

ILLINOIS INSTITUTE OF TECHNOLOGY
CONSOLIDATED FINANCIAL STATEMENTS
May 31, 2020 and 2019

ILLINOIS INSTITUTE OF TECHNOLOGY

CONSOLIDATED FINANCIAL STATEMENTS
May 31, 2020 and 2019

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INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Illinois Institute of Technology
Chicago, Illinois

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Illinois Institute of Technology and Subsidiaries (the "University"), which comprise the consolidated statements of financial position as of May 31, 2020 and 2019, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the 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.

Auditor's 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. Those standards require that we plan and perform the audit 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 auditor's 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.

(Continued)

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Illinois Institute of Technology and Subsidiaries as of May 31, 2020 and 2019, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statements of financial position, activities, and cash flows are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, changes in net assets, and cash flows of the individual entities, and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.


Crowe LLP

Chicago, Illinois
November 6, 2020

ILLINOIS INSTITUTE OF TECHNOLOGY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
May 31, 2020 and 2019
(In thousands of dollars)

	<u>2020</u>	<u>2019</u>
ASSETS		
Cash	\$ 6,464	\$ 4,150
Notes and accounts receivable:		
Grants and contracts, less allowance of \$253 in 2020 and \$294 in 2019	10,664	12,703
Students:		
Tuition, less allowance of \$918 in 2020 and \$679 in 2019	8,250	6,365
Notes, less allowance of \$680 in 2020 and \$655 in 2019	6,883	8,474
Other, less allowance of \$661 in 2020 and \$695 in 2019	641	1,051
Pledges, net	30,238	16,342
Inventories, prepaid expenses, and deferred charges	3,235	2,537
Investments	259,722	252,743
Physical properties, less accumulated depreciation	330,268	317,785
Beneficial interest in perpetual trusts	<u>21,204</u>	<u>21,204</u>
Total assets	<u>\$ 677,569</u>	<u>\$ 643,354</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 15,579	\$ 16,634
Accrued salaries and wages	18,685	17,411
Deferred revenue	14,487	12,749
Deposits by students and others	1,354	1,595
Accrued postretirement benefit obligation	1,056	1,810
Obligation under split-interest agreements	684	751
Capital lease liability	1,422	1,870
Advances from the U.S. government for student loans	5,356	6,651
Asset retirement obligation	937	1,457
Debt:		
Bonds payable	166,089	180,775
Notes payable	19,775	14,000
Bond premium payable	14,938	1,595
Cost of issuance	<u>(1,855)</u>	<u>(1,166)</u>
Total debt	<u>198,947</u>	<u>195,204</u>
Total liabilities	<u>258,507</u>	<u>256,132</u>
Net assets:		
Without donor restrictions	163,467	151,624
With donor restrictions	<u>255,595</u>	<u>235,598</u>
Total net assets	<u>419,062</u>	<u>387,222</u>
Total liabilities and net assets	<u>\$ 677,569</u>	<u>\$ 643,354</u>

See accompanying notes to the consolidated financial statements.

ILLINOIS INSTITUTE OF TECHNOLOGY
CONSOLIDATED STATEMENT OF ACTIVITIES
Year ended May 31, 2020
(In thousands of dollars)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Operating revenue:			
Tuition and fees, net of scholarships of \$122,722	\$ 125,495	\$ -	\$ 125,495
Government grants and contracts	52,323	-	52,323
Private grants and contracts	13,874	-	13,874
Private gifts	37,958	23,605	61,563
Endowment spending distribution	12,105	-	12,105
Sales and services of auxiliary enterprises, net	14,502	-	14,502
Other sources	17,745	-	17,745
Net assets released from restrictions	4,243	(4,243)	-
Total operating revenue	<u>278,245</u>	<u>19,362</u>	<u>297,607</u>
Operating expenses:			
Faculty salaries	63,191	-	63,191
Administrative salaries	45,554	-	45,554
Part-time salaries	13,830	-	13,830
Employee benefits	26,206	-	26,206
Operations and maintenance	21,638	-	21,638
Supplies and services	40,449	-	40,449
Professional fees and advertising	13,382	-	13,382
IITRI research	19,574	-	19,574
Interest on indebtedness	7,894	-	7,894
Depreciation	16,335	-	16,335
Total operating expenses	<u>268,053</u>	<u>-</u>	<u>268,053</u>
Increase in net assets from operating activities	<u>10,192</u>	<u>19,362</u>	<u>29,554</u>
Nonoperating revenue and expenses:			
Private gifts	-	8,493	8,493
Change in donor designation	(708)	708	-
Return on investments, net	1,175	5,012	6,187
Endowment spending distribution	(2,688)	(9,417)	(12,105)
Net assets released from restrictions	4,413	(4,413)	-
Gain on extinguishment of debt	822	-	822
Restructuring expenses	(1,938)	-	(1,938)
Net gain on disposal of assets	404	-	404
Other	171	252	423
Increase in net assets from nonoperating activities	<u>1,651</u>	<u>635</u>	<u>2,286</u>
Increase in net assets	<u>11,843</u>	<u>19,997</u>	<u>31,840</u>
Net assets at beginning of year	<u>151,624</u>	<u>235,598</u>	<u>387,222</u>
Net assets at end of year	<u>\$ 163,467</u>	<u>\$ 255,595</u>	<u>\$ 419,062</u>

See accompanying notes to the consolidated financial statements.

ILLINOIS INSTITUTE OF TECHNOLOGY
CONSOLIDATED STATEMENT OF ACTIVITIES
Year ended May 31, 2019
(In thousands of dollars)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Operating revenue:			
Tuition and fees, net of scholarships of \$115,091	\$ 128,974	\$ -	\$ 128,974
Government grants and contracts	50,872	-	50,872
Private grants and contracts	14,457	-	14,457
Private gifts	18,361	6,839	25,200
Endowment spending distribution	12,282	-	12,282
Sales and services of auxiliary enterprises, net	16,764	-	16,764
Other sources	16,423	-	16,423
Net assets released from restrictions	<u>6,673</u>	<u>(6,673)</u>	<u>-</u>
Total operating revenue	<u>264,806</u>	<u>166</u>	<u>264,972</u>
Operating expenses:			
Faculty salaries	63,976	-	63,976
Administrative salaries	46,706	-	46,706
Part-time salaries	14,089	-	14,089
Employee benefits	25,730	-	25,730
Operations and maintenance	21,471	-	21,471
Supplies and services	43,237	-	43,237
Professional fees and advertising	15,896	-	15,896
IITRI research	15,085	-	15,085
Interest on indebtedness	9,387	-	9,387
Depreciation	<u>15,773</u>	<u>-</u>	<u>15,773</u>
Total operating expenses	<u>271,350</u>	<u>-</u>	<u>271,350</u>
(Decrease) increase in net assets from operating activities	<u>(6,544)</u>	<u>166</u>	<u>(6,378)</u>
Nonoperating revenue and expenses:			
Private gifts	-	14,350	14,350
Change in donor designation	(37)	37	-
Return on investments, net	846	1,528	2,374
Net loss on beneficial interest on perpetual trusts	-	(808)	(808)
Endowment spending distribution	(2,756)	(9,526)	(12,282)
Net assets released from restrictions	32,702	(32,702)	-
Loss on extinguishment of debt	(772)	-	(772)
Restructuring expenses	(5,996)	-	(5,996)
Change in value of split-interest agreements	(31)	(25)	(56)
Other	<u>258</u>	<u>(784)</u>	<u>(526)</u>
Increase (decrease) in net assets from nonoperating activities	<u>24,214</u>	<u>(27,930)</u>	<u>(3,716)</u>
Increase (decrease) in net assets	<u>17,670</u>	<u>(27,764)</u>	<u>(10,094)</u>
Net assets at beginning of year	<u>133,954</u>	<u>263,362</u>	<u>397,316</u>
Net assets at end of year	<u>\$ 151,624</u>	<u>\$ 235,598</u>	<u>\$ 387,222</u>

See accompanying notes to the consolidated financial statements.

ILLINOIS INSTITUTE OF TECHNOLOGY
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended May 31, 2020 and 2019
(In thousands of dollars)

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 31,840	\$ (10,094)
Adjustments to reconcile increase (decrease) in net assets to net cash from operating activities:		
Private gifts restricted for long-term investment	(9,042)	(2,209)
Depreciation	16,335	15,773
Amortization	(615)	(30)
Loss (gain) on beneficial interest in perpetual trusts	-	808
Net (gain) on disposal of assets	(404)	-
Net loss (gain) on investments	(679)	3,169
(Gain) loss on extinguishment of debt	(822)	772
Accretion on asset retirement obligation	740	515
Bond interest paid through escrow	1,881	-
Changes in assets and liabilities:		
Receivables: tuition, grants, pledges, and other	(13,332)	(12,202)
Inventories, prepaid expenses, and deferred charges	(698)	(478)
Accounts payable and accrued expenses	829	1,135
Accrued salaries and wages	1,274	702
Deferred revenue	1,738	5,373
Deposits by students and others	(241)	(741)
Accrued postretirement benefit obligation	(754)	(389)
Obligations under split-interest agreements	(67)	25
Advances from the U.S. government for student loans	(1,295)	-
Asset retirement obligation	<u>(1,260)</u>	<u>(683)</u>
Net cash from operating activities	<u>25,428</u>	<u>1,446</u>
Cash flows from investing activities:		
Proceeds from sale of investments	80,983	79,246
Purchase of investments	(87,283)	(77,736)
Change in bond proceeds held by trustees, net	-	2,817
Purchase of physical properties	(30,298)	(40,065)
Issuance of notes receivable	(224)	(552)
Payments received on notes receivable	<u>1,815</u>	<u>1,592</u>
Net cash from investing activities	<u>(35,007)</u>	<u>(34,698)</u>
Cash flows from financing activities:		
Private gifts restricted for long-term investment	9,042	2,209
Payments on capital lease	(448)	(500)
Proceeds on notes and bonds payable	5,775	40,662
Payments on notes and bonds payable	(2,476)	(31,420)
Payment of bond issuance costs	<u>-</u>	<u>(412)</u>
Net cash from financing activities	<u>11,893</u>	<u>10,539</u>
Change in cash	2,314	(22,713)
Cash at:		
Beginning of year	<u>4,150</u>	<u>26,863</u>
End of year	<u>\$ 6,464</u>	<u>\$ 4,150</u>
Supplemental disclosure of cash flow information:		
Refunding of debt	\$ 138,526	\$ -
Cash paid for interest	6,333	8,932
Construction payable	1,317	3,201
Proceeds from capital lease	-	2,370
Release of conditional gift for purchase of property and equipment	-	12,304

See accompanying notes to the consolidated financial statements.

