Erikson Institute

Financial Report
June 30, 2015

Contents

McGladrey

Independent Auditor's Report

To the Board of Trustees
Erikson Institute
Chicago, Illinois

Report on the Financial Statement
We have audited the accompanying financial statements of Erikson Institute which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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.

Member of the RSM International network of independent accounting, tax and consulting firms.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Erikson Institute as of June 30, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

McGladrey LLP

Chicago, Illinois
October 14, 2015

Erikson Institute

Statements of Financial Position
June 30, 2015 and 2014

	2015	2014
Assets		
Cash	$ 1,124,000	$ 1,660,679
Receivables, net:		
Contributions	2,722,328	4,228,070
Grants	2,054,913	1,239,400
Other	402,763	450,468
Investments	49,914,067	48,990,001
Property and equipment, net	25,819,208	26,659,583
Investments held for deferred compensation plan	843,302	1,055,461
Other assets	359,566	305,452
	$ 83,240,147	$ 84,589,114
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued liabilities	$ 1,607,346	$ 1,009,677
Unearned tuition and deposits	441,933	133,520
Bonds payable	32,175,000	32,500,000
Deferred compensation plan payable	843,302	1,055,461
Interest rate swap agreement	4,625,414	3,816,762
	39,692,995	38,515,420
Net assets		
Unrestricted:		
Operating (accumulated deficit)	(6,002,564)	(3,958,197)
Board designated - funds functioning as endowment	23,711,815	23,963,666
Board designated - reinvestment funds	231,000	-
	17,940,251	20,005,469
Temporarily restricted	9,067,685	9,528,049
Permanently restricted	16,539,216	16,540,176
	43,547,152	46,073,694
	$ 83,240,147	$ 84,589,114

See Notes to Financial Statements.

Erikson Institute

Statements of Activities
Years Ended June 30, 2015 and 2014

	2015			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Support and revenue:				
Student tuition and fees, net of scholarships and stipends of $1,134,470 and $960,591, respectively	$ 2,875,151	$ -	$ -	$ 2,875,151
Special events less direct expenses of $106,736	761,711	-	-	761,711
Contributions	1,744,388	2,934,001	-	4,678,389
Government grants	5,642,438	-	-	5,642,438
Clinical and training	1,914,740	-	-	1,914,740
Investment income, net	1,791,183	69,437	-	1,860,620
Miscellaneous	87,883	-	-	87,883
Net assets released from restrictions	3,736,913	(3,736,913)	-	-
	18,554,407	(733,475)	-	17,820,932
Expenses:				
Program services	14,832,829	-	-	14,832,829
Management and general	2,641,475	-	-	2,641,475
Fundraising	730,227	-	-	730,227
	18,204,531	-	-	18,204,531
Increase (decrease) in net assets before non-operating items	349,876	(733,475)	-	(383,599)
Non-operating items:				
Depreciation	(896,846)	-	-	(896,846)
Investment income (loss), net	(246,295)	(190,190)	-	(436,485)
Interest rate swap fair value adjustment	(808,652)	-	-	(808,652)
Other	(463,301)	463,301	(960)	(960)
	(2,415,094)	273,111	(960)	(2,142,943)
(Decrease) increase in net assets	(2,065,218)	(460,364)	(960)	(2,526,542)
Net assets:				
Beginning of year	20,005,469	9,528,049	16,540,176	46,073,694
End of year	17,940,251	9,067,685	16,539,216	43,547,152

See Notes to Financial Statements.

2014			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
$ 2,844,721	$ -	$ -	$ 2,844,721
-	-	-	-
2,264,883	3,627,440	-	5,892,323
4,906,094	-	-	4,906,094
1,424,064	-	-	1,424,064
1,664,913	76,322	-	1,741,235
57,679	-	-	57,679
4,254,068	(4,254,068)	-	-
17,416,422	(550,306)	-	16,866,116
13,293,637	-	-	13,293,637
3,310,334	-	-	3,310,334
656,806	-	-	656,806
17,260,777	-	-	17,260,777
155,645	(550,306)	-	(394,661)
(916,668)	-	-	(916,668)
4,374,861	261,449	-	4,636,310
138,996	-	-	138,996
-	-	-	-
3,597,189	261,449	-	3,858,638
3,752,834	(288,857)	-	3,463,977
16,252,635	9,816,906	16,540,176	42,609,717
$ 20,005,469	$ 9,528,049	$ 16,540,176	$ 46,073,694

