



ILLINOIS STATE
UNIVERSITY
Foundation

CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT

June 30, 2015 and 2014

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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, 2015 and 2014, 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, 2015 and 2014, and the changes in its net assets and 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 23, 2015, 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.

Kurtz, Eck & Braeschel LLP

Springfield, Illinois
October 23, 2015

ILLINOIS STATE UNIVERSITY FOUNDATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30

	<u>2015</u>	<u>2014</u>
ASSETS		
Cash and cash equivalents	\$ 11,001,982	\$ 10,187,385
Pledges receivable, net	2,394,727	2,184,636
Accounts receivable and prepaid expenses	356,120	896,574
Investments - at fair value	113,712,657	110,530,791
Investment in real estate	600,631	600,631
Assets held under split-interest agreements	371,232	328,819
Beneficial interests in trusts	2,423,268	2,497,678
Beneficial interests in split-interest agreements	400,409	412,304
Property and equipment, net	8,181,688	8,452,254
Assets held as collections	33,181	35,946
Cash surrender value of life insurance	<u>1,440,892</u>	<u>1,454,203</u>
TOTAL ASSETS	<u><u>\$ 140,916,787</u></u>	<u><u>\$ 137,581,221</u></u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and other liabilities	\$ 757,812	\$ 562,793
Obligations under split-interest agreements	280,083	249,972
Deferred rent revenue	900,000	1,200,000
Contract-for-deed payable	<u>2,816,930</u>	<u>2,900,845</u>
TOTAL LIABILITIES	4,754,825	4,913,610
Net Assets		
Unrestricted	13,491,769	13,693,973
Temporarily restricted	52,111,758	50,879,242
Permanently restricted	<u>70,558,435</u>	<u>68,094,396</u>
TOTAL NET ASSETS	<u>136,161,962</u>	<u>132,667,611</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 140,916,787</u></u>	<u><u>\$ 137,581,221</u></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, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and revenue				
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
	3,933,603	11,054,792	2,065,310	17,053,705
Net assets released from restrictions	9,423,547	(9,423,547)	-	-
Changes in donor restrictions	-	(398,729)	398,729	-
Total support and revenue	13,357,150	1,232,516	2,464,039	17,053,705
Expenses				
Program services				
Student aid, scholarships and awards	3,356,153	-	-	3,356,153
University programs	5,860,618	-	-	5,860,618
Total program services	9,216,771	-	-	9,216,771
Support services				
Management and general	3,576,195	-	-	3,576,195
Fundraising	766,388	-	-	766,388
Total support services	4,342,583	-	-	4,342,583
Total expenses	13,559,354	-	-	13,559,354
Change in net assets	(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
Net Assets - End of Year	<u>\$ 13,491,769</u>	<u>\$ 52,111,758</u>	<u>\$ 70,558,435</u>	<u>\$ 136,161,962</u>