ILLINOIS INSTITUTE OF TECHNOLOGY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
May 31, 2020 and 2019
(In thousands of dollars)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

Basis of Presentation: Illinois Institute of Technology (the University) is a private not-for-profit coeducational technical Institution that is dedicated to superior teaching and excellent scholarship. Located in Chicago, Illinois, the University enrolls a diverse student body from across the nation and a number of foreign countries.

IIT India is a private not-for-profit entity headquartered in Bangalore, India. The entity has been created to facilitate IIT's ability to deliver long distance internet-based educational programs to residents of various cities in India.

IIT Research Institute (IITRI) is a not-for-profit corporation working for the advancement of knowledge and the beneficial application of science to meet the needs of society. IITRI's articles of incorporation provide that, in addition to its primary purpose, it will support and assist the University, and in the event of dissolution, IITRI's assets would be distributed to the University. Members of the executive committee of the board of trustees of the University are members of the IITRI Corporation. Four officers of the University serve ex officio as members of the IITRI Board of Governors. IITRI also prepares separate annual financial statements as of September 30, its fiscal year end.

The accompanying consolidated financial statements are as of May 31, which have been prepared on the accrual basis of accounting, include the accounts of Illinois Institute of Technology, IIT India, and IITRI as of May 31. All significant intercompany transactions between these entities have been eliminated from the accompanying consolidated financial statements.

Net Asset Categories: The University maintains its accounts in accordance with the principles and practices of fund accounting. Fund accounting is the procedure by which resources for various purposes are classified for accounting purposes in accordance with activities or objectives specified by donors.

For financial statement reporting purposes, however, the University's consolidated financial statements have been prepared to focus on the organization as a whole and to present balances and transactions in accordance with donor-imposed restrictions.

Net assets and related activity are classified and reported as follows:

Without Donor Restrictions – Net assets that are not subject to donor-imposed restrictions.

With Donor Restrictions – Net assets that are subject to donor-imposed restrictions that will be met either by actions of the University or the passage of time. Items that affect this net asset category include gifts for which restrictions have not been satisfied and annuity and life income gifts for which the ultimate purpose of the proceeds is restricted temporarily.

Additionally, net assets that are subject to donor-imposed restrictions that require them to be maintained permanently by the University are considered net assets with donor restriction. Items that affect this net asset category include gifts and pledges wherein donors stipulate that the corpus be held in perpetuity (primarily gifts for endowment and providing loans to students) and only the income be made available for program operations, and annuity and life income gifts for which the ultimate purpose of the proceeds is permanently restricted.

Operations: Operating results in the consolidated statements of activities reflect all transactions increasing or decreasing net assets except those items associated with gifts and income relating to long-term investment, endowment spending, and other infrequent gains, losses, revenues, and expenses.

(Continued)

ILLINOIS INSTITUTE OF TECHNOLOGY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 May 31, 2020 and 2019
 (In thousands of dollars)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES
 (Continued)

Revenue Recognition:

Tuition, Fees, and Auxiliary Services

Tuition and fees are derived from academic services rendered by the University on campus and online, as well as from related educational resources that the University provides to its students, such as access to course and online materials. The University recognizes revenue for academic services over the applicable academic term. Scholarships provided to students by the University are reflected as a reduction of gross tuition and fees. For the years ended May 31, 2020 and 2019, tuition and fees revenue was reduced by approximately \$122,722 and \$115,091, respectively, due to scholarships the University provided to students. Tuition and fees received in advance of services are reported as deferred revenue and student deposits in the consolidated statements of financial position.

Sales and services of auxiliary enterprises include housing services, food services, a bookstore, parking operations, and events. The University recognizes revenue for housing and certain food services proportionately over the applicable academic term. For the years ended May 31, 2020 and 2019, auxiliary revenue was reduced by approximately \$3,257 and \$3,043, respectively, due to scholarships the University provided to students.

On March 23rd the University moved most academic instruction online in response to the nationwide COVID-19 outbreak and issued prorated refunds of room and board charges to students who elected to move out of campus housing. Prorated refunding of room and board charges in Spring 2020 totaled \$1,765.

Fees related to housing and food received in advance of services are reported as deferred revenue and student deposits in the consolidated statements of financial position. The University typically recognizes revenue from other sales and services of auxiliary enterprises at the point in time sales occur or as services are rendered.

Sales and services of auxiliary enterprises consist of the following:

	<u>2020</u>	<u>2019</u>
Housing services, net	\$ 7,901	\$ 7,768
Housing proration due to shift to online learning	(947)	-
Food services	6,521	6,896
Food service proration due to shift to online learning	(818)	-
Other	<u>1,845</u>	<u>2,100</u>
Total	<u>\$ 14,502</u>	<u>\$ 16,764</u>

(Continued)

ILLINOIS INSTITUTE OF TECHNOLOGY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
May 31, 2020 and 2019
(In thousands of dollars)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES
(Continued)

The University's receivables represent unconditional rights to consideration from its contracts with customers. Typically, once a customer is invoiced for tuition, fees, and auxiliary services, payment is due immediately. Accounts receivables as of the years ended May 31, 2020, May 31, 2019, and May 31, 2018 were \$7,332, \$7,044, and \$6,057, respectively. The University's contract liabilities are presented as deferred revenue and student deposits in the consolidated statement of financial position. Deferred revenue and student deposits in any period represent the excess of tuition, fees, and other student payments received over amounts recognized as revenue on the statement of activities. The University's education programs have starting and ending dates that differ from its fiscal year end. Therefore, at fiscal year end, a portion of revenue from these programs is not yet earned. The University does not present information about outstanding performance obligations as of year end because its contracts with students all had original terms of less than one year.

The University maintains an institutional tuition refund policy, which provides for all or a portion of tuition and fees to be refunded if a student withdraws during the stated refund period.

The University had no costs that were capitalized to obtain or to fulfill a contract with a customer.

Exchange Transactions from Grants and Contracts

Revenue from exchange transactions for applied research is recognized over time as the University's contractual performance obligations are satisfied. Revenue from cost-plus contracts is recognized as costs are incurred and includes a proportionate share of the fees earned. The percentage-of-completion method is used to recognize revenue on fixed price contracts based on various performance measures. From time to time, facts develop that require the University to revise its estimated total costs or revenues expected. The cumulative effect of revised estimates is recorded in the period in which the facts requiring revisions become known. Under time-and-materials contracts, labor and related costs are reimbursed at negotiated, fixed hourly rates. Revenue on time-and-materials contracts is recognized at contractually billable rates as labor hours and direct expenses are incurred. The full amount of anticipated losses on any type of contract is recognized in the period in which they become known.

Contributions from Gifts, Grants, and Contracts

Private gifts and government grants that are not considered exchange transactions, including pledges, are recognized in the period received. Conditional gifts, with a barrier and right of return, are not recognized until the conditions on which they depend are substantially met or explicitly waived by the donor. Contributions of assets other than cash are recorded at estimated fair value. Contributions to be received after one year are discounted at an appropriate rate commensurate with the risks involved. Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible pledges receivable is provided based upon management's judgment, including such factors as prior collection history, type of contribution, and nature of fund-raising activity.

(Continued)

ILLINOIS INSTITUTE OF TECHNOLOGY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
May 31, 2020 and 2019
(In thousands of dollars)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES
(Continued)

Contributions received with donor-imposed restrictions that are met in the same year as the gifts are received are reported in the net asset without donor restrictions class. Contributions of land, building, and equipment without donor-imposed restrictions concerning the use of such long-lived assets are reported in the net asset without donor restrictions class. Contributions of cash or other assets to be used to acquire land, building, and equipment with such donor restrictions are reported in the net asset with donor restrictions class; the restrictions are considered to be released at the time the long-lived assets are placed in service.

Grants and contracts for basic research and other sponsored programs are generally subject to restrictions and conditions that must be met before the University is entitled to funding. Accordingly, advances from granting agencies are generally considered refundable in the unlikely event specified services are not performed. The University recognizes contribution revenue on grants for basic research and other sponsored programs as the awards for such programs are expended, since expenditure in accordance with award terms typically results in the simultaneous release of restrictions and conditions imposed by the grantor.

At May 31, 2020, the University and IITRI also had unexpended grant awards of approximately \$4,107 for which revenue has not been recognized pending fulfillment of conditions associated with the awards, which generally coincides with expenditure.

Indirect cost recovery by the University on U.S. government grants and contracts is based upon predetermined negotiated rates or provisional rates and is recorded as grants and contracts revenue.

Funding from the CARES Act: In March of 2020, the University was allocated \$3,730 in funding through the Higher Education Emergency Relief Fund (HEERF) as authorized in the CARES Act. As required by the Act, 50 percent of that allocation was directed to provide emergency financial aid grants to students and 50 percent to cover costs incurred by the university in connection with the coronavirus pandemic. At May 31, 2020, the University awarded \$184 in emergency financial aid grants to students. The University therefore recognized revenue of \$184 from the institutional portion of the funding to the extent that it met the conditions to incur allowable expenses. The remaining institutional allocation \$1,681 is classified as deferred revenue at May 31.

Restructuring Expenses: In May of 2018, the University, under the direction of the Finance Committee, began an administrative assessment to find operational cost savings. The core areas of opportunity related to four items: (1) organizational restructuring to optimize service, realize process efficiencies and avoid redundancy of services, (2) elimination of policies and programs that were not cost effective, (3) redirect resources to mission centric and revenue generating activities and (4) consolidate the physical footprint and monetize rentable space. Restructuring expenses amounted to \$1,938 and \$5,996 for the fiscal years ended May 31, 2020 and 2019, respectively. The expenses included consulting services, retirement incentives, system/software improvements and restructuring/reorganization of departments.

(Continued)

ILLINOIS INSTITUTE OF TECHNOLOGY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
May 31, 2020 and 2019
(In thousands of dollars)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES
(Continued)

Investments: Investments are reported at fair value. The fair values of investments in stocks, equity mutual funds, bonds, and fixed-income mutual funds are generally determined based on quoted market prices. Direct investments in real estate included in the investment portfolio are recorded at fair value using the income-capitalization and sale-comparison methodology. Management's estimate of the fair value of private equity, venture capital, alternative funds and hedged fund investments is determined based on net asset values (NAV) provided by the external investment managers, as a practical expedient in measuring fair value. The valuations for these investments involve estimates, appraisals, assumptions, and methods, which are reviewed by the University.

