



**ILLINOIS STATE  
UNIVERSITY**  
*Foundation*

CONSOLIDATED FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITORS' REPORT

June 30, 2016 and 2015

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## Independent Auditors' Report

Board of Directors  
Illinois State University Foundation and Subsidiaries

We have audited the accompanying consolidated financial statements of Illinois State University Foundation and subsidiaries (“Foundation”), which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, and the related consolidated statements of activities and change in net assets and of cash flows for the years then ended, and the related notes to the consolidated financial statements.

### **Management’s Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors’ Responsibility**

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors’ judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Illinois State University Foundation and subsidiaries as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2016, on our consideration of Illinois State University Foundation and subsidiaries' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and certain other matters. The purpose of that report is 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 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 Illinois State University Foundation and subsidiaries' internal control over financial reporting and compliance.

*Kerber, Eck & Braucher LLP*

Springfield, Illinois  
October 7, 2016

**ILLINOIS STATE UNIVERSITY FOUNDATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

June 30

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 12,981,100	\$ 11,001,982
Pledges receivable, net	6,727,361	2,394,727
Accounts receivable and prepaid expenses	27,248	356,120
Investments - at fair value	110,868,634	113,712,657
Investment in real estate	600,631	600,631
Assets held under split-interest agreements	442,424	371,232
Beneficial interests in trusts	2,328,888	2,423,268
Beneficial interests in split-interest agreements	359,681	400,409
Property and equipment, net	7,895,492	8,181,688
Assets held as collections	38,811	33,181
Cash surrender value of life insurance	1,404,461	1,440,892
	<u>1,404,461</u>	<u>1,440,892</u>
<b>TOTAL ASSETS</b>	<u>\$ 143,674,731</u>	<u>\$ 140,916,787</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Accounts payable and other liabilities	\$ 3,152,947	\$ 757,812
Obligations under split-interest agreements	320,898	280,083
Deferred rent revenue	600,000	900,000
Contract-for-deed payable	-	2,816,930
Note payable	2,764,542	-
	<u>2,764,542</u>	<u>-</u>
<b>TOTAL LIABILITIES</b>	<u>6,838,387</u>	<u>4,754,825</u>
<b>Net Assets</b>		
Unrestricted	13,259,559	13,491,769
Temporarily restricted	47,918,461	52,111,758
Permanently restricted	75,658,324	70,558,435
	<u>75,658,324</u>	<u>70,558,435</u>
<b>TOTAL NET ASSETS</b>	<u>136,836,344</u>	<u>136,161,962</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 143,674,731</u>	<u>\$ 140,916,787</u>

*See accompanying Notes to Consolidated Financial Statements*

**ILLINOIS STATE UNIVERSITY FOUNDATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS**

For the year ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Support and revenue</b>				
Contributions and grants, net of discount allowance for uncollectible receivables	\$ 818,609	\$ 9,549,095	\$ 5,327,084	\$ 15,694,788
Investment gain (loss)	223,233	(3,125,988)	89,624	(2,813,131)
Change in value of beneficial interests in trusts and split-interest agreements	-	(13,209)	(121,899)	(135,108)
Service contract with the University	2,248,812	-	-	2,248,812
Other revenue	530,567	859,583	580	1,390,730
	<u>3,821,221</u>	<u>7,269,481</u>	<u>5,295,389</u>	<u>16,386,091</u>
Net assets released from restrictions	11,658,278	(11,658,278)	-	-
Changes in donor restrictions	<u>-</u>	<u>195,500</u>	<u>(195,500)</u>	<u>-</u>
Total support and revenue	15,479,499	(4,193,297)	5,099,889	16,386,091
<b>Expenses</b>				
Program services				
Student aid, scholarships and awards	5,473,772	-	-	5,473,772
University programs	5,905,001	-	-	5,905,001
Total program services	11,378,773	-	-	11,378,773
Support services				
Management and general	3,551,854	-	-	3,551,854
Fundraising	781,082	-	-	781,082
Total support services	<u>4,332,936</u>	<u>-</u>	<u>-</u>	<u>4,332,936</u>
Total expenses	<u>15,711,709</u>	<u>-</u>	<u>-</u>	<u>15,711,709</u>
Change in net assets	(232,210)	(4,193,297)	5,099,889	674,382
Net assets - beginning of year	<u>13,491,769</u>	<u>52,111,758</u>	<u>70,558,435</u>	<u>136,161,962</u>
Net Assets - End of Year	<u>\$ 13,259,559</u>	<u>\$ 47,918,461</u>	<u>\$ 75,658,324</u>	<u>\$ 136,836,344</u>

ILLINOIS STATE UNIVERSITY FOUNDATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS - CONTINUED

For the year ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Support and revenue</b>				
Contributions and grants, net of discount allowance for uncollectible receivables	\$ 334,512	\$ 7,940,840	\$ 2,051,920	\$ 10,327,272
Investment gain	672,832	2,480,594	90,068	3,243,494
Change in value of beneficial interests in trusts and split-interest agreements	-	(9,627)	(76,678)	(86,305)
Service contract with the University	2,390,524	-	-	2,390,524
Other revenue	535,735	642,985	-	1,178,720
	<u>3,933,603</u>	<u>11,054,792</u>	<u>2,065,310</u>	<u>17,053,705</u>
Net assets released from restrictions	9,423,547	(9,423,547)	-	-
Changes in donor restrictions	-	(398,729)	398,729	-
	<u>13,357,150</u>	<u>1,232,516</u>	<u>2,464,039</u>	<u>17,053,705</u>
<b>Expenses</b>				
Program services				
Student aid, scholarships and awards	3,356,153	-	-	3,356,153
University programs	5,860,618	-	-	5,860,618
	<u>9,216,771</u>	<u>-</u>	<u>-</u>	<u>9,216,771</u>
Support services				
Management and general	3,576,195	-	-	3,576,195
Fundraising	766,388	-	-	766,388
	<u>4,342,583</u>	<u>-</u>	<u>-</u>	<u>4,342,583</u>
	<u>13,559,354</u>	<u>-</u>	<u>-</u>	<u>13,559,354</u>
<b>Change in net assets</b>	(202,204)	1,232,516	2,464,039	3,494,351
Net assets - beginning of year	13,693,973	50,879,242	68,094,396	132,667,611
<b>Net Assets - End of Year</b>	<u>\$ 13,491,769</u>	<u>\$ 52,111,758</u>	<u>\$ 70,558,435</u>	<u>\$ 136,161,962</u>

