Erikson Institute

Reports Required by the Uniform Guidance and
Government Auditing Standards
June 30, 2017

Contents

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Trustees
Erikson Institute

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States, the financial statements of Erikson Institute (the Institute) which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Institute's financial statements, and have issued our report thereon dated October 26, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Institute's internal control over financial reporting (internal control) to determine audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Institute's internal control. Accordingly, we do not express an opinion on the effectiveness of the Institute's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Institute's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Institute's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Institute's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RSM US LLP

Chicago, Illinois
October 26, 2017

RSM

Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

RSM US LLP

To the Board of Trustees
Erikson Institute

Report on Compliance for Each Major Federal Program
We have audited Erikson Institute's (the Institute) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Institute's major federal programs for the year ended June 30, 2017. The Institute's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility
Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility
Our responsibility is to express an opinion on compliance for each of the Institute's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States, and the audit requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Institute's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on the Institute's compliance.

Opinion on Each Major Federal Program
In our opinion, the Institute complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control Over Compliance
Management of the Institute is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Institute's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Institute's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance
We have audited the financial statements of Erikson Institute as of and for the year ended June 30, 2017, and have issued our report thereon dated October 26, 2017, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

RSM US LLP

Chicago, Illinois
October 26, 2017

Erikson Institute

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

Federal Grantor/ Pass Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number		Expenditures of Federal Awards
U.S. Department of Education				
Federal Direct Student Loans	84.268	N/A		$ 3,544,142
Special Education - Personnel Development to Improve Services and Results for Children with Disabilities	84.325K	N/A		225,103
Mindfulness and other Replenishment Practices to Improve Young Children's Stress Levels, Self-Regulation, and Productive Engagement in School	84.411C	N/A		996,601
Pass-Through Regents of the University of Minnesota, Investing in Innovation (i3) Fund	84.411	A002619802		129,764
Pass-Through State of Illinois Department of Human Services, Race to the Top - Early Learning Challenge 2	84.412	FCSVI03872		375,232
Total U.S. Department of Education				5,270,842
U.S. Department of Health and Human Services				
Pass-Through State of Illinois Department of Human Services Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505	FCSVS04124	1,062,336	
	93.505	FCSVS04133	297,493	
	93.505	UD5MC24070	32,440	
				1,392,269
Pass-Through the University of Chicago, Child Care and Development Block Grant	93.575	FP055833-A		5,162
Pass-Through Chicago Department of Family and Support Services, Head Start	93.600	33584/1	88,013	
	93.600	33585/1	100,749	
	93.600	33584/2	18,137	
	93.600	33585/2	183,461	
	93.600	32924/3	425,397	
				815,757
Total U.S. Department of Health and Human Services				2,213,188
National Science Foundation				
Collaborative Math: Creating Sustainable Excellence in Mathematics for Head Start Programs	47.076	N/A	1,142,089	
Total National Science Foundation				1,142,089
				$ 8,626,119

See notes to schedule of expenditures of federal awards.

Note 1. Basis of presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Erikson Institute (the Institute) under programs of the federal government for the year ended June 30, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Institute, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Institute. No funds were identified as having been provided to subrecipients by the Institute, and accordingly, no funds identified in the Schedule are attributable to subrecipient entities. There were no federal awards expended for non-cash assistance or insurance at year-end.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available. The Institute has a federally-approved indirect cost rate of 42.7 percent.

Erikson Institute

Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	_____Yes _X_No
Significant deficiency(ies) identified?	_____Yes _X_No
Noncompliance material to financial statements noted?	_____Yes _X_No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	_____Yes _X_No
Significant deficiency(ies) identified?	_____Yes _X_No
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	_____Yes _X_No

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
47.076	National Science Foundation
84.268	Federal Direct Student Loans
84.411C	Mindfulness and other Replenishment Practices to Improve Young Children's Stress Levels, Self-Regulation, and Productive Engagement in School

Dollar threshold used to distinguish between type A and type B programs $750,000

Auditee qualified as low-risk auditee? __X__Yes ___No

II. Financial Statement Findings

There were no internal control deficiencies identified and no compliance findings over the financial statements for fiscal year 2017.