Cash equivalents, consisting primarily of fixed-income securities and money market accounts with original maturities of three months or less, related to endowment funds are classified as investments. Investment transactions are recorded on the trade date. Realized gains and losses on the sale of investments are calculated on the basis of specific identification of the securities sold. Investment management fees and service charges are netted against investment income for financial reporting purposes.

Notes Receivable: Student notes receivable consist of Perkins loans and University loans. The University establishes valuation allowances for notes receivable based on estimates of future collectability.

Inventory: Inventories are stated at cost, which is determined by the first-in, first-out method for both the University and IITRI.

Physical Properties: The University's and IITRI's fixed assets are recorded at cost of construction or acquisition. The University and IITRI depreciate their land improvements, buildings, and equipment on the straight-line method over their estimated useful lives, which range from 3 to 50 years.

Upon sale or retirement of an asset, a gain or loss is recorded based on the net book value at the time of sale or retirement. Minor expenditures for renovations, construction, and replacement of equipment are charged to current operations and are not capitalized.

Impairment of Long-Lived Assets: The University and IITRI account for long-lived assets in accordance with the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Section 360 Subtopic 10, Impairment or Disposal of Long-Lived Assets. FASB ASC Section 360 Subtopic 10 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

Beneficial Interest in Perpetual Trusts: The University has a beneficial interest in certain perpetual trusts that are held by third parties and are reported at fair value. The University recognizes contribution revenue equal to its proportionate share of the fair value of the trust assets upon notification and determination that its right to receive benefits under the agreement is unconditional. Changes in the fair value of the University's interest in the trust assets are reflected as gains or losses in the period they occur.

(Continued)

ILLINOIS INSTITUTE OF TECHNOLOGY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
May 31, 2020 and 2019
(In thousands of dollars)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES
(Continued)

Split-Interest Agreements: The University's split-interest agreements with donors consist of irrevocable charitable remainder trusts, annuity trusts, and charitable gift annuities for which the University is either the remainder beneficiary or both the trustee and the remainder beneficiary.

Assets held in trust for which the University serves as trustee are included in investments. In addition, the present value of the estimated future payments to be made to the donors and/or other beneficiaries is reported as an obligation under split-interest agreements. The liabilities are adjusted during the term of the agreements for changes in the value of the assets, accretion of the discount, and other changes in the estimates of future benefits.

Assets held in trust for which the University does not serve as trustee are not reported as investments in the consolidated financial statements. However, contribution revenue and a receivable are recognized at the date the trusts are established at the fair value of the trust assets, which represents the estimated present value of the expected future cash flows to be received.

Income Taxes: The University and IITRI have each received a determination letter from the Internal Revenue Service (IRS) stating that they are exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code except for tax on unrelated business income. It is management's belief that none of its activities have produced material unrelated business income, and that the University has operated in a manner that qualifies it for tax-exempt status.

U.S. generally accepted accounting principles require University management to evaluate tax positions taken by the University and IITRI and recognize a tax liability (or asset) if the University and IITRI have taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. Management has analyzed tax positions taken by the University and IITRI and has concluded that as of May 31, 2020 and 2019, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the consolidated financial statements. The University and IITRI are subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The University and IITRI management believes it is no longer subject to income tax examinations for years prior to 2017.

Use of Estimates: The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles (GAAP) 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 consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

Reclassifications: Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

Accounting Guidance: In February 2016, the FASB issued ASU. No. 2016-02, *Leases* which provides accounting guidance to establish increased transparency and comparability of lease reporting by recognizing lease assets and liabilities on the statement of financial position and disclosing key information about leasing activities. The significant change from previous GAAP and the new guidance is the recognition of lease assets and liabilities that arise from operating leases with terms greater than one year are to be recognized in the statement of financial position. In November 2019, the FASB amended the effective date of this standard, and the standard is now effective in fiscal year 2021. The ASU's impact on policies, procedures and the consolidated financial statements remains under evaluation.

(Continued)

ILLINOIS INSTITUTE OF TECHNOLOGY
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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES
(Continued)

COVID-19 Risk Factors: A novel strain of coronavirus surfaced and has spread around the world, with resulting business and social disruption. The coronavirus was declared a Public Health Emergency of International Concern by the World Health Organization on January 30, 2020. The operations and business results of the University could be materially adversely affected. The extent to which the coronavirus (or any other disease or epidemic) may impact business activity will depend on future developments. These future developments are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and the actions required to contain the coronavirus or treat its impact, among others. The University is aware of these risks, and has put a number of plans in place to mitigate them. The University resumed in person classes at the beginning of the fall 2020 semester, giving students the option of in person, hybrid, and remote learning. Our dormitories and food services are open and operational, and on campus resources including the library are open with modifications to allow for social distancing. The University has also partnered with several organizations to offer online learning options to international students unable to travel to campus.

NOTE 2 - INVESTMENTS

Investments consist of the following at May 31:

	2020 <u>Fair Value</u>	2019 <u>Fair Value</u>
Cash equivalents	\$ 16,431	\$ 14,276
Stocks	896	782
Equity mutual funds	144,954	128,168
Bonds (IITRI)	4,764	5,928
Fixed income mutual funds	61,319	63,791
Alternative funds	15,423	14,484
Hedge equity funds	12,119	22,388
Private equity and venture capital funds	<u>3,816</u>	<u>2,926</u>
Total investments	<u>\$ 259,722</u>	<u>\$ 252,743</u>

For investment purposes, the University pools substantially all assets of its endowment accounts. Each account owns "units" of the consolidated investment pool. The pooled assets are valued on an annual basis and a fair value per unit is determined, which is used to calculate the number of units purchased by accounts entering the pool and redeemed by accounts withdrawing from the pool. Income (interest, dividends, and rents) earned by the investment pool is distributed to the individual accounts on the basis of average units owned by each account in the pool during the year. The University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and interest and dividend income. The objective is to provide a stable source of funds to help and support the ongoing operation and activities of the University. The hedge equity, private equity, and venture capital funds are longer-lived, and include an overall investment strategy designed to enhance return and diversify risk. The real estate asset is held for strategic purposes supporting the educational objectives of the University.

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ILLINOIS INSTITUTE OF TECHNOLOGY
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NOTE 2 - INVESTMENTS (Continued)

Return on investments consists of the following for the years ended May 31:

	<u>2020</u>	<u>2019</u>
Return on investments:		
Interest and dividends	\$ 5,607	\$ 5,543
Net realized and unrealized (loss) gain on investments	<u>580</u>	<u>(3,169)</u>
Net return on investments	<u>\$ 6,187</u>	<u>\$ 2,374</u>

The return on investments reflects income from investments held by IITRI of \$179 and \$201 for 2020 and 2019, respectively.

NOTE 3 - FAIR VALUE MEASUREMENT

FASB ASC Section 820, *Fair Value Measurement*, defines fair value as the price that could be received for an asset or paid to transfer a liability in the University's principal or most advantageous market in an orderly transaction between market participants on the measurement date.

FASB ASC Section 820 establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1: Quoted prices for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
- 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 other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

In many cases, a valuation technique used to measure fair value includes inputs from multiple levels of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy. In 2020 and 2019, the University used the following valuation techniques to measure the financial instruments fair value:

- Level 1 consists of financial instruments, such as cash and cash equivalents, bond proceeds, mutual funds, stocks, and money market funds, whose value is based on quoted market prices published by a financial institution or exchange funds, exchange-traded instruments, and listed equities.

(Continued)

ILLINOIS INSTITUTE OF TECHNOLOGY
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NOTE 3 - FAIR VALUE MEASUREMENT (Continued)

Level 2 consists of fixed income securities that use pricing inputs other than quoted prices for similar investments in active markets, quoted prices for identical or similar investments in markets that are not active, or inputs other than quoted prices that are observable including model-based valuation techniques.

Level 3 consists of investments for which there are no active markets. The University has beneficial interests in perpetual trusts as Level 3. Beneficial interests in perpetual trusts are held by various financial institutions. These values are based on the University's proportionate share of the investments. The fair values of the investments in these trusts are based on quoted market prices published by financial institutions.

The University's interests in alternative investment funds, such as hedged equity funds, private equity, venture capital funds, and real estate are reported at the NAV, which is used as a practical expedient to estimate fair value, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. As of May 31, 2020 and 2019, the University had no plans to sell investments at amounts different from NAV. The University has \$31,358 and \$39,798 for 2020 and 2019, respectively, of investments in alternative investment funds, which are reported at fair value. The University has concluded that the NAV reported by the underlying fund approximates the fair value for these investments. These investments are redeemable with the fund at NAV under the original terms of the partnership agreements and/or subscription agreements and operations of the underlying funds. However, it is possible that these redemption rights may be restricted or eliminated by the funds in the future in accordance with the underlying fund agreements. Due to the nature of the investments held by the funds, changes in market conditions and the economic environment may significantly impact the NAV of the funds and, consequently, the fair value of the University's interests in the funds. Furthermore, changes to the liquidity provisions of the funds may significantly impact the fair value of the University's interest in the funds.

Although a secondary market exists for these investments, it is not active and individual transactions are typically not observable. When transactions occur in this limited secondary market, they may occur at discounts to the reported NAV. Therefore, if the redemption rights in the funds were restricted or eliminated and the University were to sell these investments in the secondary market, it is reasonably possible that a buyer in the secondary market may require a discount to the reported NAV, and the discount could be significant. The University has \$8,572 in unfunded commitments relative to HC Private Equity XI and HC Private Equity XII and no unfunded commitments relative to the Commonfund and Roundtable private equity, venture capital and hedged equity alternative investments.

