Erikson Institute

Financial Report
June 30, 2020

Contents

RSM US LLP

Independent Auditor's Report

Board of Trustees
Erikson Institute

Report on the Financial Statements

We have audited the accompanying financial statements of Erikson Institute, which comprise the statements of financial position as of June 30, 2020 and 2019, 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, 2020 and 2019, 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 28, 2020

Erikson Institute

Statements of Financial Position
June 30, 2020 and 2019

	2020	2019
Assets		
Cash	**$ 1,638,439**	$ 2,618,088
Receivables, net:		
Contributions	**2,433,159**	3,252,225
Grants and contracts	**3,075,342**	2,514,584
Other	**402,501**	260,509
Investments	**49,187,380**	49,074,891
Property and equipment, net	**21,945,665**	22,802,857
Investments held for deferred compensation plan	**904,863**	831,767
Other assets	**321,333**	455,509
Total assets	**$ 79,908,682**	$ 81,810,430
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	**$ 1,515,460**	$ 1,503,071
Unearned tuition and deposits	**224,409**	533,920
Deferred compensation plan payable	**904,863**	831,767
Refundable advance	**2,917,695**	-
Bonds payable, net of unamortized financing fees	**25,035,417**	25,020,119
Interest rate swap agreement	**8,255,658**	5,500,230
Total liabilities	**38,853,502**	33,389,107
Net assets:		
Without donor restrictions	**10,400,533**	14,831,118
With donor restrictions	**30,654,647**	33,590,205
Total net assets	**41,055,180**	48,421,323
Total liabilities and net assets	**$ 79,908,682**	$ 81,810,430

See notes to financial statements.

Erikson Institute

Statements of Activities
Years Ended June 30, 2020 and 2019

	2020		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
Support and revenue:			
Student tuition and fees, net of scholarships of $2,622,840 and $2,152,139 respectively	$ 5,080,306	$ -	$ 5,080,306
Special events less direct expenses of $174,617 and $191,791, respectively	1,104,341	-	1,104,341
Contributions	1,621,162	3,156,775	4,777,937
Government grants	5,981,200	-	5,981,200
Clinical and training	2,818,294	-	2,818,294
Investment income, net	823,752	1,159,369	1,983,121
Miscellaneous	134,865	-	134,865
Net assets released from restrictions:			
Appropriation from earnings on endowment funds	1,086,551	(1,086,551)	-
Satisfaction of donor and time restrictions	5,219,579	(5,219,579)	-
Total support and revenue	23,870,050	(1,989,986)	21,880,064
Expenses:			
Program services	18,419,083	-	18,419,083
Management and general	4,389,923	-	4,389,923
Fundraising	1,017,443	-	1,017,443
Total expenses	23,826,449	-	23,826,449
Increase (decrease) in net assets before other items	43,601	(1,989,986)	(1,946,385)
Other items:			
Depreciation	(938,519)	-	(938,519)
Investment (loss) gain, net	(780,239)	(945,572)	(1,725,811)
Interest rate swap fair value adjustment	(2,755,428)	-	(2,755,428)
Net assets released for capital expenditures	-	-	-
Total other items	(4,474,186)	(945,572)	(5,419,758)
Decrease in net assets	(4,430,585)	(2,935,558)	(7,366,143)
Net assets:			
Beginning of year	14,831,118	33,590,205	48,421,323
End of year	$ 10,400,533	$ 30,654,647	$ 41,055,180

See notes to financial statements.

2019		
Without Donor Restrictions	With Donor Restrictions	Total
$ 4,110,233	$ -	$ 4,110,233
1,242,660	-	1,242,660
1,220,995	5,640,077	6,861,072
5,918,655	-	5,918,655
2,633,768	-	2,633,768
1,006,906	1,031,969	2,038,875
139,362	-	139,362
962,238	(962,238)	-
5,720,387	(5,720,387)	-
22,955,204	(10,579)	22,944,625
18,310,635	-	18,310,635
3,718,097	-	3,718,097
845,123	-	845,123
22,873,855	-	22,873,855
81,349	(10,579)	70,770
(1,011,299)	-	(1,011,299)
59,764	53,414	113,178
(1,550,828)	-	(1,550,828)
133,007	(133,007)	-
(2,369,356)	(79,593)	(2,448,949)
(2,288,007)	(90,172)	(2,378,179)
17,119,125	33,680,377	50,799,502
$ 14,831,118	$ 33,590,205	$ 48,421,323

