Erikson Institute

Financial Report
June 30, 2016

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RSM US LLP

Independent Auditor's Report

To the Board of Trustees
Erikson Institute

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, 2016 and 2015, 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.

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, 2016 and 2015, 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.

RSM US LLP

Chicago, Illinois
October 12, 2016

Erikson Institute

Statements of Financial Position
June 30, 2016 and 2015

		2016		2015
Assets				
Cash	$	3,000,879	$	1,124,000
Receivables, net:				
Contributions		3,375,907		2,722,328
Grants and contracts		2,927,477		2,054,913
Other		456,230		402,763
Investments		44,843,652		49,914,067
Property and equipment, net		24,936,897		25,819,208
Investments held for deferred compensation plan		852,538		843,302
Other assets		305,622		359,566
Total assets	$	80,699,202	$	83,240,147
Liabilities and Net Assets				
Liabilities:				
Accounts payable and accrued liabilities	$	1,468,241	$	1,607,346
Unearned tuition and deposits		314,437		441,933
Bonds payable		31,425,000		32,175,000
Deferred compensation plan payable		852,538		843,302
Interest rate swap agreement		7,147,848		4,625,414
Total liabilities		41,208,064		39,692,995
Net assets:				
Unrestricted:				
Operating (accumulated deficit)		(8,168,535)		(6,002,564)
Board designated - funds functioning as endowment		20,774,614		23,711,815
Board designated - reinvestment funds		231,000		231,000
		12,837,079		17,940,251
Temporarily restricted		10,114,743		9,067,685
Permanently restricted		16,539,316		16,539,216
Total net assets		39,491,138		43,547,152
Total liabilities and net assets	$	80,699,202	$	83,240,147

See notes to financial statements.

Erikson Institute

Statements of Activities
Years Ended June 30, 2016 and 2015

	2016			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Support and revenue:				
Student tuition and fees, net of scholarships of $1,179,511 and $1,134,470, respectively	$ 3,078,543	$ -	$ -	$ 3,078,543
Special events less direct expenses of $122,330 and $106,736, respectively	794,329	-	-	794,329
Contributions	1,127,156	6,444,489	100	7,571,745
Government grants	7,233,000	-	-	7,233,000
Clinical and training	2,951,981	-	-	2,951,981
Investment income, net	1,893,174	65,853	-	1,959,027
Miscellaneous	125,223	-	-	125,223
Net assets released from restrictions	3,676,298	(3,676,298)	-	-
Total support and revenue:	20,879,704	2,834,044	100	23,713,848
Expenses:				
Program services	16,841,465	-	-	16,841,465
Management and general	2,968,953	-	-	2,968,953
Fundraising	741,239	-	-	741,239
Total expenses:	20,551,657	-	-	20,551,657
Increase in net assets before non-operating items	328,047	2,834,044	100	3,162,191
Non-operating items:				
Depreciation	(896,729)	-	-	(896,729)
Investment loss, net	(2,257,201)	(1,786,986)	-	(4,044,187)
Interest rate swap fair value adjustment	(2,522,434)	-	-	(2,522,434)
Other	245,145	-	-	245,145
Total non-operating items:	(5,431,219)	(1,786,986)	-	(7,218,205)
(Decrease) increase in net assets	(5,103,172)	1,047,058	100	(4,056,014)
Net assets:				
Beginning of year	17,940,251	9,067,685	16,539,216	43,547,152
End of year	$ 12,837,079	$ 10,114,743	$ 16,539,316	$ 39,491,138

See notes to financial statements.

2015			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
$ 2,875,151	$ -	$ -	$ 2,875,151
761,711	-	-	761,711
1,744,388	2,934,001	-	4,678,389
5,642,438	-	-	5,642,438
1,914,740	-	-	1,914,740
1,791,183	69,437	-	1,860,620
87,883	-	-	87,883
3,736,913	(3,736,913)	-	-
18,554,407	(733,475)	-	17,820,932
14,832,829	-	-	14,832,829
2,641,475	-	-	2,641,475
730,227	-	-	730,227
18,204,531	-	-	18,204,531
349,876	(733,475)	-	(383,599)
(896,846)	-	-	(896,846)
(246,295)	(190,190)	-	(436,485)
(808,652)	-	-	(808,652)
(463,301)	463,301	(960)	(960)
(2,415,094)	273,111	(960)	(2,142,943)
(2,065,218)	(460,364)	(960)	(2,526,542)
20,005,469	9,528,049	16,540,176	46,073,694
$ 17,940,251	$ 9,067,685	$ 16,539,216	$ 43,547,152

