



**ILLINOIS INSTITUTE OF TECHNOLOGY**

Consolidated Financial Statements and Supplementary Information

May 31, 2018 and 2017

(With Independent Auditors' Report Thereon)

# ILLINOIS INSTITUTE OF TECHNOLOGY

## Table of Contents

	<b>Page</b>
Independent Auditors' Report	1
Consolidated Financial Statements:	
Statements of Financial Position	3
Statements of Activities	4
Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7
<b>Supplementary Information</b>	
Independent Auditors' Report on Supplementary Information	36
Consolidating Statement of Financial Position – May 31, 2018	37
Consolidating Statement of Activities – Year ended May 31, 2018	38
Consolidating Statement of Cash Flows – Year ended May 31, 2018	39



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## Independent Auditors' Report

The Board of Trustees  
Illinois Institute of Technology:

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Illinois Institute of Technology, which comprise the consolidated statements of financial position as of May 31, 2018 and 2017, 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 U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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



*Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Illinois Institute of Technology as of May 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Chicago, Illinois  
October 25, 2018

**ILLINOIS INSTITUTE OF TECHNOLOGY**

Consolidated Statements of Financial Position

May 31, 2018 and 2017

(In thousands of dollars)

Assets	2018	2017
Cash	\$ 26,863	11,025
Notes and accounts receivable:		
Grants and contracts, less allowance of \$252 in 2018 and \$216 in 2017	8,943	8,822
Students:		
Tuition, less allowance of \$916 in 2018 and \$785 in 2017	5,141	3,692
Notes, less allowance of \$620 in 2018 and \$603 in 2017 (note 6)	9,514	9,231
Other, less allowance of \$636 in 2018 and \$641 in 2017	1,051	586
Pledges, net (note 5)	9,124	13,416
Inventories, prepaid expenses, and deferred charges	4,062	4,193
Investments (note 2)	257,422	249,647
Bond proceeds held by trustees	2,817	2,794
Physical properties, less accumulated depreciation (note 7)	300,226	269,878
Beneficial interest in perpetual trusts (note 8)	22,012	20,817
	\$ 647,175	594,101
	\$ 647,175	594,101
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 13,988	13,863
Accrued salaries and wages	16,709	17,653
Deferred revenue	19,680	20,471
Deposits by students and others	2,336	2,416
Accrued postretirement benefit obligation (note 10)	2,199	2,408
Obligation under split-interest agreements	726	614
Notes and bonds payable (note 9)	185,945	192,560
Advances from the U.S. government for student loans	6,651	7,639
Asset retirement obligation	1,625	1,851
	249,859	259,475
	249,859	259,475
Net assets (note 11):		
Unrestricted	122,894	67,652
Temporarily restricted	56,454	55,958
Permanently restricted	217,968	211,016
	397,316	334,626
	397,316	334,626
Total liabilities and net assets	\$ 647,175	594,101
	\$ 647,175	594,101

See accompanying notes to consolidated financial statements.

**ILLINOIS INSTITUTE OF TECHNOLOGY**

Consolidated Statement of Activities

Year ended May 31, 2018

(In thousands of dollars)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Operating revenue:				
Tuition and fees, net of scholarships of \$104,630	\$ 139,693	—	—	139,693
Government grants and contracts	50,955	—	—	50,955
Private grants and contracts	12,423	—	—	12,423
Private gifts	11,144	3,363	—	14,507
Endowment spending distribution (note 4)	6,835	—	—	6,835
Endowment net assets released from restrictions	5,665	—	—	5,665
Sales and services of auxiliary enterprises	12,577	—	—	12,577
Other sources	18,170	—	—	18,170
Net assets released from restrictions	2,857	(2,857)	—	—
Total operating revenue	<u>260,319</u>	<u>506</u>	<u>—</u>	<u>260,825</u>
Operating expenses:				
Faculty salaries	62,753	—	—	62,753
Administrative salaries	47,284	—	—	47,284
Part-time salaries	13,891	—	—	13,891
Employee benefits	27,242	—	—	27,242
Operations and maintenance	23,977	—	—	23,977
Supplies and services	43,137	—	—	43,137
Professional fees and advertising	13,500	—	—	13,500
IITRI research	15,252	—	—	15,252
Interest on indebtedness	9,426	—	—	9,426
Depreciation	14,322	—	—	14,322
Total operating expenses	<u>270,784</u>	<u>—</u>	<u>—</u>	<u>270,784</u>
(Decrease) increase in net assets from operating activities	<u>(10,465)</u>	<u>506</u>	<u>—</u>	<u>(9,959)</u>
Nonoperating revenue and expenses:				
Private gifts	—	211	4,057	4,268
Change in donor designation	(793)	(582)	1,375	—
Net gain on investments (note 2)	4,890	4,489	70	9,449
Net gain on beneficial interest on perpetual trusts	—	—	1,195	1,195
Endowment spending distribution (note 4)	(6,835)	(5,665)	—	(12,500)
Net assets released from restrictions	756	(756)	—	—
Investment income (note 2)	3,425	2,335	—	5,760
Change in asset retirement obligation	388	—	—	388
Gain on cancellation of broadband license (note 15)	65,000	—	—	65,000
Change in value split interest agreements	(76)	(18)	(7)	(101)
Other	(1,048)	(24)	262	(810)
Increase (decrease) in net assets from nonoperating activities	<u>65,707</u>	<u>(10)</u>	<u>6,952</u>	<u>72,649</u>
Increase in net assets	55,242	496	6,952	62,690
Net assets at beginning of year	<u>67,652</u>	<u>55,958</u>	<u>211,016</u>	<u>334,626</u>
Net assets at end of year	\$ <u>122,894</u>	<u>56,454</u>	<u>217,968</u>	<u>397,316</u>