Erikson Institute

Statement of Functional Expenses
Year Ended June 30, 2020

	Program Services			Supporting Services			
	Academic Programs	Special Projects	Total	Management and General	Fund - raising	Total	Total
Compensation	$ 5,571,386	$ 8,239,980	$ 13,811,366	$ 2,340,528	$ 761,280	$ 3,101,808	$ 16,913,174
Contracted services	278,107	820,337	1,098,444	779,649	127,949	907,598	2,006,042
Legal and audit fees	3,848	5,632	9,480	310,694	36,125	346,819	356,299
Occupancy and insurance	447,959	266,820	714,779	248,080	13,957	262,037	976,816
Books and library materials	92,915	20,316	113,231	1,085	161	1,246	114,477
Office expenses	49,747	207,510	257,257	178,433	12,710	191,143	448,400
Meeting and travel expenses	150,599	440,480	591,079	41,936	14,026	55,962	647,041
Advertising	136,821	9,216	146,037	3,743	5,106	8,849	154,886
Software and hardware	246,009	58,056	304,065	207,821	19,055	226,876	530,941
Miscellaneous	190,646	23,970	214,616	116,271	127	116,398	331,014
Interest	862,310	296,419	1,158,729	161,683	26,947	188,630	1,347,359
	8,030,347	10,388,736	18,419,083	4,389,923	1,017,443	5,407,366	23,826,449
Depreciation	600,653	206,474	807,127	112,622	18,770	131,392	938,519
	$ 8,631,000	$ 10,595,210	$ 19,226,210	$ 4,502,545	$ 1,036,213	$ 5,538,758	$ 24,764,968

See notes to financial statements.

Erikson Institute

Statement of Functional Expenses
Year Ended June 30, 2019

	Program Services			Supporting Services			
	Academic Programs	Special Projects	Total	Management and General	Fund - raising	Total	Total
Compensation	$ 4,806,512	$ 8,344,005	$ 13,150,517	$ 1,901,678	$ 726,433	$ 2,628,111	$ 15,778,628
Contracted services	410,738	954,148	1,364,886	779,795	14,800	794,595	2,159,481
Legal and audit fees	10,478	11,012	21,490	90,069	3,105	93,174	114,664
Occupancy and insurance	397,163	237,985	635,148	254,759	12,402	267,161	902,309
Books and library materials	81,630	38,057	119,687	554	29	583	120,270
Office expenses	61,127	176,845	237,972	193,695	21,712	215,407	453,379
Meeting and travel expenses	246,121	494,177	740,298	44,916	16,042	60,958	801,256
Advertising	115,474	13,791	129,265	43,835	3,360	47,195	176,460
Software and hardware	229,027	55,433	284,460	93,985	12,378	106,363	390,823
Miscellaneous	221,949	19,097	241,046	121,434	2,633	124,067	365,113
Interest	1,031,342	354,524	1,385,866	193,377	32,229	225,606	1,611,472
	7,611,561	10,699,074	18,310,635	3,718,097	845,123	4,563,220	22,873,855
Depreciation	647,231	222,486	869,717	121,356	20,226	141,582	1,011,299
	$ 8,258,792	$ 10,921,560	$ 19,180,352	$ 3,839,453	$ 865,349	$ 4,704,802	$ 23,885,154

See notes to financial statements.