III. Findings and Questioned Costs for Federal Awards

There were no internal control deficiencies and no compliance findings over the federal awards identified for fiscal year 2017.

IV. Financial Statement Prior Audit Findings

There were no matters to report.

V. Findings and Questioned Costs for Federal Awards

There were no matters to report.

Erikson Institute

Financial Report
June 30, 2017

Contents

Independent Auditor's Report

To the Board of Trustees
Erikson Institute

Report on the Financial Statement
We have audited the accompanying financial statements of Erikson Institute which comprise the statements of financial position as of June 30, 2017 and 2016, 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, 2017 and 2016, 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, 2017

Erikson Institute

Statements of Financial Position
June 30, 2017 and 2016

	2017	2016
Assets		
Cash	$ 1,982,171	$ 3,000,879
Receivables, net:		
Contributions	4,959,644	3,375,907
Grants and contracts	3,298,862	2,927,477
Other	399,965	456,230
Investments	52,099,507	44,843,652
Property and equipment, net	24,413,564	24,936,897
Investments held for deferred compensation plan	711,967	852,538
Other assets	541,200	305,622
Total assets	$ 88,406,880	$ 80,699,202
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	$ 1,693,300	$ 1,468,241
Unearned tuition and deposits	442,619	314,437
Bonds payable, net of unamortized financing fees	30,489,520	31,425,000
Deferred compensation plan payable	711,967	852,538
Interest rate swap agreement	5,139,980	7,147,848
Total liabilities	38,477,386	41,208,064
Net assets:		
Unrestricted:		
Operating (accumulated deficit)	(5,757,323)	(8,168,535)
Board designated - funds functioning as endowment	21,597,094	20,774,614
Board designated - reinvestment funds	141,600	231,000
	15,981,371	12,837,079
Temporarily restricted	13,408,807	10,114,743
Permanently restricted	20,539,316	16,539,316
Total net assets	49,929,494	39,491,138
Total liabilities and net assets	$ 88,406,880	$ 80,699,202

See notes to financial statements.

Erikson Institute

Statements of Activities
Years Ended June 30, 2017 and 2016

	2017			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Support and revenue:				
Student tuition and fees, net of scholarships of $1,625,564 and $1,179,511, respectively	$ 2,860,270	$ -	$ -	$ 2,860,270
Special events less direct expenses of $229,332 and $122,330, respectively	875,243	-	-	875,243
Contributions	1,121,466	7,040,584	4,000,000	12,162,050
Government grants	8,525,650	-	-	8,525,650
Clinical and training	2,834,740	-	-	2,834,740
Investment income, net	1,052,733	956,892	-	2,009,625
Miscellaneous	115,415	-	-	115,415
Net assets released from restrictions:				
Appropriation from earnings on endowment funds	887,983	(887,983)	-	-
Satisfaction of donor and time restrictions	5,101,723	(5,101,723)	-	-
Total support and revenue:	23,375,223	2,007,770	4,000,000	29,382,993
Expenses:				
Program services	18,728,039	-	-	18,728,039
Management and general	3,841,093	-	-	3,841,093
Fundraising	729,121	-	-	729,121
Total expenses:	23,298,253	-	-	23,298,253
Increase in net assets before other items	76,970	2,007,770	4,000,000	6,084,740
Other items:				
Depreciation	(900,550)	-	-	(900,550)
Investment gain (loss), net	1,634,287	1,612,010	-	3,246,297
Interest rate swap fair value adjustment	2,007,869	-	-	2,007,869
Net assets released for capital expenditures	325,716	(325,716)	-	-
Other	-	-	-	-
Total other items:	3,067,322	1,286,294	-	4,353,616
Increase (decrease) in net assets	3,144,292	3,294,064	4,000,000	10,438,356
Net assets:				
Beginning of year	12,837,079	10,114,743	16,539,316	39,491,138
End of year	$ 15,981,371	$ 13,408,807	$ 20,539,316	$ 49,929,494

See notes to financial statements.