See accompanying notes to consolidated financial statements.

**ILLINOIS INSTITUTE OF TECHNOLOGY**

Consolidated Statement of Activities

Year ended May 31, 2017

(In thousands of dollars)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Operating revenue:				
Tuition and fees, net of scholarships of \$101,577	\$ 151,014	—	—	151,014
Government grants and contracts	52,553	—	—	52,553
Private grants and contracts	12,599	—	—	12,599
Private gifts	9,245	1,946	—	11,191
Endowment spending distribution (note 4)	7,842	—	—	7,842
Endowment net assets released from restrictions	4,758	—	—	4,758
Sales and services of auxiliary enterprises	13,776	—	—	13,776
Other sources	17,856	—	—	17,856
Net assets released from restrictions	1,892	(1,892)	—	—
Total operating revenue	<u>271,535</u>	<u>54</u>	<u>—</u>	<u>271,589</u>
Operating expenses:				
Faculty salaries	63,039	—	—	63,039
Administrative salaries	48,015	—	—	48,015
Part-time salaries	14,129	—	—	14,129
Employee benefits	26,077	—	—	26,077
Operations and maintenance	25,673	—	—	25,673
Supplies and services	41,421	—	—	41,421
Professional fees and advertising	13,490	—	—	13,490
IITRI research	15,978	—	—	15,978
Interest on indebtedness	9,737	—	—	9,737
Depreciation	14,089	—	—	14,089
Total operating expenses	<u>271,648</u>	<u>—</u>	<u>—</u>	<u>271,648</u>
(Decrease) increase in net assets from operating activities	<u>(113)</u>	<u>54</u>	<u>—</u>	<u>(59)</u>
Nonoperating revenue and expenses:				
Private gifts	—	—	2,446	2,446
Change in donor designation	(60)	(410)	470	—
Net gain on investments (note 2)	14,331	9,484	36	23,851
Net gain on beneficial interest on perpetual trusts	—	—	1,277	1,277
Endowment spending distribution (note 4)	(7,842)	(4,758)	—	(12,600)
Net assets released from restrictions	4,480	(4,480)	—	—
Investment income (note 2)	2,477	1,438	—	3,915
Net loss on disposal of assets	(3,174)	—	—	(3,174)
Change in asset retirement obligation	574	—	—	574
Other	(600)	—	—	(600)
Increase in net assets from nonoperating activities	<u>10,186</u>	<u>1,274</u>	<u>4,229</u>	<u>15,689</u>
Increase in net assets	10,073	1,328	4,229	15,630
Net assets at beginning of year	57,579	54,630	206,787	318,996
Net assets at end of year	\$ <u>67,652</u>	<u>55,958</u>	<u>211,016</u>	<u>334,626</u>

See accompanying notes to consolidated financial statements.