ILLINOIS STATE UNIVERSITY FOUNDATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS - CONTINUED

For the year ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and revenue				
Contributions and grants, net of discount allowance for uncollectible receivables	\$ 561,419	\$ 5,657,511	\$ 1,419,136	\$ 7,638,066
Investment gain	3,451,625	12,702,349	-	16,153,974
Change in value of beneficial interests in trusts and split-interest agreements	-	124,925	211,759	336,684
Service contract with the University	2,291,329	-	-	2,291,329
Other revenue	561,987	774,846	-	1,336,833
	<u>6,866,360</u>	<u>19,259,631</u>	<u>1,630,895</u>	<u>27,756,886</u>
Net assets released from restrictions	<u>8,636,298</u>	<u>(8,636,298)</u>	<u>-</u>	<u>-</u>
Total support and revenue	15,502,658	10,623,333	1,630,895	27,756,886
Expenses				
Program services				
Student aid, scholarships and awards	3,017,428	-	-	3,017,428
University programs	5,302,449	-	-	5,302,449
Total program services	<u>8,319,877</u>	<u>-</u>	<u>-</u>	<u>8,319,877</u>
Support services				
Management and general	1,662,305	-	-	1,662,305
Fundraising	2,425,889	-	-	2,425,889
Total support services	<u>4,088,194</u>	<u>-</u>	<u>-</u>	<u>4,088,194</u>
Total expenses	<u>12,408,071</u>	<u>-</u>	<u>-</u>	<u>12,408,071</u>
Change in net assets	3,094,587	10,623,333	1,630,895	15,348,815
Net assets - beginning of year	<u>10,599,386</u>	<u>40,255,909</u>	<u>66,463,501</u>	<u>117,318,796</u>
Net Assets - End of Year	<u>\$ 13,693,973</u>	<u>\$ 50,879,242</u>	<u>\$ 68,094,396</u>	<u>\$ 132,667,611</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>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Contributions, gifts and pledges	\$ 8,864,089	\$ 7,308,173
Service fee revenues	422,635	649,094
Payments on behalf of ISU departments and programs	(5,227,743)	(5,246,950)
Payments for operating expenses	(1,472,677)	(949,983)
Payments for scholarships and fellowships	(3,356,153)	(3,017,428)
Other receipts	756,086	687,739
Other expenditures	<u>(749,859)</u>	<u>(643,581)</u>
Net cash used in operating activities	(763,622)	(1,212,936)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	28,881,791	31,423,185
Purchase of investments	(28,836,437)	(31,069,871)
Purchase of property and equipment	<u>(147,496)</u>	<u>(148,961)</u>
Net cash provided by (used in) investing activities	<u>(102,142)</u>	<u>204,353</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal paid on debt	(83,915)	(78,649)
Private gifts for endowment purposes	1,790,415	1,464,511
Payments to annuitants	<u>(26,139)</u>	<u>(55,524)</u>
Net cash provided by financing activities	<u>1,680,361</u>	<u>1,330,338</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	814,597	321,755
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>10,187,385</u>	<u>9,865,630</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 11,001,982</u></u>	<u><u>\$ 10,187,385</u></u>

ILLINOIS STATE UNIVERSITY FOUNDATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED

For the years ended June 30

	<u>2015</u>	<u>2014</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET		
CASH USED IN OPERATING ACTIVITIES		
Change in net assets	\$ 3,494,351	\$ 15,348,815
Depreciation	420,827	421,513
Gain on investments	(3,243,494)	(16,153,974)
Change in value of interests in beneficial trusts and split-interest agreements	86,305	(336,684)
Private gifts for endowment purposes	(1,790,415)	(1,464,511)
(Increase) decrease in accounts receivable and prepaid expenses	540,454	(33,885)
(Increase) decrease in pledges receivable	(210,091)	1,134,618
(Increase) decrease in cash surrender value life insurance	13,311	(62,830)
Increase in accounts payable and accrued liabilities	195,019	148,935
Increase in beneficiary payments payable	30,111	85,067
Decrease in deferred revenue	(300,000)	(300,000)
NET CASH USED IN OPERATING ACTIVITIES	<u><u>\$ (763,622)</u></u>	<u><u>\$ (1,212,936)</u></u>
CASH PAID FOR INTEREST	<u><u>\$ 186,084</u></u>	<u><u>\$ 191,351</u></u>
NON-CASH ACTIVITY		
Dissolution of beneficial trust, proceeds yet to be received	\$ -	\$ 846,085

See accompanying Notes to Consolidated Financial Statements

ILLINOIS STATE UNIVERSITY FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015 and 2014

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, 2015 and 2014

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 purchased with original maturities of three months or less to be cash equivalents that are not designated for investment purposes.

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, 2015 and 2014

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, 2015 and 2014

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>Estimated Useful Lives</u>
Land	-
Buildings	30-60 years
Building Improvements	30 years
Site Improvements	15 years
Leasehold Improvements	remaining term of lease
Furniture and Equipment	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 7-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, 2015 and 2014

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 ISU 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.

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. In accordance with the guidance for uncertainty in income taxes, management has evaluated their material tax positions and determined that there are no income tax effects with respect to its financial statements.

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

JUNE 30, 2015 and 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

NOTE 2 - CASH AND CASH EQUIVALENTS

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

	2015		2014	
	<u>Bank Balance</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>	<u>Carrying Amount</u>
Cash and cash equivalents	\$ 11,930,090	\$ 11,773,175	\$ 11,984,479	\$ 12,000,217

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 \$ 791,149 and \$ 1,875,879 at June 30, 2015 and 2014, respectively. Bank balances of \$ 11,138,941 and \$ 10,108,600 at June 30, 2015 and 2014, 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.