2016			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
$ 3,078,543	$ -	$ -	$ 3,078,543
794,329	-	-	794,329
1,127,156	6,444,489	100	7,571,745
7,233,000	-	-	7,233,000
2,951,981	-	-	2,951,981
1,042,932	916,095	-	1,959,027
125,223	-	-	125,223
850,242	(850,242)	-	-
3,676,298	(3,676,298)	-	-
20,879,704	2,834,044	100	23,713,848
16,841,465	-	-	16,841,465
2,968,953	-	-	2,968,953
741,239	-	-	741,239
20,551,657	-	-	20,551,657
328,047	2,834,044	100	3,162,191
(896,729)	-	-	(896,729)
(2,257,201)	(1,786,986)	-	(4,044,187)
(2,522,434)	-	-	(2,522,434)
-	-	-	-
245,145	-	-	245,145
(5,431,219)	(1,786,986)	-	(7,218,205)
(5,103,172)	1,047,058	100	(4,056,014)
17,940,251	9,067,685	16,539,216	43,547,152
$ 12,837,079	$ 10,114,743	$ 16,539,316	$ 39,491,138

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

Statement of Functional Expenses
Year Ended June 30, 2016

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

See notes to financial statements.

Erikson Institute

Statements of Cash Flows
Years Ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Increase (decrease) in net assets	**$ 10,438,356**	$ (4,056,014)
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities:		
Depreciation	**900,550**	896,729
Allowance for uncollectible accounts	**65,691**	99,231
Realized and unrealized (gain) loss on investments	**(5,156,959)**	2,363,858
Interest rate swap fair value adjustment	**(2,007,869)**	2,522,434
Proceeds from contributions restricted for permanent endowment	**(4,000,000)**	-
Change in assets and liabilities:		
Contributions receivable	**(1,688,989)**	(691,197)
Grants and contracts receivable	**(332,369)**	(935,134)
Other receivables	**56,811**	(52,810)
Other assets	**(235,578)**	53,944
Accounts payable and accrued liabilities	**225,059**	(139,105)
Unearned tuition and deposits	**128,182**	(127,496)
Net cash used in operating activities	**(1,607,115)**	(65,560)
Cash flows from investing activities:		
Additions to property and equipment	**(377,217)**	(14,418)
Proceeds from sale of investments	**7,320,630**	12,404,315
Purchase of investments	**(9,419,526)**	(9,697,758)
Net cash (used in) provided by investing activities	**(2,476,113)**	2,692,139
Cash flows from financing activities:		
Bond redemption payments	**(31,425,000)**	(750,000)
Proceeds from bond issuance	**30,872,000**	-
Cost of bond issuance	**(382,480)**	-
Proceeds from contributions restricted for permanent endowment	**4,000,000**	300
Net cash provided by (used in) financing activities	**3,064,520**	(749,700)
Net (decrease) increase in cash	**(1,018,708)**	1,876,879
Cash:		
Beginning of year	**3,000,879**	1,124,000
End of year	**$ 1,982,171**	$ 3,000,879
Supplemental disclosure of cash flow information:		
Cash payments for interest	**$ 1,370,092**	$ 1,281,840

See notes to financial statements.

Note 1. Nature of Organization and Significant Accounting Policies

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

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

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

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

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

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

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

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

Contributions receivable: Contributions receivable are reported at their estimated realizable value and recognized as revenue at the time an unconditional promise to give is received from a donor. If the pledge is receivable over an extended period of time, the present value of the pledge is recorded. The receivables are discounted using a present value discount rate 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 money market accounts and 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 statement 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 statement of financial position with changes in the fair value reported on the statement of activities.

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 deficit is attributable primarily to net funds invested in capital assets/(liabilities) of ($11,215,936). 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.

