

The System's nonpooled investments and maturities as of June 30, 2021 are illustrated as follows:

	<u>Maturities (in years)</u>	
	<u>Total</u>	<u>Less than 1</u>
Money market funds	\$ 24,967,500	\$ 24,967,500
Commercial paper	<u>7,948,955</u>	<u>7,948,955</u>
Total cash equivalents and investments	<u><u>\$ 32,916,455</u></u>	<u><u>\$ 32,916,455</u></u>

Claim on cash and on pooled investments represents the System's share of participation in the University's operating internal investment pool. At June 30, 2021, the University's operating funds internal investment portfolio had an effective duration for its interest bearing securities of 1.4 years.

(b) Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The University's investment policy requires that the University's short-term operating funds be invested in fixed income securities and other short-term fixed income instruments (e.g. money markets). Fixed income securities shall be rated investment grade or better by one or more nationally recognized statistical rating organizations. Unrated securities are not allowed unless specifically permitted by an individual manager's guidelines. Securities that fall below the stated minimum credit requirements subsequent to initial purchase may be held at the manager's discretion.

The University reports the credit ratings of fixed income securities and short term instruments using Standard and Poor's and Moody's ratings. Securities with split ratings or with a different rating assignment are disclosed using the rating indicative of the greatest degree of risk. At June

30, 2021 the University's operating internal investment pool securities had the following ratings (reported as a percent of the pool): AAA/Aaa - 37.76%, AA/Aa - 18.69%, A/A - 14.29%, BBB/Baa - 12.85%, BB/Ba - 0.14%, less than BB or not rated - 16.27%. Non-pooled investments, commercial paper, had \$599,885 rated as AA and \$7,349,070 rated as A.

(c) Custodial Credit Risk

Custodial credit risk is the risk that in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Exposure to custodial credit risk relates to investment securities that are held by someone other than the University and are not registered in the University's name. The University's investment policy does not limit the value of investments that may be held by an outside party. At June 30, 2021, the System's investments and deposits had no custodial credit risk exposure.

(d) Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the University's investment in a single issuer. The University's investment policy provides that the total operating funds portfolio will be broadly diversified across securities in a manner that is consistent with fiduciary standards of diversification. Issuer concentrations are limited to 5% per issuer of the total market value of the portfolio at the time of purchase, or in the case of securitized investments (e.g. mortgage-backed securities), concentration is limited to an individual issuance trust (e.g. pooled receivables). These concentration limits do not apply to investments in pooled investment products, tri-party repurchase agreements or obligations of, or issues guaranteed by, the U.S. Treasury, U.S. agencies or U.S. government sponsored enterprises.

As of June 30, 2021, not more than 5% of the University's total investments were invested in securities of any one issuer, excluding pooled investment products, tri-party repurchase agreements or obligations of, or issues guaranteed by, the U.S. Treasury, U.S. agencies or U.S. government sponsored enterprises.

(e) Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The University's operating fund investments generally are not exposed to foreign currency risk. The University does not have an overarching policy related to foreign currency risk; however, under each investment manager's respective fund agreement, the portfolio's foreign currency exposure may be unhedged or hedged back into U.S. dollars.

The University invests in non-U.S. developed and emerging markets through commingled funds invested in non-U.S. equities, fixed income, private markets and hedge funds. As these funds are reported in U.S. dollars, both price changes of the underlying securities in local markets and changes to the value of local currencies relative to the U.S. dollar are embedded in investment returns.

(f) Investments and 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 University 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 University 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 3 - Significant unobservable inputs that reflect a reporting entity's own assumptions about what market participants would use in pricing an asset or liability.

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

Investments may be classified as Level 1 when the values are based upon unadjusted quoted prices in active markets for identical assets and generally include active listed equities. Publicly-traded investments that have no or insignificant restrictions are classified in Level 1 of the fair value hierarchy. Level 1 securities would include bond funds, equity funds, and exchange traded equities.

Investments may be classified as Level 2 when the values include inputs that are directly observable for an asset (including quoted prices for similar assets), as well as inputs that are not directly observable for the asset. These inputs are derived principally from or corroborated by observable market data through correlation or by other means (market corroborated inputs). The concept of market-corroborated inputs is intended to incorporate observable market data (such as interest rates and yield curves that are observable at commonly quoted intervals) based upon an assessment of factors relevant to the asset or liability. Level 2 securities include US Treasury bonds and bills, US government agencies, international government bonds and agencies, nongovernment mortgage-backed securities, asset backed securities, corporate bonds, commercial paper, and municipal bonds.

Investments may be classified as Level 3 when the values include inputs that are unobservable and Level 1 and Level 2 inputs are not available. The values are based upon the best information available under the circumstances and may include management's own data. Level 3 securities include equities and farm properties.

