# Erikson Institute

Financial Report
June 30, 2018

**Contents**

**Independent Auditor's Report**

To the 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, 2018 and 2017, 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, 2018 and 2017, 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 26, 2018

**Erikson Institute**

**Statements of Financial Position**
**June 30, 2018 and 2017**

| | 2018 | 2017 |
|---|---|---|
| **Assets** | | |
| Cash | $ 949,168 | $ 1,982,171 |
| Receivables, net: | | |
| Contributions | 4,501,527 | 4,959,644 |
| Grants and contracts | 2,463,325 | 3,446,853 |
| Other | 316,092 | 251,974 |
| Investments | 53,812,109 | 52,099,507 |
| Property and equipment, net | 23,681,148 | 24,413,564 |
| Investments held for deferred compensation plan | 783,278 | 711,967 |
| Other assets | 650,413 | 541,200 |
| **Total assets** | $ 87,157,060 | $ 88,406,880 |
| **Liabilities and Net Assets** | | |
| Liabilities: | | |
| Accounts payable and accrued liabilities | $ 1,317,512 | $ 1,693,300 |
| Unearned tuition and deposits | 302,546 | 442,619 |
| Bonds payable, net of unamortized financing fees | 30,004,819 | 30,489,520 |
| Deferred compensation plan payable | 783,278 | 711,967 |
| Interest rate swap agreement | 3,949,403 | 5,139,980 |
| **Total liabilities** | 36,357,558 | 38,477,386 |
| Net assets: | | |
| Unrestricted: | | |
| Operating (accumulated deficit) | (4,947,020) | (5,757,323) |
| Board designated - funds functioning as endowment | 21,985,171 | 21,597,094 |
| Board designated - reinvestment funds | 80,974 | 141,600 |
| | 17,119,125 | 15,981,371 |
| Temporarily restricted | 13,141,061 | 13,408,807 |
| Permanently restricted | 20,539,316 | 20,539,316 |
| **Total net assets** | 50,799,502 | 49,929,494 |
| **Total liabilities and net assets** | $ 87,157,060 | $ 88,406,880 |

See notes to financial statements.

**Erikson Institute**

**Statements of Activities**
**Years Ended June 30, 2018 and 2017**

| | 2018 | | | |
|---|---|---|---|---|
| | **Unrestricted** | **Temporarily Restricted** | **Permanently Restricted** | **Total** |
| Support and revenue: | | | | |
| Student tuition and fees, net of scholarships of $1,800,060 and $1,625,564, respectively | $ 3,679,633 | $ - | $ - | $ 3,679,633 |
| Special events less direct expenses of $161,260 and $229,332, respectively | 797,765 | - | - | 797,765 |
| Contributions | 1,179,836 | 4,214,922 | - | 5,394,758 |
| Government grants | 6,916,744 | - | - | 6,916,744 |
| Clinical and training | 2,758,513 | - | - | 2,758,513 |
| Investment income, net | 1,013,513 | 962,662 | - | 1,976,175 |
| Miscellaneous | 110,307 | - | - | 110,307 |
| Net assets released from restrictions: | | | | |
| Appropriation from earnings on endowment funds | 893,337 | (893,337) | - | - |
| Satisfaction of donor and time restrictions | 5,669,338 | (5,669,338) | - | - |
| **Total support and revenue** | 23,018,986 | (1,385,091) | - | 21,633,895 |
| Expenses: | | | | |
| Program services | 18,360,401 | - | - | 18,360,401 |
| Management and general | 3,748,916 | - | - | 3,748,916 |
| Fundraising | 846,993 | - | - | 846,993 |
| **Total expenses** | 22,956,310 | - | - | 22,956,310 |
| **Increase (decrease) in net assets before other items** | 62,676 | (1,385,091) | - | (1,322,415) |
| Other items: | | | | |
| Depreciation | (1,011,524) | - | - | (1,011,524) |
| Investment gain, net | 896,026 | 1,117,345 | - | 2,013,371 |
| Interest rate swap fair value adjustment | 1,190,576 | - | - | 1,190,576 |
| Net assets released for capital expenditures | - | - | - | - |
| **Total other items** | 1,075,078 | 1,117,345 | - | 2,192,423 |
| **Increase (decrease) in net assets** | 1,137,754 | (267,746) | - | 870,008 |
| Net assets: | | | | |
| Beginning of year | 15,981,371 | 13,408,807 | 20,539,316 | 49,929,494 |
| End of year | $ 17,119,125 | $ 13,141,061 | $ 20,539,316 | $ 50,799,502 |

