# THE CURTIS INSTITUTE OF MUSIC

## FINANCIAL STATEMENTS

## FOR THE YEARS ENDED MAY 31, 2017 AND 2016

WIPFLi LLP
CPAs and Consultants

THE CURTIS INSTITUTE OF MUSIC

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# INDEPENDENT AUDITORS' REPORT

Board of Trustees
The Curtis Institute of Music
Philadelphia, Pennsylvania

## Report on the Financial Statements

We have audited the accompanying financial statements of The Curtis Institute of Music (the "Institute"), which comprise the statements of financial position as of May 31, 2017 and 2016, and the related statements of activities, and cash flows for the years then ended and the related notes to the financial statements.

## Management's Responsibility for the Financial Statements

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

## Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Curtis Institute of Music as of May 31, 2017 and 2016, and the changes in its net assets, and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States.

Wipfli LLP

Philadelphia, Pennsylvania
October 9, 2017

# THE CURTIS INSTITUTE OF MUSIC
## STATEMENTS OF FINANCIAL POSITION

| | MAY 31, 2017 | MAY 31, 2016 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ 654,516 | $ 1,849,039 |
| Receivables: | | |
| The Mary Louise Curtis Bok Foundation | 112,630 | - |
| Unconditional promises to give | 57,122,030 | 57,428,107 |
| Other receivables | 315,540 | 41,836 |
| Investments | 150,009,611 | 132,048,873 |
| Student loans receivable, net | 749,697 | 767,962 |
| Land, buildings and equipment | 87,697,736 | 89,447,040 |
| Split-interest assets | 1,856,567 | 1,841,807 |
| Other assets | 565,258 | 563,596 |
| TOTAL ASSETS | $ 299,083,585 | $ 283,988,260 |
| **LIABILITIES AND NET ASSETS** | | |
| LIABILITIES | | |
| Line of credit | $ 465,579 | $ 465,579 |
| Accounts payable and accrued expenses | 2,334,019 | 1,924,000 |
| Due to The Mary Louise Curtis Bok Foundation | - | 15,380 |
| Split-interest liabilities | 1,972,426 | 2,062,724 |
| Other liabilities | 132,736 | 198,561 |
| Loans payable | 2,160,852 | 4,063,970 |
| Total Liabilities | 7,065,612 | 8,730,214 |
| NET ASSETS | | |
| Unrestricted | 129,136,020 | 127,238,759 |
| Temporarily restricted | 27,906,681 | 23,230,674 |
| Permanently restricted | 134,975,272 | 124,788,613 |
| Total Net Assets | 292,017,973 | 275,258,046 |
| TOTAL LIABILITIES AND NET ASSETS | $ 299,083,585 | $ 283,988,260 |

The accompanying Notes are an integral part of these statements.

THE CURTIS INSTITUTE OF MUSIC
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED MAY 31, 2017 AND 2016

| | 2017 | | | | 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| OPERATING REVENUES AND SUPPORT | | | | | | | | |
| The Mary Louise Curtis Bok Foundation | $ 4,298,844 | $ - | $ - | $ 4,298,844 | $ 4,617,914 | $ - | $ - | $ 4,617,914 |
| Endowment spending payout | 2,253,885 | 4,980,689 | - | 7,234,574 | 2,011,645 | 4,035,495 | - | 6,047,140 |
| Contributions | 4,026,820 | 688,975 | - | 4,715,795 | 4,113,679 | 358,179 | - | 4,471,858 |
| Room, board and other fees, net of financial aid | 2,345,899 | - | - | 2,345,899 | 2,195,214 | - | - | 2,195,214 |
| Other | 574,575 | - | - | 574,575 | 408,756 | - | - | 408,756 |
| Net assets released from restrictions: | | | | | | | | |
| Endowment | 4,980,689 | (4,980,689) | - | - | 4,035,495 | (4,035,495) | - | - |
| Other | 1,123,492 | (1,123,492) | - | - | 1,315,859 | (1,315,859) | - | - |
| Total Operating Revenues and Support | 19,604,204 | (434,517) | - | 19,169,687 | 18,698,562 | (957,680) | - | 17,740,882 |
| OPERATING EXPENSES | | | | | | | | |
| Instructional expenses | 11,571,968 | - | - | 11,571,968 | 10,042,486 | - | - | 10,042,486 |
| Academic support and student services | 5,465,295 | - | - | 5,465,295 | 4,653,469 | - | - | 4,653,469 |
| General institutional expenses | 5,108,043 | - | - | 5,108,043 | 5,424,486 | - | - | 5,424,486 |
| Total Operating Expenses | 22,145,306 | - | - | 22,145,306 | 20,120,441 | - | - | 20,120,441 |
| Change in Net Assets from Operations | (2,541,102) | (434,517) | - | (2,975,619) | (1,421,879) | (957,680) | - | (2,379,559) |
| NONOPERATING CHANGES | | | | | | | | |
| Contributions | 269,536 | (134,875) | 10,186,659 | 10,321,320 | 807,208 | 194,234 | 51,002,731 | 52,004,173 |
| Campaign expenses | (1,170,623) | - | - | (1,170,623) | (1,076,505) | - | - | (1,076,505) |
| Investment services | (723,527) | - | - | (723,527) | (568,909) | - | - | (568,909) |
| Amortization of discount and change in actuarial assumptions on split-interest agreements | - | (139,906) | - | (139,906) | - | (220,117) | - | (220,117) |
| Investment return in excess of (less than) amounts designated as Endowment Spending Payout | 6,062,977 | 5,385,305 | - | 11,448,282 | (5,352,869) | (4,601,185) | - | (9,954,054) |
| Nonoperating Changes in Net Assets | 4,438,363 | 5,110,524 | 10,186,659 | 19,735,546 | (6,191,075) | (4,627,068) | 51,002,731 | 40,184,588 |
| Total Change in Net Assets | 1,897,261 | 4,676,007 | 10,186,659 | 16,759,927 | (7,612,954) | (5,584,748) | 51,002,731 | 37,805,029 |
| NET ASSETS - BEGINNING OF YEAR | 127,238,759 | 23,230,674 | 124,788,613 | 275,258,046 | 134,851,713 | 28,815,422 | 73,785,882 | 237,453,017 |
| NET ASSETS - END OF YEAR | $ 129,136,020 | $ 27,906,681 | $ 134,975,272 | $ 292,017,973 | $ 127,238,759 | $ 23,230,674 | $ 124,788,613 | $ 275,258,046 |