The following table summarizes assets measured at fair value as of June 30, 2021, based on the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

Fair Value Measurements as of June 30, 2021	
Investments in which fair value was measured based	
on significant other observable inputs (Level 2):	
Commercial paper	\$ <u>7,948,955</u>
Total subject to fair value hierarchy	7,948,955
Investments measured at cost:	
Money market funds	<u>24,967,500</u>
Total cash equivalents and investments	<u><u>\$ 32,916,455</u></u>

(3) Capital Assets

Net interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Net interest of \$6,212,899 was capitalized during the year ended June 30, 2021. The capital assets of the System are not pledged to secure outstanding indebtedness of the Board.

Capital asset activity for the year ended June 30, 2021 is summarized as follows:

	Capital assets				
	Beginning balance	Additions	Retirements	Transfers	Ending balance
Nondepreciable capital assets:					
Land	\$ 19,249,334	\$	\$	\$	\$ 19,249,334
Construction in progress	113,675,129	62,607,988		(93,610,417)	82,672,700
Total nondepreciable capital assets	132,924,463	62,607,988	—	(93,610,417)	101,922,034
Depreciable capital assets:					
Buildings	1,654,086,534			88,167,833	1,742,254,367
Improvements	58,882,797			5,442,584	64,325,381
Equipment	20,141,293	826,194	439,093		20,528,394
Total depreciable capital assets	1,733,110,624	826,194	439,093	93,610,417	1,827,108,142
Less accumulated depreciation:					
Buildings	600,360,733	43,614,289			643,975,022
Improvements	44,024,024	1,561,427			45,585,451
Equipment	13,833,959	1,308,011	319,493		14,822,477
Total accumulated depreciation	658,218,716	46,483,727	319,493	—	704,382,950
Total net depreciable capital assets	1,074,891,908	(45,657,533)	119,600	93,610,417	1,122,725,192
Total	\$ 1,207,816,371	\$ 16,950,455	\$ 119,600	\$ —	\$ 1,224,647,226

(4) Bonds Payable

On July 9, 2020, the University issued \$59,775,000 of AFS Revenue Bonds, Series 2020A and \$31,175,000 of AFS Revenue Bonds, Series 2020B. Proceeds of these bonds were used to (i) finance or refinance certain capital improvements, (ii) refund a portion of the currently outstanding Prior Parity Bonds, Series 2010A, and Series 2014C, respectively, (iii) pay a portion of the interest on the Series 2020 Bonds, and (iv) pay costs of issuing the Series 2020 Bonds.

The refunding of Series 2010A resulted in a projected gain over the life of the issue at a net present value of \$3,953,220. The difference between the reacquisition price and the net carrying amount of the old debt, gain on refunding, was \$525,999. The refunding of Series 2014C resulted in a projected loss over the life of the issue at a net present value of \$7,093,471. The difference between the reacquisition price and the net carrying amount of the old debt, loss on refunding, was \$58,823. The gain and loss on each refunding are deferred and amortized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter.

Bonds payable activity for the year ended June 30, 2021 was as follows:

Bonds payable							
Series	Rate on June 30 outstanding debt	Fiscal year maturity dates	Beginning balance	Additions	Deductions	Ending balance	Current portion
1991	NA	NA	\$ 16,270,000	\$ -	\$ 16,270,000	\$ -	\$ -
1999A	6.27% to 6.33%	2022 – 2030	27,065,000	-	4,965,000	22,100,000	2,930,000
2001A	5.50%	2022 – 2024	21,095,000	-	3,670,000	17,425,000	6,160,000
2003A	5.25% to 5.50%	2022 – 2034	32,440,000	-	2,155,000	30,285,000	2,270,000
2005A	5.50%	2022 – 2023	27,405,000	-	9,185,000	18,220,000	7,805,000
2010A	NA	NA	46,805,000	-	46,805,000	-	-
2011A	5.00% to 5.50%	2022 – 2041	70,980,000	-	2,350,000	68,630,000	7,745,000
2011B	NA	NA	1,045,000	-	1,045,000	-	-
2011C	2.75% to 5.00%	2022 – 2032	64,435,000	-	80,000	64,355,000	85,000
2013A	3.25% to 5.00%	2022 – 2032	196,425,000	-	3,530,000	192,895,000	15,665,000
2014A	5.00%	2024 – 2044	159,985,000	-	-	159,985,000	-
2014B	3.25% to 3.93%	2022 – 2023	6,420,000	-	2,050,000	4,370,000	2,145,000
2014C	NA	NA	31,000,000	-	31,000,000	-	-
2015A	3.00% to 5.00%	2022 – 2038	87,280,000	-	1,465,000	85,815,000	1,505,000
2016A	4.00% to 5.00%	2022 – 2036	123,620,000	-	645,000	122,975,000	3,085,000
2016B	3.00% to 5.00%	2022 – 2046	19,430,000	-	440,000	18,990,000	460,000
2018A	4.00% to 5.00%	2022 – 2048	136,250,000	-	2,730,000	133,520,000	2,870,000
2018B	3.00% to 5.00%	2022 – 2048	19,225,000	-	385,000	18,840,000	405,000
2019A	3.00% to 5.00%	2022 – 2049	41,935,000	-	760,000	41,175,000	795,000
2020A	4.00% to 5.00%	2022 – 2050	-	59,775,000	1,895,000	57,880,000	1,710,000
2020B	2.95% to 5.00%	2024-2044	-	31,175,000	-	31,175,000	-
			1,129,110,000	90,950,000	131,425,000	1,088,635,000	55,635,000
Unaccreted appreciation			(7,567,956)	2,079,650	-	(5,488,306)	(1,018,831)
			1,121,542,044	93,029,650	131,425,000	1,083,146,694	54,616,169
Unamortized debt premium			58,991,971	9,795,414	14,086,395	54,700,990	6,244,854
Total bonds payable			\$ 1,180,534,015	\$ 102,825,064	\$ 145,511,395	\$ 1,137,847,684	\$ 60,861,023