(Continued)

ILLINOIS INSTITUTE OF TECHNOLOGY
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NOTE 3 - FAIR VALUE MEASUREMENT (Continued)

Assets Measured on a Recurring Basis

The following tables present information about the University's financial assets that are measured at fair value on a recurring basis as of May 31, 2020 and 2019, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value:

	2020					Redemption or Liquidation	Days' Notice
	Level 1	Level 2	Level 3	NAV	Total		
Investments:							
Cash and cash equivalents	\$ 16,431	\$ -	\$ -	\$ -	\$ 16,431	Daily	One
Fixed income:							
Fixed income (IIT)	59,308	1,054	-	-	60,362	Daily	One, Trade Day + 2
Fixed income (IITRI)	4,764	-	-	-	4,764	Daily	One
Total	<u>64,072</u>	<u>1,054</u>	<u>-</u>	<u>-</u>	<u>65,126</u>		
Domestic equities:							
Large cap equity	82,855	-	-	-	82,855	Daily	One, Trade Day + 2
Mid cap	-	-	-	-	-	Daily	One, Trade Day + 2
Small cap	-	-	-	-	-	Daily	One, Trade Day + 2
Tactical opportunities	-	-	-	-	-	Daily	One, Trade Day + 2
State Street Global	669	-	-	-	669	Daily	One, Trade Day + 2
Real estate	2,793	-	-	-	2,793	Daily	One, Trade Day + 2
Other	896	-	-	-	896	Daily	One
Total	<u>87,213</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>87,213</u>		
Global (ex-U.S.) equities:							
Developed international	42,401	-	-	-	42,401	Daily	One, Trade Day + 2
Emerging markets international	16,236	-	-	-	16,236	Daily	One, Trade Day + 2
Total	<u>58,637</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>58,637</u>		
Global (ex-U.S.) fixed income:							
Developed international	-	-	-	-	-	Daily	One, Trade Day + 2
Emerging markets international	957	-	-	-	957	Daily	One, Trade Day + 2
Total	<u>957</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>957</u>		
Alternative funds:							
HC Select Equity	-	-	-	13,476	13,476	Locked-up	90
Insurance Linked Interval Fund	-	-	-	1,947	1,947	Quarterly	90
Total	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,423</u>	<u>15,423</u>		
Hedged equity funds of funds:							
Multiple strategies:							
Total return	-	-	-	12,119	12,119	Locked-up (1, 2)	60
Total	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,119</u>	<u>12,119</u>		

(Continued)

ILLINOIS INSTITUTE OF TECHNOLOGY
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NOTE 3 - FAIR VALUE MEASUREMENT (Continued)

	2020					Redemption or Liquidation	Days' Notice
	Level 1	Level 2	Level 3	NAV	Total		
Private equity and venture capital funds:							
Common fund:							
Capital international	\$ -	\$ -	\$ -	\$ 2	\$ 2	None (2)	N/A
Capital venture	-	-	-	302	302	None (2)	N/A
Capital private equity	-	-	-	10	10	None (2)	N/A
IIA	-	-	-	162	162	None (2)	N/A
HC Private Equity XI	-	-	-	2,883	2,883	None (2)	N/A
HC Private Equity XII	-	-	-	454	454	None (2)	N/A
Roundtable	-	-	-	3	3	None (2)	N/A
Total	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,816</u>	<u>3,816</u>		
Total investments	<u>227,310</u>	<u>1,054</u>	<u>-</u>	<u>31,358</u>	<u>259,722</u>		
Other assets:							
Cash	6,464	-	-	-	6,464		
Perpetual trust	<u>-</u>	<u>-</u>	<u>21,204</u>	<u>-</u>	<u>21,204</u>	None	N/A
Total other assets	<u>6,464</u>	<u>-</u>	<u>21,204</u>	<u>-</u>	<u>27,668</u>		
Total	<u>\$ 233,774</u>	<u>\$ 1,054</u>	<u>\$ 21,204</u>	<u>\$ 31,358</u>	<u>\$ 287,390</u>		

(Continued)

ILLINOIS INSTITUTE OF TECHNOLOGY
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NOTE 3 - FAIR VALUE MEASUREMENT (Continued)

	2019					Redemption or Liquidation	Days' Notice
	Level 1	Level 2	Level 3	NAV	Total		
Investments:							
Cash and cash equivalents	\$ 14,276	\$ -	\$ -	\$ -	\$ 14,276	Daily	One
Fixed income:							
Fixed income (IIT)	55,994	6,557	-	-	62,551	Daily	One, Trade Day + 2
Fixed income (IITRI)	5,928	-	-	-	5,928	Daily	One
Total	<u>61,922</u>	<u>6,557</u>	<u>-</u>	<u>-</u>	<u>68,479</u>		
Domestic equities:							
Large cap equity	53,052	-	-	-	53,052	Daily	One, Trade Day + 2
Mid cap	561	-	-	-	561	Daily	One, Trade Day + 2
Small cap	2,859	-	-	-	2,859	Daily	One, Trade Day + 2
Tactical opportunities	2,428	-	-	-	2,428	Daily	One, Trade Day + 2
State Street Global	1,904	-	-	-	1,904	Daily	One, Trade Day + 2
Real estate	622	-	-	-	622	Daily	One, Trade Day + 2
Other	782	-	-	-	782	Daily	One
Total	<u>62,208</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>62,208</u>		
Global (ex-U.S.) equities:							
Developed international	49,007	-	-	-	49,007	Daily	One, Trade Day + 2
Emerging markets international	17,735	-	-	-	17,735	Daily	One, Trade Day + 2
Total	<u>66,742</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>66,742</u>		
Global (ex-U.S.) fixed income:							
Developed international	771	-	-	-	771	Daily	One, Trade Day + 2
Emerging markets international	469	-	-	-	469	Daily	One, Trade Day + 2
Total	<u>1,240</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,240</u>		
Alternative funds:							
HC Select Equity	-	-	-	12,500	12,500	Locked-up	90
Insurance Linked Interval Fund	-	-	-	1,984	1,984	Quarterly	90
Total	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,484</u>	<u>14,484</u>		
Hedged equity funds of funds:							
Multiple strategies:							
Total return	-	-	-	22,388	22,388	Locked-up (1, 2)	60
Total	<u>-</u>	<u>-</u>	<u>-</u>	<u>22,388</u>	<u>22,388</u>		

(Continued)

ILLINOIS INSTITUTE OF TECHNOLOGY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 3 - FAIR VALUE MEASUREMENT (Continued)

	2019					Redemption or Liquidation	Days' Notice
	Level 1	Level 2	Level 3	NAV	Total		
Private equity and venture capital funds:							
Common fund:							
Capital international	\$ -	\$ -	\$ -	\$ 190	\$ 190	None (2)	N/A
Capital venture	-	-	-	490	490	None (2)	N/A
Capital private equity	-	-	-	374	374	None (2)	N/A
IIA	-	-	-	294	294	None (2)	N/A
HC Private Equity XI	-	-	-	1,574	1,574	None (2)	N/A
Roundtable	-	-	-	4	4	None (2)	N/A
Total	-	-	-	2,926	2,926		
Total investments	206,388	6,557	-	39,798	252,743		
Other assets:							
Cash	4,150	-	-	-	4,150		
Perpetual trust	-	-	21,204	-	21,204	None	N/A
Total other assets	4,150	-	21,204	-	25,354		
Total	\$ 210,538	\$ 6,557	\$ 21,204	\$ 39,798	\$ 278,097		

(1) One year from the initial investment

(2) In accordance with Subtopic 820-10, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statement of financial position.

Aggregate investment liquidity as of May 31, 2020 and 2019, is presented below based on redemption or sale period:

	2020	2019
Investment redemption or sale period:		
Daily	\$ 228,364	\$ 212,945
Quarterly	1,947	1,984
Subject to rolling lock-ups	25,595	34,888
Redemptions not permitted	3,816	2,926
Total	\$ 259,722	\$ 252,743

(Continued)

ILLINOIS INSTITUTE OF TECHNOLOGY
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NOTE 3 - FAIR VALUE MEASUREMENT (Continued)

The tables below present a reconciliation and income statement classification of gains and losses for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended May 31, 2020 and 2019:

	<u>Real Estate</u>	<u>Beneficial Interest in Perpetual Trusts</u>	<u>Total</u>
Beginning balance, June 1, 2019	\$ -	21,204	\$ 21,204
Net unrealized gains losses	-	-	-
Purchase of investment	-	-	-
	<u> </u>	<u> </u>	<u> </u>
Ending balance, May 31, 2020	<u>\$ -</u>	<u>\$ 21,204</u>	<u>\$ 21,204</u>

The amount of total loss for the period included in net return on investments attributable to the change in unrealized gain relating to assets still held at May 31, 2020

\$ -	\$ -	\$ -
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	<u>Real Estate</u>	<u>Beneficial Interest in Perpetual Trusts</u>	<u>Total</u>
Beginning balance, June 1, 2018	\$ 11,900	22,012	\$ 33,912
Net unrealized gains losses	-	(808)	(808)
Sale of investment	(11,900)	-	(11,900)
	<u> </u>	<u> </u>	<u> </u>
Ending balance, May 31, 2019	<u>\$ -</u>	<u>\$ 21,204</u>	<u>\$ 21,204</u>

The amount of total loss for the period included in net return on investments attributable to the change in unrealized gain relating to assets still held at May 31, 2019

\$ -	\$ (808)	\$ (808)
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NOTE 4 - ENDOWMENTS

The University endowments include both donor-restricted endowment funds and funds designated by the board of trustees to function as endowments. As required by applicable standards, 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.

(Continued)

ILLINOIS INSTITUTE OF TECHNOLOGY
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NOTE 4 - ENDOWMENTS (Continued)

The board of trustees of the University has interpreted the State of Illinois Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gifts as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. Notwithstanding the foregoing, this determination is not intended to, and shall not, affect the University's authority under UPMIFA to spend any amounts from an endowment fund on a short-term basis even if the market value of the endowment fund is below the original value of the gifts by the donor. As the result of this interpretation, the University classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment; (b) the original value of the subsequent gifts to the permanent endowments; and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time of accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund including unrealized gains and losses attributable to those gifts is classified as net assets with donor restrictions as there are specific purpose restrictions that have not been met by the University.