The accompanying Notes are an integral part of these statements.

# THE CURTIS INSTITUTE OF MUSIC
## STATEMENTS OF CASH FLOWS

| | FOR THE YEARS ENDED MAY 31, 2017 | 2016 |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Change in net assets | $ 16,759,927 | $ 37,805,029 |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | | |
| Depreciation | 2,529,272 | 2,335,374 |
| Gifts in kind | (140,585) | (2,426,779) |
| Net realized and unrealized (gains) losses on investments | (15,850,727) | 7,202,545 |
| Change in reserve for uncollectible promises to give | (8,016,528) | 6,148,397 |
| Change in reserve on student loans | 218,926 | 125,731 |
| Changes in operating assets and liabilities: | | |
| (Increase) decrease in: | | |
| Receivables | (1,315,991) | (54,403,281) |
| Split-interest assets | (14,760) | (41,551) |
| Other assets | (1,662) | 54,812 |
| Increase (decrease) in: | | |
| Accounts payable and accrued expenses | 410,019 | (232,072) |
| Due to The Mary Louise Curtis Bok Foundation | (15,380) | 15,380 |
| Split-interest liabilities | (90,298) | (64,546) |
| Other liabilities | (65,825) | (429,085) |
| Net Cash Used in Operating Activities | (5,593,612) | (3,910,046) |
| INVESTING ACTIVITIES | | |
| Purchase of building improvements and equipment | (639,383) | (483,481) |
| Purchase of investments | (43,913,875) | (54,018,616) |
| Proceeds from sale of investments | 41,803,864 | 43,495,105 |
| Student loans made | (292,407) | (277,600) |
| Principal collected on student loans | 91,746 | 48,561 |
| Net Cash Used in Investing Activities | (2,950,055) | (11,236,031) |
| FINANCING ACTIVITIES | | |
| Contributions received restricted for long-term purposes | 9,252,262 | 15,054,937 |
| Payments on loans payable | (1,903,118) | (994,647) |
| Net Cash Provided by Financing Activities | 7,349,144 | 14,060,290 |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | (1,194,523) | (1,085,787) |
| CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR | 1,849,039 | 2,934,826 |
| CASH AND CASH EQUIVALENTS - END OF YEAR | $ 654,516 | $ 1,849,039 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Cash was paid during the years for: | | |
| Interest | $ 71,870 | $ 102,380 |

The accompanying Notes are an integral part of these statements.

# THE CURTIS INSTITUTE OF MUSIC
## NOTES TO FINANCIAL STATEMENTS
## FOR THE YEARS ENDED MAY 31, 2017 AND 2016

NOTE A - Organization

The Curtis Institute of Music (the "Institute") located in Philadelphia, Pennsylvania was founded in 1924 to educate and train exceptionally gifted young musicians to engage a global community through music. The Institute is a tuition-free music conservatory that is supported primarily through endowment and annual giving.

NOTE B - Summary of Significant Accounting Policies

Basis of Presentation - The Institute reports information regarding its financial position and activities in three net asset categories according to externally (donor) imposed restrictions, as follows:

- Unrestricted Net Assets are those assets that are available for the support of operations and whose use is not externally restricted.
- Temporarily Restricted Net Assets include gifts and accumulated earnings for which donor-imposed restrictions have not been met. This classification also includes unconditional promises to give for which the ultimate purpose of the proceeds is not permanently restricted.
- Permanently Restricted Net Assets include gifts, trusts and pledges which require, by donor restriction, that the corpus be invested in perpetuity. Generally, the donor of these gifts permits the Institute to use all or part of the income earned on related investments for general or specific purposes.

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 at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents - Cash and cash equivalents represent demand deposits and other highly liquid investments with an original maturity date of three months or less.

Investments - The Institute’s investments are reported at fair value. Realized and unrealized gains and losses are included in the change in net assets in the accompanying statements of activities.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Income and net gains on investments of endowment and similar funds are reported as follows:

- As increases in permanently restricted net assets if the terms of the gift require that they be added to the principal of a permanent endowment fund;
- As increases in temporarily restricted net assets if the terms of the gift impose restrictions on the use of the income; and
- As increases in unrestricted net assets in all other cases, subject to state law.

Unconditional Promises to Give - Unconditional promises to give are recognized as contributions when the promise is received. Contributions due to be received within the next year are recorded at their net realizable value. Contributions due to be collected in future years are recorded at the present value of their net realizable value, using an appropriate discount rate applicable to the years in which the promises are expected to be received. The reserve for uncollectible promises to give is based on management's evaluation of the collectibility of individual promises.