Capital appreciation bonds (Series 1999A) of \$22,100,000 outstanding at June 30, 2021 do not require current interest payments and have a net unappreciated value of \$16,611,694. The University records the annual increase in the principal amount of these bonds as interest expense and accretion on bonds payable.

None of the System's bonds constitute obligations of the State of Illinois but are payable solely by the Board from net revenues of the System, student tuition and fees and debt service funds.

The resolutions authorizing the University of Illinois Auxiliary Facilities System Revenue Bonds provide for the establishment of separate funds as follows: Current Unrestricted Fund, Unexpended Fund, Repair and Replacement Reserve, Equipment Reserve, Bond and Interest Sinking Fund, and Development Reserve. All System revenues, including student tuition and fees as provided for by the Bond Resolutions are to be deposited in the Current Unrestricted Fund and used to pay necessary operation and maintenance expenses of the System. In the event of default, the bond owners may sue to command performance.

The Bond Resolutions also require transfers to funds as follows:

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

Repair and Replacement Reserve – an amount calculated as specified in the Bond Resolutions to provide for the cost of maintenance and repairs.

Equipment Reserve – an amount approved by the Board for the acquisition of movable equipment to be installed in the facilities constituting the System. The reserve may not exceed 20% of the book value of the movable equipment of the System. Additions of \$245,475 were made to the Equipment Reserve and expenses of \$220,881 were incurred to replace movable equipment during the year ended June 30, 2021. The fund balance of the Equipment Reserve was \$6,758,338 at June 30, 2021.

Bond and Interest Sinking Fund – amounts are transferred into the Bond and Interest Sinking Fund sufficient to pay principal and interest as it becomes due on the outstanding bonds.

Development Reserve – an amount approved by the Board for System development. No transfers were authorized by the Board during the year ended June 30, 2021, and there was no balance in the reserve at June 30, 2021.

The System made all required transfers for the year ended June 30, 2021.

The table below shows the amount of revenues pledged for future principal and interest payments on the bonds:

Pledged revenues					
Bond issue(s)	Purpose	Source of revenue pledged	Future revenues pledged¹	Term of commitment	Debt service to pledged revenues (current year)
System	Refundings, various improvements and additions to the System	Net System revenue, student tuition and fees	\$ 1,628,521,502	2050	8.18%

¹ Total future principal and interest payments

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

Debt Service Requirements

Future debt service requirements for all bonds outstanding at June 30, 2021 are as follows:

Debt service requirements

	<u>Principal</u>	<u>Interest</u>
Years:		
2022	\$ 55,635,000	\$ 47,999,414
2023	46,785,000	45,348,864
2024	45,765,000	43,140,160
2025	48,400,000	40,983,660
2026	51,100,000	38,687,860
2027 – 2031	288,965,000	156,107,388
2032 – 2036	258,625,000	95,699,331
2037 – 2041	145,145,000	52,017,910
2042 – 2046	121,700,000	18,110,565
2047 – 2050	26,515,000	1,791,350
Total debt service	1,088,635,000	\$ 539,886,502
Unaccrued appreciation	(5,488,306)	
Unamortized debt premium	54,700,990	
Total bonds payable	\$ 1,137,847,684	

(5) Leaseholds Payable

Leaseholds payable activity for the year ended June 30, 2021 consisted of the following:

	<u>Leaseholds payable</u>				
	<u>Beginning balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Capital lease obligations	\$ 131,035		51,141	79,894	\$ 52,668

The capital lease obligations have maturity dates from 2022 through 2024 and have interest rates ranging from 2.43% to 4.10%. As of June 30, 2021, future minimum lease payments are as follows:

	<u>Principal</u>	<u>Interest</u>
Years:		
2022	\$ 52,668	\$ 1,549
2023	21,716	465
2024	5,510	33
Total minimum payments	\$ 79,894	\$ 2,047

(6) Related-Party Transactions

The University charged the System administrative service charges totaling \$14,226,051 in 2021, based upon the gross expenditures and debt service transfers of various operations of the System. These charges represent a portion of estimated administrative and other service costs incurred by the University in support of the System and are reported as administrative services expense in the accompanying financial statements.