Endowment net assets consist of the following as of May 31, 2020:

	Without Donor Restrictions	With Donor Restrictions			Total Endowment Funds
		Other Funds	Underwater Funds	Total	
Board-designated funds	\$ 63,272	\$ -	\$ -	\$ -	\$ 63,272
Donor-restricted endowment corpus					
Original donor-restricted gifts	-	61,158	138,357	199,515	199,515
Accumulated gains (losses)	-	9,706	(18,450)	(8,744)	(8,744)
Donor-restricted endowment pledges	-	1,920	-	1,920	1,920
Total	\$ 63,272	\$ 72,784	\$ 119,907	\$ 192,691	\$ 255,963

Endowment net assets consist of the following as of May 31, 2019:

	Without Donor Restrictions	With Donor Restrictions			Total Endowment Funds
		Other Funds	Underwater Funds	Total	
Board-designated funds	\$ 54,055	\$ -	\$ -	\$ -	\$ 54,055
Donor-restricted endowment corpus					
Original donor-restricted gifts	-	67,483	123,251	190,734	190,734
Accumulated gains (losses)	-	11,528	(15,768)	(4,240)	(4,240)
Donor-restricted endowment pledges	-	2,446	-	2,446	2,446
Total	\$ 54,055	\$ 81,457	\$ 107,483	\$ 188,940	\$ 242,995

(Continued)

ILLINOIS INSTITUTE OF TECHNOLOGY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(In thousands of dollars)

NOTE 4 - ENDOWMENTS (Continued)

Changes in endowment net assets for the year ended May 31, 2020, are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Net assets, beginning of year	\$ 54,055	\$ 188,940	\$ 242,995
Endowment-related investment return:			
Endowment-related investment income, net	1,282	3,866	5,148
Endowment-related net realized and unrealized loss	<u>355</u>	<u>1,071</u>	<u>1,426</u>
Total endowment-related investment return, net	1,637	4,937	6,574
Contributions:			
Additions to endowment	10,542	8,574	19,116
Change in pledges with donor restrictions	-	(526)	(526)
Appropriation	(2,687)	(9,453)	(12,140)
Net stock receipts/distributions	-	(58)	(58)
Other	-	2	2
Reclassification	<u>(275)</u>	<u>275</u>	<u>-</u>
Net assets, end of year	<u>\$ 63,272</u>	<u>\$ 192,691</u>	<u>\$ 255,963</u>

(Continued)

ILLINOIS INSTITUTE OF TECHNOLOGY
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NOTE 4 - ENDOWMENTS (Continued)

Changes in endowment net assets for the year ended May 31, 2019, are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Net assets, beginning of year	\$ 54,881	\$ 196,918	\$ 251,799
Endowment-related investment return:			
Endowment-related investment income, net	1,164	4,015	5,179
Endowment-related net realized and unrealized loss	<u>(698)</u>	<u>(2,407)</u>	<u>(3,105)</u>
Total endowment-related investment return, net	466	1,608	2,074
Contributions:			
Additions to endowment	39	2,106	2,145
Change in pledges with donor restrictions	-	(796)	(796)
Appropriation	(2,756)	(9,526)	(12,282)
Other	55	-	55
Reclassification	<u>1,370</u>	<u>(1,370)</u>	<u>-</u>
Net assets, end of year	<u>\$ 54,055</u>	<u>\$ 188,940</u>	<u>\$ 242,995</u>

Spending Policy and Strategies Employed for Achieving Objectives:

The University has adopted an investment policy to provide a stable source of funds to help and support the ongoing operations and activities of the University. Pursuant to this objective, the University seeks to earn a long-term total rate of return sufficient to produce growth of endowment assets, net of spending requirements of 5%, inflation, and investment expenses.

The purpose of the endowment funds is to facilitate donors' desires to make substantial long-term gifts to the community and to develop a new and significant source of revenue for the University. In doing so, the endowment fund will provide a secure, long-term source of funds to: (a) fund special programs; (b) ensure long-term growth; (c) enhance the University's ability to meet changing community needs; and (d) support the administrative expenses of the University as deemed appropriate.

To achieve these goals, the University's spending policy utilizes the total return concept of endowment spending. Under the method adopted by the University, interest and dividends as well as appreciation on investments held by the investment pool are made available for spending. The University's total endowment fund spending is based upon a target percentage of a subset of investments. The target percentage set by the board of trustees is 5% of the average quarterly endowment balance for the prior 12 quarters. The board of trustees set endowment distribution expenditure is \$12,140 for fiscal year 2020 and \$12,282 for fiscal year 2019. The board of trustees budgeted endowment distribution is \$11,978 for fiscal year 2021.

(Continued)

ILLINOIS INSTITUTE OF TECHNOLOGY
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NOTE 4 - ENDOWMENTS (Continued)

Funds with Deficiencies: From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor gave to the University to retain as a fund of perpetual duration. These deficiencies are the result of unfavorable investments returns in prior fiscal years, as well as appropriations deemed prudent, for certain programs, by the board of trustees.

The University has a policy that permits distribution for expenditure from underwater endowment funds, unless otherwise precluded by the donor intent or relevant laws and regulations. The target percentage set by the board of trustees is 5% of the average quarterly endowment balance for the prior 12 quarters. So as not to suspend certain programs, it was deemed prudent to appropriate \$7,256 in fiscal year 2020 and \$5,442 in fiscal year 2019 included in the total endowment distribution from the underwater endowment funds for the expenditure on the donor restricted program purposes.

The University made a board approved \$10,000 draw from its restricted endowment to finance the renovation of Kacek Hall (formerly Bailey Hall). The amount will be paid back with interest.

NOTE 5 - PLEDGES RECEIVABLE

Pledges receivable consist of unconditional promises to give and are summarized as follows at May 31:

	<u>2020</u>	<u>2019</u>
Pledges receivable	\$ 31,149	\$ 16,829
Discount to present value future cash flows	<u>(911)</u>	<u>(487)</u>
Net pledges receivable	<u>\$ 30,238</u>	<u>\$ 16,342</u>

The following is a summary showing the expected timing of collection of total gross unconditional pledges receivable outstanding as of May 31, 2020:

<u>Fiscal Year(s)</u>	<u>Amount</u>
Less than one year	\$ 19,471
1 to 5 years	11,553
More than 5 years	<u>125</u>
	<u>\$ 31,149</u>

Conditional pledges receivable as of May 31, 2020 total approximately \$10,663.

(Continued)

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NOTE 6 - FINANCING RECEIVABLES

The University's financing receivables consist of a revolving loan fund for Federal Perkins Loans for which the University acts as an agent for the federal government and institutional loan funds created by the University to assist students in funding their education. These loans are valued based on the outstanding principal balance, less an allowance for estimated losses. Interest earned on outstanding loan balances is recorded based on the terms of the individual loan agreements and continues to accrue even when past due.

The availability of funds for loans under the Federal Perkins Loan program is dependent on reimbursements to the pool from repayments on outstanding loans. Funds held in the federal loan programs of \$5,356 are ultimately refundable to the government and are classified as a liability in the consolidated statements of financial position as of May 31, 2020 and 2019, respectively.

Balances of financing receivables as of May 31, 2020, consist of the following:

	Perkins <u>Loans</u>	Institutional <u>Loans</u>	<u>Total</u>
Gross balance	\$ 4,970	\$ 2,593	\$ 7,563
Allowances	<u>-</u>	<u>(680)</u>	<u>(680)</u>
Balance at May 31, 2020	<u>\$ 4,970</u>	<u>\$ 1,913</u>	<u>\$ 6,883</u>

Balances of financing receivables as of May 31, 2019, consist of the following:

	Perkins <u>Loans</u>	Institutional <u>Loans</u>	<u>Total</u>
Gross balance	\$ 6,331	\$ 2,798	\$ 9,129
Allowances	<u>-</u>	<u>(655)</u>	<u>(655)</u>
Balance at May 31, 2019	<u>\$ 6,331</u>	<u>\$ 2,143</u>	<u>\$ 8,474</u>

For each class of financing receivables, the following table presents the credit quality indicator as determined by the delinquency status of the loan as of May 31, 2020. The delinquency status is updated monthly by the University's loan servicer.

	Perkins <u>Loans</u>	Institutional <u>Loans</u>	<u>Total</u>
Performing	\$ 4,225	\$ 1,190	\$ 5,415
Nonperforming (defaulted)	<u>745</u>	<u>1,403</u>	<u>2,148</u>
Balance at May 31, 2020	<u>\$ 4,970</u>	<u>\$ 2,593</u>	<u>\$ 7,563</u>

(Continued)

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NOTE 6 - FINANCING RECEIVABLES (Continued)

The delinquency status as of May 31, 2019, is as follows:

	Perkins Loans	Institutional Loans	Total
Performing	\$ 5,614	\$ 1,424	\$ 7,038
Nonperforming (defaulted)	<u>717</u>	<u>1,374</u>	<u>2,091</u>
Balance at May 31, 2019	<u>\$ 6,331</u>	<u>\$ 2,798</u>	<u>\$ 9,129</u>

The aging of financing receivables as of May 31, 2020, is presented as follows:

Aging	<u>31-60</u>	<u>61-90</u>	<u>91+</u>	Total <u>Past Due</u>	Total <u>Current</u>	Total
Perkins	\$ 63	\$ 150	\$ 882	\$ 1,095	\$ 3,875	\$ 4,970
Institutional	<u>20</u>	<u>49</u>	<u>1,537</u>	<u>1,606</u>	<u>987</u>	<u>2,593</u>
Total	<u>\$ 83</u>	<u>\$ 199</u>	<u>\$ 2,419</u>	<u>\$ 2,701</u>	<u>\$ 4,862</u>	<u>\$ 7,563</u>

The aging of financing receivables as of May 31, 2019, is presented as follows:

Aging	<u>31-60</u>	<u>61-90</u>	<u>91+</u>	Total <u>Past Due</u>	Total <u>Current</u>	Total
Perkins	\$ 77	\$ 143	\$ 811	\$ 1,031	\$ 5,300	\$ 6,331
Institutional	<u>21</u>	<u>45</u>	<u>1,520</u>	<u>1,586</u>	<u>1,212</u>	<u>2,798</u>
Total	<u>\$ 98</u>	<u>\$ 188</u>	<u>\$ 2,331</u>	<u>\$ 2,617</u>	<u>\$ 6,512</u>	<u>\$ 9,129</u>

Allowances for estimated losses are established based on prior collection experience and observed trends in the rate of default, as well as a consideration of current economic trends and indicators. Loan balances are written off when they are deemed to be ultimately uncollectible. Since student loans under the Perkins loan program can be assigned to the government when no longer collectible, a Perkins loan write-off will reduce the amount refundable to the government.

Changes in allowance for estimated losses on financing receivables as of May 31, 2020, are presented as follows:

Balance at June 1, 2019	\$ 655
Write-off	-
Increase reserve	<u>25</u>
Balance at May 31, 2020	<u>\$ 680</u>

(Continued)

ILLINOIS INSTITUTE OF TECHNOLOGY
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NOTE 6 - FINANCING RECEIVABLES (Continued)

Changes in allowance for estimated losses on financing receivables as of May 31, 2019 are presented as follows:

Balance at June 1, 2018	\$ 620
Write-off	-
Increase reserve	<u>35</u>
Balance at May 31, 2019	<u>\$ 655</u>

NOTE 7 - PHYSICAL PROPERTIES

The University's consolidated physical properties consisted of the following as of May 31:

	<u>2020</u>	<u>2019</u>
Land and land improvements	\$ 24,092	\$ 24,165
Building and building improvements	508,467	502,707
Equipment	106,032	103,818
Capital lease asset	2,369	2,369
Construction in progress	<u>27,592</u>	<u>6,675</u>
Total physical properties	668,552	639,734
Less accumulated depreciation	<u>338,284</u>	<u>321,949</u>
Physical properties, net	<u>\$ 330,268</u>	<u>\$ 317,785</u>

NOTE 8 - BENEFICIAL INTEREST IN PERPETUAL TRUSTS

The University is an income beneficiary of certain irrevocable trusts that are held and controlled by independent trustees. The University has no equity interest in the principal of these trusts. At May 31, 2020 and 2019, the share of these trusts from which the University derives income had a combined fair value of \$21,204 and \$21,204, respectively. These trusts provided investment income without donor restrictions of \$1,310 and \$675 in fiscal years 2020 and 2019, respectively.