See accompanying Notes to Consolidated Financial Statements

**ILLINOIS STATE UNIVERSITY FOUNDATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

For the years ended June 30

	<u>2016</u>	<u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Contributions, gifts and pledges	\$ 9,788,764	\$ 8,864,089
Service fee revenues	440,111	422,635
Payments on behalf of ISU departments and programs	(5,640,069)	(5,227,743)
Payments for operating expenses	(1,011,666)	(1,472,677)
Payments for scholarships and fellowships	(3,556,883)	(3,356,153)
Other receipts	950,619	756,086
Other expenditures	<u>(647,905)</u>	<u>(749,859)</u>
Net cash provided by (used in) operating activities	322,971	(763,622)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales and maturities of investments	28,686,476	28,881,791
Purchase of investments	(28,686,560)	(28,836,437)
Purchase of property and equipment	<u>(134,401)</u>	<u>(147,496)</u>
Net cash used in investing activities	<u>(134,485)</u>	<u>(102,142)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal paid on debt	(52,388)	(83,915)
Private gifts for endowment purposes	1,883,236	1,790,415
Payments to annuitants	<u>(40,216)</u>	<u>(26,139)</u>
Net cash provided by financing activities	<u>1,790,632</u>	<u>1,680,361</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	1,979,118	814,597
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<u>11,001,982</u>	<u>10,187,385</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 12,981,100</u>	<u>\$ 11,001,982</u>



**ILLINOIS STATE UNIVERSITY FOUNDATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED**

For the years ended June 30

	<u>2016</u>	<u>2015</u>
<b>RECONCILIATION OF CHANGE IN NET ASSETS TO NET</b>		
<b>CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>		
Change in net assets	\$ 674,382	\$ 3,494,351
Depreciation	427,467	420,827
In-kind collection contributions	(12,500)	-
(Gain) loss on investments	2,813,131	(3,243,494)
Change in value of interests in beneficial trusts and split-interest agreements	135,108	86,305
Private gifts for endowment purposes	(1,883,236)	(1,790,415)
Decrease in accounts receivable and prepaid expenses	328,872	540,454
Increase in pledges receivable	(4,332,634)	(210,091)
Decrease in cash surrender value life insurance	36,431	13,311
Increase in accounts payable and accrued liabilities	2,395,135	195,019
Increase in beneficiary payments payable	40,815	30,111
Decrease in deferred revenue	<u>(300,000)</u>	<u>(300,000)</u>
<b>NET CASH PROVIDED BY (USED IN)</b>		
<b>OPERATING ACTIVITIES</b>	<u>\$ 322,971</u>	<u>\$ (763,622)</u>
<b>CASH PAID FOR INTEREST</b>	<u>\$ 147,424</u>	<u>\$ 186,084</u>
<b>NON-CASH FINANCING ACTIVITIES</b>		
Refinance contract-for-deed payable with note payable	\$ 2,814,075	\$ -
In-kind collection contributions	12,500	-
Cash paid for income taxes	19,623	-

*See accompanying Notes to Consolidated Financial Statements*

# ILLINOIS STATE UNIVERSITY FOUNDATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016 and 2015

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Nature of Operations

The Illinois State University Foundation (Foundation) was incorporated in May 1948 under the *General Not-for-Profit Corporation Act* for the principal purpose of providing fund raising and other assistance to Illinois State University (University) in order to attract private gifts to support the University's instructional, research and public service activities. The Foundation is an organization as described in Section 501(c)(3) of Internal Revenue Code and, accordingly, exempt from federal income tax.

The Foundation is a component unit of the University, and the Foundation's financial statements are also included as part of the University's financial statements and the State of Illinois Comprehensive Annual Financial Report.

The Foundation has formed two limited liability companies (LLC) to assist in carrying out the Foundation's mission to assist the University. The Foundation is the sole member of each of these LLCs. The governing board for each LLC, known as "Launching Futures, LLC" and "Launching Futures II, LLC", consists of the executive officers of the Foundation. LLC activity is included as part of the Foundation's consolidated financial statements. All significant intercompany transactions have been eliminated.

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

#### Basis of Presentation

The financial statements are presented on the accrual basis of accounting. Net assets and revenues, gains and losses are classified based on donor imposed restrictions as follows:

Unrestricted - Resources over which the Foundation's Board of Directors has discretionary control.

Temporarily Restricted - Resources subject to donor imposed restrictions which will be satisfied by the passage of time or actions of the Foundation.

Permanently Restricted - Resources subject to donor imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by the actions of the Foundation. Donors of these resources permit the Foundation to use all or part of the income earned, including capital appreciation of related investments for unrestricted or temporarily restricted purposes.

## ILLINOIS STATE UNIVERSITY FOUNDATION AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

JUNE 30, 2016 and 2015

#### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

##### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenues, expenses gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

##### Cash and Cash Equivalents

The Foundation considers all liquid debt instruments not designated for investment purposes and purchased with original maturities of three months or less to be cash equivalents.

##### Receivables

Unconditional promises to give (pledges) are recorded as an asset and contribution in the period in which they are received. Conditional promises to give are recorded in the period in which the conditions have been met or it is deemed that it is remote that the condition will not be met. Matching gift expectancies are not accrued as receivable but are recognized upon receipt.

Promises to give that are collectable beyond one year are recorded at fair value of their estimated future cash flows. All pledges are presented net of an allowance for doubtful collections. Management calculates the allowance based upon collection history of prior contributions receivable.

##### Investments

Investments in common stock, mutual funds, hedged and alternative funds, bank common trusts, and limited partnerships are recorded at fair value as determined by quoted market prices and management's estimates. Real estate investments are carried at cost, which approximates fair value. Most long-term and endowment investments are pooled for the purposes of allocating realized gains and losses, unrealized gains and losses and ordinary income, net of investment fees, to Foundation accounts on the basis of percentage of share in the pool.

Management's valuation of the investment in limited partnerships is primarily based on valuations by the General Partner. Although the General Partner uses its best judgment in estimating the fair value of the limited partnership investments, there are inherent limitations. Therefore, the values presented are not necessarily indicative of the amount that the Partnerships could currently realize. Future events could affect the estimates of fair value and could also affect the amount realized upon liquidation of the limited partnership investments.

**ILLINOIS STATE UNIVERSITY FOUNDATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**JUNE 30, 2016 and 2015**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Investments - Continued**

Foundation policy states that assets are to be invested in a diversified portfolio of equity, fixed income and alternative strategies. No investment is to be made that will cause the total investment in equities or fixed income securities issued or guaranteed by any one person, firm, or corporation to exceed 5% of the then fair market value of the Foundation; provided, this restriction is not to apply to either well diversified mutual funds, pooled funds, unit trust, or the like, or direct obligations of the U.S. Government and its fully guaranteed agencies. Equity investments have an asset allocation range from 47% to 67% of the portfolio with a target weight of 57%; fixed income investments have an asset allocation range from 3% to 15% with a target weight of 5%; marketable alternative investments have an asset allocation range from 10% to 30% with a target weight of 20%; and real assets have an asset allocation range from 5% to 28% with a target weight of 18%.