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

JUNE 30, 2015 and 2014

NOTE 2 - CASH AND CASH EQUIVALENTS - Continued

Carrying amount of cash and cash equivalents at June 30:

	<u>2015</u>	<u>2014</u>
Unrestricted cash and cash equivalents	\$ 11,001,982	\$ 10,187,385
Restricted cash and cash equivalents	<u>771,193</u>	<u>1,812,832</u>
	<u>\$ 11,773,175</u>	<u>\$ 12,000,217</u>

Restricted cash and cash equivalents are included in investments and assets held under split-interest agreements at June 30, 2015 and 2014.

NOTE 3 - INVESTMENTS

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, 2015 and 2014

NOTE 3 - INVESTMENTS - Continued

Investments at June 30, 2014, consisted of the following:

	<u>Cost</u>	<u>Fair Value</u>
Common stock	\$ 317,405	\$ 426,090
Mutual funds – investing in		
Stocks	43,683,996	57,976,438
Bonds	8,261,384	8,404,414
Commodities	1,793,812	1,566,227
Hedged and alternative funds	24,826,692	30,977,421
Real assets marketable funds	7,717,529	9,376,781
Cash and cash equivalents	<u>1,803,420</u>	<u>1,803,420</u>
	<u>\$ 88,404,238</u>	<u>\$ 110,530,791</u>

Total investment return was comprised of \$ 1,105,571 and \$ 1,149,439 of dividend and interest income netted against \$ 142,237 and \$ 123,725 of fees for the years ended June 30, 2015 and 2014, respectively. Realized gains totaled \$ 2,588,605 and \$ 3,970,440 for the years ended June 30, 2015 and 2014, respectively. Unrealized losses totaled \$ 308,445 for the year ended June 30, 2015. Unrealized gains totaled \$ 11,157,820 for the year ended June 30, 2014.

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.

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

JUNE 30, 2015 and 2014

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

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, 2015 and 2014, 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 \$ 74,410 for the year ended June 30, 2015. Net increases in the value of beneficial interests in trusts totaled \$ 328,072 for the year ended June 30, 2014.

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.

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

JUNE 30, 2015 and 2014

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

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 \$ 11,895 for the year ended June 30, 2015. Net increases in the beneficial interest of split-interest agreements totaled \$ 8,612 for the year ended June 30, 2014. 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.

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.

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

JUNE 30, 2015 and 2014

NOTE 7 - FAIR VALUE MEASUREMENTS - Continued

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.

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, 2015.

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

JUNE 30, 2015 and 2014

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, 2015 and 2014

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, 2014:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments				
Common stock	\$ 426,090	\$ 426,090	\$ -	\$ -
Mutual funds	67,947,079	-	67,947,079	-
Hedged and alternative funds	30,977,421	-	20,804,768	10,172,653
Real assets marketable funds	9,376,781	-	4,023,727	5,353,054
Cash and cash equivalents	<u>1,803,420</u>	<u>1,803,420</u>	<u>-</u>	<u>-</u>
	<u>\$ 110,530,791</u>	<u>\$ 2,229,510</u>	<u>\$ 92,775,574</u>	<u>\$ 15,525,707</u>
Assets held under split-interest agreements				
U.S. treasury notes	\$ 42,137	\$ -	\$ 42,137	\$ -
Mutual funds	226,617	-	226,617	-
Hedged and alternative funds	26,818	-	26,818	-
Real assets marketable funds	23,835	-	23,835	-
Cash and cash equivalents	<u>9,412</u>	<u>9,412</u>	<u>-</u>	<u>-</u>
	<u>\$ 328,819</u>	<u>\$ 9,412</u>	<u>\$ 319,407</u>	<u>\$ -</u>
Beneficial interests in trusts	<u>\$ 2,497,678</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,497,678</u>
Beneficial interests in split-interest agreements	<u>\$ 412,304</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 412,304</u>
Obligation under split-interest agreements	<u>\$ (249,972)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (249,972)</u>

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

JUNE 30, 2015 and 2014

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, 2015 and 2014:

	<u>Investments</u>			<u>Beneficial</u>	<u>Obligation</u>
	<u>Hedged and</u>	<u>Real Assets</u>	<u>Beneficial</u>	<u>Interests in</u>	<u>Under</u>
	<u>Alternative</u>	<u>Marketable</u>	<u>Interests in</u>	<u>Split-Interest</u>	<u>Split-Interest</u>
	<u>Funds</u>	<u>Funds</u>	<u>Trusts</u>	<u>Agreements</u>	<u>Agreements</u>
Balance as of June 30, 2013	\$ 10,062,700	\$ 3,415,253	\$ 3,015,691	\$ 403,692	\$ (220,429)
Investment return	2,293,051	620,811	358,339	38,666	-
Purchase of investments	1,233,118	1,802,500	-	-	-
Sale of investments	(3,416,216)	(485,510)	-	-	-
Contributions	-	-	-	-	(85,067)
Payments to beneficiaries	-	-	(876,352)	(30,054)	55,524
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	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	<u>\$ 11,479,535</u>	<u>\$ 6,254,395</u>	<u>\$ 2,423,268</u>	<u>\$ 400,409</u>	<u>\$ (280,083)</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, 2015 and 2014

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

The table below provides information relative to these types of investments. The additional information that follows the table 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.

<u>Category</u>	<u>Fair Value</u>		<u>Unfunded Commitments</u>	<u>Termination Date of the Fund</u>
	<u>2015</u>	<u>2014</u>		
Limited partnerships				
Capital Partners 2000	\$ 1,217,503	\$ 1,494,149	\$ 88,239	3/30/2017
Global Distressed Investors	1,202,997	2,046,788	296,320	5/1/2022
Emerging Markets 2013	327,597	129,153	697,500	12/11/2027
International Private Equity Partners	1,739,975	1,792,196	841,836	3/31/2020 to 12/5/2023
SSG Realty Opportunities	1,367,912	525,000	2,159,500	4/1/2025
SSG Global Private Equity Fund	583,984	-	4,500,000	5/16/2026 to 5/16/2029
Natural Resources Partners	3,148,513	3,294,272	2,882,500	2/15/2020 to 12/13/2026
Private Equity Partners	1,561,237	1,264,351	877,441	3/31/2020 to 12/5/2026
Venture Partners	4,846,242	3,446,016	3,331,240	3/31/2020 to 12/5/2027
Realty Investors 2006-06	-	1,216	-	In liquidation
Realty Investors 2008-03	-	1,439	-	In liquidation
Strategic Solutions Realty Opportunities	1,737,970	1,531,127	1,080,660	9/28/2022

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

JUNE 30, 2015 and 2014

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

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.

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.

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

JUNE 30, 2015 and 2014

NOTE 9 - PLEDGES RECEIVABLE

Pledges receivable balances at June 30 consist of the following:

	<u>2015</u>	<u>2014</u>
Pledges receivable		
Due within 1 year	\$ 1,076,157	\$ 902,999
Due within 1 to 5 years	1,562,084	1,497,504
Less		
Discount for time-value of money	(45,646)	(35,829)
Allowance for doubtful accounts	<u>(197,868)</u>	<u>(180,038)</u>
	<u>\$ 2,394,727</u>	<u>\$ 2,184,636</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.

NOTE 10 - PROPERTY AND EQUIPMENT

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

	<u>2015</u>	<u>2014</u>
Buildings	\$ 7,775,670	\$ 7,775,670
Building improvements	463,242	335,928
Site improvements	2,445,585	2,445,585
Leasehold improvements	39,260	39,260
Furniture and equipment	<u>31,945</u>	<u>29,944</u>
	10,755,702	10,626,387
Less accumulated depreciation	<u>(3,554,014)</u>	<u>(3,154,133)</u>
	7,201,688	7,472,254
Land	<u>980,000</u>	<u>980,000</u>
Total	<u>\$ 8,181,688</u>	<u>\$ 8,452,254</u>

Depreciation expense charged to operations for the years ended June 30, 2015 and 2014, was \$ 420,827 and \$ 421,413, respectively.

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

JUNE 30, 2015 and 2014

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, 2015 and 2014, was \$ 900,000 and \$ 1,200,000, respectively.

NOTE 12 - CONTRACT-FOR-DEED PAYABLE

Contract-for-deed payable as of June 30, 2015 and 2014, was \$ 2,816,930 and \$ 2,900,845, respectively. It consists 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 requires 119 monthly payments of \$ 22,500 at 6.5% interest with a final payment for the entire outstanding balance.

Aggregate maturities of the contract-for-deed payable for fiscal years 2016 through 2019, are as follows:

2016	\$ 89,536
2017	95,532
2018	101,930
2019	2,529,932

NOTE 13 - 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 \$ 44,071 and \$ 73,076 in 2015 and 2014, 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.

