



Erikson Institute

Financial Report
June 30, 2020

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Independent Auditor's Report

Board of Trustees
Erikson Institute

Report on the Financial Statements

We have audited the accompanying financial statements of Erikson Institute, which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Erikson Institute as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2020 on our consideration of Erikson Institute's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Erikson Institute's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Erikson Institute's internal control over financial reporting and compliance.

RSM VS LLP

Chicago, Illinois
October 28, 2020

Erikson Institute

**Statements of Financial Position
June 30, 2020 and 2019**

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

See notes to financial statements.

Erikson Institute

Statements of Activities

Years Ended June 30, 2020 and 2019

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

See notes to financial statements.

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

Erikson Institute

Statement of Functional Expenses
Year Ended June 30, 2020

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

See notes to financial statements.

Erikson Institute

**Statement of Functional Expenses
Year Ended June 30, 2019**

| | Program Services | | Supporting Services | |
|-----------------------------|-------------------|------------------|------------------------|----------------|
| | Academic Programs | Special Projects | Management and General | Fund - raising |
| | | Total | Total | Total |
| Compensation | \$ 4,806,512 | \$ 8,344,005 | \$ 13,150,517 | \$ 1,901,678 |
| Contracted services | 410,738 | 954,148 | 1,364,886 | 779,795 |
| Legal and audit fees | 10,478 | 11,012 | 21,490 | 90,069 |
| Occupancy and insurance | 397,163 | 237,985 | 635,148 | 254,759 |
| Books and library materials | 81,630 | 38,057 | 119,687 | 554 |
| Office expenses | 61,127 | 176,845 | 237,972 | 193,695 |
| Meeting and travel expenses | 246,121 | 494,177 | 740,298 | 44,916 |
| Advertising | 115,474 | 13,791 | 129,265 | 43,835 |
| Software and hardware | 229,027 | 55,433 | 284,460 | 93,985 |
| Miscellaneous | 221,949 | 19,097 | 241,046 | 121,434 |
| Interest | 1,031,342 | 354,524 | 1,385,866 | 193,377 |
| | 7,611,561 | 10,699,074 | 18,310,635 | 3,718,097 |
| Depreciation | 647,231 | 222,486 | 869,717 | 121,356 |
| | \$ 8,258,792 | \$ 10,921,560 | \$ 19,180,352 | \$ 3,839,453 |
| | | | | \$ 865,349 |
| | | | | \$ 4,704,802 |
| | | | | \$ 23,885,154 |

See notes to financial statements.

Erikson Institute

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

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

See notes to financial statements.

Erikson Institute

Notes to Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies

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

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

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

All contributions are considered to be available for unrestricted use unless otherwise specifically restricted by donors. Contributions are recorded and recognized as revenue when a notice of an award or a pledge is received. Restricted contributions are recorded as revenue in donor restricted net assets if limited by donor imposed stipulations that expire by passage of time, can be fulfilled and removed by action of the Institute, or contributions are non-expendable. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, donor restricted net assets are reclassified to net assets without donor restriction and reported in the statements of activities as net assets released from restrictions.

Expense allocation: The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and in the statements of functional expenses. Certain expenses are attributable to more than one program or supporting function. These expenses are allocated consistently on the following bases: Depreciation, interest and occupancy costs are allocated based on square-footage used by each function. Salaries and benefits are allocated based on actual time and effort.

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

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

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

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

Contributions receivable: Contributions receivable are reported at their estimated realizable value and recognized as revenue at the time an unconditional promise to give is received from a donor. If the pledge is receivable over an extended period of time, the present value of the pledge is recorded. The receivables are discounted using a present value discount rate commensurate with the risk involved. Management reviews the receivables for collectability and records an allowance for any accounts deemed uncollectible.

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

Investment income or loss (including gains and losses on investments, interest and dividends) net of investment expenses is included in the statements of activities as increases or decreases in net assets without donor restrictions unless the income or loss is restricted by donor or law.