**Split-Interest Agreements**

Split-interest agreements are valued at fair value at the time of donation with a corresponding liability recorded for the present value of the expected payments due to the donors or third-party beneficiary with the difference recorded as contributions in the net asset type based on the donor's restriction. On an annual basis, the Foundation revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions.

**Beneficial Interests in Trusts**

The Foundation recognizes beneficial interests in trusts as contribution income upon receipt based on the Foundation's share of fair value of the underlying trust assets. Subsequent to initial contribution recognition, changes in fair value of the underlying trust assets are recognized separately in the Consolidated Statements of Activities and Change in Net Assets of the Foundation.

**Beneficial Interests in Split-Interest Agreements**

The Foundation is the beneficiary of certain split-interest agreements held by independent trustees. Contribution revenue is recognized at the date a trust has been established with an initial valuation based on the expected present value of the Foundation's interest in a trust's assets. Present value computations consider, among other factors, appropriate interest rates and estimated donor mortality which are assessed annually for reasonableness. Subsequent to initial valuation, changes are recognized separately in the Consolidated Statements of Activities and Change in Net Assets of the Foundation.

ILLINOIS STATE UNIVERSITY FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

JUNE 30, 2016 and 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

**Property and Equipment**

Property and equipment are recorded at cost at the date of acquisition or fair value if acquired by gift. For financial statement reporting, the Foundation uses the following estimated useful lives:

<u>Category</u>	<u>Capitalization Threshold</u>	<u>Estimated Useful Lives</u>
Land	\$ 100,000	-
Buildings	\$ 100,000	30-60 years
Building Improvements	\$ 25,000	30 years
Site Improvements	\$ 25,000	15 years
Leasehold Improvements	\$ 25,000	remaining term of lease
Furniture and Equipment	\$ 5,000	7 years

Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

**Collections**

Collections are recorded at cost at the date of donation and are valued based upon the appraisal submitted along with the donation. For financial statement reporting, the Foundation uses a \$ 5,000 capitalization threshold and a seven-year estimated useful life.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

**Cash Surrender Value of Life Insurance**

Cash surrender value of life insurance represents the surrender value of insurance policies where donors have transferred ownership of the policies to the Foundation, and the Foundation is named as beneficiary. Life insurance policies are carried at net cash surrender value. Changes in value (realized and unrealized) are recorded in the Consolidated Statements of Activities and Change in Net Assets of the Foundation.

**ILLINOIS STATE UNIVERSITY FOUNDATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**JUNE 30, 2016 and 2015**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Contributions and Net Assets**

Contributions are recognized at fair value in the period in which the pledges are made. Contributions received are distinguished between those that increase permanently restricted, temporarily restricted and unrestricted net assets. Temporarily restricted net assets result from donor restrictions that the contributions are to be used for restricted purposes. When the restriction has been met, the temporarily restricted net assets are released to unrestricted net assets.

Temporarily restricted contributions received in the same year in which the restriction is met are recorded as temporarily restricted contributions.

Permanently restricted net assets result from donor-imposed restrictions that the corpus be invested in perpetuity (endowment assets) and that earnings in excess of the corpus are temporarily restricted.

**Contributed Assets and Services**

Real estate and other objectively measurable assets that are available for financial support are recorded at their fair value at the date of contribution. Non-monetary assets, art objects, equipment and various services contributed directly to the University through the Foundation for direct benefit of a University department are not included in the financial statements, although donors receive recognition for such contributions.

The value of contributed services of a number of volunteers is not reflected in the financial statements since the services are not specialized services that would otherwise be purchased.

**ILLINOIS STATE UNIVERSITY FOUNDATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**JUNE 30, 2016 and 2015**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Income Taxes**

The Internal Revenue Service has recognized the Foundation as exempt from income taxes under provisions of Section 501(c)(3) of the Internal Revenue Code. The Foundation follows the accounting guidance for accounting for uncertainty in income taxes. The Foundation is subject to federal and state income taxes to the extent it has unrelated business income. During the year ended June 30, 2016, the Foundation paid federal and State of Illinois income taxes on its unrelated business income from its investments in limited partnerships totaling \$ 6,605 and \$ 13,018 for the tax years ended June 30, 2015 and 2014, respectively. Interest and penalties paid during the year ended June 30, 2016 totaled \$ 292 and \$ 1,282 for the tax years ended June 30, 2015 and 2014, respectively. The Foundation did not pay any federal income taxes or penalties and interest during the year ended June 30, 2015. In accordance with the guidance for uncertainty in income taxes, management has evaluated its material tax positions and determined that there are no material income tax effects with respect to its financial statements.

**Fair Value of Financial Instruments**

The carrying amounts of cash and cash equivalents, accounts payable and other liabilities, agency funds payable and deposits held for others approximate fair value due to the short maturity of these financial instruments. Receivables are initially recorded at fair value using an appropriate discount rate and approximate fair value at year-end. Investments, beneficial interests in trusts and split-interest agreements, assets held under split-interest agreements and obligations under split-interest agreements are carried at fair value.

**Subsequent Events**

Subsequent events have been evaluated through the date of the Independent Auditors' Report, which is the date the financial statements were available to be issued.

**ILLINOIS STATE UNIVERSITY FOUNDATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**JUNE 30, 2016 and 2015**

**NOTE 2 - CASH AND CASH EQUIVALENTS**

Cash and cash equivalents consist of the following at June 30:

	2016		2015	
	Bank Balance	Carrying Amount	Bank Balance	Carrying Amount
Cash and cash equivalents	\$ 14,782,866	\$ 14,661,422	\$ 11,930,090	\$ 11,773,175

Custodial credit risk is the risk that in the event of a bank failure, deposits may not be returned. The Federal Deposit Insurance Corporation or the Security Investor Protection Corporation insured account balances of \$ 2,782,866 and \$ 791,149 at June 30, 2016 and 2015, respectively. Bank balances of \$ 12,000,000 and \$ 11,138,941 at June 30, 2016 and 2015, respectively, were invested in investment sweep funds secured by U.S. government obligations. The Foundation does not have a formal policy for custodial credit risk.

Carrying amount of cash and cash equivalents at June 30:

	2016	2015
Unrestricted cash and cash equivalents	\$ 12,981,100	\$ 11,001,982
Restricted cash and cash equivalents	1,680,322	771,193
	\$ 14,661,422	\$ 11,773,175

Restricted cash and cash equivalents are included in investments and assets held under split-interest agreements at June 30, 2016 and 2015.