See notes to financial statements.

| 2017 | | | |
|---|---|---|---|
| Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| | | | |
| $ 2,860,270 | $ - | $ - | $ 2,860,270 |
| | | | |
| 875,243 | - | - | 875,243 |
| 1,121,466 | 7,040,584 | 4,000,000 | 12,162,050 |
| 8,525,650 | - | - | 8,525,650 |
| 2,834,740 | - | - | 2,834,740 |
| 1,052,733 | 956,892 | - | 2,009,625 |
| 115,415 | - | - | 115,415 |
| | | | |
| 887,983 | (887,983) | - | - |
| 5,101,723 | (5,101,723) | - | - |
| 23,375,223 | 2,007,770 | 4,000,000 | 29,382,993 |
| | | | |
| 18,728,039 | - | - | 18,728,039 |
| 3,841,093 | - | - | 3,841,093 |
| 729,121 | - | - | 729,121 |
| 23,298,253 | - | - | 23,298,253 |
| | | | |
| 76,970 | 2,007,770 | 4,000,000 | 6,084,740 |
| | | | |
| (900,550) | - | - | (900,550) |
| 1,634,287 | 1,612,010 | - | 3,246,297 |
| 2,007,869 | - | - | 2,007,869 |
| 325,716 | (325,716) | - | - |
| 3,067,322 | 1,286,294 | - | 4,353,616 |
| | | | |
| 3,144,292 | 3,294,064 | 4,000,000 | 10,438,356 |
| | | | |
| 12,837,079 | 10,114,743 | 16,539,316 | 39,491,138 |
| | | | |
| $ 15,981,371 | $ 13,408,807 | $ 20,539,316 | $ 49,929,494 |

**Erikson Institute**

**Statement of Functional Expenses**
**Year Ended June 30, 2018**

| | Program Services | | | Supporting Services | | | |
|---|---|---|---|---|---|---|---|
| | Academic Programs | Special Projects | Total | Management and General | Fund - raising | Total | Total |
| Compensation | $ 4,571,165 | $ 8,538,293 | $ 13,109,458 | $ 2,209,803 | $ 717,724 | $ 2,927,527 | $ 16,036,985 |
| Contracted services | 215,654 | 1,675,580 | 1,891,234 | 566,853 | 26,814 | 593,667 | 2,484,901 |
| Legal and audit fees | 10,648 | 9,523 | 20,171 | 91,477 | 16,078 | 107,555 | 127,726 |
| Occupancy and insurance | 520,356 | 75,213 | 595,569 | 252,513 | 12,849 | 265,362 | 860,931 |
| Books and library materials | 68,358 | 32,946 | 101,304 | 1,243 | 1,839 | 3,082 | 104,386 |
| Office expenses | 89,476 | 176,023 | 265,499 | 132,878 | 17,356 | 150,234 | 415,733 |
| Meeting and travel expenses | 230,803 | 485,309 | 716,112 | 39,811 | 13,055 | 52,866 | 768,978 |
| Advertising | 112,201 | 9,774 | 121,975 | 232 | 1,317 | 1,549 | 123,524 |
| Software and hardware | 234,008 | 35,891 | 269,899 | 110,190 | 10,552 | 120,742 | 390,641 |
| Miscellaneous | 133,034 | 69,497 | 202,531 | 195,081 | 4,604 | 199,685 | 402,216 |
| Interest | 1,066,649 | - | 1,066,649 | 148,835 | 24,805 | 173,640 | 1,240,289 |
| | 7,252,352 | 11,108,049 | 18,360,401 | 3,748,916 | 846,993 | 4,595,909 | 22,956,310 |
| Depreciation | 869,911 | - | 869,911 | 121,383 | 20,230 | 141,613 | 1,011,524 |
| | $ 8,122,263 | $ 11,108,049 | $ 19,230,312 | $ 3,870,299 | $ 867,223 | $ 4,737,522 | $ 23,967,834 |

See notes to financial statements.