**ILLINOIS INSTITUTE OF TECHNOLOGY**

Consolidated Statements of Cash Flows

Years ended May 31, 2018 and 2017

(In thousands of dollars)

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Increase in net assets	\$ 62,690	15,630
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:		
Private gifts restricted for long-term investment	(6,631)	(3,196)
Depreciation	14,322	14,089
Net gain on beneficial interest in perpetual trusts	(1,195)	(1,277)
Proceeds from cancellation of broadband channel	(65,000)	—
Net gain on investments	(9,449)	(23,851)
Net loss on disposal of asset	—	3,174
Accretion on asset retirement obligation	388	574
Changes in assets and liabilities:		
Receivables: tuition, grants, pledges, and other	2,257	6,544
Inventories, prepaid expenses, and deferred charges	131	303
Accounts payable and accrued expenses	125	(720)
Accrued salaries and wages	(944)	1,747
Deferred revenue	(791)	(3,742)
Deposits by students and others	(80)	180
Accrued postretirement benefit obligation	(209)	(217)
Obligations under split-interest agreements	112	138
Advances from the U.S. government for student loans	(988)	(315)
Asset retirement obligation	(614)	(757)
Net cash (used in) provided by operating activities	<u>(5,876)</u>	<u>8,304</u>
Cash flows from investing activities:		
Proceeds from sale of investments	54,283	49,126
Purchase of investments	(52,609)	(42,115)
Change in bond proceeds held by trustees, net	(23)	(16)
Purchase of physical properties	(44,670)	(18,601)
Sale of physical properties	—	582
Proceeds from cancellation of broadband channel	65,000	—
Issuance of notes receivable	(2,205)	(1,708)
Payments received on notes receivable	1,922	2,151
Net cash provided by (used in) investing activities	<u>21,698</u>	<u>(10,581)</u>
Cash flows from financing activities:		
Private gifts restricted for long-term investment	6,631	3,196
Receipt of conditional gifts for capital projects	—	8,200
Payments on notes and bonds payable	(6,615)	(6,340)
Net cash provided by financing activities	<u>16</u>	<u>5,056</u>
Change in cash	15,838	2,779
Cash at:		
Beginning of year	<u>11,025</u>	<u>8,246</u>
End of year	\$ <u>26,863</u>	\$ <u>11,025</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 9,201	9,453
Construction payable	2,521	2,488

See accompanying notes to consolidated financial statements.

**ILLINOIS INSTITUTE OF TECHNOLOGY**  
Notes to Consolidated Financial Statements  
May 31, 2018 and 2017  
(In thousands of dollars)

**(1) Summary of Significant Accounting Policies and Reporting Practices**

**(a) 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.

**(b) 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:

*Unrestricted* – Net assets that are not subject to donor-imposed restrictions.

*Temporarily Restricted* – 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 not permanently restricted.

**ILLINOIS INSTITUTE OF TECHNOLOGY**  
Notes to Consolidated Financial Statements  
May 31, 2018 and 2017  
(In thousands of dollars)

*Permanently Restricted* – Net assets that are subject to donor-imposed restrictions that require them to be maintained permanently by the University. 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.

**(c) Operations**

Operating results in the consolidated statements of activities reflect all transactions increasing or decreasing unrestricted 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.

**(d) Revenue**

Revenue is reported as an increase in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or law. Expiration of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled, the stipulated time period has elapsed, and/or amounts have been appropriated by the governing board for expenditures) is reported as reclassifications between applicable classes of net assets.

Private gifts, including pledges, are recognized in the period received. Conditional pledges are not recognized until the conditions on which they depend are substantially met. 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.

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

Revenue from government grant and contract agreements is recognized as it is earned through expenditure in accordance with the agreement.

Tuition and other revenue received prior to the end of one fiscal year, which relates to future periods, are recorded as deferred revenue.

## ILLINOIS INSTITUTE OF TECHNOLOGY

### Notes to Consolidated Financial Statements

May 31, 2018 and 2017

(In thousands of dollars)

IITRI's research project revenue results from contract research and other services under a variety of contracts, some of which provide for reimbursement of cost plus fees and others, which are fixed-price or time-and-materials type contracts and are reported as grants and contracts revenue on the consolidated statements of activities. IITRI generally recognizes revenue when a contract has been executed, the contract price is fixed or determinable, delivery of the services or product has occurred, and collectability of the contract price is considered probable. Revenue on 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 contracts based on various performance measures. From time to time, facts develop that require IITRI 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. The full amount of anticipated losses on any type of contract is recognized in the period in which they 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.

Historically, governmental clients have been a major source of revenue for IITRI. For the years ended May 31, 2018 and 2017, these governmental clients accounted for approximately 52% and 62%, respectively, of IITRI's operating revenue of \$19,100 and \$20,511, respectively. Included in IITRI's grants and contracts revenue for 2018 and 2017 and grants and contracts receivable at May 31, 2018 and 2017 are unbilled receivables in the amounts of approximately \$1,718 and \$2,207, respectively.