Erikson Institute

Statement of Functional Expenses
Year Ended June 30, 2015

	Program Services			Supporting Services			
	Academic Programs	Special Projects	Total	Management and General	Fund - raising	Total	Total
Compensation	$ 3,744,297	$ 6,159,571	$ 9,903,868	$ 1,396,471	$ 569,886	$ 1,966,357	$ 11,870,225
Contracted services	271,786	1,486,909	1,758,695	355,169	60,768	415,937	2,174,632
Legal and audit fees	2,345	25,085	27,430	112,839	-	112,839	140,269
Occupancy and insurance	557,979	71,565	629,544	255,170	19,032	274,202	903,746
Books and library materials	96,359	45,364	141,723	692	584	1,276	142,999
Office expenses	85,614	176,405	262,019	130,509	20,422	150,931	412,950
Meeting and travel expenses	130,738	338,904	469,642	35,515	17,449	52,964	522,606
Advertising	56,133	13,129	69,262	1,635	357	1,992	71,254
Software and hardware	166,355	101,816	268,171	53,282	12,166	65,448	333,619
Miscellaneous	99,003	9,368	108,371	133,575	1,793	135,368	243,739
Interest	1,194,104	-	1,194,104	166,618	27,770	194,388	1,388,492
	6,404,713	8,428,116	14,832,829	2,641,475	730,227	3,371,702	18,204,531
Depreciation	771,288	-	771,288	107,621	17,937	125,558	896,846
	$ 7,176,001	$ 8,428,116	$ 15,604,117	$ 2,749,096	$ 748,164	$ 3,497,260	$ 19,101,377

See Notes to Financial Statements.

Erikson Institute

Statement of Functional Expenses
Year Ended June 30, 2014

	Program Services			Supporting Services			
	Academic Programs	Special Projects	Total	Management and General	Fund - raising	Total	Total
Compensation	$ 2,980,478	$ 5,400,663	$ 8,381,141	$ 2,076,914	$ 506,575	$ 2,583,489	$ 10,964,630
Contracted services	117,305	1,523,715	1,641,020	280,108	47,346	327,454	1,968,474
Legal and audit fees	3,291	3,469	6,760	154,618	-	154,618	161,378
Occupancy and insurance	521,452	69,124	590,576	251,710	11,809	263,519	854,095
Books and library materials	93,337	47,229	140,566	1,428	4,403	5,831	146,397
Office expenses	98,898	107,926	206,824	126,167	27,692	153,859	360,683
Meeting and travel expenses	100,966	420,751	521,717	80,228	7,852	88,080	609,797
Advertising	97,692	7,946	105,638	1,823	273	2,096	107,734
Software and hardware	135,467	54,787	190,254	55,448	16,295	71,743	261,997
Miscellaneous	137,492	82,598	220,090	102,022	4,583	106,605	326,695
Interest	1,289,051	-	1,289,051	179,868	29,978	209,846	1,498,897
	5,575,429	7,718,208	13,293,637	3,310,334	656,806	3,967,140	17,260,777
Depreciation	788,335	-	788,335	110,000	18,333	128,333	916,668
	$ 6,363,764	$ 7,718,208	$ 14,081,972	$ 3,420,334	$ 675,139	$ 4,095,473	$ 18,177,445

Erikson Institute

Statements of Cash Flows
Years Ended June 30, 2015 and 2014

	2015	2014
Cash Flows from Operating Activities		
(Decrease) increase in net assets	**$ (2,526,542)**	$ 3,463,977
Adjustments to reconcile (decrease) increase in net assets to net cash used in operating activities:		
Depreciation	**896,846**	916,668
Allowance for uncollectible accounts	**(55,338)**	53,868
Realized and unrealized gains on investments	**(1,058,473)**	(5,916,394)
Interest rate swap fair value adjustment	**808,652**	(138,996)
Change in assets and liabilities:		
Contributions receivable	**1,078,631**	1,489,069
Grants receivable	**(814,423)**	(3,924)
Other receivables	**54,015**	(62,465)
Other assets	**(54,114)**	(232,157)
Accounts payable and accrued liabilities	**597,669**	(64,869)
Unearned tuition and deposits	**308,413**	(3,596)
Net cash used in operating activities	**(764,664)**	(498,819)
Cash Flows from Investing Activities		
Additions to property and equipment	**(56,471)**	(35,395)
Proceeds from sale of investments	**18,929,103**	17,887,155
Purchase of investments	**(18,794,696)**	(14,450,660)
Net cash provided by investing activities	**77,936**	3,401,100
Cash Flows from Financing Activities		
Bond principal payment	**(325,000)**	-
Partial termination of interest rate swap agreement	**-**	(3,190,000)
Proceeds from contributions restricted for permanent endowment	**475,049**	450,200
Net cash provided by (used in) financing activities	**150,049**	(2,739,800)
Net (decrease) increase in cash	**(536,679)**	162,481
Cash:		
Beginning of year	**1,660,679**	1,498,198
End of year	**$ 1,124,000**	$ 1,660,679
Supplemental Disclosure of Cash Flow Information		
Cash payments for interest	**$ 1,336,810**	$ 1,464,441

See Notes to Financial Statements.