The System includes certain athletic facilities and office space utilized by the Division of Intercollegiate Athletics. Student fees provide the primary funding for the operation of these athletic facilities and office space. The Division of Intercollegiate Athletics transferred funds to the System of \$17,268,439 in 2021 to fund the operations not covered by student fees. This transfer has been reported as rental and lease income in the accompanying financial statements.

At June 30, 2021, the System had borrowings under multiple internal financing notes with the University in order to finance acquisition, construction, and renovation of System facilities. The notes have repayment terms and interest rates of 3.0%.

Notes payable to the University						
	Maturity date	Beginning balance	New debt	Principal paid/debt refunded	Ending balance	Current portion
Payable to the University	2022 – 2024	\$ 4,916,703		1,817,938	\$ 3,098,765	\$ 1,643,561

Future debt service requirements for the outstanding notes payable as of June 30, 2021 are as follows:

Notes payable to the University			
Debt service requirements			
		Principal	Interest
Years:			
2022		\$ 1,643,561	\$ 92,963
2023		1,310,776	43,655
2024		144,428	4,331
Total		\$ <u>3,098,765</u>	\$ <u>140,949</u>

The University (including the System) is a defendant in a number of legal actions. These legal actions have been considered in estimating the University's accrued self-insurance liability, which covers hospital and medical professional/general liability; estimated general and contractual liability, and workers' compensation liability. At June 30, 2021, the University's total accrued self-insurance liability was \$272,731,916.

Ultimate cost consists of amounts estimated by the University's risk management division and actuaries for asserted claims, unasserted claims arising from reported incidents, expected litigation expenses and amounts determined by actuaries using relevant industry data and System specific data to cover projected losses for claims incurred but not yet reported. The System contributes to the University's self-insurance reserve through annual assessments. The entire self-insurance liability is reflected in the University's financial statements.

(7) **Retirement and Postemployment Benefits**

(a) ***Defined Benefit Pension Plan Retirement Benefits***

General Information about the Defined Benefit Pension Plan

Plan Description: The University contributes to the SURS, a cost-sharing multiple-employer defined benefit plan with a special funding situation whereby the State makes substantially all actuarially determined required contributions on behalf of the participating employers. SURS was established July 21, 1941 to provide retirement annuities and other benefits for staff members and employees of State universities, certain affiliated organizations, and certain other State educational and scientific agencies and for survivors, dependents and other beneficiaries of such employees. SURS is considered a component unit of the State's financial reporting entity and is included in the State's Annual Comprehensive Financial Report as a pension trust fund. SURS is governed by Chapter 40, Act 5. Article 15 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.

Benefits Provided: A traditional benefit plan was established in 1941. Public Act 90-0448 enacted effective January 1, 1998, established an alternative defined benefit program known as the portable benefit package. The traditional and portable plan Tier 1 refers to members that began participation prior to January 1, 2011. Public Act 96-0889 revised the traditional and portable benefit plans for members who begin participation on or after January 1, 2011, and who do not have eligible Illinois reciprocal system services. The revised plan is referred to as Tier 2. New employees are allowed six months after their date of hire to make an irrevocable election whether to participate in either the traditional or portable benefit plans. A summary of the benefit provisions as of June 30, 2020 can be found in the SURS' Comprehensive Annual Financial Report Notes to the Financial Statements.

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

Contributions: The State is primarily responsible for funding the SURS on behalf of the individual employers at an actuarially determined amount. Public Act 88-0593 provides a statutory funding plan consisting of two parts: (i) a ramp-up period from 1996 to 2010 and (ii) a period of contributions equal to a level percentage of the payroll of active members within SURS to reach 90% of the total Actuarial Accrued Liability by the end of fiscal year 2045. Employer contributions from "trust, federal, and other funds" are provided under Section 15-155 (b) of the Illinois Pension Code and require employers to pay contributions which are sufficient to cover the accruing normal costs on behalf of applicable employees. The employer normal cost for fiscal year 2020 and 2021 respectively, was 13.02% and 12.70% of employee payroll. The normal cost is equal to the value of current year's pension benefit and does not include any allocation for the past unfunded liability or interest on the unfunded liability. Plan members are required to contribute 8.0% of their annual covered salary except for police officers and fire fighters who contribute 9.5% of their earnings. The contribution requirements of plan members and employers are established and may be amended by the State's General Assembly.

Participating employers make contributions toward separately financed specific liabilities under Section 15-139.5(e) of the Illinois Pension Code (relating to contributions payable due to the employment of "affected annuitants" or specific return to work annuitants), Section 15-155(g) (relating to contributions payable due to earning increases exceeding 6% during the final rate of

earnings period), and Section 15-155 (j-5) (relating to contributions payable due to earnings exceeding the salary set for the Governor).

Pension Liabilities, Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Defined Benefit Pensions

Net Pension Liability: The net pension liability (NPL) was measured as of June 30, 2020. At June 30, 2020, the SURS reported a NPL of \$30,619,504,321.