The amount of grants and contracts revenue reflected in the consolidated 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.

#### **(e) 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, 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.

**ILLINOIS INSTITUTE OF TECHNOLOGY**  
Notes to Consolidated Financial Statements  
May 31, 2018 and 2017  
(In thousands of dollars)

**(f) 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.

**(g) Inventory**

Inventories are stated at lower of cost, which is determined by the first-in, first-out method, or net realizable value for both the University and IITRI.

**(h) 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.

**(i) 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.

**(j) 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.

**(k) 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.

**ILLINOIS INSTITUTE OF TECHNOLOGY**  
Notes to Consolidated Financial Statements  
May 31, 2018 and 2017  
(In thousands of dollars)

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.

**(l) 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, 2018 and 2017, 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 2015.

On December 22, 2017, the President signed into law H.R.1, originally known as the Tax Cuts and Job Act. The new law (Public law No. 115-97) includes substantial changes to the taxation of individuals, businesses, multinational enterprises and others. In addition to many generally applicable provisions, the law contains several specific provisions that results into changes to the tax treatment of tax-exempt organizations and their donors. The University has reviewed these provisions and the potential impact and concluded the enactment of H.R. 1 will not have a material effect on the operations of the organization.

**(m) 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.

**ILLINOIS INSTITUTE OF TECHNOLOGY**  
Notes to Consolidated Financial Statements  
May 31, 2018 and 2017  
(In thousands of dollars)

**(n) Reclassifications**

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

**(o) Recent Accounting Pronouncements**

In May 2014, the FASB issued Accounting Standards Update (ASU) No 2014-09, *Revenue from Contracts with Customers*. The new guidance establishes a framework that ensures entities appropriately reflect the consideration to which they expect to be entitled in exchange for goods and services, by allocating transaction price to identified performance obligations, and recognizing that revenue as performance obligations are satisfied. This approach requires qualitative and quantitative disclosures as to the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The standard is effective in fiscal year 2019 and its impact on policies, procedures and the consolidated financial statements is under evaluation.

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. The standard is effective in fiscal year 2020 and its impact on policies, procedures and the consolidated financial statements is under evaluation.

In August 2016, the FASB issued ASU. No 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* to improve the information presented on the financial statements and footnotes about a not-for-profit entity's liquidity, financial performance and cash flows. The guidance modifies the presentation of net asset classifications on the consolidated financial statements from three types to two types based on presence or absence of donor restrictions. Qualitative and quantitative disclosures related to the liquidity and availability of the entity's financial assets, amounts and purposes of board designated net assets, and underwater endowment funds are now required per the new guidance. The standard is effective in fiscal year 2019 and its impact on policies, procedures and the consolidated financial statements is under evaluation.

**ILLINOIS INSTITUTE OF TECHNOLOGY**  
Notes to Consolidated Financial Statements  
May 31, 2018 and 2017  
(In thousands of dollars)

**(2) Investments**

Investments consist of the following at May 31:

	<b>2018</b>		<b>2017</b>	
	<b>Cost</b>	<b>Fair value</b>	<b>Cost</b>	<b>Fair value</b>
Cash equivalents	\$ 23,752	23,752	25,804	25,803
Stocks	339	720	345	650
Equity mutual funds	130,458	147,176	133,787	145,597
Fixed income (IITRI)	5,850	5,728	5,720	5,720
Fixed income mutual funds	52,348	51,154	43,099	42,950
Hedge equity funds	12,171	14,514	12,171	13,925
Private equity and venture capital funds	2,439	2,478	2,483	3,037
Real estate	12,900	11,900	12,900	11,965
Total investments	\$ <u>240,257</u>	<u>257,422</u>	<u>236,309</u>	<u>249,647</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 a monthly 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.

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

	<b>2018</b>	<b>2017</b>
Return on investments:		
Interest and dividends	\$ 5,760	3,915
Net realized and unrealized gain on investments	<u>9,449</u>	<u>23,851</u>
Net return on investments	\$ <u>15,209</u>	<u>27,766</u>

The return on investments reflects income from investments held by IITRI of \$54 and \$57 for 2018 and 2017, respectively.