Erikson Institute

Statement of Functional Expenses
Year Ended June 30, 2016

	Program Services			Supporting Services			
	Academic Programs	Special Projects	Total	Management and General	Fund - raising	Total	Total
Compensation	$ 3,796,881	$ 7,344,106	$ 11,140,987	$ 1,687,451	$ 590,721	$ 2,278,172	$ 13,419,159
Contracted services	425,873	1,796,952	2,222,825	324,533	42,112	366,645	2,589,470
Legal and audit fees	15,732	10,901	26,633	97,396	2,044	99,440	126,073
Occupancy and insurance	594,271	86,279	680,550	269,453	14,220	283,673	964,223
Books and library materials	101,004	34,457	135,461	1,085	1,351	2,436	137,897
Office expenses	121,265	198,910	320,175	168,008	28,425	196,433	516,608
Meeting and travel expenses	208,537	422,781	631,318	39,386	24,813	64,199	695,517
Advertising	94,523	9,922	104,445	4,179	399	4,578	109,023
Software and hardware	163,873	80,000	243,873	80,372	8,914	89,286	333,159
Miscellaneous	110,866	77,501	188,367	137,067	1,570	138,637	327,004
Interest	1,146,831	-	1,146,831	160,023	26,670	186,693	1,333,524
	6,779,656	10,061,809	16,841,465	2,968,953	741,239	3,710,192	20,551,657
Depreciation	771,187	-	771,187	107,607	17,935	125,542	896,729
	$ 7,550,843	$ 10,061,809	$ 17,612,652	$ 3,076,560	$ 759,174	$ 3,835,734	$ 21,448,386

See notes to financial statements.

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

Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Decrease in net assets	**$ (4,056,014)**	$ (2,526,542)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:		
Depreciation	**896,729**	896,846
Allowance for uncollectible accounts	**74,231**	(55,338)
Realized and unrealized loss (gain) on investments	**2,363,858**	(1,058,473)
Interest rate swap fair value adjustment	**2,522,434**	808,652
Change in assets and liabilities:		
Contributions receivable	**(691,197)**	1,078,631
Grants and contracts receivable	**(935,134)**	(814,423)
Other receivables	**(52,810)**	54,015
Other assets	**53,944**	(54,114)
Accounts payable and accrued liabilities	**(139,105)**	597,669
Unearned tuition and deposits	**(127,496)**	308,413
Net cash used in operating activities	**(90,560)**	(764,664)
Cash flows from investing activities:		
Additions to property and equipment	**(14,418)**	(56,471)
Proceeds from sale of investments	**12,404,315**	18,929,103
Purchase of investments	**(9,697,758)**	(18,794,696)
Net cash provided by investing activities	**2,692,139**	77,936
Cash flows from financing activities:		
Bond principal payment	**(750,000)**	(325,000)
Proceeds from contributions restricted for permanent endowment	**300**	475,049
Net cash (used in) provided by financing activities	**(749,700)**	150,049
Net increase (decrease) in cash	**1,851,879**	(536,679)
Cash:		
Beginning of year	**1,124,000**	1,660,679
End of year	**$ 2,975,879**	$ 1,124,000
Supplemental disclosure of cash flow information:		
Cash payments for interest	**$ 1,281,840**	$ 1,336,810

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, consulting revenue and grant revenues are recognized as 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 and contracts receivables: Grants and contracts receivables 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. The receivables are discounted using a present value discount rate of 3 percent. Management reviews the receivables for collectability and records an allowance for any accounts deemed uncollectible.

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, 2016 and 2015, the Institute recognized a loss of $2,522,434 and a loss of $808,652, 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.

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 2013.

Accounting pronouncements adopted: The Institute adopted the FASB issued Accounting Standards Update ("ASU") 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent*). 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.

Recent accounting pronouncements: In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. Early adoption is permitted. The updated standard will now be effective for the Institute in the fiscal year ending June 30, 2020.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than twelve months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for the Institute in the fiscal year ending June 30, 2021.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Key elements of the ASU include a reduction in the number of net asset categories from three to two, conforming requirements on releases of capital restrictions, several new requirements related to expense presentation and disclosure (including investment expenses), and new required disclosures communicating information useful in assessing liquidity. The new standard is effective for the Institute in the fiscal year ending June 30, 2019, early adoption is allowed.

The Institute is currently evaluating the impact of the adoption of these new standards on its financial statements.

Subsequent events: The Institute has evaluated subsequent events for potential recognition and/or disclosure through October 12, 2016, the date the financial statements were available to be issued.