Erikson Institute

Statements of Cash Flows
Years Ended June 30, 2020 and 2019

		2020		2019
Cash flows from operating activities:				
Decrease in net assets	**$**	**(7,366,143)**	$	(2,378,179)
Adjustments to reconcile decrease in net assets				
to net cash used in operating activities:				
Depreciation		**938,519**		1,011,299
Allowance for uncollectible accounts		**(38,782)**		(19,839)
Realized and unrealized gain on investments		**(80,785)**		(1,787,180)
Interest rate swap fair value adjustment		**2,755,428**		1,550,828
Amortization of financing fees		**15,298**		15,299
Proceeds from contributions restricted for permanent endowment		**-**		(1,000,000)
Change in assets and liabilities:				
Contributions receivable		**887,382**		1,272,675
Grants and contracts receivable		**(560,758)**		(72,259)
Other receivables		**(171,526)**		(46,956)
Other assets		**134,176**		194,904
Accounts payable and accrued liabilities		**12,389**		185,559
Unearned tuition and deposits		**(309,511)**		231,374
Net cash used in operating activities		**(3,784,313)**		(842,475)
Cash flows from investing activities:				
Additions to property and equipment		**(81,327)**		(133,007)
Proceeds from sale of investments		**3,975,748**		10,318,612
Purchase of investments		**(4,007,452)**		(3,674,210)
Net cash (used in) provided by investing activities		**(113,031)**		6,511,395
Cash flows from financing activities:				
Bond redemption payments		**-**		(5,000,000)
Proceeds from contributions restricted for permanent endowment		**-**		1,000,000
Proceeds from refundable advance		**2,917,695**		-
Net cash provided by (used in) financing activities		**2,917,695**		(4,000,000)
Net (decrease) increase in cash		**(979,649)**		1,668,920
Cash:				
Beginning of year		**2,618,088**		949,168
End of year	**$**	**1,638,439**	$	2,618,088
Supplemental disclosure of cash flow information:				
Cash payments for interest	**$**	**1,314,832**	$	1,544,490

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 donor restricted net assets if limited by donor imposed stipulations that expire by passage of time, can be fulfilled and removed by action of the Institute, or contributions are non-expendable. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, donor restricted net assets are reclassified to net assets without donor restriction and reported in the statements 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 statements of activities and in the statements of functional expenses. Certain expenses are attributable to more than one program or supporting function. These expenses are allocated consistently on the following bases: Depreciation, interest and occupancy costs are allocated based on square-footage used by each function. Salaries and benefits are allocated based on actual time and effort.

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.

Government grants: The Institute receives funding under grants from various federal, state and local government agencies. Revenue is recognized as income under government grant agreements based on their respective terms. Government grants are primarily conditional contributions which are recognized when the barriers have been substantially met (generally when qualifying expenses have been incurred and all other grant requirements have been met). Amounts received prior to incurring qualifying expenditures are reported as unearned revenue in the statement of financial position in the amount of $77,690 as of June 30, 2020.

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

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 commensurate with the risk involved. Management reviews the receivables for collectability and records an allowance for any accounts deemed uncollectible.

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) net of investment expenses is included in the statements of activities as increases or decreases in net assets without donor restrictions unless the income or loss is restricted by donor or law.

Property and equipment: Property and equipment are recorded at cost. The Institute capitalizes all expenditures for property, equipment and software 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 software	5 years
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.

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 statements of financial position with changes in the fair value reported on the statements of activities. The Institute uses an interest rate swap agreement as part of its risk management strategy to manage exposure to fluctuations in interest rates and to manage the overall cost of its debt. The interest rate swap agreement was not entered into for trading or speculative purposes. The Institute's swap agreement does not meet the requirements to qualify for hedge accounting.

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 a manner that segregates resources for various purposes that 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 net assets without donor restrictions or net assets with donor restrictions based on the existence or absence of donor-imposed restrictions.

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

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.

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% 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 Form 990 in the U.S. federal jurisdiction and applicable forms with the State of Illinois.

Adopted accounting pronouncement: In June 2018, the FASB issued Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU clarifies the guidance for evaluating whether a transaction is reciprocal (i.e., an exchange transaction) or nonreciprocal (i.e., a contribution) and for distinguishing between conditional and unconditional contributions. The ASU has different effective dates for resource recipients and resource providers. In 2020, the Institute adopted the portion of the ASU applicable to resource recipients, which did not have a material impact on the financial statements. Where the Institute is a resource provider, the ASU is effective for fiscal year 2021. The impact of the adoption of this guidance is not expected to have a material impact on the Institute's financial statements.

Recent accounting pronouncements: In June 2020, the FASB issued ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities*. This ASU allows for a one-year effective date deferral of Topic 606 and Topic 842. The Institute has elected the one-year effective date deferral of Topic 606 and Topic 842.