**ILLINOIS INSTITUTE OF TECHNOLOGY**  
Notes to Consolidated Financial Statements  
May 31, 2018 and 2017  
(In thousands of dollars)

**(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 2018 and 2017, the University uses 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.

Level 3 consists of investments for which there are no active markets. The University has real estate investments and beneficial interests in perpetual trusts as Level 3. The May 31, 2018 and 2017 real estate is valued utilizing the income-capitalization and sale-comparison methodology completed by an independent real estate appraiser. 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 and private equity and venture capital funds, 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, 2018 and 2017, the University had no plans to sell investments at amounts different from NAV. The University has \$16,992 and \$16,962 for 2018 and 2017, respectively, of investments in alternative investment funds, which are reported at fair value. The University has concluded that the NAV

**ILLINOIS INSTITUTE OF TECHNOLOGY**  
Notes to Consolidated Financial Statements  
May 31, 2018 and 2017  
(In thousands of dollars)

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 \$5,497 in unfunded commitments relative to HC Private Equity XI and no unfunded commitments relative to the Commonfund private equity and Total Return hedged equity alternative investments.

*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, 2018 and 2017, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value:

	2018				Redemption or liquidation	Days' notice
	Level 1	Level 2	Level 3	Total		
Investments:						
Cash and cash equivalents	\$ 23,752	—	—	23,752	Daily	One
Domestic equities:						
Fixed income	51,154	—	—	51,154	Daily	One
Large cap equity	57,614	—	—	57,614	Daily	One
Tactical opportunities	3,167	—	—	3,167	Daily	One
State Street Global	1,936	—	—	1,936	Daily	One
Small cap	5,176	—	—	5,176	Daily	One
Total	<u>119,047</u>	<u>—</u>	<u>—</u>	<u>119,047</u>		
Global (ex-U.S.) equities:						
Developed international	61,581	—	—	61,581	Daily	One
Emerging markets international	17,702	—	—	17,702	Daily	One
Total	<u>79,283</u>	<u>—</u>	<u>—</u>	<u>79,283</u>		
Hedged equity funds of funds:						
Multiple strategies:						
Total return	—	—	—	14,514	Locked-up (1, 3)	60
Total	<u>—</u>	<u>—</u>	<u>—</u>	<u>14,514</u>		

**ILLINOIS INSTITUTE OF TECHNOLOGY**  
Notes to Consolidated Financial Statements  
May 31, 2018 and 2017  
(In thousands of dollars)

	2018			Total	Redemption or liquidation	Days' notice
	Level 1	Level 2	Level 3			
Private equity and venture capital funds:						
Common fund:						
Capital international	\$ —	—	—	300	None (3)	N/A
Capital venture	—	—	—	719	None (3)	N/A
Capital private equity	—	—	—	545	None (3)	N/A
IIA				316	None (3)	N/A
HC Private Equity XI	—	—	—	598	None (3)	N/A
Total	—	—	—	2,478		
Real assets:						
IIT Tower	—	—	11,900	11,900	Illiquid (2)	N/A
Total	—	—	11,900	11,900		
Other securities:						
Fixed income (IITRI)	5,728	—	—	5,728	Daily	One
Domestic equities	720	—	—	720	Daily	One
Total	6,448	—	—	6,448		
Total investments	228,530	—	11,900	257,422		
Other assets:						
Cash	26,863	—	—	26,863		
Bond proceeds	2,817	—	—	2,817	Daily	One
Perpetual trusts	—	—	22,012	22,012	None	N/A
Total other assets	29,680	—	22,012	51,692		
Total	\$ 258,210	—	33,912	309,114		

(1) One year from the initial investment

(2) Real estate property owned by endowment

(3) 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.

**ILLINOIS INSTITUTE OF TECHNOLOGY**  
Notes to Consolidated Financial Statements  
May 31, 2018 and 2017  
(In thousands of dollars)