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

JUNE 30, 2015 and 2014

NOTE 13 - OPERATING LEASE COMMITMENTS - Continued

Future minimum lease payments as of June 30, 2015, are as follows:

Years ending June 30,	<u>Building</u>
2016	\$ 80,449
2017	81,953
2018	83,458
2019	84,962
2020	<u>42,857</u>
	<u>\$ 373,679</u>

NOTE 14 - NET ASSETS

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

	<u>2015</u>	<u>2014</u>
Scholarships and fellowships	\$ 31,959,580	\$ 30,691,790
Instructional department uses	12,972,519	12,654,576
University capital projects	2,650,667	2,795,429
Other	<u>4,528,992</u>	<u>4,737,447</u>
	<u>\$ 52,111,758</u>	<u>\$ 50,879,242</u>

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

	<u>2015</u>	<u>2014</u>
Scholarships and fellowships	\$ 45,402,064	\$ 43,287,632
College and academic development	14,690,025	14,425,878
University capital projects	5,270,325	5,210,795
Other	<u>5,196,021</u>	<u>5,170,091</u>
	<u>\$ 70,558,435</u>	<u>\$ 68,094,396</u>

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

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

JUNE 30, 2015 and 2014

NOTE 15 - 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.

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>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, 2015 and 2014

NOTE 15 - ENDOWMENT FUNDS - Continued

<u>2014</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted permanent endowment funds	\$ (14,578)	\$ 19,536,401	\$ 65,105,901	\$ 84,627,724
Donor-restricted quasi-endowment funds	-	12,604,601	-	12,604,601
Board designated quasi-endowment funds	<u>2,684,674</u>	<u>-</u>	<u>-</u>	<u>2,684,674</u>
	<u>\$ 2,670,096</u>	<u>\$ 32,141,002</u>	<u>\$ 65,105,901</u>	<u>\$ 99,916,999</u>

Changes in endowment, not total, net assets for the fiscal years ended June 30, 2015 and 2014, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment investments at July 1, 2013	\$ 2,212,805	\$ 21,392,648	\$ 63,686,765	\$ 87,292,218
Investment return	741,476	12,164,842	-	12,906,318
Contributions	-	1,629,532	1,419,136	3,048,668
Appropriations of endowment assets for expenditure	(99,453)	(3,230,752)	-	(3,330,205)
Reclassification of net assets for funds with deficiencies	<u>(184,732)</u>	<u>184,732</u>	<u>-</u>	<u>-</u>
Endowment investments at June 30, 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	<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, 2015 and 2014

NOTE 15 - 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 \$ 51,658 as of June 30, 2015. 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 to 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, 2015 and 2014

NOTE 16 - FUNDRAISING FEES

A fundraising fee of 1.3%, 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, 2014 and 2013, a total of \$ 3,705,872 and \$ 3,330,205, respectively, was distributed to endowed funds' expendable balances and fundraising fees totaling \$ 1,245,261 and \$ 979,907, respectively, were distributed to the Foundation budget.

NOTE 17 - RELATED PARTY TRANSACTIONS

Effective July 1, 2012, the Foundation renewed the Support Agreement, for an additional three-years, with the University Board of Trustees (acting for and on behalf of the University) whereby the University agrees to provide to the Foundation fair and reasonable compensation in exchange for development and fund raising services up to a maximum value of \$ 2,444,940 during the current year of the agreement. Maximum compensation in subsequent years is adjusted by a factor equal to average salary increases. Under the terms of that agreement, in fiscal year 2015 and 2014, the University provided in-kind support in the form of personnel, office space, office equipment, computer support, and communication services, estimated at \$ 2,390,524 and \$ 2,291,329, 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, 2015 and 2014, the Foundation had payables to the University of \$ 338,648 and \$ 324,192, respectively. In addition, at June 30, 2015 and 2014, 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, 2015 and 2014. 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 \$ 49,992 for the Traders Circle parking lot during the years ended June 30, 2015 and 2014. The five-year lease began in June of 2007, and the lease was extended by the University for an additional five years.

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NOTE 18 - 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 \$ 37,896,457 and \$ 36,376,457 as of June 30, 2015 and 2014, respectively. As of June 30, 2015 and 2014, the Foundation had invested \$ 21,141,221 and \$ 18,809,641, respectively. The balance of the Foundation's investment commitments at June 30, 2015 and 2014, was \$ 16,755,236 and \$ 17,566,816, respectively.

NOTE 19 - RECLASSIFICATIONS

Certain reclassifications have been made to the 2014 information to conform to the 2015 presentation.