**ILLINOIS STATE UNIVERSITY FOUNDATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**JUNE 30, 2016 and 2015**

**NOTE 3 - INVESTMENTS**

Investments at June 30, 2016, consisted of the following:

	<u>Cost</u>	<u>Fair Value</u>
Common stock	\$ 373,985	\$ 455,720
Mutual funds - investing in		
Stocks	44,091,148	54,581,955
Bonds	5,278,557	7,268,985
Commodities	599,305	395,796
Hedged and alternative funds	26,466,852	33,955,408
Real assets marketable funds	11,706,902	12,562,685
Cash and cash equivalents	<u>1,648,085</u>	<u>1,648,085</u>
	<u>\$ 90,164,834</u>	<u>\$ 110,868,634</u>

Investments at June 30, 2015, consisted of the following:

	<u>Cost</u>	<u>Fair Value</u>
Common stock	\$ 380,848	\$ 450,888
Mutual funds - investing in		
Stocks	43,443,072	58,349,254
Bonds	6,986,625	7,043,742
Commodities	1,795,651	1,202,126
International	2,000,000	1,769,348
Hedged and alternative funds	25,049,111	32,829,766
Real assets marketable funds	11,037,148	11,304,141
Cash and cash equivalents	<u>763,392</u>	<u>763,392</u>
	<u>\$ 91,455,847</u>	<u>\$ 113,712,657</u>

## ILLINOIS STATE UNIVERSITY FOUNDATION AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

JUNE 30, 2016 and 2015

#### NOTE 3 - INVESTMENTS - Continued

Total investment return was comprised of \$ 1,188,620 and \$ 1,105,571 of dividend and interest income netted against \$ 166,177 and \$ 142,237 of fees for the years ended June 30, 2016 and 2015, respectively. Realized losses totaled \$ 926,684 for the year ended June 30, 2016 and realized gains totaled \$ 2,588,605 for the year ended June 30, 2015. Unrealized losses totaled \$ 2,908,890 and \$ 308,445 for the years ended June 30, 2016 and 2015, respectively.

#### NOTE 4 - ASSETS HELD AND OBLIGATIONS UNDER SPLIT-INTEREST AGREEMENTS

Split-interest agreements are agreements where donors enter into a trust or other arrangement under which the Foundation is the beneficiary. Charitable gift annuities are agreements in which the Foundation accepts a contribution and agrees to an obligation to make periodic stipulated payments to donors or third-party beneficiaries for a specified time. Charitable lead trusts are agreements in which the Foundation accepts a contribution and receives all income generated by the investment during the life of the donor. Upon death of the donor, the annuity is then transferred to the beneficiary.

On an annual basis, the Foundation revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions. Adjustments to reflect the present value of the estimated annuity payments and changes in actuarial assumptions are included in the Consolidated Statements of Activities and Change in Net Assets. The present value of the estimated future payments is calculated using an actuarial discount rate and applicable mortality tables.

#### NOTE 5 - BENEFICIAL INTERESTS IN TRUSTS

As of June 30, 2016 and 2015, the Foundation has recorded its beneficial interests in four perpetual trusts. Interests in the perpetual trusts have been recorded as permanent endowments based on the intent for the trusts to operate in perpetuity.

These trusts consist of investment portfolios which are in the custody of an independent trustee who has the authority to manage investment decisions. The Foundation retains the sole interest in two of the trusts and a one-third and a one-half interest in the other two trusts, respectively. The trustees do not have variance power to redirect the interests in the trusts to other entities. Net decreases in the value of beneficial interests in trusts totaled \$ 94,380 and \$ 74,410 for the years ended June 30, 2016 and 2015, respectively.

**ILLINOIS STATE UNIVERSITY FOUNDATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**JUNE 30, 2016 and 2015**

**NOTE 5 - BENEFICIAL INTERESTS IN TRUSTS - Continued**

A fifth trust was terminated by the trustee, with the consent of the Illinois Attorney General, effective June 30, 2014. Proceeds from the trust totaling \$ 846,085 were received during the year ended June 30, 2015.

**NOTE 6 - BENEFICIAL INTERESTS IN SPLIT-INTEREST AGREEMENTS**

The Foundation has been named the beneficiary of two charitable remainder trusts which are managed by third parties. Under the terms of one trust, the third party trustee pays specified distributions to individual beneficiaries and to two organizations, of which the Foundation is one, during the agreement's term. At the time of the last individual's death, the trust will convert to a perpetual trust, with the Foundation having a one-half interest. The income from the trust is restricted to scholarships.

According to the terms of the second trust, an individual beneficiary is entitled to annual payments during his lifetime. The Foundation is the beneficiary of two-thirds of the remaining trust assets upon the death of the individual beneficiary or 25 years after the death of the donor, whichever occurs first. The proceeds distributed from the trust will be restricted to scholarships.

Net decreases in the beneficial interest of split-interest agreements totaled \$ 40,728 and \$ 11,895 for the years ended June 30, 2016 and 2015, respectively. The recorded beneficial interests are based on the present value of future cash flows to the Foundation.

**NOTE 7 - FAIR VALUE MEASUREMENTS**

The Foundation follows the fair value measurement guidance for financial assets and financial liabilities. This guidance defines fair value, establishes a framework for measuring fair value and expands disclosure about fair value measurements.

Fair value is defined to be the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between the market participants at the measurement date.

**ILLINOIS STATE UNIVERSITY FOUNDATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**JUNE 30, 2016 and 2015**

**NOTE 7 - FAIR VALUE MEASUREMENTS - Continued**

A three-level hierarchy has been established for fair value measurements based upon the inputs to the valuation of an asset or liability as follows:

Level 1 - Valuation is based on quoted prices for identical assets and liabilities in active markets.

Level 2 - Valuation is derived from inputs, other than quoted prices included in Level 1, which are observable for the asset or liability either directly or indirectly. Investments classified as Level 2 are generally valued by benchmarking model-derived prices to quoted market prices and trade data for identical or comparable securities. The significant inputs used in this approach include interest rates, prepayment timing, yield spreads, maturities, credit losses and credit ratings of the securities.

Level 3 - Valuation is derived from unobservable inputs that are not corroborated by market data.

Fair values for the Foundation's debt and mutual fund securities are based on prices provided by its investment managers and its custodian bank. Both the investment managers and the custodian bank use a variety of pricing sources to determine market valuations. The Foundation analyzes market valuations received to verify reasonableness and to understand the key assumptions used and their sources.

Fair values of equity securities have been determined by the Foundation from observable market quotations as provided by its investment managers and its custodian bank.

Fair values of investments in alternative investments are provided by management of the funds. Such investments include private investment entities in which public market quotations to enter and exit the investments are not provided. Each entity provides the Foundation with a net asset value per unit invested. Each of the entities financial statements are prepared in a manner consistent with investment companies and report their investments at fair value.

Cash equivalents are comprised of short-term fixed income securities. Because of the nature of these assets, carrying amounts approximate fair values, which have been determined from public quotations, when available.