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

| | |
|-------------------------|----------|
| Computer software | 5 years |
| Computer equipment | 5 years |
| Furniture and equipment | 10 years |
| Building | 39 years |

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

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

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

Net assets: In order to ensure the observance of limitations and restrictions placed on the use of available resources, the Institute maintains its financial accounts in a manner that segregates resources for various purposes that are classified into funds established in accordance with their nature and purpose. For financial reporting purposes, fund balances and related activities of the various funds are classified as net assets without donor restrictions or net assets with donor restrictions based on the existence or absence of donor-imposed restrictions.

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

Accounting estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

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

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

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

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

In 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The updated standard is effective for the Institute in the fiscal year ending June 30, 2021.

In 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than twelve months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for the Institute in the fiscal year ending June 30, 2023.

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

Erikson Institute

Notes to Financial Statements

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

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

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

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

Note 2. Financial Assets and Liquidity Resources

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

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

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

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

Erikson Institute**Notes to Financial Statements****Note 3. Contributions Receivable**

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

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

Note 4. Other Receivables

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

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

Note 5. Investments

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

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

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

Notes to Financial Statements

Note 5. Investments (Continued)

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

| | 2020 | 2019 |
|---------------------|-------------------|---------------------|
| Support and revenue | \$ 1,983,121 | \$ 2,038,875 |
| Other items | (1,725,811) | 113,178 |
| | <u>\$ 257,310</u> | <u>\$ 2,152,053</u> |

Note 6. Fair Value Measurements

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

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

Level 1. Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 assets primarily include listed equities, money market funds, government securities, and mutual funds. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2. Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third-party pricing services for similar assets or liabilities. Level 2 assets primarily include less liquid and restricted equity securities, funds invested in equity securities, fixed-income, real estate securities, asset allocation and money market funds.

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

Note 6. Fair Value Measurements (Continued)

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

For fiscal years 2020 and 2019, the application of valuation techniques applied to similar assets and liabilities has been consistent with techniques used in previous years. The valuation methodologies used for instruments at fair value are described on the following page.

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

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

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

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

- (a) Represents investments in hedge funds that invest in equity, real estate and energy securities.
- (b) Represents limited partnership investments focused on achieving long-term returns through investments in a diversified portfolio of private equity limited partnerships.
- (c) Includes funds of funds invested in limited partnerships and partnership investments which are primarily private investment pools with no particular industry or geographic concentration.

Note 6. Fair Value Measurements (Continued)

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

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

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

The Institute assesses the levels of financial instruments at each measurement date, and transfers between levels are recognized on the actual date of the event of change in circumstances that caused the transfer in accordance with the Institute's accounting policy regarding recognition of transfers between levels of the fair value hierarchy. There were no such transfers for fiscal 2020 or 2019.

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

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

Erikson Institute

Notes to Financial Statements

Note 6. Fair Value Measurements (Continued)

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

| Description | Total | Investments Measured at Net Asset Value | Investments and Liabilities Classified in the Fair Value Hierarchy | | |
|---|----------------------|---|--|---|--|
| | | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Short-term investments | \$ 5,779,427 | \$ - | \$ 5,779,427 | \$ - | \$ - |
| Mutual funds: | | | | | |
| Fixed income | 5,870,912 | - | 5,870,912 | - | - |
| Equities | 23,071,421 | - | 23,071,421 | - | - |
| Hedge funds and other investments: | | | | | |
| Equity | 1,465,321 | 1,465,321 | - | - | - |
| Private equity | 6,566,461 | 6,566,461 | - | - | - |
| Absolute return | 6,433,838 | 6,433,838 | - | - | - |
| | <u>\$ 49,187,380</u> | <u>\$ 14,465,620</u> | <u>\$ 34,721,760</u> | <u>\$ -</u> | <u>\$ -</u> |
| Investments held for deferred compensation: | | | | | |
| Money market funds | \$ 4,618 | \$ - | \$ 4,618 | \$ - | \$ - |
| Equity | 695,995 | - | 695,995 | - | - |
| Fixed income | 81,947 | - | 81,947 | - | - |
| Multi-asset | 96,823 | - | 96,823 | - | - |
| Guaranteed | 25,480 | - | - | 25,480 | - |
| | <u>\$ 904,863</u> | <u>\$ -</u> | <u>\$ 879,383</u> | <u>\$ 25,480</u> | <u>\$ -</u> |
| Interest rate swap | \$ (8,255,658) | \$ - | \$ - | \$ (8,255,658) | \$ - |