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NOTE 9 - NOTES AND BOND PAYABLE

Notes and bonds payable consist of the following at May 31:

		<u>2020</u>	<u>2019</u>
IFA Bonds, Series 2006, payable in varying installments through 2036	5.00%	\$ -	\$ 135,125
IFA Bonds, Series 2018 payable in varying installments through 2034	3.60%	38,774	40,250
IFA Bonds, Series 2019, payable in varying installments through 2042	5% and 4%	122,915	-
IITRI - IFA Series 2014, payable in varying installments through 2034	Variable	4,400	5,400
Short-term line of credit	Variable	<u>19,775</u>	<u>14,000</u>
		185,864	194,775
Bond premium payable		14,938	1,595
Bond issuance costs		<u>(1,855)</u>	<u>(1,166)</u>
		<u>\$ 198,947</u>	<u>\$ 195,204</u>

The following is a summary of required principal payments on outstanding secured obligations as of May 31, 2020:

<u>Fiscal year ending:</u>	<u>Bond Principal</u>	<u>LOC Principal</u>	<u>Total</u>
2021	\$ 4,956	\$ 19,775	\$ 24,731
2022	5,161	-	5,161
2023	5,376	-	5,376
2024	5,596	-	5,596
2025	5,831	-	5,831
2026 and beyond	<u>139,169</u>	<u>-</u>	<u>139,169</u>
	<u>\$ 166,089</u>	<u>\$ 19,775</u>	<u>\$ 185,864</u>

In March 2006, the University issued \$160,000 in fixed rate revenue bonds through the Illinois Finance Authority (IFA) consisting of \$153,600 (IFA Series 2006A) and \$6,340 (IFA Series 2006B). Proceeds from the bonds were used to advance refund the IEFA Series 1999 Bonds, refund the outstanding IEFA Series 2000 Bonds, refund the outstanding IEFA Series 2004 Bonds, and finance a portion of the costs of the construction, renovation, and equipping of certain of the educational facilities of the University and pay for certain expenses incurred in conjunction with the issuance of the Series 2006A and 2006B Bonds. The fixed rate on the Series 2006A Bonds is 5% with serial bonds maturing from April 2016 through 2036 and term bonds due April 1, 2031 and April 1, 2036. These bonds were refunded in December of 2019.

(Continued)

ILLINOIS INSTITUTE OF TECHNOLOGY
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NOTE 9 - NOTES AND BOND PAYABLE (Continued)

In July 2009, the University issued \$30,000 in fixed rate revenue bonds through the Illinois Finance Authority (IFA Series 2009). Proceeds from the bonds were used to finance a portion of the costs of the renovation of the educational facilities of the University, establish a debt service reserve fund, and pay certain costs incurred in connection with the bond issue. The fixed rates on the Series 2009 Bonds are 4.75% and 5.25% serial bonds maturing in February 2014 and 6.25%, 6.50%, and 7.125% term bonds maturing in February 1, 2019, 2023, and 2034. These bonds were refunded in February 2019.

In June of 2018, the University issued \$40,250 in fixed rate revenue bonds through the Illinois Finance Authority (IFA Series 2018) and Wintrust Bank. Proceeds from the bonds were used to reimburse the University for the costs of the acquisition of on campus student resident facilities, refund the IFA Series 2009 Bonds issued in the original principal amount of \$30,000, of which \$25,440 remained outstanding, and to finance or reimburse the University for certain of the costs incurred in connection with the issuance of IFA Series 2018 and the refunding of the IFA Series 2009. The fixed rate on the Series 2018 Bonds is 3.6% per annum.

In December of 2019, the University issued \$122,915 in fixed rate revenue bonds through the Illinois Finance Authority (IFA Series 2019). The bonds were issued at a premium of \$15,611, which is being amortized against interest expense over the call period of ten years. Proceeds from the bonds were used to refund the IFA Series 2006 Bonds issued in the original principal amount of \$160,000, of which \$135,125 remained outstanding, and to finance or reimburse the University for certain of the costs incurred in connection with the issuance of IFA Series 2019 and the refunding of the IFA Series 2006. The refunding lowered principal and resulted in an effective interest rate of 3.52%. The fixed rate on the Series 2019 Bonds is 5% and 4% with serial bonds maturing from September 2020 through 2041.

In August 2004, IITRI issued an \$18,820 bond issue of adjustable rate demand debt under the tax-exempt authority of the Illinois Finance Authority (IFA Series 2004). The proceeds from the sale were used to renovate and construct lab and office space; establish a debt service reserve fund and pay certain costs incurred in connection with the bond issue. In February 2014, IITRI entered into a bond and loan agreement with the Illinois Finance Authority and North Shore Community Bank. IITRI issued a \$10,400 Revenue Refunding Bond (IFA Series 2014) that was sold to North Shore Community Bank and Trust. IITRI used the proceeds and certain other funds to refund and redeem the Series 2004 Bond. Principal payments on the Bond commenced on February 1, 2015 in the amount of \$520 per year and continue until the bond matures in 2034. The interest rate is variable and reset by North Shore Community Bank on a monthly basis, at May 31, 2020 and 2019 the rates were 1.00% and 2.61%, respectively.

The University maintains a line-of-credit agreement that allow borrowings up to \$20,000 in 2020 and in 2018. Borrowings under the line of credit will bear interest at the prime commercial rate or adjusted LIBOR with interest being payable on a monthly basis. The borrowing under the line of credit will be payable on demand, but if no demand is made, borrowing shall automatically mature on the next interest payable date following the date the loan is made. The amount outstanding under the agreement was \$19,775 and \$14,000 as of May 31, 2020 and 2019. The line of credit agreement is renewable annually in February of each fiscal year.

The University and IITRI are subject to certain debt covenants. As of May 31, 2020, management believes those covenants have been met.

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ILLINOIS INSTITUTE OF TECHNOLOGY
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NOTE 10 - EMPLOYEE BENEFIT PLANS

Retirement Plan: Substantially all full-time employees of the University and IITRI are participants in defined contribution retirement plans that are funded by contributions from the University, IITRI, and participating employees. Total contributions made under the plans for the years ended May 31, 2020 and 2019 were \$7,198 and \$7,318 by the University and \$399 and \$388 by IITRI, respectively.

Healthcare Benefits Plans: The University maintains a healthcare benefits plan (the Plan) that provides for certain major medical, surgical, and other benefits for all eligible employees and dependents. The Plan is partially self-funded by the University, subject to stop-loss arrangements. Under this Plan, the University makes contributions to cover benefits not funded by employees, limited by stop-loss amounts.

IITRI offers a healthcare benefits plan (the Plan) that provides for certain medical and dental expense coverage, including certain vision discounts for all eligible employees and dependents. The Plan is fully insured and underwritten by Blue Cross Blue Shield of Illinois and Dearborn National. Under this Plan, premium contributions are shared by both IITRI and plan participants.

Accrued Postretirement Benefit Obligation: The University created a retirement incentive program for tenured faculty in November 2006. As part of the incentive program, certain medical benefits are offered to participants. A reconciliation of the plan's funded status with the accrued benefit cost reported on the consolidated statements of financial position at May 31, is presented below. The accumulated postretirement benefit obligation disclosed below is the actuarial value of future benefits used on employees' service rendered through the measurement date:

	<u>2020</u>	<u>2019</u>
Change in accumulated postretirement benefit obligations at beginning of the period	\$ 1,810	\$ 2,199
Service cost	10	10
Interest cost	64	84
Actuarial gain	(679)	(305)
Actuarial benefit payments net contributions	<u>(149)</u>	<u>(178)</u>
Accumulated postretirement benefit obligation at end of the period	<u>\$ 1,056</u>	<u>\$ 1,810</u>

(Continued)

ILLINOIS INSTITUTE OF TECHNOLOGY
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NOTE 10 - EMPLOYEE BENEFIT PLANS (Continued)

The University follows FASB ASC Section 715 Subtopic 60, *Defined Benefit Plans – Other Postretirement*. The accumulated change to net assets without donor restrictions consists of amounts that have not yet been recognized in net periodic benefit cost at May 31, are as follows:

	<u>2020</u>	<u>2019</u>
Change in fair value of plan assets:		
Fair value of plan assets at beginning of period	\$ -	\$ -
Employer contribution	149	178
Participant contributions	<u>27</u>	<u>21</u>
Total benefit payments	<u>(176)</u>	<u>(199)</u>
Fair value of plan assets at end of the period	<u>\$ -</u>	<u>\$ -</u>
Funded status	<u>\$ (1,056)</u>	<u>\$ (1,810)</u>
Composition of amounts reported in the consolidated statements of financial position consist of:		
Current liabilities	\$ 115	\$ 176
Noncurrent liabilities	<u>941</u>	<u>1,634</u>
Accrued postretirement benefit obligation	<u>\$ 1,056</u>	<u>\$ 1,810</u>

These amounts will be subsequently recognized in future years as components of net periodic pension cost. The estimated amortization of transition obligation, prior service cost, and net losses in the next fiscal year is \$0, \$0, and \$73, respectively.

The components of net periodic postretirement benefit cost for the years ended May 31, are as follows:

	<u>2020</u>	<u>2019</u>
Service cost	\$ 10	\$ 10
Interest cost	<u>64</u>	<u>84</u>
Net periodic postretirement benefit cost	<u>\$ 74</u>	<u>\$ 94</u>

(Continued)

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NOTE 10 - EMPLOYEE BENEFIT PLANS (Continued)

Actuarial Assumptions

The weighted average assumptions used in the accounting for the postretirement plan for the years ended May 31, are shown below:

	<u>2020</u>	<u>2019</u>
Discount rate (expense)	3.69 %	4.00 %
Discount rate (obligation)	2.78	3.69
Healthcare cost trend rates:		
Healthcare cost trend rate assumed for next year	5.90	5.83
Ultimate rate	4.50	4.50
Year that the ultimate rate is reached	2023	2023

Assumed healthcare cost trend rates have a significant effect on the amounts reported for healthcare plans. A one-percentage point change in assumed healthcare cost trend rates would have the following effects for the fiscal years ended May 31:

	<u>2020</u>	<u>2019</u>
Effect on total service cost and interest cost:		
One-percentage point increase	\$ 8	\$ 9
One-percentage point decrease	(8)	(8)
Effect on year-end postretirement benefit obligation:		
One-percentage point increase	\$ 71	\$ 124
One-percentage point decrease	(65)	(112)

Estimated Future Benefits Payments

The following benefit payments, which reflect expected future service, are expected to be paid for each of the fiscal years ending May 31:

<u>Fiscal Year:</u>	
2021	\$ 115
2022	114
2023	93
2024	90
2025	86
2026-2029	367

(Continued)

ILLINOIS INSTITUTE OF TECHNOLOGY
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NOTE 10 - EMPLOYEE BENEFIT PLANS (Continued)

Plan Amendment

Effective August 1, 2007, the plan was amended to eliminate post-65 benefits for all retirees, both current and future. There was also a group of faculty participants who were offered a special option under which the University would reimburse their premiums for post-65 retiree coverage. This special benefit option was only available through May 31, 2008. Participants had to sign up by this date in order to participate.