**ILLINOIS STATE UNIVERSITY FOUNDATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**JUNE 30, 2016 and 2015**

**NOTE 7 - FAIR VALUE MEASUREMENTS - Continued**

The Foundation has elected to measure any existing obligation under split-interest agreements at fair value. To better match the estimated cash flows of the obligation under split-interest agreements, the Foundation changes the present value of annuity rate to match the current amount distribution when calculating the present value of annuity.

Beneficial interests in trusts are valued at the proportional share of interest at the closing price on which the trusts' underlying individual assets are based as reported to the Foundation by the trustees.

There have been no changes in valuation techniques used for any assets measured at fair value during the year ended June 30, 2016.

ILLINOIS STATE UNIVERSITY FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

JUNE 30, 2016 and 2015

NOTE 7 - FAIR VALUE MEASUREMENTS - Continued

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

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments				
Common stock	\$ 455,720	\$ 455,720	\$ -	\$ -
Mutual funds	62,246,736	-	62,246,736	-
Hedged and alternative funds	33,955,408	-	21,580,747	12,374,661
Real assets marketable funds	12,562,685	-	4,551,659	8,011,026
Cash and cash equivalents	<u>1,648,085</u>	<u>1,648,085</u>	<u>-</u>	<u>-</u>
	<u>\$ 110,868,634</u>	<u>\$ 2,103,805</u>	<u>\$ 88,379,142</u>	<u>\$ 20,385,687</u>
Assets held under split-interest agreements				
U.S. treasury notes	\$ 26,173	\$ -	\$ 26,173	\$ -
Mutual funds	302,228	-	302,228	-
Hedged and alternative funds	39,838	-	39,838	-
Real assets marketable funds	41,948	-	41,948	-
Cash and cash equivalents	<u>32,237</u>	<u>32,237</u>	<u>-</u>	<u>-</u>
	<u>\$ 442,424</u>	<u>\$ 32,237</u>	<u>\$ 410,187</u>	<u>\$ -</u>
Beneficial interests in trusts	<u>\$ 2,328,888</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,328,888</u>
Beneficial interests in split-interest agreements	<u>\$ 359,681</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 359,681</u>
Obligation under split-interest agreements	<u>\$ (320,898)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (320,898)</u>

ILLINOIS STATE UNIVERSITY FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

JUNE 30, 2016 and 2015

NOTE 7 - FAIR VALUE MEASUREMENTS - Continued

The following table presents the Foundation's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30, 2015:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments				
Common stock	\$ 450,888	\$ 450,888	\$ -	\$ -
Mutual funds	68,364,470	-	68,364,470	-
Hedged and alternative funds	32,829,766	-	21,350,231	11,479,535
Real assets marketable funds	11,304,141	-	5,049,746	6,254,395
Cash and cash equivalents	<u>763,392</u>	<u>763,392</u>	<u>-</u>	<u>-</u>
	<u>\$ 113,712,657</u>	<u>\$ 1,214,280</u>	<u>\$ 94,764,447</u>	<u>\$ 17,733,930</u>
Assets held under split-interest agreements				
U.S. treasury notes	\$ 37,368	\$ -	\$ 37,368	\$ -
Mutual funds	264,190	-	264,190	-
Hedged and alternative funds	30,693	-	30,693	-
Real assets marketable funds	31,180	-	31,180	-
Cash and cash equivalents	<u>7,801</u>	<u>7,801</u>	<u>-</u>	<u>-</u>
	<u>\$ 371,232</u>	<u>\$ 7,801</u>	<u>\$ 363,431</u>	<u>\$ -</u>
Beneficial interests in trusts	<u>\$ 2,423,268</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,423,268</u>
Beneficial interests in split-interest agreements	<u>\$ 400,409</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 400,409</u>
Obligation under split-interest agreements	<u>\$ (280,083)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (280,083)</u>

**ILLINOIS STATE UNIVERSITY FOUNDATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**JUNE 30, 2016 and 2015**

**NOTE 7 - FAIR VALUE MEASUREMENTS - Continued**

The following tables represents a reconciliation of all Level 3 assets and liabilities measured at fair value on a recurring basis for the years ended June 30, 2016 and 2015:

	<u>Investments</u>			Beneficial	Obligation
	Hedged and	Real Assets		Interests in	Under
	Alternative	Marketable	Beneficial	Split-Interest	Split-Interest
	<u>Funds</u>	<u>Funds</u>	<u>Trusts</u>	<u>Agreements</u>	<u>Agreements</u>
Balance as of June 30, 2014	\$ 10,172,653	\$ 5,353,054	\$ 2,497,678	\$ 412,304	\$ (249,972)
Investment income	-	-	58,219	16,338	-
Net appreciation (depreciation)	2,060,285	(321,557)	(45,679)	37,076	-
Purchase of investments	1,766,580	1,553,000	-	-	-
Sale of investments	(2,519,983)	(330,102)	-	-	-
Contributions	-	-	3,131	1,271	(56,250)
Payments to beneficiaries	-	-	(90,081)	(66,580)	26,139
Balance as of June 30, 2015	11,479,535	6,254,395	2,423,268	400,409	(280,083)
Investment income	-	-	27,077	7,495	-
Net appreciation (depreciation)	613,850	344,052	(27,071)	(14,862)	-
Purchase of investments	1,707,772	1,942,992	-	-	-
Sale of investments	(1,426,496)	(530,413)	-	-	-
Contributions	-	-	-	-	(81,031)
Payments to beneficiaries	-	-	(94,386)	(33,361)	40,216
Balance as of June 30, 2016	<u>\$ 12,374,661</u>	<u>\$ 8,011,026</u>	<u>\$ 2,328,888</u>	<u>\$ 359,681</u>	<u>\$ (320,898)</u>

**NOTE 8 - INVESTMENTS IN ENTITIES THAT CALCULATE NET ASSET VALUE PER SHARE**

As part of the Foundation's investment portfolio, there are investments in entities in which purchases and withdrawals within these entities are not made in an open market. Instead, the purchases and withdrawals occur with the entities, and in certain circumstances, those transactions are entirely controlled and/or restricted by the entity. The fair value of these investments is determined by the management of the entities and is reported to the Foundation as the Foundation's proportionate share of the net asset fair value of the entity.



ILLINOIS STATE UNIVERSITY FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

JUNE 30, 2016 and 2015

NOTE 8 - INVESTMENTS IN ENTITIES THAT CALCULATE NET ASSET VALUE  
PER SHARE - Continued

The tables below provide information relative to these types of investments. The additional information that follows the tables provides information associated with these investments. None of the investments are probable of being sold at an amount different from net asset value per share.

For the investments shown below, the Foundation is not able to redeem the investments until the termination date of the fund. As such, there is no redemption frequency or redemption notice period shown below. The final termination date of each fund is presented in the table. This termination date is estimated as most funds have an option of extending the fund for an additional two years, if desired.