NOTE B - Summary of Significant Accounting Policies - continued

Student Loans Receivable, Net - Student loans receivable are carried at unpaid principal plus accrued interest, less an allowance for loan losses. The allowance for loan losses is increased by charges to the change in net assets and decreased by charge-offs (net of recoveries). Management's periodic evaluation of the adequacy of the allowance is based on the Institute's past loan loss experience, specific impaired loans, adverse situations that may affect the student's ability to repay, concentration of credit risk and current economic conditions. Past due status is determined based on contractual terms. Loans are considered impaired if full principal or interest payments are not anticipated in accordance with the contractual terms. The Institute's practice is to charge off any loan or portion of a loan when the loan is determined by management to be uncollectible due to the borrower's failure to meet repayment terms, the borrower's deteriorating or deteriorated financial condition, or for other reasons. The allowance for student loan losses is $657,917 and $443,037 as of May 31, 2017 and 2016, respectively.

Interest income on loans begins to accrue generally six months after a student graduates or six months after a student ceases attending the Institute on at least a part-time basis. The interest is calculated using the simple-interest method on principal amounts outstanding.

Loans are placed on nonaccrual when management believes, after considering economic conditions, business conditions, and collection efforts that the loans are impaired or collection of interest is doubtful. Uncollected interest previously accrued is charged off or an allowance is established by a charge to interest income. Interest income on nonaccrual loans is recognized only to the extent cash payments are received.

Loan origination and commitment fees, as well as interest income, are used to offset interest expense on funds borrowed by the Institute for use in granting the loans along with expenses resulting from the use of a third-party loan processor.

There were no loans on which the Institute ceased accruing interest at May 31, 2017 and 2016. At May 31, 2017 and 2016, the total recorded investment in loans past due ninety days or more and still accruing interest amounted to approximately $228,000 and $179,000, respectively.

Land, Buildings and Equipment - Land, buildings and equipment are carried at cost or, in the case of gifts, at estimated market value on the date of gift. Depreciation is computed on a straight-line basis over the estimated useful lives of buildings (40 years), furniture and fixtures (10 years), musical equipment other than fine instruments (20 years), equipment (10 years) and computers (3 years).

Split-Interest Assets - Split-interest assets represent charitable remainder trust arrangements in which a donor established and funded a trust with a third-party with specified distributions to be made to a designated beneficiary over the trust's term. At the termination of the agreement, the remaining assets in the trust pass on to the Institute for its use. As the Institute is not the trustee and does not exercise control over the assets contributed to the trust, the agreement is recognized at fair value. The portion of the trust attributable to the present value of the future benefits to be received by the Institute is recorded in the statements of activities as a temporarily restricted contribution in the period the trust is established. The present value of the estimated future payments ($1,856,567 and $1,841,807 at May 31, 2017 and 2016, respectively) is calculated using discount rates of 4.0% to 8.0% and the expected life expectancy of the beneficiaries. There was no contribution revenue recognized on these arrangements for the years ended May 31, 2017 and 2016.

THE CURTIS INSTITUTE OF MUSIC
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2017 AND 2016

NOTE B - Summary of Significant Accounting Policies - continued

Split-Interest Liabilities - The Institute records assets, liabilities and revenue relating to gifts donated in the form of split-interest agreements for which it serves as trustee. The types of split-interest agreements include gift annuities, pooled life income funds and charitable remainder unitrusts. The assets received are recorded at their fair value at the time of receipt as restricted support in accordance with donor-imposed restrictions until a stipulated time restriction ends or specified condition is met. Liabilities represent the net present value of expected future payments of income earned or a fixed percentage of the assets owed to the beneficiaries designated by the donors on the basis of their estimated life expectancies. Contribution revenues are recognized at the amount of the difference of assets received and expected future payments. Over the term of the agreements, amortization of the discount on the liability and effects of changes in the life expectancy of the beneficiary are recorded as adjustments to the liability and amortization of discount and change in actuarial assumptions on split-interest agreements. There were no gifts received during the year ended May 31, 2017. Contribution revenue recognized on a new gift received during the year ended May 31, 2016 was approximately $11,000.

Contributions - Contributions of cash and other assets, including unconditional promises to give, are considered to be available for unrestricted use unless specifically restricted by the donor and are recognized as revenues in the period the unconditional promise is given. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions to be received in future periods are discounted at an appropriate discount rate. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

Gifts of cash and other noncapital assets are reported as temporarily restricted operating revenue if the gifts are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Gifts of land, buildings, equipment and other long-lived assets are also reported as unrestricted revenue and net assets, unless subject to time restrictions. Absent explicit donor stipulations for the time long-lived assets must be held, expirations of restrictions resulting in reclassification of temporarily restricted net assets as unrestricted net assets are reported when the long-lived assets are placed in service.

Financial Aid - Room, board and other fees are recorded gross at the Institute's normal rates for all students. Financial aid given on the basis of financial need is netted against gross room, board and other fees for reporting in the financial statements. Total financial aid netted against gross room, board and other fees is approximately $543,000 and $564,000 for the years ended May 31, 2017 and 2016, respectively.

Collections - All contributions of works of art, historical treasures, fine instruments and similar assets have been recognized at their estimated fair value at the date of receipt based upon appraisals or similar valuations. All such items, whether contributed or purchased, have been capitalized, but are not depreciated.