Employer Proportionate Share of Net Pension Liability: The amount of the proportionate share of the NPL to be recognized for the System is \$0. The proportionate share of the State’s NPL associated with the System is \$463,708,982. This amount is not recognized in the System’s financial statements. The NPL and total pension liability as of June 30, 2020 was determined based on the June 30, 2019 actuarial valuation rolled forward. The basis of allocation used in the proportionate share of net pension liability is the actual reported pensionable contributions made to the SURS during fiscal year 2020.

Defined Benefit Pension Expense: At June 30, 2020 SURS reported a collective net pension expense of \$3,364,411,021.

Employer Proportionate Share of Defined Benefit Pension Expense: The employer proportionate share of collective pension expense is recognized as nonoperating revenue with matching operating expense (special funding situation for fringe benefits) in the financial statements. The basis of allocation used in the proportionate share of collective pension expense is the actual reported pensionable contributions made to the SURS during fiscal year 2020. As a result, the University recognized revenue and pension expense of \$1,515,060,865 from this special funding situation during the year ended June 30, 2021, of which \$50,951,437 was related to the System.

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Defined Benefit Pensions: Deferred outflows of resources are the consumption of net position by the SURS that is applicable to future reporting periods. Conversely, deferred inflows of resources are the acquisition of net position by SURS that is applicable to future reporting periods. SURS did not have any deferred inflows of resources as of June 30, 2020.

SURS Collective Deferred Outflows of Resources by Sources

	Deferred Outflows of Resources
Difference between expected and actual experience	\$ 170,987,483
Changes in assumptions	473,019,629
Net difference between projected and actual earnings on pension plan investments	474,659,178
Total	<u>\$ 1,118,666,290</u>

**SURS Collective Deferred Outflows of Resources
by Year to be Recognized in Future Pension Expenses**

Year Ending June 30		Net Deferred Outflows of Resources
2021	\$	435,271,667
2022		346,428,171
2023		183,483,935
2024		153,482,517
2025		-
Thereafter		-
Total	\$	1,118,666,290

Assumptions and Other Inputs

Actuarial assumptions: The actuarial assumptions used in the June 30, 2020 valuation were based on the results of an actuarial experience study for the period June 30, 2014 through June 30, 2017. The total pension liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25 percent
Salary increases	3.25 to 12.25 percent, including inflation
Investment rate of return	6.75 percent beginning with the actuarial valuation as of June 30, 2018

Mortality rates were based on the RP-2014 White Collar, gender distinct tables with projected generational mortality and a separate mortality assumption for disabled participants.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return were adopted by the plan's trustees after considering input from the plan's investment consultant(s) and actuary(s).

For each major asset class that is included in the pension plan's target asset allocation as of June 30, 2020, these best estimates are summarized in the following table:

Defined Benefit Plan	Strategic Policy Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Traditional Growth		
Global Public Equity	44.0%	6.67%
Stablized Growth		
Credit Fixed Income	14.0%	2.39%
Core Real Assets	5.0%	4.14%
Options Strategies	6.0%	4.44%
Non-Traditional Growth		
Private Equity	8.0%	9.66%
Non-Core Real Assets	3.0%	8.70%
Inflation Sensitive		
U.S. TIPS	6.0%	0.13%
Principal Protection		
Core Fixed Income	8.0%	-0.45%
Crisis Risk Offset		
Systematic Trend Following	2.1%	2.16%
Alternative Risk Premia	1.8%	1.60%
Long Duration	2.1%	0.86%
Total	100.0%	4.84%
Inflation		2.25%
Expected Arithmetic Return		7.09%

Discount Rate: A single discount rate of 6.49% was used to measure the total pension liability. This single discount rate was based on an expected rate of return on pension plan investments of 6.75% and a municipal bond rate of 2.45% (based on the weekly rate closest to but not later than the measurement date of the 20-Year Bond Buyer Index as published by the Federal Reserve). The projection of cash flows used to determine this single discount rate were the amounts of contributions attributable to current plan members and assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the statutory contribution rates under SURS funding policy. Based on these assumptions, the pension plan's fiduciary net position and future contributions were sufficient to finance the benefit payments through the year 2075. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2075, and the municipal bond rate was applied to all benefit payments after that date.

Sensitivity of the SURS Net Pension Liability to Changes in the Discount Rate: Regarding the sensitivity of the NPL to changes in the single discount rate, the following presents the State's NPL, calculated using a single discount rate of 6.49%, as well as what the State's NPL would be if it were calculated using a single discount rate that is 1-percentage-point lower or 1-percentage-point higher:

1% Decrease 5.49%	Current Single Discount Rate Assumption 6.49%	1% Increase 7.49%
\$36,893,469,884	\$30,619,504,321	\$25,441,837,592

Additional information regarding the SURS basic financial statements including the plan net position can be found in the SURS Comprehensive Annual Financial Report by accessing the website at www.SURS.org.