Note 2. Contributions Receivable

Contributions receivable at June 30, 2016 and 2015 are due as follows:

	2016	2015
Amounts due in less than one year	$ 2,398,576	$ 2,083,200
Amounts due in one to five years	1,112,973	737,452
	3,511,549	2,820,652
Less:		
Allowance for uncollectible accounts	(25,000)	-
Present value discount	(110,642)	(98,324)
	$ 3,375,907	$ 2,722,328

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

Note 3. Grants, Contracts and Other Receivables

Grants and contracts receivable at June 30, 2016 and 2015 are composed of the following:

	2016	2015
Grants and contracts receivable	$ 3,114,484	$ 2,179,350
Less: Allowance for uncollectible accounts	(187,007)	(124,437)
	$ 2,927,477	$ 2,054,913

Other receivables at June 30, 2016 and 2015 are composed of the following:

	2016	2015
Other receivables	$ 479,649	$ 426,839
Less: Allowance for uncollectible accounts	(23,419)	(24,076)
	$ 456,230	$ 402,763

Note 4. Investments

Investments at June 30, 2016 and 2015 are composed of the following:

	June 30, 2016		June 30, 2015	
	Fair Value	Cost	Fair Value	Cost
Short-term investments	$ 2,982,089	$ 2,982,090	$ 4,217,448	$ 4,217,448
Mutual funds:				
Commodities	1,914,827	2,440,337	2,136,793	2,429,388
Fixed income	7,735,809	7,882,212	7,570,050	7,640,304
Equities	11,560,454	9,718,790	14,080,584	10,706,857
Corporate stocks	4,979,821	4,685,586	5,155,008	4,569,012
Hedge funds and other investments:				
Equity	4,978,998	4,087,004	5,575,496	4,318,797
Private equity	3,937,942	3,430,404	3,761,301	2,581,797
Absolute return	6,753,712	6,626,216	7,417,387	7,017,646
	$ 44,843,652	$ 41,852,640	$ 49,914,067	$ 43,481,249

Components of investment income (loss) at June 30, 2016 and 2015 are as follows:

	2016	2015
Net realized and unrealized (losses) gains	$ (2,363,858)	$ 1,058,473
Interest and dividends	499,784	530,955
Investment fees and expenses	(221,086)	(165,293)
	$ (2,085,160)	$ 1,424,135

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 (loss) in the statements of activities as follows:

	2016	2015
Support and revenue	$ 1,959,027	$ 1,860,620
Non-operating expense	(4,044,187)	(436,485)
	$ (2,085,160)	$ 1,424,135

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:

> Level 1. 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.
>
> Level 2. 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.
>
> Level 3. Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker-traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

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 2016 and 2015, 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, 2016 and 2015, the Institute had $3,360,951 and $3,434,482, 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, 2016 Fair Value	June 30, 2015 Fair Value	2016 Unfunded Commitment	2015 Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Investment						
Hedge Funds and other investments						
Equity (a)	$ 1,979,239	$ 2,209,132	$ -	$ -	Quarterly	60 days
Equity (a)	2,999,759	3,366,364	-	-	Quarterly	Over 90 days
Private equity (b)	3,937,942	3,761,301	3,360,951	3,434,482	Quarterly	Over 90 days
Absolute return (c)	1,530,530	-	-	-	Quarterly	60 days
Absolute return (c)	5,223,182	7,417,387	-	-	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.

Certain alternative investments and investments in funds have been valued as of March 31, 2016 and 2015 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.

Note 5. Fair Value Measurements (Continued)

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 and changes in market conditions, 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 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 regarding recognition of transfers between levels of the fair value hierarchy. There were no such transfers for fiscal 2016 or 2015.

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.

In accordance with ASU 2015-07, *Fair Value Measurement (Topic 820)*, certain investments that were measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statement of financial position.

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, 2016:

			Investments Classified in the Fair Value Hierarchy		
Description	Total	Investments Measured at Net Asset Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Short-term investments	$ 2,982,089	$ -	$ 2,982,089	$ -	$ -
Mutual funds:					
Commodities	1,914,827	-	1,914,827	-	-
Fixed income	7,735,809	-	7,735,809	-	-
Equities	11,560,454	-	11,560,454	-	-
Corporate stocks	4,979,821	-	4,979,821	-	-
Hedge funds and other investments:					
Equity	4,978,998	4,978,998	-	-	-
Private equity	3,937,942	3,937,942	-	-	-
Absolute return	6,753,712	6,753,712	-	-	-
	$ 44,843,652	$ 15,670,652	$ 29,173,000	$ -	$ -
Investments held for deferred compensation:					
Money market funds	$ 125,479	$ -	$ 125,479	$ -	$ -
Equity	475,488	-	475,488	-	-
Fixed income	84,048	-	84,048	-	-
Guaranteed	167,523	-	-	167,523	-
	$ 852,538	$ -	$ 685,015	$ 167,523	$ -
Interest rate swap	$ (7,147,848)	$ -	$ -	$ (7,147,848)	$ -

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:

			Investments Classified in the Fair Value Hierarchy		
Description	Total	Investments Measured at Net Asset Value	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	2,136,793	-	2,136,793	-	-
Fixed income	7,570,050	-	7,570,050	-	-
Equities	14,080,584	-	14,080,584	-	-
Corporate stocks	5,155,008	-	5,155,008	-	-
Hedge funds and other investments:					
Equity	5,575,496	5,575,496	-	-	-
Private equity	3,761,301	3,761,301	-	-	-
Absolute return	7,417,387	7,417,387	-	-	-
	$ 49,914,067	$ 16,754,184	$ 33,159,883	$ -	$ -
Investments held for deferred compensation:					
Money market funds	$ 158,480	$ -	$ 158,480	$ -	$ -
Equity	481,050	-	481,050	-	-
Fixed income	79,520	-	79,520	-	-
Multi-asset	99,605	-	99,605	-	-
Guaranteed	24,647	-	-	24,647	-
	$ 843,302	$ -	$ 660,175	$ 24,647	$ -
Interest rate swap	$ (4,625,414)	$ -	$ -	$ (4,625,414)	$ -

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, 2016 and 2015:

	2016	2015
Land	$ 2,692,677	$ 2,692,677
Building	27,299,163	27,299,163
Furniture and equipment	4,052,594	4,052,594
Other	66,918	52,500
	34,111,352	34,096,934
Less: Accumulated depreciation	(9,174,455)	(8,277,726)
	$ 24,936,897	$ 25,819,208

Depreciation expense totaled $896,729 and $896,846 for fiscal years 2016 and 2015, 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. The Institute redeemed $750,000 and $325,000 of the outstanding bonds in 2016 and 2015, respectively. The bonds are non-amortizing and have a term of 30 years subject to the renewal of the letter of credit discussed below. 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.

Note 7. Long-Term Debt (Continued)

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. 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, 2016 and 2015, the fair value of the interest rate swap agreement was a liability of $7,147,848 and $4,625,414, respectively, and is presented on the statements of financial position as “Interest rate swap agreement.” The Institute recorded a loss in the amount of $2,522,434 and $808,652, respectively, for the change in the fair value of the swap agreement.

Note 8. Retirement Plans

Pension expense for the Institute’s defined contribution 403(b) retirement plan was $509,147 and $461,975 in fiscal years 2016 and 2015, 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 $8,875 and $23,000 for the fiscal years ended 2016 and 2015, respectively. At June 30, 2016 and 2015, $852,538 and $843,302, 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, 2016 and 2015, these funds were established for the following purposes:

	2016	2015
Facilities	$ 10,094,899	$ 11,872,389
General operations	10,536,713	11,680,895
Scholarships	143,002	158,531
	$ 20,774,614	$ 23,711,815

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, 2016 and 2015. These net assets are restricted for:

	2016	2015
Special projects	$ 5,729,755	$ 3,235,895
Program support	2,753,302	3,281,287
Scholarships	1,085,302	1,948,095
Library	546,384	602,408
	$ 10,114,743	$ 9,067,685

Temporarily restricted net assets were released from restrictions as follows for the years ended June 30, 2016 and 2015:

	2016	2015
Special projects	$ 2,794,636	$ 3,044,904
Program support	437,819	333,000
Scholarships	443,843	359,009
	$ 3,676,298	$ 3,736,913

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, 2016 and 2015:

	2016	2015
Investment in perpetuity, income available to support:		
Endowed chairs	$ 6,607,397	$ 6,607,397
Program support	5,703,000	5,703,000
Scholarship endowments	4,228,919	4,228,819
	$ 16,539,316	$ 16,539,216

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.

The Institute's endowment net asset composition by type of fund is as follows for the years ended June 30, 2016 and 2015:

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board designated	$ 20,774,614	$ -	$ -	$ 20,774,614
Donor restricted	-	1,891,014	16,539,316	18,430,330
Total	$ 20,774,614	$ 1,891,014	$ 16,539,316	$ 39,204,944

	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

Note 12. Endowment Funds (Continued)

The changes in endowment net assets for the Institute were as follows for the years ended June 30, 2016 and 2015:

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 23,711,815	$ 3,714,550	$ 16,539,216	$ 43,965,581
Investment loss	(304,201)	(1,786,986)	-	(2,091,187)
Contributions	-	500	100	600
Board designated amounts transferred from operations	70,000	-	-	70,000
Board designated amounts transferred to operations	(750,000)	-	-	(750,000)
Appropriation of endowment assets for expenditures	(1,953,000)	(37,050)	-	(1,990,050)
Endowment net assets, end of year	$ 20,774,614	$ 1,891,014	$ 16,539,316	$ 39,204,944

	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

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. The Board approved a spending rate of 4.5 percent for both the years ended June 30, 2016 and 2015.