In 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. The updated standard is effective for the Institute in the fiscal year ending June 30, 2021.

In 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 statement of activities. The new standard is effective for the Institute in the fiscal year ending June 30, 2023.

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

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

Risks and uncertainties: On January 30, 2020, the World Health Organization declared the coronavirus outbreak (COVID-19) a “Public Health Emergency of International Concern” and on March 11, 2020, declared COVID-19 a pandemic. Beginning March 16, 2020, the Institute’s response to mitigate financial exposure included transitioning on-campus classes to remote learning, delivering other services as virtual when possible and reducing expenses. The fair value of investments was impacted which is reflected in the financial statements for the fiscal year ended June 30, 2020.

The Institute’s student enrollment has been stable during the pandemic and through the Fall 2020 term. The Institute plans to continue to offer on-campus classes remotely through the Spring 2021 semester. The full impact of COVID-19 on the Institute for the fiscal year ending June 30, 2021 financial results will depend on future developments which are uncertain at this time.

Subsequent events: The Institute has evaluated subsequent events for potential recognition and/or disclosure through October 28, 2020, the date the financial statements were available to be issued.

Note 2. Financial Assets and Liquidity Resources

The table below represents financial assets available for general expenditures within one year of June 30, 2020 and 2019:

Financial assets at year-end:	2020	2019
Cash	$ 1,638,439	$ 2,618,088
Contributions receivable	2,433,159	3,252,225
Grants and contracts receivable	3,075,342	2,514,584
Other receivables	402,501	260,509
Investments	49,187,380	49,074,891
Total financial assets	56,736,821	57,720,297
Less amounts not available to be used within one year:		
Net assets with donor restrictions	(30,654,647)	(33,590,205)
Donor restricted funds to be released within one year for general expenditures	1,283,401	1,693,143
Board designated endowment funds	(17,053,394)	(17,052,884)
Spending-rate appropriation for distribution within one year	2,040,496	1,983,121
Total financial assets unavailable within one year	(44,384,144)	(46,966,825)
Total financial assets available within one year	$ 12,352,677	$ 10,753,472

Of the $1,283,401 of donor-restricted funds to be released within one year, $1,122,637 relates to scholarship funding. In addition to financial assets available within one year, the Institute operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources.

The Institute has board designated net assets functioning as endowment that, while the Institute does not intend to spend, the amounts could be made available for current operations, if necessary. As part of the Institute’s liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. Investments are highly liquid with 85% of assets with redemption period of 90 days or less.

Note 3. Contributions Receivable

Contributions receivable at June 30, 2020 and 2019 are due as follows:

	2020	2019
Amounts due in less than one year	$ 1,317,500	$ 1,466,552
Amounts due in one to five years	1,251,535	1,989,865
	2,569,035	3,456,417
Less:		
Present value discount (annual discount rate of 3%)	(135,876)	(204,192)
	$ 2,433,159	$ 3,252,225

Note 4. Other Receivables

Other receivables at June 30, 2020 and 2019 are composed of the following:

	2020	2019
Student tuition fee receivables	$ 463,463	$ 287,514
Clinical fee and other receivables	170,113	174,536
Less: Allowance for uncollectible accounts	(231,075)	(201,541)
	$ 402,501	$ 260,509

Note 5. Investments

Investments at June 30, 2020 and 2019 are composed of the following:

	June 30, 2020		June 30, 2019	
	Fair Value	Cost	Fair Value	Cost
Short-term investments	$ 5,779,427	$ 5,779,427	$ 3,531,193	$ 3,531,193
Mutual funds:				
Commodities	-	-	746,376	949,382
Fixed income	5,870,912	5,947,990	7,910,423	8,021,848
Equities	23,071,421	21,420,763	20,551,539	17,403,934
Corporate stocks	-	-	2,976,176	2,722,777
Hedge funds and other investments:				
Equity	1,465,321	993,333	1,345,305	987,607
Private equity	6,566,461	4,528,729	5,784,788	3,812,606
Absolute return	6,433,838	4,962,660	6,229,091	5,332,355
	$ 49,187,380	$ 43,632,902	$ 49,074,891	$ 42,761,702

Investment earnings of donor restricted endowments are considered restricted until appropriated and spent for their designated purpose.