THE CURTIS INSTITUTE OF MUSIC
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2017 AND 2016

NOTE B - Summary of Significant Accounting Policies - continued

Allocation of Functional Expenses - Certain costs, including facilities operations, IT support and depreciation are allocated among program services, management and general and fundraising based primarily on space occupied and on estimates made by the Institute's management. The costs of providing the Institute's programs and activities have been summarized on a functional basis as summarized below:

| | For the Years Ended May 31, | |
|---|---|---|
| | 2017 | 2016 |
| Program Services | $ 17,347,073 | $ 15,198,124 |
| Management and General | 2,737,816 | 3,527,374 |
| Fundraising | 2,060,417 | 1,394,943 |
| Total Expenses | $ 22,145,306 | $ 20,120,441 |

Fair Value Measurements - Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Accounting standards set a framework for measuring fair value using a three-tier hierarchy based on the extent to which inputs used in measuring fair value are observable in the market.

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or inputs (interest rates, currency exchange rates, commodity rates and yield curves) that are observable or corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Inputs that are not observable in the market and reflect management’s judgment about the assumptions that market participants would use in pricing the asset or liability.

Reclassifications - Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentation. The changes primarily relate to reclassifying a portion of the endowment spending payout from unrestricted to temporarily restricted net assets and reporting the same amount as net assets released from restriction.

Recently Issued Accounting Standards - On August 18, 2016, the FASB issued ASU No. 2016-14 (Topic 958), *Presentation of Financial Statements of Not-for-Profit Entities* (“Update”). The Update reduces the number of net asset classes from three to two, those with donor restrictions and those without, requires all organizations to report expenses by nature and function and improves information presented in financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance, and cash flows. The guidance in this ASU is effective for the Institute's year ending May 31, 2019, and for interim periods within fiscal years beginning after December 15, 2018. Early application of the amendments in this Update is permitted. The Institute is currently in the process of determining the impact of the new standard, and has not elected to early implement the amendments.

THE CURTIS INSTITUTE OF MUSIC
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2017 AND 2016

NOTE C - Unconditional Promises to Give

Unconditional promises to give are discounted at rates ranging from 2.0% to 5.8%. The amounts to be received under these promises as of May 31, 2017 and 2016 are as follows:

| | 2017 | 2016 |
|---|---|---|
| Receivable in less than one year | $ 14,068,271 | $ 13,802,048 |
| Receivable in one year to five years | 52,382,000 | 61,509,718 |
| Total unconditional promises to give | 66,450,271 | 75,311,766 |
| Less: Reserve for uncollectible promises to give | (3,255,103) | (11,271,631) |
| Less: Effect of discount to net present value | (6,073,138) | (6,612,028) |
| Unconditional Promises to Give - Net | $ 57,122,030 | $ 57,428,107 |

Included in unconditional promises to give are permanently restricted contributions totaling approximately $47,300,000 and $46,700,000 as of May 31, 2017 and 2016, respectively, for student assistance, maintenance of facilities and ongoing operating expenses of the Institute.

During the fiscal year 2017, Management changed their estimate of uncollectible unconditional promises to give which resulted in a decrease of the reserve and increase to contribution revenue of approximately $8,000,000 for the year ended May 31, 2017. The nonoperating permanently restricted contributions of $10,168,659 reported in the statements of activities for the fiscal year 2017 includes approximately $7,600,000 of this change.

NOTE D - Investments

Investments at May 31, 2017 and 2016 consist of the following:

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | Cost | Fair Value | Cost | Fair Value |
| Temporary investments | $ 3,810,631 | $ 3,810,631 | $ 9,526,370 | $ 9,526,370 |
| Mutual and exchange-traded funds | 58,696,594 | 66,585,780 | 52,293,817 | 55,688,295 |
| Commodity funds | 1,612,418 | 1,290,587 | 1,402,715 | 1,113,508 |
| Commingled funds | 44,998,917 | 51,262,142 | 39,082,166 | 40,604,037 |
| Hedge funds | 14,161,611 | 20,583,291 | 14,471,959 | 19,150,371 |
| Real estate funds | 2,943,810 | 4,072,707 | 2,700,576 | 3,620,502 |
| | 126,223,981 | 147,605,138 | 119,477,603 | 129,703,083 |
| Mutual funds (split-interest assets) | 2,018,736 | 2,404,473 | 2,102,971 | 2,345,790 |
| Total | $ 128,242,717 | $ 150,009,611 | $ 121,580,574 | $ 132,048,873 |

Temporary investments consist of endowment funds held in money market instruments. These funds are available to be appropriated for distribution or invested in other instruments per the Institute's endowment spending and investment policies, respectively.

These investments are exposed to various risks such as market volatility, interest rate and credit risks. Due to the level of risk associated with investments, it is at least reasonably possible that changes in the values of these securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

THE CURTIS INSTITUTE OF MUSIC
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2017 AND 2016

NOTE E - Investment Return Reconciliation

The Institute recognizes endowment spending payout using a total return policy to be used to support current operations. For the years ended May 31, 2017 and 2016, the spending rate approved by the Board of Trustees was 5.3% and 5.2%. respectively. At the beginning of each fiscal year, the Board of Trustees approves an annual revenue recognition rate, not in excess of state law, based on the average market value of the combined investment portfolio of the Institute and The Mary Louise Curtis Bok Foundation (the "Foundation") for the prior 20 quarters through the calendar year-end preceding the current fiscal year. The Board of Trustees approved a change to the spending policy to increase the number of quarters included in the average market value formula from 12 to 20 quarters, which was effective for the year ended May 31, 2017.