Erikson Institute

Notes to Financial Statements

Note 6. Fair Value Measurements (Continued)

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

| Description | Total | Investments Measured at Net Asset Value | Investments and Liabilities Classified in the Fair Value Hierarchy | | |
|---|----------------------|---|--|---|--|
| | | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Short-term investments | \$ 3,531,193 | \$ - | \$ 3,531,193 | \$ - | \$ - |
| Mutual funds: | | | | | |
| Commodities | 746,376 | - | 746,376 | - | - |
| Fixed income | 7,910,423 | - | 7,910,423 | - | - |
| Equities | 20,551,539 | - | 20,551,539 | - | - |
| Corporate stocks | 2,976,176 | - | 2,976,176 | - | - |
| Hedge funds and other investments: | | | | | |
| Equity | 1,345,305 | 1,345,305 | - | - | - |
| Private equity | 5,784,788 | 5,784,788 | - | - | - |
| Absolute return | 6,229,091 | 6,229,091 | - | - | - |
| | <u>\$ 49,074,891</u> | <u>\$ 13,359,184</u> | <u>\$ 35,715,707</u> | <u>\$ -</u> | <u>\$ -</u> |
| Investments held for deferred compensation: | | | | | |
| Money market funds | 4,732 | - | 4,732 | - | - |
| Equity | 661,142 | - | 661,142 | - | - |
| Fixed income | 79,005 | - | 79,005 | - | - |
| Multi-asset | 61,520 | - | 61,520 | - | - |
| Guaranteed | 25,368 | - | - | 25,368 | - |
| | <u>\$ 831,767</u> | <u>\$ -</u> | <u>\$ 806,399</u> | <u>\$ 25,368</u> | <u>\$ -</u> |
| Interest rate swap | \$ (5,500,230) | \$ - | \$ - | \$ (5,500,230) | \$ - |

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

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

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

Erikson Institute

Notes to Financial Statements

Note 6. Fair Value Measurements (Continued)

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

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

Note 7. Property and Equipment

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

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

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

Note 8. Long-Term Debt

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

Erikson Institute

Notes to Financial Statements

Note 8. Long-Term Debt (Continued)

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

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

In order to reduce exposure to adjustable interest rates on variable rate debt, the Institute novated a 30-year interest rate swap agreement in June 2017 that expires in 2037. The agreement had the effect of fixing the rate of interest at 3.6% for the variable rate debt. The notional amount of the swap agreement is \$16,250,000. The fair value of the swap agreement is the estimated amount that the Institute would pay or receive to terminate the agreement as of the statement of financial position date, taking into account current interest rates and the current creditworthiness of the swap counterparty. As of June 30, 2020 and 2019, the fair value of the interest rate swap agreement was a liability of \$8,255,658 and \$5,500,230, respectively, and is presented on the statements of financial position as "Interest rate swap agreement." The Institute recorded a loss in the amount of \$2,755,428 in 2020 and \$1,550,828 in 2019, for the change in the fair value of the swap agreement.