**Erikson Institute**

**Statement of Functional Expenses**
**Year Ended June 30, 2017**

| | Program Services | | | Supporting Services | | | |
|---|---|---|---|---|---|---|---|
| | Academic Programs | Special Projects | Total | Management and General | Fund - raising | Total | Total |
| Compensation | $ 3,981,160 | $ 8,560,069 | $ 12,541,229 | $ 2,040,232 | $ 606,511 | $ 2,646,743 | $ 15,187,972 |
| Contracted services | 413,818 | 2,107,777 | 2,521,595 | 762,592 | 9,052 | 771,644 | 3,293,239 |
| Legal and audit fees | 22,744 | 8,958 | 31,702 | 88,407 | 3,149 | 91,556 | 123,258 |
| Occupancy and insurance | 602,782 | 76,691 | 679,473 | 276,203 | 13,982 | 290,185 | 969,658 |
| Books and library materials | 89,198 | 30,499 | 119,697 | 336 | 629 | 965 | 120,662 |
| Office expenses | 74,350 | 239,510 | 313,860 | 181,982 | 27,309 | 209,291 | 523,151 |
| Meeting and travel expenses | 263,886 | 484,955 | 748,841 | 94,706 | 24,496 | 119,202 | 868,043 |
| Advertising | 115,510 | 9,802 | 125,312 | 3,246 | 871 | 4,117 | 129,429 |
| Software and hardware | 191,673 | 44,742 | 236,415 | 87,725 | 8,008 | 95,733 | 332,148 |
| Miscellaneous | 132,351 | 54,837 | 187,188 | 135,051 | 6,678 | 141,729 | 328,917 |
| Interest | 1,222,727 | - | 1,222,727 | 170,613 | 28,436 | 199,049 | 1,421,776 |
| | 7,110,199 | 11,617,840 | 18,728,039 | 3,841,093 | 729,121 | 4,570,214 | 23,298,253 |
| Depreciation | 774,473 | - | 774,473 | 108,066 | 18,011 | 126,077 | 900,550 |
| | $ 7,884,672 | $ 11,617,840 | $ 19,502,512 | $ 3,949,159 | $ 747,132 | $ 4,696,291 | $ 24,198,803 |

See notes to financial statements.

**Erikson Institute**

**Statements of Cash Flows**
**Years Ended June 30, 2018 and 2017**

| | 2018 | 2017 |
|---|---|---|
| Cash flows from operating activities: | | |
| Increase in net assets | **$ 870,008** | $ 10,438,356 |
| Adjustments to reconcile increase in net assets to net cash used in operating activities: | | |
| Depreciation | **1,011,524** | 900,550 |
| Allowance for uncollectible accounts | **34,813** | 65,691 |
| Realized and unrealized gain on investments | **(3,473,034)** | (5,156,959) |
| Interest rate swap fair value adjustment | **(1,190,576)** | (2,007,869) |
| Amortization of financing fees | **15,299** | - |
| Proceeds from contributions restricted for permanent endowment | **-** | (4,000,000) |
| Change in assets and liabilities: | | |
| Contributions receivable | **471,446** | (1,688,989) |
| Grants and contracts receivable | **983,528** | (332,369) |
| Other receivables | **(112,261)** | 56,811 |
| Other assets | **(109,213)** | (235,578) |
| Accounts payable and accrued liabilities | **(375,788)** | 225,059 |
| Unearned tuition and deposits | **(140,073)** | 128,182 |
| **Net cash used in operating activities** | **(2,014,327)** | (1,607,115) |
| Cash flows from investing activities: | | |
| Additions to property and equipment | **(279,108)** | (377,217) |
| Proceeds from sale of investments | **6,392,531** | 7,320,630 |
| Purchase of investments | **(4,632,099)** | (9,419,526) |
| **Net cash provided by (used in) investing activities** | **1,481,324** | (2,476,113) |
| Cash flows from financing activities: | | |
| Bond redemption payments | **(500,000)** | (31,425,000) |
| Proceeds from bond issuance | **-** | 30,872,000 |
| Cost of bond issuance | **-** | (382,480) |
| Proceeds from contributions restricted for permanent endowment | **-** | 4,000,000 |
| **Net cash (used in) provided by financing activities** | **(500,000)** | 3,064,520 |
| **Net decrease in cash** | **(1,033,003)** | (1,018,708) |
| Cash: | | |
| Beginning of year | **1,982,171** | 3,000,879 |
| End of year | **$ 949,168** | $ 1,982,171 |
| Supplemental disclosure of cash flow information: | | |
| Cash payments for interest | **$ 1,173,307** | $ 1,370,092 |