NOTE 11 - NET ASSETS

Certain net assets without donor restrictions are designated for specific purposes by the board of trustees of the University and are summarized as follows at May 31:

	<u>2020</u>	<u>2019</u>
Board-designated endowment	\$ 63,272	\$ 54,055
Undesignated	<u>100,195</u>	<u>97,569</u>
Total	<u>\$ 163,467</u>	<u>\$ 151,624</u>

Net assets with donor restrictions consist of the following at May 31:

	<u>2020</u>	<u>2019</u>
General operations	\$ 32,207	\$ 13,088
Endowment	190,771	186,494
Endowment pledges	1,920	2,446
Donor-designated for plant	2,289	6,112
Donor-restricted revolving loan funds	4,709	3,834
Scholarships	1,493	1,493
Split-interest annuity agreements	1,002	927
Beneficial interest in perpetual trusts	<u>21,204</u>	<u>21,204</u>
Total	<u>\$ 255,595</u>	<u>\$ 235,598</u>

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ILLINOIS INSTITUTE OF TECHNOLOGY
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NOTE 12 - FUNCTIONAL CLASSIFICATION OF EXPENSES

Operating and nonoperating expenses are reported in the consolidated statements of activities by natural business category. The University's primary program services are instruction and research. Expenses reported as academic support, student services, institutional support, and auxiliary enterprises are incurred in support of these primary program services. Expenses are allocated based on square footage.

Consolidated expenses by functional classification are as follows for the years ended May 31:

<u>2020</u>	<u>Program</u> <u>Activities</u>	<u>Supporting</u> <u>Activities</u>	<u>Fundraising</u>	<u>Total</u>
Operating expenses:				
Faculty salaries	\$ 61,264	\$ 1,927	\$ -	\$ 63,191
Administrative salaries	23,665	16,843	5,046	45,554
Part-time salaries	12,571	1,132	128	13,831
Employee benefits	21,385	3,902	919	26,206
Operations and maintenance	14,342	7,296	-	21,638
Supplies and services	32,276	6,982	1,191	40,449
Professional fees and advertising	10,818	2,352	211	13,381
IITRI research	17,106	2,468	-	19,574
Interest on indebtedness	5,432	2,462	-	7,894
Depreciation	<u>11,641</u>	<u>4,694</u>	<u>-</u>	<u>16,335</u>
Total operating expenses	210,500	50,058	7,495	268,053
Restructuring expenses	<u>834</u>	<u>1,104</u>	<u>-</u>	<u>1,938</u>
Total expenses	<u>\$ 211,334</u>	<u>\$ 51,162</u>	<u>\$ 7,495</u>	<u>\$ 269,991</u>

(Continued)

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NOTE 12 - FUNCTIONAL CLASSIFICATION OF EXPENSES (Continued)

<u>2019</u>	<u>Program</u> <u>Activities</u>	<u>Supporting</u> <u>Activities</u>	<u>Fundraising</u>	<u>Total</u>
Operating expenses:				
Faculty salaries	\$ 61,957	\$ 2,019	\$ -	\$ 63,976
Administrative salaries	24,810	15,695	6,201	46,706
Part-time salaries	12,951	926	212	14,089
Employee benefits	20,600	4,009	1,121	25,730
Operations and maintenance	20,155	1,316	-	21,471
Supplies and services	37,657	4,911	669	43,237
Professional fees and advertising	12,505	2,659	732	15,896
IITRI research	13,118	1,967	-	15,085
Interest on indebtedness	6,464	2,923	-	9,387
Depreciation	<u>11,226</u>	<u>4,547</u>	<u>-</u>	<u>15,773</u>
 Total operating expenses	 221,443	 40,972	 8,935	 271,350
 Restructuring expenses	 <u>2,258</u>	 <u>3,738</u>	 <u>-</u>	 <u>5,996</u>
 Total expenses	 <u>\$ 223,701</u>	 <u>\$ 44,710</u>	 <u>\$ 8,935</u>	 <u>\$ 277,346</u>

NOTE 13 - LEASES

In December 1999, the University leased its undeveloped property, located at 32nd Street between Michigan Avenue and Indiana Avenue, to Michigan Place LLC for a term of 100 years. The agreement requires Michigan Place LLC to pay the University \$815 in total lease payments. The University has received these payments.

In January 2006, the University entered into a 55-year ground lease agreement with Townsend Chicago, LLC (Townsend). Townsend purchased from IIT the building known as the Technology Business Center for \$2,600 resulting in a gain of approximately \$2,400, which is being amortized over the life of the building lease. IIT is leasing approximately 21% of the building back from Townsend for an initial term of 18 years.

In May 2012, the University entered into an agreement with Chicagoland Entrepreneurial Center (d/b/a 1871) for space on the twelfth floor of the Merchandise Mart through April 30, 2013. Prior to its expiration, the University elected to exercise its option to extend the agreement through June 30, 2020.

In September 2018, the University entered into a five-year capital agreement with Cisco Systems Capital Corporation for networking equipment. The terms of the agreement extend to August 31, 2023.

The University also entered into an agreement with Impact Networking, LLC and Delage Landen for the use of a copier system and laser jet printer. The terms of the agreement extend to August 31, 2023.

(Continued)

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NOTE 13 - LEASES (Continued)

A schedule of current and future operating lease commitments under these lease obligations are as follows:

<u>Year Ending May 31:</u>	
2021	\$ 1,047
2022	1,073
2023	1,096
2024	1,122
2025	1,150
2026 and thereafter	<u>1,179</u>
	<u>\$ 6,667</u>

NOTE 14 - BROADBAND LICENSE AND EXCESS CAPACITY LEASES

The University had held two licenses with the Federal Communications Commission (FCC) since 1976. The license period for each channel is 10 years in duration and requires the payment of a nominal licensing fee with each renewal. In 2005, the FCC split the channels into two categories: Educational Broadband Services (EBS), and Broadband Radio Services (BRS). The FCC allows commercial entities to own the licensing to BRS channels but only educational institutions can own the licensing to EBS channels.

The University had leased the excess capacity on its two licensed channels to Clearwire Spectrum Holdings III, LLC (Clearwire). In December 2017, the University entered into an agreement with Clearwire to cancel its existing license with the FCC on the BRS channel and terminate the related lease agreement with Clearwire for that channel's excess capacity to permit Clearwire to obtain the channel from the FCC. In February 2018 the license on that channel was cancelled with the FCC.

The University last renewed the license for the remaining channel in 2018. The operating lease for the excess capacity on the remaining EBS channel continues through 2040. The University expects to receive future minimum lease payments for the second channel as follows:

<u>Year Ending May 31:</u>	
2021	\$ 2,189
2022	2,254
2023	2,322
2024	2,392
2025	2,464
Thereafter	<u>47,197</u>
	<u>\$ 58,818</u>

The net present value of this lease is not reflected as an asset on our statement of financial position as it is considered an operating lease.

(Continued)

ILLINOIS INSTITUTE OF TECHNOLOGY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
May 31, 2020 and 2019
(In thousands of dollars)

NOTE 15 - CONTINGENCIES

The University is a defendant in legal proceedings arising in the ordinary course of its business. Although the outcome of these proceedings cannot presently be determined, in the opinion of management, disposition of these proceedings will not have a material adverse effect on the financial position of the University.

The amount of grants and contracts reflected in the financial statements is subject to review and adjustment by contracting agencies, principally, the federal government. The amount, if any, of expenses that may be disallowed by the contracting agencies cannot be determined at this time. It is the opinion of management that such disallowances, if any, will not be significant.

The University received student financial aid and CARES Act funding from the U.S. Department of Education for the fiscal years ended May 31, 2020 and 2019. The disbursement of funds received under such programs generally requires compliance with terms and conditions specified in federal regulations and are subjected to audit by U.S. Department of Education and possible disallowance of certain expenditures. The University has not had any significant disallowance of student financial aid in the past and expects such amounts, if any, to be immaterial.

NOTE 16 - LIQUIDITY AND AVAILABILITY

The University's financial assets available within one year of the statement of financial position date for general expenditure are as follows:

	2020			2019
	<u>University</u>	<u>IITRI</u>	<u>Consolidated</u>	<u>Consolidated</u>
Financial assets:				
Cash and cash equivalents	\$ 2,145	\$ 4,319	\$ 6,464	\$ 4,150
Non-endowment investments	8,468	4,764	13,232	10,428
Accounts receivable, net	14,259	5,296	19,555	20,119
Pledge payments available for operations	18,950	-	18,950	6,616
Subsequent year's endowment payout	<u>11,978</u>	<u>-</u>	<u>11,978</u>	<u>12,140</u>
Total financial assets available within one year	55,800	14,379	70,179	53,453
Liquidity resources:				
Bank lines of credit	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,775</u>
Total financial assets and liquidity resources available within one year	<u>\$ 55,800</u>	<u>\$ 14,379</u>	<u>\$ 70,179</u>	<u>\$ 59,228</u>

The University's cash flows have seasonal variations during the year attributable to tuition billing and a concentration of contributions received at calendar and fiscal year end. To manage liquidity, the University maintains a line of credit that is drawn upon as needed during the year to manage cash flows. As of May 31, 2020 and 2019, the amount outstanding under the line of credit amounted to \$19,775 and \$14,000, respectively.

(Continued)

ILLINOIS INSTITUTE OF TECHNOLOGY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
May 31, 2020 and 2019
(In thousands of dollars)

NOTE 16 - LIQUIDITY AND AVAILABILITY (Continued)

In addition, as of May 31, 2020 and 2019 the University has \$60,371 and \$51,368, respectively, in funds functioning as endowment net of subsequent year appropriation, which is available for general expenditure with Board approval.