The following schedule summarizes the investment return and its classification in the statements of activities for the years ended May 31, 2017 and 2016:

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Total | Unrestricted | Temporarily Restricted | Total |
| Interest and dividends | $ 873,909 | $ 1,958,220 | $ 2,832,129 | $ 1,089,098 | $ 2,206,533 | $ 3,295,631 |
| Net realized and unrealized gain (loss) | 7,442,953 | 8,407,774 | 15,850,727 | (4,430,322) | (2,772,223) | (7,202,545) |
| Total return on investment portfolio | 8,316,862 | 10,365,994 | 18,682,856 | (3,341,224) | (565,690) | (3,906,914) |
| Investment return designated as Endowment Spending Payout | 2,253,885 | 4,980,689 | 7,234,574 | 2,011,645 | 4,035,495 | 6,047,140 |
| Investment return in excess of (less than) amounts designated as Endowment Spending Payout | $ 6,062,977 | $ 5,385,305 | $ 11,448,282 | $ (5,352,869) | $ (4,601,185) | $ (9,954,054) |

"Investment return in excess of (less than) amounts designated as Endowment Spending Payout" reported in the statements of activities are exclusive of gains allocated to "Endowment spending payout" totaling $4,402,445 and $2,751,509 for the years ended May 31, 2017 and 2016, respectively.

THE CURTIS INSTITUTE OF MUSIC
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2017 AND 2016

NOTE F - Fair Value Measurements

The following table sets forth by level, within the fair value hierarchy, the Institute's financial instruments that are measured at fair value:

| | May 31, 2017 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Investments: | | | | |
| Temporary investments | $ 3,810,631 | $ - | $ - | $ 3,810,631 |
| Mutual and exchange-traded funds | | | | |
| Equity | 49,063,958 | - | - | 49,063,958 |
| Fixed income | 18,164,996 | - | - | 18,164,996 |
| Global blend | 1,761,299 | - | - | 1,761,299 |
| Total investments in the fair value hierarchy | $ 72,800,884 | $ - | $ - | $ 72,800,884 |
| Investments measured at NAV | | | | 77,208,727 |
| Total investments at fair value | | | | $ 150,009,611 |

| | May 31, 2016 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Investments: | | | | |
| Temporary investments | $ 9,526,370 | $ - | $ - | $ 9,526,370 |
| Mutual and exchange-traded funds | | | | |
| Equity | 37,275,526 | - | - | 37,275,526 |
| Fixed income | 19,078,008 | - | - | 19,078,008 |
| Global blend | 1,680,551 | - | - | 1,680,551 |
| Total investments in the fair value hierarchy | $ 67,560,455 | $ - | $ - | $ 67,560,455 |
| Investments measured at NAV | | | | 64,488,418 |
| Total investments at fair value | | | | $ 132,048,873 |

THE CURTIS INSTITUTE OF MUSIC
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2017 AND 2016

NOTE F - Fair Value Measurements - continued

The following table includes additional disclosures for investments whose fair value is estimated using net asset value (NAV).

| | | May 31, 2017 | | | |
|---|---|---|---|---|---|
| | | Fair Value | Unfunded Commitments | Redemption Frequency | Redemption Notice Period |
| Commodity funds | (a) | $ 1,290,587 | $ 976,800 | Monthly or ineligible | 5 days or N/A |
| Commingled funds | (b) | 51,262,142 | - | Monthly, quarterly or 18 months | 2 - 120 days |
| Hedge funds | (c) | 20,583,291 | - | Monthly, quarterly or ineligible | 45 - 90 days or N/A |
| Real estate funds | (d) | 4,072,707 | 1,566,087 | Quarterly or ineligible | 45 days or N/A |
| Total | | $ 77,208,727 | $ 2,542,887 | | |

| | | May 31, 2016 | | | |
|---|---|---|---|---|---|
| | | Fair Value | Unfunded Commitments | Redemption Frequency | Redemption Notice Period |
| Commodity funds | (a) | $ 1,113,508 | $ 1,247,400 | Monthly or ineligible | 5 days or N/A |
| Commingled funds | (b) | 40,604,037 | - | Monthly or 18 months | 2 - 120 days |
| Hedge funds | (c) | 19,150,371 | - | Monthly, quarterly or ineligible | 45 - 90 days or N/A |
| Real estate funds | (d) | 3,620,502 | 1,937,378 | Quarterly or ineligible | 45 days or N/A |
| Total | | $ 64,488,418 | $ 3,184,778 | | |

The following describes the methods and assumptions used to estimate the fair value of each class of financial instrument, as well as related investment strategies:

*Mutual and exchange-traded funds* - Valued at the net asset value listed in the active markets on which the funds are traded.

NOTE F - Fair Value Measurements - continued

*Commodity funds (a)* - The value of the investment in these funds are based on the value of the underlying assets owned, minus liabilities, and then divided by the number of units outstanding. The funds are reported at estimated fair value as measured by their net asset value as reported by the fund managers. That amount represents the Institute's proportionate interest in the capital of the invested funds. The Institute has investments in two commodities-based funds: one that invests in liquid and/or public commodity futures, and one that invests in private equity investments in vehicles associated with oil, gas and mining opportunities. This class seeks to gain exposure to the commodity markets primarily through investments in leveraged or unleveraged commodity index-linked notes. At May 31, 2017 and 2016, one fund representing approximately 46% and 32% of the investments in this class, respectively, cannot be redeemed. Distributions are expected to be made based on the realization of the fund's investments over the duration of the investment, which may range from 10 to 12 years.

*Commingled funds (b)* - The values of the investment in these funds are based on the value of the underlying assets owned, minus liabilities, and then divided by the number of units outstanding. The funds are reported at estimated fair value as measured by their net asset value as reported by the fund managers. That amount represents the Institute's proportionate interest in the capital of the invested funds. The Institute invests in several commingled funds that invest in equity and fixed income vehicles, in both the domestic and international markets. Redemptions, when available and requested, are made net of applicable incentive fees, which are 15% of the net profits in the investment for one fund that represents 11% and 7% of the investments in this class at May 31, 2017 and 2016, respectively.