Note 5. Investments (Continued)

The Institute's spending policy (Note 12) considers total investment return and emphasizes the use of a rational and systematic formula to determine the portion of cumulative investment return that can be used to support operations of the current period while considering protection of endowment purchasing power over time. Amounts appropriated through applying the spending rate to the board designated and donor restricted endowments is reported on the statement of activities as investment income, under Support and Revenue. Any remaining investment income, or loss (if actual investment return for the period is less than the spending rate amount), is recorded under Other Items on the statement of activities. Such amounts for years ended June 30, 2020 and 2019 were as follows:

	2020	2019
Support and revenue	$ 1,983,121	$ 2,038,875
Other items	(1,725,811)	113,178
	$ 257,310	$ 2,152,053

Note 6. Fair Value Measurements

The Institute follows ASC Topic, *Fair Value Measurements and Disclosures*, 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.

Note 6. Fair Value Measurements (Continued)

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 2020 and 2019, 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.

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

	June 30, 2020 Fair Value	June 30, 2019 Fair Value	2020 Unfunded Commitment	2019 Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Investment						
Hedge funds and other investments						
Equity (a)	$ 7,510	$ 1,345,305	$ -	$ -	Quarterly	Over 90 days
Equity (a)	1,457,811	-	-	-	Quarterly	30 days
Private equity (b)	6,566,461	5,784,788	2,735,333	3,656,801	n/a	Over 1 year
Absolute return (c)	6,409,949	6,145,124	-	-	Quarterly	60 days
Absolute return (c)	23,889	83,967	-	-	Quarterly	Over 90 days

(a) Represents investments in hedge funds that invest in equity, real estate and energy securities.
(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.

Note 6. Fair Value Measurements (Continued)

There is no provision for redemptions during the life of the private equity funds. Distributions from each fund will be received as the underlying funds are liquidated.

Certain alternative investments and investments in funds have been valued as of March 31, 2020 and 2019, and then adjusted for any purchases and withdrawals made between April 1 and June 30 and investment return estimates, when available, because June 30 balances were not readily available from fund managers and general partners.

Alternative investments 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 2020 or 2019.

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 statements of financial position.

Note 6. Fair Value Measurements (Continued)

The following table presents the Institute's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30, 2020:

			Investments and Liabilities 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	$ 5,779,427	$ -	$ 5,779,427	$ -	$ -
Mutual funds:					
Fixed income	5,870,912	-	5,870,912	-	-
Equities	23,071,421	-	23,071,421	-	-
Hedge funds and other investments:					
Equity	1,465,321	1,465,321	-	-	-
Private equity	6,566,461	6,566,461	-	-	-
Absolute return	6,433,838	6,433,838	-	-	-
	$ 49,187,380	$ 14,465,620	$ 34,721,760	$ -	$ -
Investments held for deferred compensation:					
Money market funds	$ 4,618	$ -	$ 4,618	$ -	$ -
Equity	695,995	-	695,995	-	-
Fixed income	81,947	-	81,947	-	-
Multi-asset	96,823	-	96,823	-	-
Guaranteed	25,480	-	-	25,480	-
	$ 904,863	$ -	$ 879,383	$ 25,480	$ -
Interest rate swap	$ (8,255,658)	$ -	$ -	$ (8,255,658)	$ -

Note 6. Fair Value Measurements (Continued)

The following table presents the Institute's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30, 2019:

			Investments and Liabilities 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	$ 3,531,193	$ -	$ 3,531,193	$ -	$ -
Mutual funds:					
Commodities	746,376	-	746,376	-	-
Fixed income	7,910,423	-	7,910,423	-	-
Equities	20,551,539	-	20,551,539	-	-
Corporate stocks	2,976,176	-	2,976,176	-	-
Hedge funds and other investments:					
Equity	1,345,305	1,345,305	-	-	-
Private equity	5,784,788	5,784,788	-	-	-
Absolute return	6,229,091	6,229,091	-	-	-
	$ 49,074,891	$ 13,359,184	$ 35,715,707	$ -	$ -
Investments held for deferred compensation:					
Money market funds	4,732	-	4,732	-	-
Equity	661,142	-	661,142	-	-
Fixed income	79,005	-	79,005	-	-
Multi-asset	61,520	-	61,520	-	-
Guaranteed	25,368	-	-	25,368	-
	$ 831,767	$ -	$ 806,399	$ 25,368	$ -
Interest rate swap	$ (5,500,230)	$ -	$ -	$ (5,500,230)	$ -