(b) Defined Contribution Pension Plan Retirement Benefits

General Information about the Defined Contribution Pension Plan

Plan Description: The University contributes to the Retirement Savings Plan (RSP) administered by SURS, a cost-sharing multiple-employer defined contribution pension plan with a special funding situation whereby the State makes substantially all required contributions on behalf of the participating employers. SURS was established July 21, 1941 to provide retirement annuities and other benefits for staff members and employees of State universities, certain affiliated organizations, and certain other State educational and scientific agencies and for survivors, dependents and other beneficiaries of such employees. SURS is governed by Chapter 40, Act 5. Article 15 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. The RSP and its benefit terms were established and may be amended by the State's General Assembly.

Benefits Provided: A defined contribution pension plan, originally called the Self-Managed Plan, was added to SURS benefit offerings as a result of Public Act 90-0448 enacted effective January 1, 1998. The plan was renamed the RSP effective September 1, 2020, after an extensive plan redesign. New employees are allowed six months after their date of hire to make an irrevocable election whether to participate in either the traditional or portable defined benefit pension plans or the RSP. A summary of the benefit provisions as of June 30, 2020, can be found in SURS Comprehensive Annual Financial Report – Notes to the Financial Statements.

Contributions: All employees who have elected to participate in the RSP are required to contribute 8.0% of their annual covered earnings. Section 15-158.2(h) of the Illinois Pension Code provides for an employer contribution to the RSP of 7.6% of employee earnings. The State is primarily responsible for contributing to the RSP on behalf of the individual employers. Employers are required to make the 7.6% contribution for employee earnings paid from “trust, federal, and other funds” as described in Section 15-155(b) of the Illinois Pension Code. The contribution requirements of plan members and employers were established and may be amended by the State's General Assembly.

Forfeitures: Employees are not vested in employer contributions to the RSP until they have attained five years of service credit. Should an employee leave SURS-covered employment with less than five years of service credit, the portion of the employee's RSP account designated as employer contributions is forfeited. Employees who later return to SURS-covered employment will have their forfeited employer contributions reinstated to their account, so long as the employee's own contributions remain in the account. Forfeited employer contributions are managed by SURS and are used both to reinstate previously forfeited contributions and to fund a portion of the State's contributions on behalf of the individual employers. The vesting and forfeiture provisions of the RSP were established and may be amended by the State's General Assembly.

Pension Expense Related to Defined Contribution Pensions

Defined Contribution Pension Expense: For the year ended June 30, 2020, the State's contributions to the RSP on behalf of individual employers totaled \$74,418,691. Of this amount, \$68,874,215 was funded via an appropriation from the State and \$5,544,476 was funded from previously forfeited contributions.

Employer Proportionate Share of Defined Contribution Pension Expense: The employer proportionate share of collective defined contribution pension expense is recognized as nonoperating revenue with matching operating expense (special funding situation for fringe benefits) in the financial statements. The basis of allocation used in the proportionate share of collective defined contribution pension expense is the actual reported pensionable contributions made to the RSP during fiscal year 2020. The University's share of pensionable contributions was 55.1119%. As a result, the University recognized revenue and defined contribution pension expense of \$41,013,581 from this special funding situation during the year ended June 30, 2021, of which \$1,379,299 was related to the System. The amount that constituted forfeitures for the University was \$3,055,669.

(c) Postemployment Benefits

Plan description: The State Employees Group Insurance Act of 1971 (Act), as amended, authorizes the SEGIP to provide health, dental, vision, and life insurance benefits for certain retirees and their dependents. Substantially all of the University's full-time employees are members of SEGIP. Members receiving monthly benefits from the GARS, JRS, SERS, TRS, and SURS are eligible for these other post-employment benefits ("OPEB"). The eligibility provisions for the SURS members were defined within Note 7(a).

The State recognizes SEGIP OPEB benefits as a single-employer defined benefit plan, which does not issue a stand-alone financial report.

Benefits provided: The health, dental, and vision benefits provided to and contribution amounts required from annuitants are the result of collective bargaining between the State and the various unions representing the State's and the State universities' employees in accordance with limitations established in the Act. Therefore, the benefits provided and contribution amounts are subject to periodic change. Coverage through SEGIP becomes secondary to Medicare after Medicare eligibility has been reached. Members must enroll in Medicare Parts A and B to receive the subsidized SEGIP premium available to Medicare eligible participants. The Act requires the State to provide life insurance benefits for annuitants equal to their annual salary as of the last day of employment until age 60, at which time, the benefit amount becomes \$5,000.

Funding policy and annual other postemployment benefit cost: OPEB offered through SEGIP are financed through a combination of retiree premiums, SEGIP contributions pursuant to the Act, and Federal government subsidies from the Medicare Part D program. Contributions are deposited in the Health Insurance Reserve Fund, which covers both active State employees and retirement members. Annuitants may be required to contribute towards health and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants who retired prior to January 1, 1998, and who are vested in the State Employee's Retirement System do not contribute toward health and vision benefits. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced five percent for each year of credited service with the State allowing those annuitants with twenty or more years of credited service to not have to contribute towards health and vision benefits. All annuitants are required to pay for dental benefits regardless of retirement date. The

Director of CMS, on an annual basis, determines the amount of contributions necessary to fund the basic program of group benefits. State contributions are made primarily from the State's General Fund on a pay-as-you-go basis. No assets are accumulated or dedicated to funding the retiree health insurance benefit and a separate trust has not been established for the funding of OPEB.