	2017				Redemption or liquidation	Days' notice
	Level 1	Level 2	Level 3	Total		
Investments:						
Cash and cash equivalents	\$ 25,803	—	—	25,803	Daily	One
Domestic equities:						
Fixed income	42,950	—	—	42,950	Daily	One
Large cap equity	54,495	—	—	54,495	Daily	One
Tactical opportunities	3,142	—	—	3,142	Daily	One
State Street Global	1,935	—	—	1,935	Daily	One
Small cap	4,786	—	—	4,786	Daily	One
Total	107,308	—	—	107,308		
Global (ex-U.S.) equities:						
Developed international	62,190	—	—	62,190	Daily	One
Emerging markets international	19,049	—	—	19,049	Daily	One
Total	81,239	—	—	81,239		
Hedged equity funds of funds:						
Multiple strategies:						
Total return	—	—	—	10,152	Locked-up (1, 3)	60
Absolute return	—	—	—	3,773	Locked-up (1, 3)	60
Total	—	—	—	13,925		
Private equity and venture capital funds:						
Common fund:						
Capital international	—	—	—	352	None (3)	N/A
Capital venture	—	—	—	922	None (3)	N/A
Capital private equity	—	—	—	1,030	None (3)	N/A
IIA	—	—	—	484	None (3)	N/A
HC Private Equity XI	—	—	—	122	None (3)	N/A
Roundtable	—	—	—	127	None (3)	N/A
Total	—	—	—	3,037		
Real assets:						
IIT Tower	—	—	11,965	11,965	Illiquid (2)	N/A
Total	—	—	11,965	11,965		
Other securities:						
Fixed income (IITRI)	5,720	—	—	5,720	Daily	One
Domestic equities	650	—	—	650	Daily	One
Total	6,370	—	—	6,370		
Total investments	220,720	—	11,965	249,647		

**ILLINOIS INSTITUTE OF TECHNOLOGY**  
Notes to Consolidated Financial Statements  
May 31, 2018 and 2017  
(In thousands of dollars)

	2017			Total	Redemption or liquidation	Days' notice
	Level 1	Level 2	Level 3			
Other assets:						
Cash	\$ 11,025	—	—	11,025		
Bond proceeds	2,794	—	—	2,794	Daily	One
Perpetual trusts	—	—	20,817	20,817	None	N/A
Total other assets	13,819	—	20,817	34,636		
Total	\$ 234,539	—	32,782	284,283		

- (1) One year from the initial investment  
(2) Real estate property owned by endowment  
(3) 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, 2018 and 2017 is presented below based on redemption or sale period:

	2018	2017
Investment redemption or sale period:		
Daily	\$ 228,530	220,720
Subject to rolling lock-ups	14,514	13,925
Illiquid	11,900	11,965
Redemptions not permitted	2,478	3,037
Total	\$ 257,422	249,647

**ILLINOIS INSTITUTE OF TECHNOLOGY**  
Notes to Consolidated Financial Statements  
May 31, 2018 and 2017  
(In thousands of dollars)

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, 2018 and 2017:

	<b>Real estate</b>	<b>Beneficial interest in perpetual trusts</b>	<b>Total</b>
Beginning balance, June 1, 2017	\$ 11,965	20,817	32,782
Net realized and unrealized gains (losses)	(65)	1,195	1,130
Purchases	—	—	—
Distributions	—	—	—
Ending balance, May 31, 2018	<u>\$ 11,900</u>	<u>22,012</u>	<u>33,912</u>

The amount of total gain (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, 2018

\$	(65)	1,195	1,130
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	<b>Real estate</b>	<b>Beneficial interest in perpetual trusts</b>	<b>Total</b>
Beginning balance, June 1, 2016	\$ 11,800	19,540	31,340
Net realized and unrealized gains (losses)	165	1,277	1,442
Purchases	—	—	—
Distributions	—	—	—
Ending balance, May 31, 2017	<u>\$ 11,965</u>	<u>20,817</u>	<u>32,782</u>

The amount of total gain for the period included in net return on investments attributable to the change in unrealized gain relating to assets still held at May 31, 2017

\$	165	1,277	1,442
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**ILLINOIS INSTITUTE OF TECHNOLOGY**  
Notes to Consolidated Financial Statements  
May 31, 2018 and 2017  
(In thousands of dollars)

**(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.

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 permanently restricted net assets (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 that is not classified in permanently restricted net assets is classified as temporarily restricted net assets 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, 2018:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment corpus	\$ (10,952)	16,033	188,595	193,676
Donor-restricted endowment pledges	—	—	3,242	3,242
Board-designated funds	<u>54,881</u>	<u>—</u>	<u>—</u>	<u>54,881</u>
Total	<u>\$ 43,929</u>	<u>16,033</u>	<u>191,837</u>	<u>251,799</u>

**ILLINOIS INSTITUTE OF TECHNOLOGY**  
Notes to Consolidated Financial Statements  
May 31, 2018 and 2017  
(In thousands of dollars)