NOTE 17 - SUBSEQUENT EVENTS

In connection with the preparation of the consolidated financial statements and in accordance with FASB ASC Topic 855, *Subsequent Events*, management evaluated subsequent events after the statement of financial position date of May 31, 2020 through November 6, 2020, which was the date the consolidated financial statements were issued.

On August 6, 2020, the University entered into a Short-term Line of Credit Agreement for \$25 million with Wintrust Bank in order to provide additional liquidity, if needed. The term of the line of credit is for 364 days and expires August 5, 2021. Borrowings under the line of credit will bear a per annum interest rate of the greater of LIBOR or 50 basis points, plus an Applicable Margin equal to 85 basis points as of the Closing date, with interest being payable on a monthly basis. The borrowing under the line of credit can be paid at any time and must be repaid by August 5, 2021.

SUPPLEMENTARY INFORMATION

ILLINOIS INSTITUTE OF TECHNOLOGY
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
May 31, 2020
(In thousands of dollars)

	<u>University</u>	<u>IITRI</u>	<u>Eliminations</u>	<u>Total</u>
ASSETS				
Cash	\$ 2,145	\$ 4,319	\$ -	\$ 6,464
Notes and accounts receivable:				
Grants and contracts, less allowance of \$253	5,368	5,296	-	10,664
Students:				
Tuition, less allowance of \$918	8,250	-	-	8,250
Notes, less allowance of \$680	6,883	-	-	6,883
Other, less allowance of \$661	641	-	-	641
Pledges, net	30,238	-	-	30,238
Affiliated organizations, net	399	-	(399) (a)	-
Inventories, prepaid expenses, and deferred charges	2,791	444	-	3,235
Equity interest in IITRI	19,121	-	(19,121) (b)	-
Investments	254,958	4,764	-	259,722
Physical properties, less accumulated depreciation	315,678	14,590	-	330,268
Beneficial interest in perpetual trusts	<u>21,204</u>	<u>-</u>	<u>-</u>	<u>21,204</u>
Total assets	<u>\$ 667,676</u>	<u>\$ 29,413</u>	<u>\$ (19,520)</u>	<u>\$ 677,569</u>
LIABILITIES AND NET ASSETS				
Liabilities:				
Accounts payable and accrued expenses	\$ 14,369	\$ 1,609	\$ (399) (a)	\$ 15,579
Accrued salaries and wages	17,649	1,036	-	18,685
Deferred revenue	11,240	3,247	-	14,487
Deposits by students and others	1,354	-	-	1,354
Accrued postretirement benefit obligation	1,056	-	-	1,056
Obligation under split-interest agreements	684	-	-	684
Capital lease liability	1,422	-	-	1,422
Advances from U.S. government for student loans	5,356	-	-	5,356
Asset retirement obligation	937	-	-	937
Debt:				
Bonds payable	161,689	4,400	-	166,089
Notes payable	19,775	-	-	19,775
Bond premium payable	14,938	-	-	14,938
Cost of issuance	<u>(1,855)</u>	<u>-</u>	<u>-</u>	<u>(1,855)</u>
Total debt	<u>194,547</u>	<u>4,400</u>	<u>-</u>	<u>198,947</u>
Total liabilities	<u>248,614</u>	<u>10,292</u>	<u>(399)</u>	<u>258,507</u>
Net assets:				
Without donor restrictions	163,467	19,121	(19,121) (b)	163,467
With donor restrictions	<u>255,595</u>	<u>-</u>	<u>-</u>	<u>255,595</u>
Total net assets	<u>419,062</u>	<u>19,121</u>	<u>(19,121)</u>	<u>419,062</u>
Total liabilities and net assets	<u>\$ 667,676</u>	<u>\$ 29,413</u>	<u>\$ (19,520)</u>	<u>\$ 677,569</u>

(a) Elimination of inter-entity accounts payable/receivable

(b) Elimination of equity interest in IITRI

See accompanying independent auditor's report.

ILLINOIS INSTITUTE OF TECHNOLOGY
CONSOLIDATING STATEMENT OF ACTIVITIES
Year Ended May 31, 2020
(In thousands of dollars)

	Without Donor Restrictions				With Donor Restrictions	
	University	IITRI	Inter-entity Eliminations	Total	University	Total
Operating revenue:						
Tuition and fees, net of scholarships of \$	\$ 125,495	\$ -	\$ -	\$ 125,495	\$ -	\$ 125,495
Government grants and contracts	38,248	14,075	-	52,323	-	52,323
Private grants and contracts	2,991	10,883	-	13,874	-	13,874
Private gifts	37,958	-	-	37,958	23,605	61,563
Endowment spending distribution	12,105	-	-	12,105	-	12,105
Sales and services of auxiliary enterprises, net	14,502	-	-	14,502	-	14,502
Other sources	20,066	-	(2,321) (a)	17,745	-	17,745
Net assets released from restrictions	4,243	-	-	4,243	(4,243)	-
Total operating revenue	255,608	24,958	(2,321)	278,245	19,362	297,607
Operating expenses:						
Faculty salaries	63,191	-	-	63,191	-	63,191
Administrative salaries	45,554	-	-	45,554	-	45,554
Part-time salaries	13,830	-	-	13,830	-	13,830
Employee benefits	26,206	-	-	26,206	-	26,206
Operations and maintenance	21,638	-	-	21,638	-	21,638
Supplies and services	40,449	-	-	40,449	-	40,449
Professional fees and advertising	13,382	-	-	13,382	-	13,382
IITRI research	-	21,895	(2,321) (a)	19,574	-	19,574
Interest on indebtedness	7,780	114	-	7,894	-	7,894
Depreciation	14,831	1,504	-	16,335	-	16,335
Total operating expenses	246,861	23,513	(2,321)	268,053	-	268,053
(Decrease) increase in net assets from operating activities	8,747	1,445	-	10,192	19,362	29,554
Nonoperating revenue and expenses:						
Private gifts	-	-	-	-	8,493	8,493
Change in donor designation	(708)	-	-	(708)	708	-
Return on investments, net	996	179	-	1,175	5,012	6,187
Endowment spending distribution	(2,688)	-	-	(2,688)	(9,417)	(12,105)
Net assets released from restrictions	4,413	-	-	4,413	(4,413)	-
Gain on extinguishment of debt	822	-	-	822	-	822
Restructuring expenses	(1,938)	-	-	(1,938)	-	(1,938)
Gain on disposal of asset	404	-	-	404	-	404
Other	171	-	-	171	252	423
Equity income from IITRI	1,624	-	(1,624) (b)	-	-	-
Increase (decrease) in net assets from nonoperating activities	3,096	179	(1,624)	1,651	635	2,286
Increase (decrease) in net assets	11,843	1,624	(1,624)	11,843	19,997	31,840
Net assets at beginning of year	151,624	17,497	(17,497)	151,624	235,598	387,222
Net assets end of year	\$ 163,467	\$ 19,121	\$ (19,121)	\$ 163,467	\$ 255,595	\$ 419,062

(a) Elimination of inter-entity utility income and expense

(b) Elimination of equity interest in IITRI earnings and contribution to IIT

See accompanying independent auditor's report.

ILLINOIS INSTITUTE OF TECHNOLOGY
CONSOLIDATING STATEMENT OF CASH FLOWS
Year Ended May 31, 2020
(In thousands of dollars)

	<u>University</u>	<u>IITRI</u>	<u>Eliminations</u>	<u>Total</u>
Cash flows from operating activities:				
(Decrease) increase in net assets	\$ 31,840	\$ 1,624	\$ (1,624) (a)	\$ 31,840
Adjustments to reconcile (decrease) increase in net assets to net cash from operating activities:				
Private gifts restricted for long-term investment	(9,042)	-	-	(9,042)
Depreciation	14,831	1,504	-	16,335
Amortization	(615)	-	-	(615)
Net loss on investments	(679)	-	-	(679)
Gain on extinguishment of debt	(822)	-	-	(822)
Net gain on disposal of asset	(404)	-	-	(404)
Accretion on asset retirement obligation	740	-	-	740
Bond interest paid from escrow	1,881	-	-	1,881
Changes in assets and liabilities:				
Receivables: tuition, grants, pledges, and other	(14,825)	1,225	268 (b)	(13,332)
Inventories, prepaid expenses, and deferred charges	(791)	93	-	(698)
Equity interest in IITRI	(1,624)	-	1,624 (a)	-
Accounts payable and accrued expenses	2,678	(1,581)	(268) (b)	829
Accrued salaries and wages	1,019	255	-	1,274
Deferred revenue	869	869	-	1,738
Deposits by students and others	(241)	-	-	(241)
Accrued postretirement benefit obligation	(754)	-	-	(754)
Obligations under split-interest agreements	(67)	-	-	(67)
Advances from U.S. government for student loans	(1,295)	-	-	(1,295)
Asset retirement obligation	(1,260)	-	-	(1,260)
Net cash from operating activities	<u>21,439</u>	<u>3,989</u>	<u>-</u>	<u>25,428</u>
Cash flows from investing activities:				
Proceeds from sale of investments	80,983	-	-	80,983
Purchase of investments	(88,448)	1,165	-	(87,283)
Purchase of physical properties	(29,325)	(973)	-	(30,298)
Issuance of notes receivable	(224)	-	-	(224)
Payments received on notes receivable	1,815	-	-	1,815
Net cash from investing activities	<u>(35,199)</u>	<u>192</u>	<u>-</u>	<u>(35,007)</u>
Cash flows from financing activities:				
Private gifts restricted for long-term investment	9,042	-	-	9,042
Payments on capital lease	(448)	-	-	(448)
Proceeds on notes and bonds payable	5,775	-	-	5,775
Payments on notes and bonds payable	(1,476)	(1,000)	-	(2,476)
Net cash from financing activities	<u>12,893</u>	<u>(1,000)</u>	<u>-</u>	<u>11,893</u>
Change in cash	(867)	3,181	-	2,314
Cash at:				
Beginning of year	3,012	1,138	-	4,150
End of year	<u>\$ 2,145</u>	<u>\$ 4,319</u>	<u>\$ -</u>	<u>\$ 6,464</u>
Supplemental disclosure of cash flow information:				
Refunding of debt	\$ 138,526	\$ -	\$ -	\$ 138,526
Cash paid for interest	6,216	117	-	6,333
Construction payable	1,317	-	-	1,317
Proceeds from capital lease	-	-	-	-
Release of conditional gift for purchase of property and equipment	-	-	-	-

(a) Elimination of change in equity interest in IITRI

(b) Elimination of change in inter-entity accounts payable/receivable

See accompanying independent auditor's report.