Note 1. Nature of Organization and Significant Accounting Policies

Erikson Institute ("Institute") is an independent institution of higher education located in Chicago, Illinois, that prepares child development professionals for leadership. Through its academic programs, applied research, and community service and engagement, the Institute advances the ability of practitioners and researchers to improve life for children and their families. The Institute is a catalyst for discovery and change, continually bringing the newest scientific knowledge on children's development and learning into its classrooms and out to the community so that professionals serving children and families are informed, inspired and responsive. The Institute is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable state law.

Accounting policies: The Institute follows accounting standards established by the Financial Accounting Standards Board ("FASB") to ensure consistent reporting of financial condition, changes in net assets, and cash flows. References to Generally Accepted Accounting Principles ("GAAP") in these footnotes are to the *FASB Accounting Standards Codification*™, sometimes referred to as the "Codification" or "ASC."

Revenue recognition: Revenue is recorded on the accrual basis of accounting, whereby revenue is recognized when earned. Tuition revenue is recognized as the classes take place. Student fees and consulting revenue are recognized as the services are provided. Grant and consulting revenue are recognized when the services are provided.

All contributions are considered to be available for unrestricted use unless otherwise specifically restricted by donors. Contributions are recorded and recognized as revenue when a notice of an award or a pledge is received. Restricted contributions are recorded as revenue in temporarily restricted net assets if limited by donor imposed stipulations that either expire by passage of time or can be fulfilled and removed by action of the Institute, or in permanently restricted net assets if such contributions are non-expendable. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Expense allocation: The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited, based on estimates made by management.

Cash: Cash includes cash on hand, demand deposits and time deposits with original maturities of less than three months.

The Institute maintains funds in accounts that at times are in excess of Federal Deposit Insurance Corporation insurance limits; however, the Institute minimizes this risk by maintaining deposits in high-quality financial institutions. The Institute has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

Grants receivable: Grants receivable are reported at their estimated realizable value and recognized as unrestricted revenue at the time the Institute performs the services. Management reviews the receivables for collectability and records an allowance for any accounts deemed uncollectible.

Contributions receivable: Contributions receivable are reported at their estimated realizable value and recognized as revenue at the time an unconditional promise to give is received from a donor. If the pledge is receivable over an extended period of time, the present value of the pledge is recorded. Management reviews the receivables for collectability and records an allowance for any accounts deemed uncollectible. Management considers the receivables recorded at June 30, 2015 and 2014 to be fully collectible.

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

Investments: Investments in marketable securities held by the Institute are stated at fair value. The Institute reports the fair value of market alternatives, also known as alternative investments, using the practical expedient. The practical expedient allows for the use of net asset value ("NAV"), either as reported by the investee fund or as adjusted by the Institute based on various factors.

Investment income or loss (including gains and losses on investments, interest and dividends) is included in the statement of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law.

Interest rate swap agreement: The Institute's interest rate swap agreement is recognized as either an asset or liability at its fair value in the statement of financial position with changes in the fair value reported as non-operating income or loss. For the years ended June 30, 2015 and 2014, the Institute recognized a loss of $808,652 and a gain of $138,996, respectively, on this instrument.

Property and equipment: Property and equipment are recorded at cost. The Institute capitalizes all expenditures for property and equipment in excess of $5,000. Depreciation is being provided on a straight-line basis over the estimated useful lives of the assets as follows:

Computer equipment	5 years
Furniture and equipment	10 years
Building	39 years

Assets retired or otherwise disposed of are removed from the accounts at their net book value and the gain or loss is recognized as the difference between proceeds, if any, and the net book value. Repairs and maintenance are charged to expense as incurred.

Unearned tuition and deposits: Tuition and deposits received for classes to be held subsequent to year-end are recorded as an unearned tuition and deposits liability at year-end.

Fair value of financial instruments: The carrying amounts of financial instruments, including cash, accounts receivable, accounts payable and short-term borrowings approximate fair value due to the short-term nature of these instruments. The carrying amount of long-term debt and the swap agreement approximates fair value because the interest rates fluctuate with market interest rates.

Net assets: In order to ensure the observance of limitations and restrictions placed on the use of available resources, the Institute maintains its financial accounts in accordance with the principles and practices of fund accounting. This is the procedure by which resources for various purposes are classified into funds established in accordance with their nature and purpose. For financial reporting purposes, fund balances and related activities of the various funds are classified as unrestricted, temporarily restricted, or permanently restricted based on the existence or absence of donor-imposed restrictions.