*Hedge funds (c)* - Hedge fund investments consist of those investments which are not valued based upon a quoted market price and include nonmarketable hedge fund assets. Hedge funds invest in various partnership interests, managed accounts, and other vehicles to generate investment return. These hedge funds are reported at estimated fair value as measured by their net asset value as reported by fund managers. That amount represents the Institute's proportionate interest in the capital of the invested funds. Quantitative information about the significant unobservable inputs is not available for these funds. The hedge funds pursue multiple strategies to diversify risks and reduce volatility, including but not limited to, multistrategy and long/short. Redemptions, when available and requested, are made net of applicable incentive fees, which range from 17.5-20% of the net profits in the investment. At May 31, 2017 and 2016, one fund representing approximately 1% of the investments in this class cannot be redeemed. Distributions are made to investors based upon market conditions. The remaining underlying assets are expected to be liquidated over the next three years. If full sales of investment holdings are made, each fund has the ability to hold back 5-10% until the audited NAV is completed. In the event of mass liquidation requests, each fund has the ability to gate assets and distribute over time so as to avoid any economic detriment to the portfolio.

# THE CURTIS INSTITUTE OF MUSIC
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NOTE F - Fair Value Measurements - continued

*Real estate funds (d)* - The real estate funds are valued based on the net asset value as reported by the fund managers on a quarterly basis. The underlying real estate properties are appraised on an annual basis. The value recorded on the financial statements at May 31, 2017 is a value as of March 31, 2017 which represents the annual, calendar year audit appraisal value less any subsequent transaction activity. The real estate funds invest in residential and commercial real estate in both domestic and global markets. The significant strategies of the funds are to purchase equity and/or debt of various underlying properties. Four funds representing approximately 36% and 33% of the investments in this class as of May 31, 2017 and 2016, respectively, are structured to allow for slow call downs over time and slow distributions, and, therefore, are ineligible for redemption. When the underlying assets are sold, the proceeds, less any incentives due to the fund sponsors, will be distributed to the investors. It is expected that the underlying assets of these funds will be liquidated over the lives of their respective underlying partnership agreements, which range from 2 to 10 years. However, in the event of mass liquidation requests, the fund has the ability to gate assets and distribute over time so as to avoid any economic detriment to the portfolio.

NOTE G - Land, Buildings and Equipment

A summary of land, buildings and equipment and the related accumulated depreciation at May 31, 2017 and 2016 is as follows:

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Cost or Appraised Value | Accumulated Depreciation | Net Book Values | Cost or Appraised Value | Accumulated Depreciation | Net Book Values |
| Subject to depreciation: | | | | | | |
| Buildings and improvements | $ 79,345,981 | $ 16,004,287 | $ 63,341,694 | $ 79,293,019 | $ 14,088,629 | $ 65,204,390 |
| Furnishings and equipment | 3,666,764 | 2,703,310 | 963,454 | 3,563,032 | 2,518,363 | 1,044,669 |
| Computer equipment | 2,098,187 | 1,856,879 | 241,308 | 2,044,368 | 1,697,183 | 347,185 |
| Pianos | 2,956,262 | 1,438,089 | 1,518,173 | 2,665,561 | 1,333,771 | 1,331,790 |
| Organs | 1,488,692 | 925,660 | 563,032 | 1,488,692 | 877,946 | 610,746 |
| Harps | 167,363 | 99,281 | 68,082 | 139,363 | 95,392 | 43,971 |
| Other musical instruments | 2,922,058 | 1,882,178 | 1,039,880 | 2,671,304 | 1,769,128 | 902,176 |
| | 92,645,307 | 24,909,684 | 67,735,623 | 91,865,339 | 22,380,412 | 69,484,927 |
| Not subject to depreciation: | | | | | | |
| Land | 13,848,261 | - | 13,848,261 | 13,848,261 | - | 13,848,261 |
| Fine instruments | 5,470,840 | - | 5,470,840 | 5,470,840 | - | 5,470,840 |
| Fine arts | 554,895 | - | 554,895 | 554,895 | - | 554,895 |
| Construction in progress | 88,117 | - | 88,117 | 88,117 | - | 88,117 |
| | 19,962,113 | - | 19,962,113 | 19,962,113 | - | 19,962,113 |
| Total | $ 112,607,420 | $ 24,909,684 | $ 87,697,736 | $ 111,827,452 | $ 22,380,412 | $ 89,447,040 |

THE CURTIS INSTITUTE OF MUSIC
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FOR THE YEARS ENDED MAY 31, 2017 AND 2016

## NOTE H - Line of Credit

The Institute has a $1,000,000 unsecured, revolving line of credit with PNC Bank. Amounts borrowed under this agreement bear interest at a rate equal to LIBOR plus 1.30% (2.31% effective rate at May 31, 2017), and the agreement is due to mature on November 28, 2017. The outstanding balance on the line of credit was $465,579 at both May 31, 2017 and 2016. Interest expense was $9,651 and $8,986 for the years ended May 31, 2017 and 2016, respectively.

In July 2016, the Institute's limit on its unsecured, revolving line of credit was increased from $500,000 to $1,000,000, and the interest rate was changed from LIBOR plus 1.75% to LIBOR plus 1.3%.