Category	Fair Value		Unfunded Commitments	Termination Date of the Fund
	2016	2015		
Limited partnerships				
Capital Partners 2000	\$ 908,189	\$ 1,217,503	\$ 76,507	3/30/2017
Global Distressed Investors	969,825	1,202,997	488,320	5/1/2022
Emerging Markets 2013	491,601	327,597	595,000	12/11/2027
International Private Equity Partners	1,604,802	1,739,975	673,575	3/31/2020 to 12/5/2023
SSG Realty Opportunities	1,749,778	1,367,912	968,160	4/1/2025
SSG Global Private Equity Fund	1,547,297	583,984	10,260,000	5/16/2026 to 5/16/2029
Natural Resources Partners	3,863,767	3,148,513	6,873,500	2/15/2020 to 12/20/2026
Private Equity Partners	1,636,932	1,561,237	743,662	3/31/2020 to 12/5/2026
Venture Partners	5,216,015	4,846,242	2,779,740	3/31/2020 to 7/3/2027
Strategic Solutions Realty Opportunities	2,397,481	1,737,970	1,338,008	9/28/2022

ILLINOIS STATE UNIVERSITY FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

JUNE 30, 2016 and 2015

NOTE 8 - INVESTMENTS IN ENTITIES THAT CALCULATE NET ASSET VALUE PER SHARE - Continued

The following investments are also valued at the Foundation's proportionate share of the net asset value of the entity. However, these funds are liquid and can be redeemed with the required notification period.

Category	Fair Value		Unfunded Commitments	Redemption Frequency	Redemption Notice Period
	2016	2015			
Intermediate Term Fund	\$ 1,764,270	\$ 2,130,164	-	Weekly	5 days
High Quality Bond Fund	4,217,958	3,684,817	-	Weekly	5 days
Strategic Solutions					
Global Equity Fund	53,975,494	57,939,563	-	Monthly	5 days
Real Estate Securities Fund	606,460	409,690	-	Monthly	5 days
CFI Global Bond Fund, LLC	125,336	118,735	-	Monthly	5 days
CFI Multi-Strategy					
Commodities Fund, Ltd	395,796	1,202,126	-	Monthly	5 days
Strategic Solutions Global					
Hedged Equity Company	9,491,822	9,838,049	-	Quarterly	95 days
Strategic Solutions					
Diversifying Company	4,482,882	4,018,491	-	Quarterly	95 days
Strategic Solutions					
Core Real Estate Fund	2,310,911	2,087,408	-	Quarterly	120 days
Strategic Solutions Relative					
Value & Event Driven Co.	7,606,043	7,493,691	-	Semi-annual	95 days

Capital Partners 2000 - a diversified capital program investing in private equity and venture capital both in developed and emerging markets.

Global Distressed Investors - a diverse set of liquid trading strategies and illiquid, longer-term lock-up strategies, which invest primarily in performing restructured debt, stressed debt, distressed debt, "special situation" and mezzanine debt investments, across the U.S. and globally.

Emerging Markets 2013 - long-term capital appreciation and superior risk-adjusted net returns through diversified private capital investments including growth equity, buyouts and venture capital, focused in China, Latin America, India, Southeast Asia, South Korea, Africa and other select emerging market countries.

International Private Equity Partners - long-term capital appreciation and superior risk-adjusted net returns through diversified private equity investments. Strategic focus areas include European focus, private equity emphasis and a preference for indigenous managers.

ILLINOIS STATE UNIVERSITY FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

JUNE 30, 2016 and 2015

**NOTE 8 - INVESTMENTS IN ENTITIES THAT CALCULATE NET ASSET VALUE PER SHARE - Continued**

SSG Realty Opportunities - invest in value-added, distressed, and opportunistic private real estate funds that target a 13% - 15% compounded annual return.

SSG Global Private Equity Fund - invests primarily in a diversified portfolio of common stocks and equity-linked securities of companies in the global public equity markets.

Natural Resources Partners - long-term capital appreciation and superior risk-adjusted net returns through equity investments and property acquisition strategies. Strategic focus areas include emphasis on natural gas and oil, power and other natural resources opportunities.

Private Equity Partners - long-term capital appreciation and superior risk-adjusted net returns through diversified private equity investments.

Venture Partners - long-term capital appreciation and superior risk-adjusted net returns through equity investments. Primary strategic focus area is information technology with an early stage bias. Secondary strategic focus areas include healthcare and late stage technology.

Strategic Solutions Realty Opportunities - invest in value-added, distressed, and opportunistic private real estate funds that target a 15% - 18% compounded annual return.

Intermediate Term Fund - generate a higher current yield than short-term money market investments in a manner that mitigates the changes of a negative total return over any twelve-month period.

High Quality Bond Fund - offer a program devoted to investing in high quality, investment-grade only, fixed income securities.

Strategic Solutions Global Equity Fund - invests primarily in a diversified portfolio of common stocks and equity-linked securities of companies in global public equity markets.

Real Estate Securities Fund - offers an actively managed, multi-manager investment program that seeks to provide the benefits of a diversified real estate portfolio without the multi-year commitment typically associated with private real estate investment funds.

CFI Global Bond Fund, LLC - invests primarily in sovereign bonds and other fixed income securities worldwide in an attempt to outperform the broad worldwide bond market.

CFI Multi-Strategy Commodities Fund, Ltd - pursues a multi-strategy approach to investing in the commodities markets, which include futures, options on futures and forward contracts on exchange traded agricultural goods, metals, minerals, energy products and foreign currencies.

ILLINOIS STATE UNIVERSITY FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

JUNE 30, 2016 and 2015

**NOTE 8 - INVESTMENTS IN ENTITIES THAT CALCULATE NET ASSET VALUE PER SHARE - Continued**

Strategic Solutions Global Hedged Equity Company - seeks to provide shareholders with a multi-manager, marketable alternatives investment program that is capable of outperforming the MSCI World Index over a full market cycle, while also providing for some protection during down markets.

Strategic Solutions Diversifying Company - seeks to provide investors with a multi-manager, marketable alternatives investment program that provides investors with net returns over a full market cycle that are favorable to capital markets on a risk-adjusted basis.

Strategic Solutions Core Real Estate Fund - invest in diversified portfolio of open-end investment funds that focus on core real estate investing.

Strategic Solutions Relative Value & Event Driven Company - seeks to provide shareholders with a multi-manager, marketable alternatives investment program that provides long-term returns that are favorable to those of equity and credit markets on a risk-adjusted basis.