The Institute has designated portions of the unrestricted net assets as an endowment (funds functioning as endowment) and as a program investment fund (reinvestment funds).

During fiscal year 2015, the Institute reclassified $463,301 of unrestricted net assets to temporarily restricted net assets pursuant to donors' instructions.

Accounting estimates: The preparation of financial statements 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

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

Income taxes: The accounting standard on accounting for uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Institute may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Institute and various positions related to the potential sources of unrelated business taxable income. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement. There were no unrecognized tax benefits identified or recorded as liabilities during the periods covered by these financial statements.

The Institute files Forms 990 in the U.S. federal jurisdiction and the State of Illinois. The Institute is generally no longer subject to examination by the Internal Revenue Service for tax years before fiscal 2012.

Recent accounting pronouncement: In May 2015, the FASB issued Accounting Standards Updated ("ASU") 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalen*t). The amendments in this update remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. The amendments in this update are effective for non-public entities for fiscal years beginning after December 15, 2016. Early adoption is permitted. The Institute's management is currently evaluating the impact this update will have on the Institute's financial statements.

Subsequent events: The Institute has evaluated subsequent events for potential recognition and/or disclosure through October 14, 2015, the date the financial statements were available to be issued.

Note 2. Contributions Receivable

Contributions receivable at June 30, 2015 and 2014 are due as follows:

	2015	2014
Amounts due in less than one year	$ 2,083,200	$ 2,309,745
Amounts due in one to five years	737,452	2,064,587
	2,820,652	4,374,332
Less: Present value discount	(98,324)	(146,262)
	$ 2,722,328	$ 4,228,070

The receivables are discounted using a present value discount rate of 3 percent.

Note 3. Grants and Other Receivables

Grants receivable at June 30, 2015 and 2014 are composed of the following:

	2015	2014
Grants receivable	$ 2,179,350	$ 1,364,927
Less: Allowance for uncollectible accounts	(124,437)	(125,527)
	$ 2,054,913	$ 1,239,400

Other receivables at June 30, 2015 and 2014 are composed of the following:

	2015	2014
Other receivables	$ 426,839	$ 480,854
Less: Allowance for uncollectible accounts	(24,076)	(30,386)
	$ 402,763	$ 450,468

Note 4. Investments

Investments at June 30, 2015 and 2014 are composed of the following:

	June 30, 2015		June 30, 2014	
	Fair Value	Cost	Fair Value	Cost
Short-term investments	$ 4,217,448	$ 4,217,448	$ 4,876,848	$ 4,878,426
Mutual funds:				
Commodities	2,014,199	2,307,041	863,622	807,007
Fixed income	5,014,482	5,020,471	7,655,470	7,464,241
Equities	16,758,746	13,449,037	14,881,236	10,920,686
Corporate stocks	5,155,008	4,569,012	5,502,736	4,377,926
Hedge funds and other investments:				
Equity	5,575,496	4,318,797	5,678,477	4,461,772
Private equity	3,761,301	2,581,797	3,114,205	1,643,695
Absolute return	7,417,387	7,017,646	6,417,407	6,277,216
	$ 49,914,067	$ 43,481,249	$ 48,990,001	$ 40,830,969

Components of investment income at June 30, 2015 and 2014 are as follows:

	2015	2014
Net realized and unrealized gains	$ 1,058,473	$ 5,916,394
Interest and dividends	530,955	641,690
Investment fees and expenses	(165,293)	(180,539)
	$ 1,424,135	$ 6,377,545

Investment earnings of the permanently restricted endowment are considered temporarily restricted until spent for their designated purpose.

Only a portion of the Institute's cumulative investment return on the board designated endowment is designated for support of current operations; the remainder is retained to support operations of future years and to offset potential market declines. The Institute considers the investment earnings allocation from the endowment assets to be operating income, with the remaining investment income recorded as non-operating. These amounts are reflected as investment income in the statements of activities as follows:

	2015	2014
Support and revenue	$ 1,860,620	$ 1,741,235
Non-operating (expense) revenue	(436,485)	4,636,310
	$ 1,424,135	$ 6,377,545

Note 5. Fair Value Measurements

The Institute follows ASC Topic, *Fair Value Measurements and Disclosure*, which provides the framework for measuring fair value under generally accepted accounting principles. This Topic applies to all financial instruments that are being measured and reported on a fair value basis. As defined in the Topic, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Institute uses various methods including market, income, and cost approaches. Based on these approaches, the Institute often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and/or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Institute utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used on the valuation techniques, the Institute is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values.

Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

> <u>Level 1</u>. Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 assets primarily include listed equities, money market funds, government securities, and mutual funds. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.
>
> <u>Level 2</u>. Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third-party pricing services for similar assets or liabilities. Level 2 assets primarily include less liquid and restricted equity securities, funds invested in equity securities, fixed-income, real estate securities, asset allocation and money market funds, as well as alternative investments, measured using the practical expedient, that do not have any significant redemption restrictions, lock-ups, gates or other characteristics that would cause liquidation and report date NAV to be significantly different.
>
> <u>Level 3</u>. Primarily all Level 3 investments are valued using the practical expedient. The practical expedient allows for the use of NAV, either as reported by the investee fund or adjusted by the Institute based on various factors, to be used to determine fair value, under certain conditions. These investments would have significant redemption and other restrictions that would limit the funds ability to redeem out of the fund at report date NAV. The fair value of the investment is based on a combination of audited financial statements of the investees and monthly or quarterly statements received from the investees. The practical expedient may not be used on funds intended to, or in the process of, liquidation. Such funds are valued based on the fund manager's expectation of liquidation proceeds.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Institute's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment.

For fiscal years 2015 and 2014, the application of valuation techniques applied to similar assets and liabilities has been consistent with techniques used in previous years. The valuation methodologies used for instruments at fair value are described on the following page.

Note 5. Fair Value Measurements (Continued)

Investments in securities traded on a national securities exchange, or reported on the NASDAQ national market, are stated at the last reported sales price on the day of valuation; other securities traded in the over-the-counter market and listed securities for which no sale was reported on that date are stated at the last quoted bid price, except for short sales positions and call options written, for which the last quoted asked price is used. The fair values of the Institute's short-term investments, including cash and cash equivalents approximate their individual carrying amounts due to the relatively short period of time between their origination and expected realization. Restricted securities and other securities for which quotations are not readily available are valued at fair value as determined by the general partner.

Hedge funds and other investments, which generally are investment partnerships, are valued at fair value based on the applicable percentage ownership of the underlying partnerships' net assets as of the measurement date, as determined by the general partner. In determining fair value, the general partner utilizes valuations provided by the underlying investment partnerships. The underlying investment partnerships value securities and other financial instruments on a fair value basis of accounting. The estimated fair values of certain investments of the underlying investment partnerships, which may include private placements and other securities for which prices are not readily available, are determined by the general partner or sponsor of the respective other investment partnership and may not reflect amounts that could be realized upon immediate sale, or amounts that ultimately may be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments. The fair value of the Institute's investment partnerships generally represents the amount the Institute would expect to receive if it were to liquidate its investment in the investment partnerships excluding any redemption charges that may apply. The current partnerships have quarterly redemption periods with a 60-day notice period. At June 30, 2015 and 2014, the Institute had $3,434,482 and $4,455,282, respectively, of unfunded commitments related to these investments.

The following table sets forth the fair value of investments in certain entities that calculate NAV per share (or its equivalent):

	June 30, 2015 Fair Value	June 30, 2014 Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Investment					
Hedge Funds and other investments					
Equity (a)	$ 2,209,132	$ 2,385,949	$ -	Quarterly	60 days
Equity (a)	3,366,364	3,292,528	-	Quarterly	Over 90 days
Private equity (b)	3,361,301	2,714,205	-	Quarterly	Over 90 days
Absolute return (c)	7,417,387	6,417,407	-	Quarterly	Over 90 days

(a) Represents investments in mature mid-size companies with leading market positions and annual revenues of $10 million - $100 million.
(b) Represents limited partnership investments focused on achieving long-term returns through investments in a diversified portfolio of private equity limited partnerships.
(c) Includes funds of funds invested in limited partnerships and partnership investments which are primarily private investment pools with no particular industry or geographic concentration.

Investments in the category that can be redeemed within 90 days following advanced written notice at the current net asset value per share based on the fair value of underlying assets are classified as Level 2 while the investments in the category that cannot be redeemed within 90 days are classified as Level 3. The fair value of investments in these categories has been estimated using the net asset value per share of the investment.

Note 5. Fair Value Measurements (Continued)

Certain alternative investments and investments in funds have been valued as of March 31, 2015 and 2014 and then adjusted for any purchases and withdrawals made between April 1 and June 30 because June 30 balances were not readily available from fund managers and general partners.

The Institute assesses the levels of financial instruments at each measurement date, and transfers between levels are recognized on the actual date of the event of change in circumstances that caused the transfer in accordance with the Institute's accounting policy regard recognition of transfers between levels of the fair value hierarchy. There were no such transfers for fiscal 2015 or 2014.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Institute's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment.