Note 9. Refundable Advance

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

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

Erikson Institute

Notes to Financial Statements

Note 10. Retirement Plans

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

The Institute has a nonqualified 457(b) deferred compensation plan for certain employees. Contributions to the plan are invested under the direction of the individual qualified employee from the same options available for the 403(b) plan. Eligible employees made contributions of \$31,913 and \$5,000 for the fiscal years ended 2020 and 2019, respectively. At June 30, 2020 and 2019, \$904,863 and \$831,767, respectively, was accrued as a liability and set aside in a separate investment account for this benefit (reported on the statement of financial position as both an asset and a liability). The plan is intended to constitute an unfunded plan and all amounts held are assets of the employer.

Note 11. Net Assets

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

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

Erikson Institute

Notes to Financial Statements

Note 11. Net Assets (Continued)

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

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

Net assets released from restriction for capital expenditures:

| | 2020 | 2019 |
|------------------|-------------|-------------------|
| Special projects | \$ - | \$ 133,007 |
| | <u>\$ -</u> | <u>\$ 133,007</u> |

Note 12. Endowment Funds

Interpretation of Relevant Law

The Institute's Board of Trustees has interpreted Uniform Prudent Management of Invested Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Institute classifies as restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund is classified as with donor restricted net assets until those amounts are appropriated for expenditure by the Institute in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Institute considers the following factors in making a determination to appropriate or accumulate earnings on donor-restricted endowment funds:

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

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

Erikson Institute**Notes to Financial Statements**

Note 12. Endowment Funds (Continued)

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

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

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

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

Erikson Institute

Notes to Financial Statements

Note 12. Endowment Funds (Continued)

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

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

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

Return Objectives and Risk Parameters

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

Note 12. Endowment Funds (Continued)

Strategies Employed for Achieving Objectives

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

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Institute has a policy of appropriating for distribution a percentage of its endowment fund's average fair value over the prior 12 quarters through the calendar year proceeding the fiscal year in which the distribution is planned. The policy is coordinated with its investment policy such that over the long term, its endowment will be able to maintain its purchasing power over time. The Board approved a spending rate of 4.25% and 4.50% respectively for years ended June 30, 2020 and 2019, respectively.

**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**

Independent Auditor's Report

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 the Erikson Institute, which comprise the statement of financial position as of June 30, 2020, the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 28, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Erikson Institute's internal control over financial reporting (internal control) to determine the 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 Erikson Institute's internal control. Accordingly, we do not express an opinion on the effectiveness of Erikson 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 a 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 Erikson 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RSM US LLP

Chicago, Illinois
October 28, 2020

**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

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, 2020. 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, 2020.

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, 2020, and have issued our report thereon dated October 28, 2020, 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
March 29, 2021