Endowment net assets consist of the following as of May 31, 2017:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment corpus	\$ (11,723)	15,014	183,925	187,216
Donor-restricted endowment pledges	—	—	1,865	1,865
Board-designated funds	<u>54,666</u>	<u>—</u>	<u>—</u>	<u>54,666</u>
Total	<u>\$ 42,943</u>	<u>15,014</u>	<u>185,790</u>	<u>243,747</u>

Changes in endowment net assets for the year ended May 31, 2018 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Net assets, beginning of year	\$ 42,943	15,014	185,790	243,747
Endowment-related investment return:				
Endowment-related investment income, net	2,725	2,335	—	5,060
Endowment-related net realized and unrealized gain	<u>5,205</u>	<u>4,462</u>	<u>—</u>	<u>9,667</u>
Total endowment-related investment return	7,930	6,797	—	14,727
Contributions:				
Additions to endowment	80	—	4,368	4,448
Change in permanently restricted pledges	—	—	1,377	1,377
Appropriation	(6,835)	(5,665)	—	(12,500)
Reclassification	<u>(189)</u>	<u>(113)</u>	<u>302</u>	<u>—</u>
Net assets, end of year	<u>\$ 43,929</u>	<u>16,033</u>	<u>191,837</u>	<u>251,799</u>

**ILLINOIS INSTITUTE OF TECHNOLOGY**  
Notes to Consolidated Financial Statements  
May 31, 2018 and 2017  
(In thousands of dollars)

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

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Net assets, beginning of year	\$ 33,850	10,028	182,970	226,848
Endowment-related investment return:				
Endowment-related investment income, net	2,150	1,438	—	3,588
Endowment-related net realized and unrealized gain	14,181	9,484	—	23,665
Total endowment-related investment return	16,331	10,922	—	27,253
Contributions:				
Additions to endowment	283	—	2,713	2,996
Endowment loan repayment	(857)	—	857	—
Change in permanently restricted pledges	—	—	(750)	(750)
Appropriation	(7,842)	(4,758)	—	(12,600)
Reclassification	1,178	(1,178)	—	—
Net assets, end of year	\$ <u>42,943</u>	<u>15,014</u>	<u>185,790</u>	<u>243,747</u>

**(a) 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. Deficiencies of this nature that are reported in unrestricted net assets were \$10,952 and \$11,723 as of May 31, 2018 and 2017, respectively. 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. Subsequent gains that restore the fair value of such funds to the required level are classified as increases in unrestricted net assets.

**(b) 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.

**ILLINOIS INSTITUTE OF TECHNOLOGY**  
Notes to Consolidated Financial Statements  
May 31, 2018 and 2017  
(In thousands of dollars)

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, dividends, and rents 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 is \$12,500 for fiscal year 2018 and \$12,600 for fiscal year 2017. The board of trustees budgeted endowment distribution is \$12,315 for fiscal year 2019.

**(5) Pledges Receivable**

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

	<u>2018</u>	<u>2017</u>
Pledges receivable	\$ 9,434	13,588
Discount to present value future cash flows	<u>(310)</u>	<u>(172)</u>
Net pledges receivable	<u>\$ 9,124</u>	<u>13,416</u>

The following is a summary showing the expected timing of collection of total gross unconditional pledges receivable outstanding as of May 31, 2018:

<u>Fiscal year(s)</u>	<u>Amount</u>
Less than one year	\$ 1,644
1 to 5 years	<u>7,790</u>
	<u>\$ 9,434</u>

**(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.

**ILLINOIS INSTITUTE OF TECHNOLOGY**  
Notes to Consolidated Financial Statements  
May 31, 2018 and 2017  
(In thousands of dollars)

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 \$6,651 and \$7,639 are ultimately refundable to the government and are classified as a liability in the consolidated statements of financial position as of May 31, 2018 and 2017, respectively.

Balances of financing receivables as of May 31, 2018 consist of the following:

	<u>Perkins loans</u>	<u>Institutional loans</u>	<u>Total</u>
Gross balance	\$ 7,396	2,738	10,134
Allowances	—	(620)	(620)
Balance at May 31, 2018	<u>\$ 7,396</u>	<u>2,118</u>	<u>9,514</u>

Balances of financing receivables as of May 31, 2017 consist of the following:

	<u>Perkins loans</u>	<u>Institutional loans</u>	<u>Total</u>
Gross balance	\$ 6,941	2,893	9,834
Allowances	—	(603)	(603)
Balance at May 31, 2017	<u>\$ 6,941</u>	<u>2,290</u>	<u>9,231</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, 2018. The delinquency status is updated monthly by the University's loan servicer.