For fiscal year 2021, the annual cost of the basic program of group health, dental, and vision benefits before the State's contribution was \$12,261 (\$6,910 if Medicare eligible) if the annuitant chose benefits provided by a health maintenance organization and \$15,224 (\$6,449 if Medicare eligible) if the annuitant chose other benefits. The State is not required to fund the plan other than the pay-as-you-go amount necessary to provide the current benefits to retirees.

Special funding situation of OPEB: The proportionate share of the State's OPEB expense relative to the System's former employees or retirees was estimated to be \$2,042,699 during the year ended June 30, 2021. The amount of the total proportionate share of the total OPEB liability to be recognized by the System related to the special funding situation is \$0.

Actuarial Methods and Assumptions: The total OPEB liability was determined by an actuarial valuation using the following actuarial assumptions, applied to all periods included in the measurement unless otherwise specified. The actuarial valuation for the SEGIP was based on GARS, JRS, SERS, TRS, and SURS active, inactive, and retiree data as of June 30, 2019, for eligible SEGIP employees, and SEGIP retiree data as of June 30, 2019.

Valuation Date	June 30, 2019, rolled forward
Measurement Date	June 30, 2020
Actuarial Cost Method	Entry Age Normal
Inflation Rate	2.25%
Projected Salary Increases*	2.50% - 12.25%

Healthcare Cost Trend Rate:

Medical & Rx (Pre-Medicare & Post Medicare) 8.25% grading down 0.25% per year over 16 years to 4.25% in year 2037. There is no additional trend rate adjustment due to the repeal of the Excise Tax.

Dental and Vision 4.00% grading up 0.25% in the first year 4.25% through 2037.

Retirees' share of benefit-related costs

Healthcare premium rates for members depend on the date of retirement and the years of service earned at retirement. Members who retired before January 1, 1998, are eligible for single coverage at no cost to the member. Members who retire after January 1, 1998, are eligible for single coverage provided they pay a portion of the premium equal to 5 percent for each year of service under 20 years. Eligible dependents receive coverage provided they pay 100 percent of the required dependent premium. Premiums for plan year 2020 and 2021 are based on actual premiums. Premiums after 2021 were projected based on the same healthcare cost trend rates applied to per capita claim costs.

Note: the above actuarial assumptions were used to calculate the OPEB liability as of the current year measurement date and are consistent with the actuarial assumptions used to calculate the OPEB liability as of the prior year measurement date except for the following:

Inflation Rate	2.50%
Projected Salary Increases*	2.75% - 12.25%
Healthcare Cost Trend Rate:	
Medical & Rx (Pre-Medicare)	8.00% grading down 0.50% in the first year to 7.50%, then grading down 0.11% in the second year to 7.39%, followed by grading down of 0.50% per year over 5 years to 4.89% in year 7
Medical & Rx (Post-Medicare)	9.00% grading down 0.50% per year over 9 years to 4.50%
Dental and Vision	6.00% grading down 0.50% per year over 3 years to 4.50%

*Dependent upon service and participation in the respective retirement systems. Includes inflation rate listed.

Additionally, the demographic assumptions used in this OPEB valuation are identical to those used in the June 30, 2019 valuations for GARS, JRS, SERS, TRS, and SURS as follows:

	Retirement age experience study[^]	Mortality^{^^}
GARS	July 2015 - June 2018	Pub-2010 Above-Median Income General Healthy Retiree Mortality tables, sex distinct, scaling factors of 99% for males and females and generational mortality improvements using MP-2018 two-dimensional mortality improvement scales
JRS	July 2015 - June 2018	Pub-2010 Above-Median Income General Healthy Retiree Mortality table, sex distinct, scaling factors of 102% for males and 98% for females and generational mortality improvements using MP-2018 two-dimensional mortality improvement scales
SERS	July 2015 - June 2018	Pub-2010 General and Public Safety Healthy Retiree mortality table, sex distinct, with rates projected to 2018 generational mortality improvement factors were updated to projection scale MP-2018
TRS	July 2014 - June 2017	RP-2014 with future mortality improvements on a fully generational basis using projection table MP-2017
SURS	July 2014 - June 2017	RP-2014 White Collar, gender distinct, projected using MP-2014 two dimensional mortality improvement scale, set forward one year for male and female annuitants

[^] The actuarial assumptions used in the respective actuarial valuations are based on the results of actuarial experience studies for the periods defined.

^{^^} Mortality rates are based on mortality tables published by the Society of Actuaries' Retirement Plans Experience Committee.

Discount Rate: Retirees contribute a percentage of the premium rate based on service at retirement. The State contributes additional amounts to cover claims and expenses in excess of retiree contributions. Because plan benefits are financed on a pay-as-you-go basis, the single discount rate is based on a tax-exempt municipal bond rate index of 20-year general obligation bonds with an average AA credit rating as of the measurement date. A single discount rate of 3.13% at June 30, 2019, and 2.45% at June 30, 2020, was used to measure the total OPEB liability.