Reclassification: Certain items for the fiscal year 2016 have been reclassified to conform to the current year presentation with no effect on net asset classification or change in net assets.

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. The Institute is generally no longer subject to examination by the Internal Revenue Service for tax years before fiscal 2014.

Accounting pronouncement adopted: In 2017, the Institute adopted Accounting Standards Update (ASU) 2015-03, *Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. The ASU requires that debt issuance costs be presented in the statement of financial position as a direct reduction from the carrying amount of the debt liability, in the same manner as debt discounts or premiums. Accordingly, the Institute has presented its unamortized bond issuance costs net of its bonds payable. The unamortized bond issuance costs are $337,480 and $0 as of June 30, 2017 and 2016, respectively.

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

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

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

Subsequent events: The Institute has evaluated subsequent events for potential recognition and/or disclosure through October 26, 2017, the date the financial statements were available to be issued.

Note 2. Contributions Receivable

Contributions receivable at June 30, 2017 and 2016 are due as follows:

	2017	2016
Amounts due in less than one year	$ 2,734,227	$ 2,398,576
Amounts due in one to five years	2,466,311	1,112,973
	5,200,538	3,511,549
Less:		
Allowance for uncollectible accounts	(25,000)	(25,000)
Present value discount	(215,894)	(110,642)
	$ 4,959,644	$ 3,375,907

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

Note 3. Grants, Contracts and Other Receivables

Grants and contracts receivable at June 30, 2017 and 2016 are composed of the following:

	2017	2016
Grants and contracts receivable	$ 3,446,853	$ 3,114,484
Less: Allowance for uncollectible accounts	(147,991)	(187,007)
	$ 3,298,862	$ 2,927,477

Other receivables at June 30, 2017 and 2016 are composed of the following:

	2017	2016
Other receivables	$ 422,838	$ 479,649
Less: Allowance for uncollectible accounts	(22,873)	(23,419)
	$ 399,965	$ 456,230

Note 4. Investments

Investments at June 30, 2017 and 2016 are composed of the following:

	June 30, 2017		June 30, 2016	
	Fair Value	Cost	Fair Value	Cost
Short-term investments	$ 7,944,642	$ 7,944,689	$ 2,982,089	$ 2,982,091
Mutual funds:				
Commodities	1,096,664	1,309,338	1,914,827	2,440,337
Fixed income	8,558,667	8,591,670	7,735,809	7,882,212
Equities	19,062,343	16,416,826	11,560,454	9,718,790
Corporate stocks	3,023,476	2,677,872	4,979,821	4,685,586
Hedge funds and other investments:				
Equity	3,446,413	3,003,550	4,978,998	4,087,004
Private equity	4,281,245	3,107,721	3,937,942	3,430,404
Absolute return	4,686,057	4,116,252	6,753,712	6,626,216
	$ 52,099,507	$ 47,167,918	$ 44,843,652	$ 41,852,640

Components of investment income (loss) at June 30, 2017 and 2016 are as follows:

	2017	2016
Net realized and unrealized gains (losses)	$ 5,156,959	$ (2,363,858)
Interest and dividends	517,756	499,784
Investment fees and expenses	(418,793)	(221,086)
	$ 5,255,922	$ (2,085,160)

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

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

	2017	2016
Support and revenue	$ 2,009,625	$ 1,959,027
Other items	3,246,297	(4,044,187)
	$ 5,255,922	$ (2,085,160)

Note 5. Fair Value Measurements

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

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

> Level 1. Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 assets primarily include listed equities, money market funds, government securities, and mutual funds. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.
>
> Level 2. Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third-party pricing services for similar assets or liabilities. Level 2 assets primarily include less liquid and restricted equity securities, funds invested in equity securities, fixed-income, real estate securities, asset allocation and money market funds.
>
> Level 3. Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker-traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

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

For fiscal years 2017 and 2016, the application of valuation techniques applied to similar assets and liabilities has been consistent with techniques used in previous years. The valuation methodologies used for instruments at fair value are described on the following page.