## NOTE I - Loans Payable

Loans payable at May 31, 2017 and 2016 consists of the following:

| | 2017 | 2016 |
|---|---|---|
| Loan payable to PNC Bank, payable $22,274 per month, including interest at LIBOR plus 1.30% (2.31% effective rate at May 31, 2017) with a final payment of approximately $1,220,000 due on July 23, 2021 (see below) | $ 2,160,852 | $ 3,559,803 |
| Loan payable to PNC Bank, payable $39,167 per month of principal only, interest accrued monthly at LIBOR plus 1.50% (repaid in November 2016) | - | 504,167 |
| Total Loans Payable | $ 2,160,852 | $ 4,063,970 |

As security for the loans, the Institute has granted the Bank a first priority perfected lien on the land (1610-1618, 1620 Locust Street) and future buildings, structures or other improvements erected on the land and all of the Institute's right, title and interest in and to the Leases, all of the rents, charges, issues, profits and other payments for the use or occupancy of the land and future buildings. The loan agreements contain a liquidity ratio covenant.

Interest expense on these loans was $62,219 and $92,603 for the years ended May 31, 2017 and 2016, respectively.

In July 2016, the Institute refinanced its loan payable originally due on July 23, 2016 for an additional five-year term due on July 23, 2021. The new terms are reflected in the table below.

Future maturities of the loans as of May 31, 2017, are as follows:

| Year Ending May 31: | |
|---|---|
| 2018 | $ 209,755 |
| 2019 | 213,519 |
| 2020 | 217,351 |
| 2021 | 221,251 |
| 2022 | 1,298,976 |
| Total | $ 2,160,852 |

THE CURTIS INSTITUTE OF MUSIC
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2017 AND 2016

NOTE J - Net Assets

Temporarily restricted net assets are available for the following purposes:

| | May 31, 2017 | May 31, 2016 |
|---|---|---|
| Property and construction | $ 7,972,958 | $ 8,453,550 |
| Multi-year unconditional promises to give restricted for time | 340,444 | 303,086 |
| Nina von Maltzahn Touring Initiative (formerly Curtis on Tour) | 500,000 | 958,917 |
| Nina von Maltzahn String Quartet program | - | 84,400 |
| Conductor program | 53,682 | - |
| Faculty recording project | 29,455 | - |
| Information technology initiatives | 97,957 | - |
| Coursera program | 49,730 | 51,155 |
| ArtistYear program | 125,138 | 34,000 |
| Split interest gifts (time restriction) | 5,379,243 | 4,966,182 |
| Donated life insurance policy (time restriction) | 328,996 | 314,833 |
| Income earned on permanently restricted endowment - student assistance and ongoing operating expenses | 13,029,078 | 8,064,551 |
| Total | $ 27,906,681 | $ 23,230,674 |

Permanently restricted net assets represent contributions received subject to donor restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of the Institute. All of the permanently restricted net assets at May 31, 2017 and 2016 are invested in perpetuity and income generated is generally for student assistance and ongoing operating expenses of the Institute.

NOTE K - Endowment Fund

Accounting standards for the classification and disclosure of endowments of not-for-profit organizations provide guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) and require additional disclosures about an organization's endowment funds. As of May 31, 2017, Pennsylvania has not adopted UPMIFA. The following disclosures are made as required by accounting standards.

The endowment of the Curtis Institute of Music consists of approximately 123 funds established for various purposes and includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowment. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowment, are classified and reported based on the existence or absence of donor-imposed restrictions.

THE CURTIS INSTITUTE OF MUSIC
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2017 AND 2016

NOTE K - Endowment Fund - continued

The Institute interprets Pennsylvania law governing donor-restricted endowment funds (PA Law) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Institute classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Institute in a manner consistent with the standards prescribed by PA Law.

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

(1) the duration and preservation of the fund

(2) the purposes of the Institute and the donor-restricted endowment fund

(3) general economic conditions

(4) the possible effect of inflation and deflation

(5) the expected total return from income and the appreciation of investments

(6) other resources of the Institute

(7) the investment policies of the Institute

Endowment net assets composition by type of fund as of May 31, 2017 is as follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Donor-restricted endowment funds | $ (272,747) | $ 16,087,022 | $ 84,923,873 | $100,738,148 |
| Board-designated endowment funds | 10,061,741 | - | - | 10,061,741 |
| Total funds | $ 9,788,994 | $ 16,087,022 | $ 84,923,873 | $110,799,889 |

THE CURTIS INSTITUTE OF MUSIC
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2017 AND 2016

NOTE K - Endowment Fund - continued

Changes in endowment net assets for the year ended May 31, 2017 are as follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Endowment net assets, beginning of year | $ 6,643,418 | $ 10,905,860 | $ 75,671,611 | $ 93,220,889 |
| Contributions and transfers | - | - | 9,252,262 | 9,252,262 |
| Investment income | 277,791 | 1,914,613 | - | 2,192,404 |
| Net realized and unrealized appreciation | 3,590,432 | 8,247,238 | - | 11,837,670 |
| Amounts appropriated for expenditure | (722,647) | (4,980,689) | - | (5,703,336) |
| Endowment net assets, end of year | $ 9,788,994 | $ 16,087,022 | $ 84,923,873 | $110,799,889 |

Endowment net assets composition by type of fund as of May 31, 2016 is as follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Donor-restricted endowment funds | $ (2,363,275) | $ 10,905,860 | $ 75,671,611 | $ 84,214,196 |
| Board-designated endowment funds | 9,006,693 | - | - | 9,006,693 |
| Total funds | $ 6,643,418 | $ 10,905,860 | $ 75,671,611 | $ 93,220,889 |

Changes in endowment net assets for the year ended May 31, 2016 are as follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Endowment net assets, beginning of year | $ 9,860,049 | $ 16,019,020 | $ 60,616,674 | $ 86,495,743 |
| Contributions and transfers | - | (315,205) | 15,054,937 | 14,739,732 |
| Investment income | 351,817 | 2,187,632 | - | 2,539,449 |
| Net realized and unrealized depreciation | (2,919,456) | (2,950,092) | - | (5,869,548) |
| Amounts appropriated for expenditure | (648,992) | (4,035,495) | - | (4,684,487) |
| Endowment net assets, end of year | $ 6,643,418 | $ 10,905,860 | $ 75,671,611 | $ 93,220,889 |

Permanently Restricted Funds with Deficiencies

At times, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or PA Law requires the Institute to retain as a fund of perpetual duration.