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 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. 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 commensurate with the risk involved. 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) net of investment expenses is included in the statements of activities as increases or decreases in unrestricted net assets 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 unrestricted, temporarily restricted, or permanently restricted based on the existence or absence of donor-imposed restrictions.

The unrestricted operating net asset deficit is attributable primarily to net funds invested in capital assets less liabilities related to the capital assets of ($10,273,074). 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).

**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 Form 990 in the U.S. federal jurisdiction and the state of Illinois.

**Recent accounting pronouncements**: In May 2014, the FASB issued Accounting Standards (“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 will be effective for the Institute in the fiscal year ending June 30, 2020. Early adoption is permitted.

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 statement of activities. 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.

In June 2018, the FASB issued ASU 2018-08, Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. This ASU provides guidance surrounding the categorization of certain transactions as contributions or exchange transactions. It further clarifies when contributions should be deemed conditional. The new standard will be effective for the Institute in the fiscal year ending June 30, 2020. Early adoption is permitted.

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 26, 2018, the date the financial statements were available to be issued.

## Note 2. Contributions Receivable

Contributions receivable at June 30, 2018 and 2017, are due as follows:

| | 2018 | 2017 |
|---|---|---|
| Amounts due in less than one year | $ 2,672,225 | $ 2,734,227 |
| Amounts due in one to five years | 2,056,867 | 2,466,311 |
| | 4,729,092 | 5,200,538 |
| Less: | | |
| Allowance for uncollectible accounts | - | (25,000) |
| Present value discount | (227,565) | (215,894) |
| | $ 4,501,527 | $ 4,959,644 |

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

## Note 3. Other Receivables

Other receivables at June 30, 2018 and 2017, are composed of the following:

| | 2018 | 2017 |
|---|---|---|
| Other receivables | $ 535,099 | $ 422,838 |
| Less: Allowance for uncollectible accounts | (219,007) | (170,864) |
| | $ 316,092 | $ 251,974 |

Other receivables include student tuition fee and clinical fee receivables.

## Note 4. Investments

Investments at June 30, 2018 and 2017, are composed of the following:

| | June 30, 2018 | | June 30, 2017 | |
|---|---|---|---|---|
| | Fair Value | Cost | Fair Value | Cost |
| Short-term investments | $ 4,591,645 | $ 4,591,644 | $ 7,944,642 | $ 7,944,689 |
| Mutual funds: | | | | |
| Commodities | 1,256,234 | 1,325,580 | 1,096,664 | 1,309,338 |
| Fixed income | 8,505,555 | 8,836,367 | 8,558,667 | 8,591,670 |
| Equities | 23,125,867 | 18,895,742 | 19,062,343 | 16,416,826 |
| Corporate stocks | 3,372,113 | 3,041,879 | 3,023,476 | 2,677,872 |
| Hedge funds and other investments: | | | | |
| Equity | 1,637,188 | 1,192,155 | 3,446,413 | 3,003,550 |
| Private equity | 5,037,387 | 3,323,144 | 4,281,245 | 3,107,721 |
| Absolute return | 6,286,120 | 5,607,097 | 4,686,057 | 4,116,252 |
| | $ 53,812,109 | $ 46,813,608 | $ 52,099,507 | $ 47,167,918 |