Note 5. Fair Value Measurements (Continued)

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

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

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

	June 30, 2017 Fair Value	June 30, 2016 Fair Value	2017 Unfunded Commitment	2016 Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Investment						
Hedge Funds and other investments						
Equity (a)	$ -	$ 1,979,239	$ -	$ -	Quarterly	60 days
Equity (a)	3,446,413	2,999,759	-	-	Quarterly	Over 90 days
Private equity (b)	4,281,245	3,937,942	2,763,396	3,360,951	n/a	n/a
Absolute return (c)	1,659,889	1,530,530	-	-	Quarterly	60 days
Absolute return (c)	3,026,168	5,223,182	-	-	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, 2017 and 2016 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.

Note 5. Fair Value Measurements (Continued)

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

The Institute assesses the levels of financial instruments at each measurement date, and transfers between levels are recognized on the actual date of the event of change in circumstances that caused the transfer in accordance with the Institute's accounting policy regarding recognition of transfers between levels of the fair value hierarchy. There were no such transfers for fiscal 2017 or 2016.

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

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

Note 5. Fair Value Measurements (Continued)

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

Note 5. Fair Value Measurements (Continued)

The following table presents the Institute's fair value hierarchy for those assets measured at fair value on a recurring basis as of June 30, 2016:

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

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, 2017 and 2016:

	2017	2016
Land	$ 2,692,677	$ 2,692,677
Building	27,299,163	27,299,163
Furniture and equipment	4,099,524	4,052,594
Software	344,705	14,418
Other	52,500	52,500
	34,488,569	34,111,352
Less: Accumulated depreciation	(10,075,005)	(9,174,455)
	$ 24,413,564	$ 24,936,897

Depreciation expense totaled $900,550 and $896,729 for fiscal years 2017 and 2016, respectively.

Note 7. Long-Term Debt

On December 12, 2007, the Institute entered into a bond trust agreement with the Illinois Finance Authority (“IFA”) to issue Adjustable Rate Demand Educational Facility Revenue Bonds, Series 2007, for $32,500,000. The Institute partially redeemed the outstanding bonds of $925,000 and $750,000 in 2017 and 2016, respectively. In June 2017, in conjunction with the issuance of certain new bonds, the Institute fully extinguished the outstanding balance of $30,500,000 of the Series 2007 bonds. The bonds were non-amortizing and had an original term of 30 years subject to the renewal of the letter of credit discussed below. These funds were used to construct its building at 451 North LaSalle Street, Chicago, Illinois. The bonds were secured by a transferable irrevocable letter of credit issued by Bank of America with a maturity date of November 29, 2017. The Institute also had a reimbursement agreement with Bank of America. As collateral, Bank of America had a negative pledge on all business assets of the Institute. Bank of America also required the Institute to comply with certain financial covenants which were monitored on a quarterly and semi-annual basis, through the date of extinguishment.

Note 7. Long-Term Debt (Continued)

On June 29, 2017, the Institute entered into a bond trust agreement with the IFA 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. The proceeds from the sale of the bonds were used to refund the Series 2007 bonds discussed above. 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 bonds have a maturity date of November 1, 2042. The Series 2017A and 2017B Purchasers are secured creditors and therefore have a security interest in the property and gross revenues of the Institute.

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

Illinois Finance Authority (IFA) Revenue Refunding Bonds:	
Series 2017A (The Northern Trust Company)	$ 20,000,000
Series 2017B (First Midwest Bank)	10,872,000
Total	30,872,000
Less unamortized cost of issuance fees	(382,480)
Bonds payable per statement of financial position	$ 30,489,520

The scheduled redemption of bonds payable is as follows:

Fiscal year ending June 30,	
2018	$ 500,000
2019	550,000
2020	600,000
2021	650,000
2022	700,000
2023 and thereafter	27,872,000
	$ 30,872,000