Erikson Institute

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2020

| Federal Grantor/ Pass Through Grantor/ Program Title | Federal CFDA Number | Pass-Through Entity Identifying Number | Expenditures of Federal Awards |
|--|------------------------------------|---|---|
| U.S. Department of Education | | | |
| Student Financial Aid Cluster, Federal Direct Student Loans | 84.268 | N/A | \$ 5,330,206 |
| Evaluating Quality Interactions in Preschool Classrooms around Math: Development of a Video-based Observation Tool | 84.305A | N/A | \$ 425,276 |
| Preparing Early Intervention and Early Childhood Special Education Providers to Serve Diverse Infants, Toddlers, and Preschool Children with Disabilities and Their Families in Illinois | 84.325K | N/A | \$ 195,115 |
| Mindfulness and other Replenishment Practices to Improve Young Children's Stress Levels, Self-Regulation, and Productive Engagement in School | 84.411C | N/A | \$ 23,250 |
| COVID 19- Higher Education Emergency Relief Fund-Student Aid Portion | 84.425E | N/A | \$ 20,594 |
| COVID 19- Higher Education Emergency Relief Fund-Institutional Portion | 84.425F | N/A | \$ 20,593 |
| COVID 19- Higher Education Emergency Relief Fund-Fund for the Improvement of Postsecondary Education (FIPSE) | 84.425N | N/A | <u>\$ 200,000</u> |
| | | | <u>\$ 241,187</u> |
| Total U.S. Department of Education | | | <u>\$ 6,215,034</u> |
| U.S. Department of Health and Human Services | | | |
| Pass-Through State of Illinois Department of Human Services HVRDP (Home Visiting Research & Development Platform) | 93.505 | 2003459402 | \$ 86,377 |
| Maternal, Infant and Early Childhood Home Visiting Program | 93.870 | FCSX05170 | \$ 200,000 |
| Pass-Through Chicago Department of Family and Support Services | | | |
| Head Start Cluster | | | |
| Head Start | 93.600 | 125278 | \$ 74,000 |
| Head Start | 93.600 | 124077 | \$ 50,070 |
| Head Start | 93.600 | 33584/4 | \$ 35,000 |
| Head Start | 93.600 | 33585/4 | \$ 287,118 |
| Head Start | 93.600 | 131973 | \$ 270,852 |
| Head Start | 93.600 | 119351 | \$ 453,200 |
| Head Start | 93.600 | 116665 | \$ 140,833 |
| Head Start | 93.600 | 131857 | <u>\$ 201,371</u> |
| | | | <u>\$ 1,512,444</u> |
| Total U.S. Department of Health and Human Services | | | <u>\$ 1,798,821</u> |
| National Science Foundation | | | |
| Research and Development Cluster | | | |
| Collaborative Math: Creating Sustainable Excellence in Mathematics for Head Start Programs | 47.076 | N/A | <u>\$ 135,306</u> |
| Total National Science Foundation | | | <u>\$ 135,306</u> |
| National Endowment for the Humanities | | | |
| Pass-Through Institute of Museum and Library Services National Leadership Grants | 45.312 | LG-98-18-0052-18 | <u>\$ 26,954</u> |
| Total National Endowment for the Humanities | | | <u>\$ 26,954</u> |
| U.S. Small Business Administration | | | |
| COVID 19- Economic Injury Disaster Loan Assistance (EIDL) Program -Loan Emergency Advance | 59.072 | N/A | <u>\$ 10,000</u> |
| Total U.S. Small Business Administration | | | <u>\$ 10,000</u> |
| | | | <u>\$ 8,186,115</u> |

See notes to schedule of expenditures of federal awards.

Erikson Institute

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, 2020. 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 for the year.

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.

Note 3. Indirect Cost Rate

The Institute has federally-approved indirect cost rates of 37.77% for on-campus and 14.49% for off-campus costs.

Note 4. Federal Direct Student Loan Program

During the fiscal year ended June 30, 2020, the Institute issued new loans to students under the Federal Direct Student Loan Program (FDLP). The value of loans issued for the FDLP is based on disbursed amounts. The loan amounts issued during the year are disclosed on the Schedule. The Institute is responsible only for the performance of certain administrative duties with respect to the federally guaranteed student loan programs and, accordingly, balances and transactions relating to these loan programs are not included in the Institute's basic financial statements. Therefore, it is not practicable to determine the balance of loans outstanding made to students and former students of the Institute at June 30, 2020.

Erikson Institute

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2020**

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 |
|-------------|--|
| 84.268 | Student Financial Aid Cluster, Federal Direct Student Loans |
| 84.425E | COVID 19- Higher Education Emergency Relief Fund-Student Aid Portion |
| 84.425F | COVID 19- Higher Education Emergency Relief Fund-Institutional Portion |
| 84.425N | COVID 19- Higher Education Emergency Relief Fund-Fund for the Improvement of Postsecondary Education (FIPSE) |

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

Auditee qualified as low-risk auditee? ___X___ Yes ___ No

Erikson Institute

Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2020

II. Financial Statement Findings

There were no internal control deficiencies identified and no compliance findings over the financial statements for fiscal year 2020.

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 2020.

Erikson Institute

**Summary Schedule of Prior Audit Findings
Year Ended June 30, 2020**

I. Financial Statement Prior Audit Findings

There were no matters to report.

II. Findings and Questioned Costs for Federal Awards

There were no matters to report.