## Note 4. Investments (Continued)

Components of investment income at June 30, 2018 and 2017, are as follows:

| | 2018 | 2017 |
|---|---|---|
| Net realized and unrealized gains | $ 3,473,034 | $ 5,156,959 |
| Interest and dividends | 680,301 | 517,756 |
| Investment fees and expenses | (163,789) | (418,793) |
| | $ 3,989,546 | $ 5,255,922 |

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

In accordance with the Institute's spending policy, 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 other items. These amounts are reflected as investment income in the statements of activities as follows:

| | 2018 | 2017 |
|---|---|---|
| Support and revenue | $ 1,976,175 | $ 2,009,625 |
| Other items | 2,013,371 | 3,246,297 |
| | $ 3,989,546 | $ 5,255,922 |

## Note 5. 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.

**Note 5. Fair Value Measurements (Continued)**

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 2018 and 2017, 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, 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.

## Note 5. Fair Value Measurements (Continued)

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

| | June 30, 2018 Fair Value | June 30, 2017 Fair Value | 2018 Unfunded Commitment | 2017 Unfunded Commitment | Redemption Frequency | Redemption Notice Period |
|---|---|---|---|---|---|---|
| Investment | | | | | | |
| Hedge funds and other investments | | | | | | |
| Equity (a) | $ 1,637,188 | $ 3,446,413 | $ - | $ - | Quarterly | Over 90 days |
| Private equity (b) | 5,037,387 | 4,281,245 | 1,581,355 | 2,763,396 | n/a | n/a |
| Absolute return (c) | 1,546,167 | - | - | - | Monthly | 30 days |
| Absolute return (c) | 1,727,801 | 1,659,889 | - | - | Quarterly | 60 days |
| Absolute return (c) | 3,012,152 | 3,026,168 | - | - | 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.

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, 2018 and 2017, 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 2018 or 2017.

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 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, 2018:

| | | | 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 | $ 4,591,645 | $ - | $ 4,591,645 | $ - | $ - |
| Mutual funds: | | | | | |
| Commodities | 1,256,234 | - | 1,256,234 | - | - |
| Fixed income | 8,505,555 | - | 8,505,555 | - | - |
| Equities | 23,125,867 | - | 23,125,867 | - | - |
| Corporate stocks | 3,372,113 | - | 3,372,113 | - | - |
| Hedge funds and other investments: | | | | | |
| Equity | 1,637,188 | 1,637,188 | - | - | - |
| Private equity | 5,037,387 | 5,037,387 | - | - | - |
| Absolute return | 6,286,120 | 6,286,120 | - | - | - |
| | $ 53,812,109 | $ 12,960,695 | $ 40,851,414 | $ - | $ - |
| Investments held for deferred compensation: | | | | | |
| Money market funds | $ 4,859 | $ - | $ 4,859 | $ - | $ - |
| Equity | 622,874 | - | 622,874 | - | - |
| Fixed income | 76,347 | - | 76,347 | - | - |
| Multi-asset | 53,864 | - | 53,864 | - | - |
| Guaranteed | 25,334 | - | - | 25,334 | - |
| | $ 783,278 | $ - | $ 757,944 | $ 25,334 | $ - |
| Interest rate swap | $ (3,949,403) | $ - | $ - | $ (3,949,403) | $ - |

### 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, 2017:

| | | | 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 | $ 7,944,642 | $ - | $ 7,944,642 | $ - | $ - |
| Mutual funds: | | | | | |
| Commodities | 1,096,664 | - | 1,096,664 | - | - |
| Fixed income | 8,558,667 | - | 8,558,667 | - | - |
| Equities | 19,062,343 | - | 19,062,343 | - | - |
| Corporate stocks | 3,023,476 | - | 3,023,476 | - | - |
| Hedge funds and other investments: | | | | | |
| Equity | 3,446,413 | 3,446,413 | - | - | - |
| Private equity | 4,281,245 | 4,281,245 | - | - | - |
| Absolute return | 4,686,057 | 4,686,057 | - | - | - |
| | $ 52,099,507 | $ 12,413,715 | $ 39,685,792 | $ - | $ - |
| Investments held for deferred compensation: | | | | | |
| Money market funds | $ 5,018 | $ - | $ 5,018 | $ - | $ - |
| Equity | 551,493 | - | 551,493 | - | - |
| Fixed income | 79,708 | - | 79,708 | - | - |
| Multi-asset | 50,460 | | 50,460 | | |
| Guaranteed | 25,288 | - | - | 25,288 | - |
| | $ 711,967 | $ - | $ 686,679 | $ 25,288 | $ - |
| Interest rate swap | $ (5,139,980) | $ - | $ - | $ (5,139,980) | $ - |