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 6. 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 7. Property and Equipment

Property and equipment are composed of the following at June 30, 2020 and 2019:

	2020	2019
Land	$ 2,692,677	$ 2,692,677
Building	27,299,163	27,299,163
Furniture and equipment	4,201,363	4,142,765
Software	646,542	623,813
Other	142,267	142,267
	34,982,012	34,900,685
Less: Accumulated depreciation	(13,036,347)	(12,097,828)
	$ 21,945,665	$ 22,802,857

Depreciation expense totaled $938,519 and $1,011,299 for fiscal years 2020 and 2019, respectively.

Note 8. Long-Term Debt

On June 29, 2017, the Institute entered into a bond trust agreement with the Illinois Finance Authority to issue Illinois Finance Authority Revenue Refunding Bonds, Series 2017A and Series 2017B (used to redeem $30,500,000 of outstanding Adjustable Rate Demand Educational Facility Revenue Bonds, Series 2007). The bonds are non-amortizing and have a term of 25 years. In connection to the issuance and purchase of the bonds, a continuing covenant agreement has been entered into with the purchasers of the bonds and requires the Institute to comply with certain financial covenants which are monitored on a quarterly and semi-annual basis. The Series 2017A and 2017B purchasers are secured creditors and therefore have a security interest in the property and gross revenues of the Institute. The bonds have a maturity date of November 1, 2042, and are redeemable at such date. The Institute partially redeemed $5,000,000 of outstanding bonds in 2019.

Note 8. Long-Term Debt (Continued)

Following is summary of the bond payable at June 30, 2020 and 2019:

	2020	2019
Illinois Finance Authority (IFA) Revenue Refunding Bonds:		
Series 2017A	$ 16,435,000	$ 16,435,000
Series 2017B	8,937,000	8,937,000
Total	25,372,000	25,372,000
Less unamortized cost of issuance fees	(336,583)	(351,881)
Bonds payable per statement of financial position	$ 25,035,417	$ 25,020,119

In order to reduce exposure to adjustable interest rates on variable rate debt, the Institute novated a 30-year interest rate swap agreement in June 2017 that expires in 2037. The agreement had the effect of fixing the rate of interest at 3.6% for the variable rate debt. The notional amount of the swap agreement is $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, 2020 and 2019, the fair value of the interest rate swap agreement was a liability of $8,255,658 and $5,500,230, respectively, and is presented on the statements of financial position as “Interest rate swap agreement.” The Institute recorded a loss in the amount of $2,755,428 in 2020 and $1,550,828 in 2019, for the change in the fair value of the swap agreement.

Note 9. Refundable Advance

On April 20, 2020, the Institute received loan proceeds in the amount of $2,917,695 from a Small Business Administration (“SBA”) approved lender under the Paycheck Protection Program (“PPP”). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loans and accrued interest are forgivable after twenty-four weeks as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent, utilities, and interest on other debt obligations incurred before February 15, 2020, and maintains its employment and payroll levels.

The unforgiven portion of the PPP loan is payable over two years at an interest rate of 1%, with a deferral of payments for the first six months and is 100% guaranteed by the SBA. The Institute intends to use the proceeds for purposes consistent with the PPP. The Institute currently believes that its use of the loan proceeds will meet the conditions for forgiveness of the loan. As such, the Institute has accounted for the PPP loan in accordance with nonprofit accounting guidance as a conditional contribution. The initial PPP loan amount is recorded as a refundable advance liability and contribution grant revenue will be recognized when conditions are substantially met or explicitly waived, which is expected in the form of forgiveness application approval by the lender and the SBA.

Note 10. Retirement Plans

The Institute's defined contribution 403(b) retirement plan covers all employees. The Institute provides matching contributions for all employees who meet the eligibility requirement. Vesting of employer matching contributions takes place after one year of service. Under this plan, pension benefits and costs are calculated separately for each participant and are funded currently. Pension expense for the plan was $682,027 and $596,973 in fiscal years 2020 and 2019, respectively.