(8) Commitments

At June 30, 2021, the System had commitments on various construction projects and contracts for repairs and renovation of auxiliary facilities of \$40,974,098.

(9) Subsequent Event

On July 8, 2021, the System issued Auxiliary Facilities System Revenue Bonds, Series 2021A in the amount of \$135,355,000. The Series 2021A bonds issued have fixed interest rates that range from 2.125% to 5.000% with final maturity on April 1, 2051. The proceeds from the Series 2021A bonds will be used, together with other lawfully available moneys, to (i) finance the renovation and rehabilitation of two parking garages at the Urbana-Champaign campus (ii) refund the Series 2011A Bonds and 2011C Bonds and (iii) to pay costs of issuing the Series 2021A bonds.

**UNIVERSITY OF ILLINOIS
AUXILIARY FACILITIES SYSTEM**

**Required Supplementary Information
Year Ended June 30, 2021**

Schedule of University of Illinois Auxiliary Facilities System Proportionate Share of the Net Pension Liability

Measurement Date:	Fiscal Year 2020	Fiscal Year 2019	Fiscal Year 2018	Fiscal Year 2017	Fiscal Year 2016	Fiscal Year 2015	Fiscal Year 2014
(a) Proportion Percentage of the Collective Net Pension Liability	0%	0%	0%	0%	0%	0%	0%
(b) Proportion Amount of the Collective Net Pension Liability	\$0	\$0	\$0	\$0	\$0	\$0	\$0
(c) Portion of Nonemployer Contributing Entities' Total Proportion of Collective Net Pension Liability associated with Employer	\$463,708,982	\$469,646,501	\$481,127,752	\$439,226,001	\$454,842,862	\$405,968,461	\$376,037,733
Total (b) + (c)	\$463,708,982	\$469,646,501	\$481,127,752	\$439,226,001	\$454,842,862	\$405,968,461	\$376,037,733
Employer defined benefit covered payroll	\$62,611,182	\$63,305,672	\$61,876,367	\$61,699,212	\$60,763,503	\$61,425,191	\$60,842,520
Proportion of Collective Net Pension Liability associated with Employer as a percentage of defined benefit covered payroll	740.62%	741.87%	777.56%	711.88%	748.55%	660.92%	618.05%
SURS Plan Net Position as a Percentage of Total Pension Liability	39.05%	40.71%	41.27%	42.04%	39.57%	42.37%	44.39%

* GASB Statement #82 amended GASB Statements #67 & #68 to require the presentation of covered payroll, defined as payroll on which contributions to a pension plan are based, and ratios that use that measure. For the SURS plans, the covered payroll are those employees within the defined benefit plan.

**UNIVERSITY OF ILLINOIS
AUXILIARY FACILITIES SYSTEM**

**Notes to Required Supplementary Information
June 30, 2021**

The pension schedules above are presented to illustrate the requirements of the Governmental Accounting Standards Board's Statement No. 68 to show information for 10 years. However, until a full 10-year trend is compiled, the University will only present available information measured in accordance with the requirements of Statement No. 68.

Changes of benefit terms. There were no benefit changes recognized in the Total Pension Liability as of June 30, 2020.

Changes of assumptions. In accordance with *Illinois Compiled Statutes*, an actuarial review is to be performed at least once every three years to determine the reasonableness of actuarial assumptions regarding the retirement, disability, mortality, turnover, interest and salary of the members and benefit recipients of SURS. An experience review for the years June 30, 2014 to June 30, 2017 was performed in February 2018, resulting in the adoption of new assumptions as of June 30, 2018.

- Salary increase. Decrease in the overall assumed salary increase rates, ranging from 3.25 percent to 12.25 percent based on years of service, with underlying wage inflation of 2.25 percent.
- Investment return. Decrease the investment return assumption to 6.75 percent. This reflects maintaining an assumed real rate of return of 4.50 percent and decreasing the underlying assumed price inflation to 2.25 percent.
- Effective rate of interest. Decrease the long-term assumption for the ERI for crediting the money purchase accounts to 6.75 percent (effective July 2, 2019).
- Normal retirement rates. A slight increase in the retirement rate at age 50. No change to the rates for ages 60-61, 67-74 and 80+, but a slight decrease in rates at all other ages. A rate of 50 percent if the member has 40 or more years of service and is younger than age 80.
- Early retirement rates. Decrease in rates for all Tier 1 early retirement eligibility ages (55-59).
- Turnover rates. Change rates to produce lower expected turnover for members with less than 10 years of service and higher turnover for members with more than 10 years of service.
- Mortality rates. Maintain the RP-2014 mortality tables with projected generational mortality improvement. Update the projection scale from the MP-2014 to the MP-2017 scale.
- Disability rates. Decrease current rates to reflect that certain members who receive disability benefits do not receive the benefits on a long-term basis.