NOTE K - Endowment Fund - continued

Deficiencies of this nature that are reported in unrestricted net assets were $272,747 and $2,363,275 as of May 31, 2017 and 2016, respectively. Deficiencies result from unfavorable market fluctuations that occur after the investment of new permanently restricted contributions, net of appropriation of appreciation for the programs that the donor wished to endow.

Return Objectives and Risk Parameters

The Institute has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to student assistance and ongoing operating expenses supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Institute must hold in perpetuity as well as board designated funds. The primary long-term management objective is to preserve the real (inflation adjusted) purchasing power of the endowment, both restricted and unrestricted, before gifts. This objective should be achieved over a rolling three-year period.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate of return objectives, the Institute relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The primary investment objective of the endowment is to earn an average annual real total return of 5 - 6% measured against a market benchmark calculated by weighting the S&P 500 index at 65% and the Barclay aggregate bond index at 35% and against the NACUBO universe of endowments.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Institute has a policy of appropriating for distribution each year 4.5 - 5.5% of its endowment fund's average fair value over the prior 20 quarters through the calendar year-end preceding the current fiscal year in which the distribution is planned. The Board of Trustees approved to change the spending policy by increasing the number of quarters included in the average fair value formula from 12 to 20 quarters effective for the year ended May 31, 2017. In establishing this policy, the Institute considers the long-term expected return on its endowment.

The target spending rate is that which as part of total return satisfies these conditions - (a) permits enough reinvestment to preserve the real purchasing power of current funds, (b) permits a level of consistency and stability in the artistic, academic and student programs of the Institute, (c) is sustainable over time regardless of periodic variations in the levels required to satisfy (a), and (d) recognizes that circumstances may preclude achievement of all three objectives in any one year.

NOTE L - Defined Contribution Pension Plans

The Institute administers a 401(a) non-contributory defined contribution plan which covers faculty and a 401(k) contributory defined contribution plan which covers eligible administrative employees. Pension expense for the years ended May 31, 2017 and 2016 amounted to $600,868 and $535,785, respectively.

NOTE M - Tax Status

The Institute is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Tax filings for fiscal 2014, 2015 and 2016 are subject to examination, generally for three years after they were filed.

# THE CURTIS INSTITUTE OF MUSIC
## NOTES TO FINANCIAL STATEMENTS
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NOTE N - Related Party Transactions

The Mary Louise Curtis Bok Foundation is a not-for-profit corporation formed exclusively for charitable, scientific and educational purposes, particularly the support of music and musical education. The Foundation's Board has authorized that all revenues in excess of expenses shall be made available as needed for the purpose of supporting the operations of the Institute. During the years ended May 31, 2017 and 2016, the Institute received contributions of $4,298,844 and $4,617,914, respectively, from the Foundation. In addition, the Institute charged an administrative fee of $42,000 to the Foundation for each of the years ended May 31, 2017 and 2016. Certain of the Institute's Trustees also serve as Directors of the Foundation.

Summarized financial data for the Foundation is as follows as of and for the years ended May 31, 2017 and 2016:

| | 2017 | 2016 |
|---|---|---|
| Total assets | $ 88,285,969 | $ 81,133,795 |
| Total liabilities | 141,556 | 25,473 |
| Net assets | 88,144,413 | 81,108,322 |
| Total operating revenues | 4,981,563 | 5,195,208 |
| Total operating expense | 4,981,563 | 5,195,208 |
| Nonoperating changes | 7,036,091 | (9,108,563) |

The Institute received additional contributions from board members totaling approximately $2,500,000 and $56,600,000 for the years ended May 31, 2017 and 2016, respectively.

NOTE O - Contingencies and Commitments

The Institute is contingently liable for defaults on student loans under the former Educational Resources, Inc. ("TERI") Loan program, which went bankrupt several years ago. Cumulative loans outstanding at May 31, 2017 were approximately $1,300,000. Though the Institute has not been contacted regarding collections on these loans, the Institute's management has continued to include a reserve relating to the cumulative loan balance. During the year ended May 31, 2016, the Institute began to recover a portion of this reserve based on the age of the cumulative loan balance and the decreasing likelihood of any future liability related to the TERI Loan program. The amount of this reserve was $122,528 and $189,900 at May 31, 2017 and 2016, respectively, and is included in other liabilities in the accompanying statements of financial position.

NOTE P - Financial Instruments - Concentrations of Credit Risk

As of May 31, 2017, the Institute held financial instruments which potentially subject it to concentrations of credit risk. The financial instruments consist primarily of checking and money market accounts in excess of federally insured limits. As of May 31, 2017 and 2016, the uninsured balance was approximately $588,000 and $2,200,000, respectively. The Institute has not experienced any losses in such financial instruments. Management believes the Institute is not exposed to any significant credit risk related to cash and cash equivalents.

NOTE Q - Subsequent Events

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through October 9, 2017, the date the financial statements were available to be issued.