The Institute's valuation of the interest-rate swap agreement is based on widely-accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of the interest-rate swap agreement. This analysis reflects the contractual terms of the agreement, including the period to maturity, and uses observable market-based inputs, including LIBOR rate curves.

Note 5. Fair Value Measurements (Continued)

The following table presents the Institute's fair value hierarchy for those assets measured at fair value on a recurring basis as of June 30, 2015:

June 30, 2015		Fair Value Measurements Using		
Description	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Short-term investments	$ 4,217,448	$ 4,217,448	$ -	$ -
Mutual funds:				
Commodities	2,014,199	2,014,199	-	-
Fixed income	5,014,482	5,014,482	-	-
Equities	16,758,746	16,758,746	-	-
Corporate stocks	5,155,008	5,155,008	-	-
Hedge funds and other investments:				
Equity	5,575,496	-	2,209,132	3,366,364
Private equity	3,761,301	-	-	3,761,301
Absolute return	7,417,387	-	-	7,417,387
	$ 49,914,067	$ 33,159,883	$ 2,209,132	$ 14,545,052
Investments held for deferred compensation:				
Equity	$ 481,050	$ -	$ 481,050	$ -
Fixed income	79,520	-	79,520	-
Multi-asset	99,605	-	99,605	-
Real estate	-	-	-	-
Guaranteed	24,647	-	24,647	-
	684,822	$ -	$ 684,822	$ -
Money market funds	158,480			
	$ 843,302			
Interest rate swap	$ (4,625,414)	$ -	$ (4,625,414)	$ -

Note 5. Fair Value Measurements (Continued)

The following table presents the Institute's fair value hierarchy for those assets measured at fair value on a recurring basis as of June 30, 2014:

June 30, 2014		Fair Value Measurements Using		
Description	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Short-term investments	$ 4,876,848	$ 4,876,848	$ -	$ -
Mutual funds:				
Commodities	863,622	863,622	-	-
Fixed income	7,655,470	7,655,470	-	-
Equities	14,881,236	14,881,236	-	-
Corporate stocks	5,502,736	5,502,736	-	-
Hedge funds and other investments:				
Equity	5,678,477	-	2,385,949	3,292,528
Private equity	3,114,205	-	-	3,114,205
Absolute return	6,417,407	-	-	6,417,407
	$ 48,990,001	$ 33,779,912	$ 2,385,949	$ 12,824,140
Investments held for deferred compensation:				
Equity	$ 523,935	$ -	$ 523,935	$ -
Fixed income	117,158	-	117,158	-
Multi-asset	131,539	-	131,539	-
Real estate	25,486	-	25,486	-
Guaranteed	98,862	-	98,862	-
	896,980	$ -	$ 896,980	$ -
Money market funds	158,481			
	$ 1,055,461			
Interest rate swap	$ (3,816,762)	$ -	$ (3,816,762)	$ -

Note 5. Fair Value Measurements (Continued)

The following table sets forth the activity for the Level 3 private equity investments:

	Equity	Private Equity	Absolute Return	Total
Balance, July 1, 2013	$ 3,068,131	$ 2,578,217	$ 5,239,469	$ 10,885,817
2014 activity:				
Net change in unrealized gain on investments	469,070	19,380	398,363	886,813
Purchases	2,000,000	595,000	6,000,000	8,595,000
Sales	(2,244,673)	(78,392)	(5,220,425)	(7,543,490)
Balance, June 30, 2014	3,292,528	3,114,205	6,417,407	12,824,140
2015 activity:				
Net change in unrealized gain on investments	129,837	156,072	277,196	563,105
Purchases	-	1,065,706	1,000,000	2,065,706
Sales	(56,001)	(574,682)	(277,216)	(907,899)
Balance, June 30, 2015	$ 3,366,364	$ 3,761,301	$ 7,417,387	$ 14,545,052

Market alternatives are redeemable with the investee fund at NAV under the original terms of the subscription agreement. Due to the nature of these investments, changes in market conditions and the overall economic environment may significantly impact the NAV of the funds, and therefore the value of the Institute's interest. It is therefore reasonably possible that, if the Institute were to sell all or a portion its market alternatives, the transaction value could be significantly different than the fair value reported as of June 30.

The Institute's investment portfolio is exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the financial statements.

Market risk: Market risk arises primarily from changes in the market value of financial instruments. Exposure to market risk is influenced by a number of factors, including the relationships between financial instruments, and the volatility and liquidity in the markets in which the financial instruments are traded. In many cases, the use of financial instruments serves to modify or offset market risk associated with other transactions and, accordingly, serves to decrease the Institute's overall exposure to market risk. The Institute attempts to control its exposure to market risk through various analytical monitoring techniques.