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 $31,913 and $5,000 for the fiscal years ended 2020 and 2019, respectively. At June 30, 2020 and 2019, $904,863 and $831,767, respectively, was accrued as a liability and set aside in a separate investment account for this benefit (reported on the statement of financial position as both an asset and a liability). The plan is intended to constitute an unfunded plan and all amounts held are assets of the employer.

Note 11. Net Assets

Net assets are available for the following purposes at June 30:

	2020	2019
Without donor restrictions:		
Undesignated	$ (5,921,315)	$ (2,270,469)
Board designated - funds functioning as endowment		
Facilities	4,745,167	4,972,687
General operations	11,373,631	11,918,463
Scholarships	154,347	161,734
	16,273,145	17,052,884
Board designated - reinvestment funds	48,703	48,703
	$ 10,400,533	$ 14,831,118
With donor restrictions:		
Purpose restricted		
Special projects	$ 3,981,787	$ 4,892,450
Program support	206,711	213,405
Scholarships	1,364,017	2,387,165
	5,552,515	7,493,020
Endowment funds:		
Endowed chairs	6,665,612	6,910,830
Program support	8,028,124	8,387,838
Scholarships	9,820,275	10,184,908
Library	588,121	613,609
	25,102,132	26,097,185
	$ 30,654,647	$ 33,590,205

Note 11. Net Assets (Continued)

Net assets released from restriction for satisfaction of donor and time restrictions:

	2020	2019
Special projects	$ 3,696,950	$ 4,082,185
Program support	499,482	517,404
Scholarships	1,023,147	1,120,798
	$ 5,219,579	$ 5,720,387

Net assets released from restriction for capital expenditures:

	2020	2019
Special projects	$ -	$ 133,007
	$ -	$ 133,007

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 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 is classified as with donor 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.

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). We have interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At June 30, 2020 funds with original gift values of $6,920,114, fair values of $6,712,541 and deficiencies of $207,573 were reported in net assets with donor restrictions.

Note 12. Endowment Funds (Continued)

Endowment net asset composition by type of fund as of June 30, 2020:

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Board designated			
Original board designated amount	$ 16,684,111	$ -	$ 16,684,111
Donor restricted			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	21,539,316	21,539,316
Term endowment	-	3,441,362	3,441,362
Accumulated investment gains (losses)	(410,966)	121,454	(289,512)
Total	$ 16,273,145	$ 25,102,132	$ 41,375,277

Endowment net asset composition by type of fund as of June 30, 2019:

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Board designated			
Original board designated amount	$ 16,683,611	$ -	$ 16,683,611
Donor restricted			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	21,539,316	21,539,316
Term endowment	-	3,490,843	3,490,843
Accumulated investment gains	369,273	1,067,026	1,436,299
Total	$ 17,052,884	$ 26,097,185	$ 43,150,069

Note 12. Endowment Funds (Continued)

The changes in endowment net assets for the Institute were as follows for the years ended June 30, 2020 and 2019:

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 17,052,884	$ 26,097,185	$ 43,150,069
Investment income	116,330	140,980	257,310
Contributions	500	-	500
Appropriation of endowment assets for expenditure:			
Board designated	(896,569)	-	(896,569)
Donor restricted (time)	-	(1,086,551)	(1,086,551)
Donor restricted (purpose)	-	(49,482)	(49,482)
Endowment net assets, end of year	$ 16,273,145	$ 25,102,132	$ 41,375,277

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 21,985,171	$ 25,083,970	$ 47,069,141
Investment income	1,144,350	1,007,686	2,152,036
Contributions	-	1,000,000	1,000,000
Board designated amounts transferred for debt payment	(5,000,000)	-	(5,000,000)
Appropriation of endowment assets for expenditure:			
Board designated	(1,076,637)	-	(1,076,637)
Donor restricted (time)	-	(962,238)	(962,238)
Donor restricted (purpose)	-	(32,233)	(32,233)
Endowment net assets, end of year	$ 17,052,884	$ 26,097,185	$ 43,150,069

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 4.25% and 4.50% respectively for years ended June 30, 2020 and 2019, respectively.