**NOTE 9 - PLEDGES RECEIVABLE**

Pledges receivable balances at June 30 consist of the following:

	<u>2016</u>	<u>2015</u>
Pledges receivable		
Due within 1 year	\$ 3,709,689	\$ 1,076,157
Due within 1 to 5 years	3,261,137	1,562,084
Less		
Discount for time-value of money	(67,456)	(45,646)
Allowance for doubtful accounts	(176,009)	(197,868)
	<u>\$ 6,727,361</u>	<u>\$ 2,394,727</u>

Management believes the allowance for uncollectible pledges is adequate based on information currently known. However, events impacting donors could occur in the future which would materially increase the allowance for uncollectible pledges.

**ILLINOIS STATE UNIVERSITY FOUNDATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**JUNE 30, 2016 and 2015**

**NOTE 10 - PROPERTY AND EQUIPMENT**

The following is a summary of property and equipment at June 30:

	<u>2016</u>	<u>2015</u>
Buildings	\$ 7,775,670	\$ 7,775,670
Building improvements	597,642	463,242
Site improvements	2,445,585	2,445,585
Leasehold improvements	39,260	39,260
Furniture and equipment	<u>31,945</u>	<u>31,945</u>
	10,890,102	10,755,702
Less accumulated depreciation	<u>(3,974,610)</u>	<u>(3,554,014)</u>
	6,915,492	7,201,688
Land	<u>980,000</u>	<u>980,000</u>
Total	<u>\$ 7,895,492</u>	<u>\$ 8,181,688</u>

Depreciation expense charged to operations for the years ended June 30, 2016 and 2015, was \$ 427,467 and \$ 420,827, respectively. This includes depreciation expense of \$ 6,869 and \$ 2,765 related to collections for the years ended June 30, 2016 and 2015, respectively.

**NOTE 11 - DEFERRED RENT REVENUE**

In July 2008, the Foundation's Launching Futures, LLC acquired real estate to serve as the University's new Alumni Center. The University paid an advance rent payment of \$ 3,000,000 to fund improvements to the building. The advance rent is being amortized over the ten-year period of the lease and option at \$ 300,000 per year. The balance of deferred rent as of June 30, 2016 and 2015, was \$ 600,000 and \$ 900,000, respectively.

**ILLINOIS STATE UNIVERSITY FOUNDATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**JUNE 30, 2016 and 2015**

**NOTE 12 - CONTRACT-FOR-DEED PAYABLE**

Contract-for-deed payable as of June 30, 2015, was \$ 2,816,930. It consisted of a \$ 3,300,000 installment contract-for-deed secured by the Alumni Center building. The building was purchased by Launching Futures, LLC during the year ended June 30, 2009, from a former Foundation Board member with a financial interest. At the time of the purchase the Foundation Board member was not a voting member of the LLC Board, which approved the transactions with full and complete knowledge of that Board member's financial involvement with the seller. The contract required 119 monthly payments of \$ 16,160 at 3.34% interest with a final payment for the entire outstanding balance. On December 15, 2015, Launching Futures LLC paid off the contract-for-deed by refinancing the debt with Commerce Bank.

**NOTE 13 - LONG-TERM DEBT**

Long-term debt consists of the following at June 30:

	<u>2016</u>	<u>2015</u>
Commerce Bank, mortgage note payable; due in monthly installments of \$ 16,160, including interest at 3.34%; maturing in December 2025. The building on North Main Street in Normal, Illinois, with a cost of \$ 3,300,000, is pledged as collateral.	\$ 2,764,542	\$ -

Aggregate annual maturities of long-term debt at June 30, 2016, are:

2017	\$ 101,873
2018	105,377
2019	109,001
2020	112,528
2021	116,620
Thereafter	<u>2,219,143</u>
	<u>\$ 2,764,542</u>

ILLINOIS STATE UNIVERSITY FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

JUNE 30, 2016 and 2015

NOTE 14 - OPERATING LEASE COMMITMENTS

In 1990, the Foundation established a Chicago office to provide the University with direct access to Chicago area alumni, corporation and Foundation networks. Lease payments for the Chicago office totaled \$ 81,340 and \$ 44,071 in 2016 and 2015, respectively. The original lease expired in December 2014 and was renewed for an additional five years with the first five months of rent abated per the renewal agreement. Future minimum lease payments as of June 30, 2016, are as follows:

Years ending June 30,	<u>Building</u>
2017	\$ 85,021
2018	89,581
2019	91,838
2020	<u>46,295</u>
	<u>\$ 312,735</u>

NOTE 15 - NET ASSETS

Temporarily restricted net assets as of June 30 were restricted for the following:

	<u>2016</u>	<u>2015</u>
Scholarships and fellowships	\$ 26,881,207	\$ 31,837,414
Instructional department uses	12,979,327	13,024,588
University capital projects	2,557,203	2,706,271
Other	<u>5,500,724</u>	<u>4,543,485</u>
	<u>\$ 47,918,461</u>	<u>\$ 52,111,758</u>

**ILLINOIS STATE UNIVERSITY FOUNDATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**JUNE 30, 2016 and 2015**

**NOTE 15 - NET ASSETS - Continued**

Permanently restricted net assets as of June 30 are restricted for investment in perpetuity, the income from which is expendable for the following:

	<u>2016</u>	<u>2015</u>
Scholarships and fellowships	\$ 47,222,785	\$ 45,402,064
College and academic development	17,999,890	14,690,025
University capital projects	5,318,795	5,287,973
Other	<u>5,116,854</u>	<u>5,178,373</u>
	<u>\$ 75,658,324</u>	<u>\$ 70,558,435</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

**NOTE 16 - ENDOWMENT FUNDS**

The Foundation's endowment consists of approximately 746 individual funds established for a variety of purposes. The endowment includes donor-restricted and board designated endowment funds. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Foundation has interpreted the Illinois Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring 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 Foundation 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 donor-restricted endowment funds is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.



**ILLINOIS STATE UNIVERSITY FOUNDATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**JUNE 30, 2016 and 2015**

**NOTE 16 - ENDOWMENT FUNDS - Continued**

In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. Duration and preservation of the fund
2. Purposes of the Foundation and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of the institution
7. Investment policies of the Foundation

Endowment net assets as of June 30 were as follows:

<u>2016</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted permanent endowment funds	\$ (232,667)	\$ 13,054,753	\$ 69,678,323	\$ 82,500,409
Donor-restricted quasi-endowment funds	-	11,552,706	-	11,552,706
Board designated quasi-endowment funds	<u>3,009,063</u>	<u>-</u>	<u>-</u>	<u>3,009,063</u>
	<u>\$ 2,776,396</u>	<u>\$ 24,607,459</u>	<u>\$ 69,678,323</u>	<u>\$ 97,062,178</u>