Credit risk: Credit risk arises primarily from the potential inability of counterparties to perform in accordance with the terms of a contract. The Institute's exposure to credit risk associated with counterparty nonperformance is limited to the current cost to replace all contracts in which the Institute has a gain. Exchange-traded financial instruments generally do not give rise to significant counterparty exposure due to the cash settlement procedures for daily market movements and the margin requirements of individual exchanges. The Institute seeks to mitigate its exposure to this credit risk by placing its cash with major institutions.

Note 5. Fair Value Measurements (Continued)

Concentration of credit risk: The Institute's managers currently invest with various managers and clearing brokers. In the event these counterparties do not fulfill their obligations, the Institute may be exposed to risk. This risk of default depends on the creditworthiness of the counterparty to these transactions. The Institute attempts to minimize this credit risk by monitoring the creditworthiness of the managers and clearing brokers.

Alternative investments and investments in funds: The managers of underlying investment entities in which the Institute invests, may utilize derivative instruments with off-balance-sheet risk. The Institute’s exposure to risk is limited to the amount of its investment.

Note 6. Property and Equipment

Property and equipment are composed of the following at June 30, 2015 and 2014:

	2015	2014
Land	$ 2,692,677	$ 2,692,677
Building	27,299,163	27,299,163
Furniture and equipment	4,052,594	3,996,123
Other	52,500	52,500
	34,096,934	34,040,463
Less: Accumulated depreciation	(8,277,726)	(7,380,880)
	$ 25,819,208	$ 26,659,583

Depreciation expense totaled $896,846 and $916,668 for fiscal years 2015 and 2014, respectively.

Note 7. Long-Term Debt

On December 12, 2007, the Institute entered into a bond trust agreement with the Illinois Finance Authority (“IFA”) to issue Adjustable Rate Demand Educational Facility Revenue Bonds, Series 2007, for $32,500,000. In 2015, the Institute redeemed $325,000 of the outstanding bonds. The bonds are non-amortizing and have a term of thirty years. These funds were used to construct its building at 451 North LaSalle Street, Chicago, Illinois.

The bonds are secured by a transferable irrevocable letter of credit issued by Bank of America with a maturity date of November 29, 2017. The Institute also has a reimbursement agreement with Bank of America. As collateral, Bank of America has a negative pledge on all business assets of the Institute. Bank of America also requires the Institute to comply with certain financial covenants which are monitored on a quarterly and semi-annual basis.

In order to reduce exposure to adjustable interest rates on variable rate debt, the Institute entered into a 30-year interest rate swap agreement in March 2008. The agreement has the effect of fixing the rate of interest at 3.5 percent for the variable rate debt. The notional amount of the swap agreement at June 30, 2015, was $16,250,000. During 2014 the Institute reduced the notional value of the swap agreement from $32,500,000 to $16,250,000 through the payment of $3,190,000 to the swap provider. The fair value of the swap agreement is the estimated amount that the Institute would pay or receive to terminate the agreement as of the statement of financial position date, taking into account current interest rates and the current creditworthiness of the swap counterparty. As of June 30, 2015 and 2014, the fair value of the interest rate swap agreement was a liability of $4,625,414 and $3,816,762, respectively, and is presented on the statements of financial position as “Interest rate swap agreement.” The Institute recorded a (loss) gain in the amount of ($808,652) and $138,996, respectively, for the change in the fair value of the swap agreement, which is presented in the statements of activities as “Interest rate swap fair value adjustment.”

Note 8. Retirement Plans

Pension expense for the Institute's defined contribution 403(b) retirement plan was $461,975 and $453,185 in fiscal years 2015 and 2014, respectively. The plan covers all employees who have worked one year or were covered by a prior plan, and worked more than 1,000 hours during the year. Under this plan, pension benefits and costs are calculated separately for each participant and are funded currently.

The Institute has a nonqualified 457(b) deferred compensation plan for certain employees. Contributions to the plan are invested under the direction of the individual qualified employee from the same options available for the 403(b) plan. Eligible employees made contributions of $23,000 and $34,375 for the fiscal years ended 2015 and 2014, respectively. At June 30, 2015 and 2014, $843,302 and $1,055,461, respectively, were accrued as a liability and set aside in a separate account for this benefit. The Plan is intended to constitute an unfunded plan and all amounts held are assets of the employer.