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, 2018 and 2017:

| | 2018 | 2017 |
|---|---|---|
| Land | $ 2,692,677 | $ 2,692,677 |
| Building | 27,299,163 | 27,299,163 |
| Furniture and equipment | 4,099,524 | 4,099,524 |
| Software | 623,813 | 344,705 |
| Other | 52,500 | 52,500 |
| | 34,767,677 | 34,488,569 |
| Less: Accumulated depreciation | (11,086,529) | (10,075,005) |
| | $ 23,681,148 | $ 24,413,564 |

Depreciation expense totaled $1,011,524 and $900,550 for fiscal years 2018 and 2017, respectively.

## Note 7. 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. 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. The Institute partially redeemed $500,000 of outstanding bonds of in 2018.

The proceeds from the sale of the above bonds were used to redeem $30,500,000 of outstanding Adjustable Rate Demand Educational Facility Revenue Bonds, Series 2007. The Institute previously issued these bonds through the Illinois Finance Authority for $32,500,000, The Institute partially redeemed the outstanding bonds of $925,000 in 2017.

### Note 7. Long-Term Debt (Continued)

Following is summary of the bond payable at June 30, 2018 and 2017:

| Illinois Finance Authority (IFA) Revenue Refunding Bonds: | 2018 | 2017 |
|---|---|---|
| Series 2017A | $ 19,676,000 | $ 20,000,000 |
| Series 2017B | 10,696,000 | 10,872,000 |
| Total | 30,372,000 | 30,872,000 |
| Less unamortized cost of issuance fees | (367,181) | (382,480) |
| Bonds payable per statement of financial position | $ 30,004,819 | $ 30,489,520 |

The scheduled redemption of bonds payable is as follows:

| Fiscal year ending June 30, | |
|---|---|
| 2019 | $ 550,000 |
| 2020 | 600,000 |
| 2021 | 650,000 |
| 2022 | 700,000 |
| 2023 | 750,000 |
| 2024 and thereafter | 27,122,000 |
| | $ 30,372,000 |

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 June 2017. The agreement had the effect of fixing the rate of interest at 3.6 percent for the variable rate debt. The notional amount of the swap agreement is $16,250,000. The Institute had a similar 30-year interest rate swap agreement for the 2007 bonds, for the same notional amount and rate of 3.5 percent. The fair value of the swap agreements 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, 2018 and 2017, the fair value of the interest rate swap agreements was a liability of $3,949,403 and $5,139,980, respectively, and is presented on the statements of financial position as “Interest rate swap agreement.” The Institute recorded a gain in the amount of $1,190,576 and $2,007,869, in 2018 and 2017, respectively, for the change in the fair value of the swap agreements.

### Note 8. Retirement Plans

The Institute’s defined contribution 403(b) retirement plan covers all employees. The Institute provides matching contributions for all employees who have worked more than 1,000 hours during the year. 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 $579,037 and $556,905 in fiscal years 2018 and 2017, 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 $0 and $48,000 for the fiscal years ended 2018 and 2017, respectively. At June 30, 2018 and 2017, $783,278 and $711,967, respectively, was 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 net assets to be classified as funds functioning as endowment. The income on these funds will be used to support ongoing operations. As of June 30, 2018 and 2017, these funds were established for the following purposes:

| | 2018 | 2017 |
|---|---|---|
| Facilities | $ 10,005,818 | $ 10,090,964 |
| General operations | 11,826,812 | 11,352,082 |
| Scholarships | 152,541 | 154,048 |
| | $ 21,985,171 | $ 21,597,094 |