<u>2015</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted permanent endowment funds	\$ (51,658)	\$ 19,431,350	\$ 67,846,618	\$ 87,226,310
Donor-restricted quasi-endowment funds	-	12,778,703	-	12,778,703
Board designated quasi-endowment funds	<u>2,653,187</u>	<u>-</u>	<u>-</u>	<u>2,653,187</u>
	<u>\$ 2,601,529</u>	<u>\$ 32,210,053</u>	<u>\$ 67,846,618</u>	<u>\$ 102,658,200</u>

**ILLINOIS STATE UNIVERSITY FOUNDATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**JUNE 30, 2016 and 2015**

**NOTE 16 - ENDOWMENT FUNDS - Continued**

Changes in endowment, not total, net assets for the fiscal years ended June 30, 2016 and 2015, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment investments at July 1, 2014	\$ 2,670,096	\$ 32,141,002	\$ 65,105,901	\$ 99,916,999
Investment income	31,614	553,831	24,527	609,972
Net appreciation	84,477	1,479,936	65,541	1,629,954
Contributions	-	1,309,142	2,051,920	3,361,062
Appropriations of endowment assets for expenditure	(162,626)	(3,543,246)	-	(3,705,872)
Changes in donor restrictions	-	(398,729)	398,729	-
Other additions	-	646,085	200,000	846,085
Reclassification of net assets for funds with deficiencies	<u>(22,032)</u>	<u>22,032</u>	<u>-</u>	<u>-</u>
Endowment investments at June 30, 2015	2,601,529	32,210,053	67,846,618	102,658,200
Investment income	14,376	924,203	26,199	964,778
Net depreciation	(57,564)	(3,075,744)	(115,823)	(3,249,131)
Contributions	-	1,635,049	2,116,249	3,751,298
Appropriations of endowment assets for expenditure	(50,414)	(3,715,720)	-	(3,766,134)
Expenditures from quasi- endowment funds	-	(2,327,343)	-	(2,327,343)
Other	449,478	(1,224,048)	(194,920)	(969,490)
Reclassification of net assets for funds with deficiencies	<u>(181,009)</u>	<u>181,009</u>	<u>-</u>	<u>-</u>
Endowment investments at June 30, 2016	<u>\$ 2,776,396</u>	<u>\$ 24,607,459</u>	<u>\$ 69,678,323</u>	<u>\$ 97,062,178</u>

## ILLINOIS STATE UNIVERSITY FOUNDATION AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

JUNE 30, 2016 and 2015

#### NOTE 16 - ENDOWMENT FUNDS - Continued

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the Foundation is required to retain as a fund of perpetual duration pursuant to donor stipulation or UPMIFA. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets and aggregated \$ 232,667 and \$ 51,658 as of June 30, 2016 and 2015, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after investment of new permanently restricted contributions and continued appropriation for certain purposes that was deemed prudent by the Foundation Board of Directors.

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include those assets of donor-restricted endowment funds the Foundation must hold in perpetuity or for donor-specified periods, as well as those of board-designated endowment funds. Under the Foundation's policies, endowment assets are invested in a manner that is intended to produce results that seek an average total annual return of spending net of inflation and administrative cost. The Foundation expects its endowment funds to provide an average rate of return of approximately 4.5% annually over time. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate of return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). The Foundation 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.

The Foundation's board of directors has adopted a hybrid approach spending policy to determine the spending distribution. This approach takes into consideration the duration and preservation of the endowments, purpose of the endowment funds, general economic conditions, the possible effect of inflation or deflation, expected total return from income and the investment policy.

The spending distribution calculation is the sum of a) the prior year's spending distribution, plus 4.5% of the value of any new gifts; the sum of which is adjusted by the most recently calculated annual Higher Education Price Index, then weighted at 70% added to b) the year-end market value times 4.5% then weighted at 30%.

## ILLINOIS STATE UNIVERSITY FOUNDATION AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

JUNE 30, 2016 and 2015

#### NOTE 17 - FUNDRAISING FEES

A fundraising fee of 1.4%, of the December 31 market value, is assessed from each endowed funds' annual distribution to help support Foundation's fundraising and general operations. On July 1, 2015 and 2014, a total of \$ 3,766,134 and \$ 3,705,872, respectively, was distributed to endowed funds' expendable balances and fundraising fees totaling \$ 1,408,026 and \$ 1,245,261, respectively, were distributed to the Foundation budget.

#### NOTE 18 - RELATED PARTY TRANSACTIONS

Effective July 1, 2012, the Foundation signed a Support Agreement for a three year term with the University Board of Trustees (acting for and on behalf of the University) whereby the University agreed to provide to the Foundation fair and reasonable compensation in exchange for development and fund raising services up to a maximum value. The maximum value in subsequent years was adjusted by a factor equal to average salary increases. The agreement expired on June 30, 2015. Effective July 1, 2015, the Foundation renewed the Support Agreement for an additional one year term. The maximum values under the agreements were \$ 2,518,000 and \$ 2,444,940 for the years ended June 30, 2016 and 2015, respectively. Under the terms of the agreements, in fiscal year 2016 and 2015, the University provided in-kind support in the form of personnel, office space, office equipment, computer support, and communication services, estimated at \$ 2,248,812 and \$ 2,390,524, respectively. Cash payments and in-kind support pursuant to the Support Agreement are included as Service contract with the University revenue and expenses have been allocated among the support services in the accompanying Consolidated Statements of Activities and Change in Net Assets.

As of June 30, 2016 and 2015, the Foundation had payables to the University of \$ 2,837,303 and \$ 338,648, respectively. At June 30, 2016 and 2015, the Foundation had no receivables from the University.

The Foundation's Launching Futures, LLC, received from the University lease payments of \$ 230,004 for the Alumni Center during the years ended June 30, 2016 and 2015. The five-year lease began in July of 2008, and the lease was extended by the University for an additional five years.

The Foundation's Launching Futures II, LLC, received from the University lease payments of \$ 24,993 and \$ 49,992 for the Traders Circle parking lot during the years ended June 30, 2016 and 2015, respectively. The five-year lease began in June of 2007, and the lease was extended by the University for an additional five years. This lease has expired, and no future lease payments will be received from the University.

**ILLINOIS STATE UNIVERSITY FOUNDATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**JUNE 30, 2016 and 2015**

**NOTE 19 - COMMITMENT TO INVEST IN LIMITED PARTNERSHIPS**

The Foundation has invested in various limited partnerships. According to the terms of the investment agreements, the Foundation committed to invest \$ 47,896,457 and \$ 37,896,457 as of June 30, 2016 and 2015, respectively. As of June 30, 2016 and 2015, the Foundation had invested \$ 23,099,985 and \$ 21,141,221, respectively. The balance of the Foundation's investment commitments at June 30, 2016 and 2015, was \$ 24,796,472 and \$ 16,755,236, respectively.

**NOTE 20 - RECLASSIFICATIONS**

Certain reclassifications have been made to the 2015 information to conform to the 2016 presentation.