Note 9. Funds Functioning as Endowment

The Board of Trustees has designated certain amounts of unrestricted revenues to be classified as funds functioning as endowment. The income on these funds will be used to support ongoing operations. As of June 30, 2015 and 2014, these funds were established for the following purposes:

	2015	2014
Facilities	$ 11,872,389	$ 12,001,298
General operations	11,680,895	11,802,191
Scholarships	158,531	160,177
	$ 23,711,815	$ 23,963,666

Note 10. Temporarily Restricted Net Assets

Temporarily restricted net assets consist of gifts and other resources restricted by the donor that were receivable, or received and unexpended, as of June 30, 2015 and 2014. These net assets are restricted for:

	2015	2014
Special projects	$ 3,235,895	$ 3,460,684
Program support	3,228,045	3,648,202
Scholarships	2,003,745	1,819,163
Library	600,000	600,000
	$ 9,067,685	$ 9,528,049

Note 10. Temporarily Restricted Net Assets (Continued)

Temporarily restricted net assets were released from restrictions as follows for the years ended June 30, 2015 and 2014:

	2015	2014
Special projects	$ 3,044,904	$ 3,320,405
Program support	333,000	559,586
Scholarships	359,009	374,077
	$ 3,736,913	$ 4,254,068

Note 11. Permanently Restricted Net Assets

Permanently restricted net assets consist of endowment funds. The income earned on the investment of permanently restricted endowment assets is generally restricted to the programs and activities outlined in the endowed funds, primarily providing scholarships and supporting the Institute's education and research programs.

Permanently restricted net assets consist of the following as of June 30, 2015 and 2014:

	2015	2014
Endowed chairs	$ 6,607,397	$ 6,607,397
Program support	5,703,000	5,703,000
Scholarship endowments	4,228,819	4,229,779
	$ 16,539,216	$ 16,540,176

Note 12. Endowment Funds

Interpretation of Relevant Law

The Institute’s Board of Trustees has interpreted Uniform Prudent Management of Invested Funds Act (“UPMIFA”) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Institute classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Institute in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Institute considers the following factors in making a determination to appropriate or accumulate earnings on donor-restricted endowment funds:

1) The duration and preservation of the fund;
2) The purpose of the Institute and the donor-restricted endowment fund;
3) General economic conditions;
4) The possible effect of inflation and deflation;
5) The expected total return from income and the appreciation of investments;
6) Other resources of the Institute; and
7) The investment policies of the Institute.

Note 12. Endowment Funds (Continued)

The Institute's endowment net asset composition by type of fund is as follows for the years ended June 30, 2015 and 2014:

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board designated	$ 23,711,815	$ -	$ -	$ 23,711,815
Donor restricted	-	3,714,550	16,539,216	20,253,766
Total	$ 23,711,815	$ 3,714,550	$ 16,539,216	$ 43,965,581

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board designated	$ 23,963,666	$ -	$ -	$ 23,963,666
Donor restricted	-	3,904,740	16,540,176	20,444,916
Total	$ 23,963,666	$ 3,904,740	$ 16,540,176	$ 44,408,582

Note 12. Endowment Funds (Continued)

The changes in endowment net assets for the Institute were as follows for the years ended June 30, 2015 and 2014:

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 23,963,666	$ 3,904,740	$ 16,540,176	$ 44,408,582
Investment income	1,607,705	(190,190)	-	1,417,515
Bad debt expense	-	-	(960)	(960)
Board designated amounts transferred from operations	319,444	-	-	319,444
Board designated amounts transferred to operations	(325,000)	-	-	(325,000)
Appropriation of endowment assets for expenditures	(1,854,000)	-	-	(1,854,000)
Endowment net assets, end of year	$ 23,711,815	$ 3,714,550	$ 16,539,216	$ 43,965,581

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 22,727,404	$ 3,693,291	$ 16,540,176	$ 42,960,871
Investment income	6,109,612	261,449	-	6,371,061
Release of restriction	-	(50,000)	-	(50,000)
Board designated amounts transferred from operations	361,500	-	-	361,500
Board designated amounts transferred to operations	(3,500,100)	-	-	(3,500,100)
Appropriation of endowment assets for expenditures	(1,734,750)	-	-	(1,734,750)
Endowment net assets, end of year	$ 23,963,666	$ 3,904,740	$ 16,540,176	$ 44,408,582

Return Objectives and Risk Parameters

The Institute has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding. Funds functioning as endowment are only released by the Board of Trustees for spending based on organizational spending and investment policies or specifically directed spending in accordance with donor-specified uses. Endowment assets include those assets of donor-restricted funds that the Institute must hold in perpetuity as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the various indices set in the investment policy, while assuming a moderate level of investment risk.

Note 12. Endowment Funds (Continued)

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Institute relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Institute targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Institute has a policy of appropriating for distribution a percentage of its endowment fund's average fair value over the prior 12 quarters through the calendar year proceeding the fiscal year in which the distribution is planned. The policy is coordinated with its investment policy such that over the long-term, its endowment will be able to maintain its purchasing power over time.