## 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, 2018 and 2017. These net assets are restricted for:

| | 2018 | 2017 |
|---|---|---|
| Special projects | $ 5,456,768 | $ 6,531,110 |
| Program support | 3,320,879 | 3,215,283 |
| Scholarships | 3,751,369 | 3,074,350 |
| Library | 612,045 | 588,064 |
| | $ 13,141,061 | $ 13,408,807 |

Temporarily restricted net assets were released from restrictions as follows for the years ended June 30, 2018 and 2017:

| | 2018 | 2017 |
|---|---|---|
| Net assets released from restriction for operating expenditures: | | |
| Special projects | $ 4,338,392 | $ 3,934,620 |
| Program support | 476,218 | 557,512 |
| Scholarships | 854,728 | 609,591 |
| | $ 5,669,338 | $ 5,101,723 |

| | 2018 | 2017 |
|---|---|---|
| Net assets released from restriction for capital expenditures: | | |
| Special projects | $ - | $ 325,716 |
| | $ - | $ 325,716 |

## 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, 2018 and 2017:

| | 2018 | 2017 |
|---|---|---|
| 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 | 8,228,919 | 8,228,919 |
| | $ 20,539,316 | $ 20,539,316 |

## Note 12. Endowment Funds

Interpretation of Relevant Law

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

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

## Note 12. Endowment Funds (Continued)

The Institute's endowment net asset composition by type of fund is as follows for the years ended June 30, 2018 and 2017:

| | 2018 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Board designated | $ 21,985,171 | $ - | $ - | $ 21,985,171 |
| Donor restricted | - | 4,544,654 | 20,539,316 | 25,083,970 |
| Total | $ 21,985,171 | $ 4,544,654 | $ 20,539,316 | $ 47,069,141 |

| | 2017 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Board designated | $ 21,597,094 | $ - | $ - | $ 21,597,094 |
| Donor restricted | - | 3,462,245 | 20,539,316 | 24,001,561 |
| Total | $ 21,597,094 | $ 3,462,245 | $ 20,539,316 | $ 45,598,655 |

The changes in endowment net assets for the Institute were as follows for the years ended June 30, 2018 and 2017:

| | 2018 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Endowment net assets, beginning of year | $ 21,597,094 | $ 3,462,245 | $ 20,539,316 | $ 45,598,655 |
| Investment income | 1,978,864 | 2,018,632 | - | 3,997,496 |
| Contributions | - | - | - | - |
| Board designated amounts transferred from operations | - | - | - | - |
| Board designated amounts transferred to operations | (500,000) | - | - | (500,000) |
| Appropriation of endowment assets for expenditure: | | | | |
| Board designated | (1,090,787) | - | - | (1,090,787) |
| Donor restricted (time) | - | (893,337) | - | (893,337) |
| Donor restricted (purpose) | - | (42,886) | - | (42,886) |
| Endowment net assets, end of year | $ 21,985,171 | $ 4,544,654 | $ 20,539,316 | $ 47,069,141 |

## Note 12. Endowment Funds (Continued)

| | 2017 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Endowment net assets, beginning of year | $ 20,774,614 | $ 1,891,014 | $ 16,539,316 | $ 39,204,944 |
| Investment income | 2,747,622 | 2,499,993 | - | 5,247,615 |
| Contributions | - | - | 4,000,000 | 4,000,000 |
| Board designated amounts transferred from operations | 121,500 | - | - | 121,500 |
| Board designated amounts transferred to operations | (925,000) | - | - | (925,000) |
| Appropriation of endowment assets for expenditure: | | | | |
| Board designated | (1,121,642) | - | - | (1,121,642) |
| Donor restricted (time) | - | (887,983) | - | (887,983) |
| Donor restricted (purpose) | - | (40,779) | - | (40,779) |
| Endowment net assets, end of year | $ 21,597,094 | $ 3,462,245 | $ 20,539,316 | $ 45,598,655 |

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.

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, 2018 and 2017.