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 March 2008. The agreement had the effect of fixing the rate of interest at 3.5 percent for the variable rate debt. The notional amount of the swap agreement at June 30, 2017 and 2016, was $16,250,000. The fair value of the swap agreement is the estimated amount that the Institute would pay or receive to terminate the agreement as of the statement of financial position date, taking into account current interest rates and the current creditworthiness of the swap counterparty. As of June 30, 2017 and 2016, the fair value of the interest rate swap agreement was a liability of $5,139,980 and $7,147,848, respectively, and is presented on the statements of financial position as “Interest rate swap agreement.” The Institute recorded a gain in the amount of $2,007,869 and a loss of $2,522,434, in 2017 and 2016, respectively, for the change in the fair value of the swap agreement. In June 2017, in conjunction with the issuance of the Series 2017 bonds the swap agreement was novated from Bank of America to The Northern Trust Company. The novation preserved the terms of the original agreement, with the exception of an increase to the fixed rate of 10 basis points to 3.6 percent.

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 1000 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 $556,905 and $509,147 in fiscal years 2017 and 2016, 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 $48,000 and $8,875 for the fiscal years ended 2017 and 2016, respectively. At June 30, 2017 and 2016, $711,967 and $852,538, respectively, were accrued as a liability and set aside in a separate account for this benefit. The plan is intended to constitute an unfunded plan and all amounts held are assets of the employer.

Note 9. Funds Functioning as Endowment

The Board of Trustees has designated certain amounts of unrestricted 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, 2017 and 2016, these funds were established for the following purposes:

	2017	2016
Facilities	$ 10,090,964	$ 10,094,899
General operations	11,352,082	10,536,713
Scholarships	154,048	143,002
	$ 21,597,094	$ 20,774,614

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, 2017 and 2016. These net assets are restricted for:

	2017	2016
Special projects	$ 6,531,110	$ 5,729,755
Program support	3,215,283	2,753,302
Scholarships	3,074,350	1,085,302
Library	588,064	546,384
	$ 13,408,807	$ 10,114,743

Temporarily restricted net assets were released from restrictions as follows for the years ended June 30, 2017 and 2016:

	2017	2016
Net assets released from restriction for operating expenditures:		
Special projects	$ 3,934,620	$ 2,794,636
Program support	557,512	437,819
Scholarships	609,591	443,843
	$ 5,101,723	$ 3,676,298

Note 10. Temporarily Restricted Net Assets (Continued)

	2017	2016
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, 2017 and 2016:

	2017	2016
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	4,228,919
	$ 20,539,316	$ 16,539,316

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, 2017 and 2016:

	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

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

Note 12. Endowment Funds (Continued)

The changes in endowment net assets for the Institute were as follows for the years ended June 30, 2017 and 2016:

	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

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 23,711,815	$ 3,714,550	$ 16,539,216	$ 43,965,581
Investment loss	(1,154,443)	(936,744)	-	(2,091,187)
Contributions	-	500	100	600
Board designated amounts transferred from operations	70,000	-	-	70,000
Board designated amounts transferred to operations	(750,000)	-	-	(750,000)
Appropriation of endowment assets for expenditure:				
Board designated	(1,102,758)	-	-	(1,102,758)
Donor restricted (time)	-	(850,242)	-	(850,242)
Donor restricted (purpose)	-	(37,050)	-	(37,050)
Endowment net assets, end of year	$ 20,774,614	$ 1,891,014	$ 16,539,316	$ 39,204,944

Return Objectives and Risk Parameters

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

Note 12. Endowment Funds (Continued)

Strategies Employed for Achieving Objectives

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

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Institute has a policy of appropriating for distribution a percentage of its endowment fund's average fair value over the prior 12 quarters through the calendar year proceeding the fiscal year in which the distribution is planned. The policy is coordinated with its investment policy such that over the long-term, its endowment will be able to maintain its purchasing power over time. The Board approved a spending rate of 4.5 percent for both the years ended June 30, 2017 and 2016.