	<u>Perkins</u>	<u>Institutional</u>	<u>Total</u>
Performing	\$ 6,690	1,390	8,080
Nonperforming (defaulted)	706	1,348	2,054
Balance at May 31, 2018	<u>\$ 7,396</u>	<u>2,738</u>	<u>10,134</u>

The delinquency status as of May 31, 2017 is as follows:

	<u>Perkins</u>	<u>Institutional</u>	<u>Total</u>
Performing	\$ 6,251	1,601	7,852
Nonperforming (defaulted)	690	1,292	1,982
Balance at May 31, 2017	<u>\$ 6,941</u>	<u>2,893</u>	<u>9,834</u>

**ILLINOIS INSTITUTE OF TECHNOLOGY**  
Notes to Consolidated Financial Statements  
May 31, 2018 and 2017  
(In thousands of dollars)

The aging of financing receivables as of May 31, 2018 is presented as follows:

<u>Aging</u>	<u>31-60</u>	<u>61-90</u>	<u>91+</u>	<u>Total past due</u>	<u>Total current</u>	<u>Total</u>
Perkins	\$ 189	126	822	1,137	6,259	7,396
Institutional	14	30	1,426	1,470	1,268	2,738
Total	<u>\$ 203</u>	<u>156</u>	<u>2,248</u>	<u>2,607</u>	<u>7,527</u>	<u>10,134</u>

The aging of financing receivables as of May 31, 2017 is presented as follows:

<u>Aging</u>	<u>31-60</u>	<u>61-90</u>	<u>91+</u>	<u>Total past due</u>	<u>Total current</u>	<u>Total</u>
Perkins	\$ 87	234	811	1,132	5,809	6,941
Institutional	74	28	1,408	1,510	1,383	2,893
Total	<u>\$ 161</u>	<u>262</u>	<u>2,219</u>	<u>2,642</u>	<u>7,192</u>	<u>9,834</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, 2018 are presented as follows:

Balance at June 1, 2017	\$ 603
Write-off	(4)
Increase (decrease) reserve	<u>21</u>
Balance at May 31, 2018	<u>\$ 620</u>

Changes in allowance for estimated losses on financing receivables as of May 31, 2017 are presented as follows:

Balance at June 1, 2016	\$ 619
Write-off	(96)
Increase (decrease) reserve	<u>80</u>
Balance at May 31, 2017	<u>\$ 603</u>

**ILLINOIS INSTITUTE OF TECHNOLOGY**  
Notes to Consolidated Financial Statements  
May 31, 2018 and 2017  
(In thousands of dollars)

**(7) Physical Properties**

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

	<u>2018</u>	<u>2017</u>
Land and land improvements	\$ 24,165	24,165
Building and building improvements	447,822	420,783
Equipment	101,143	98,938
Construction in progress	<u>33,406</u>	<u>18,264</u>
Total physical properties	606,536	562,150
Less accumulated depreciation	<u>306,310</u>	<u>292,272</u>
Physical properties, net	<u>\$ 300,226</u>	<u>269,878</u>

In May 2018, the University purchased the three five-story buildings commonly referred to as State Street Village for \$17,900.

**(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, 2018 and 2017, the share of these trusts from which the University derives income had a combined fair value of \$22,012 and \$20,817, respectively. These trusts provided unrestricted investment income of \$660 and \$616 in fiscal years 2018 and 2017, respectively.

**(9) Notes and Bonds Payable**

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

	<u>Interest rate</u>	<u>2018</u>	<u>2017</u>
University:			
IFA Bonds, Series 2006, payable in varying installments through 2036	5.00% and 6.10%	\$ 140,105	144,845
IFA Bonds, Series 2009, payable in varying installments through 2034	4.750% to 7.125%	25,440	26,315
IITRI – IFA Series 2014, payable in varying installments through 2034	Variable	6,400	7,400
Short-term line of credit	Various	<u>14,000</u>	<u>14,000</u>
Total notes and bonds payable		<u>\$ 185,945</u>	<u>192,560</u>

**ILLINOIS INSTITUTE OF TECHNOLOGY**  
Notes to Consolidated Financial Statements  
May 31, 2018 and 2017  
(In thousands of dollars)

The following is a summary of required principal payments on outstanding secured obligations as of May 31, 2018:

Fiscal year ending:			
2019		\$	20,430
2020			6,735
2021			7,065
2022			7,405
2023			7,760
2024 and beyond			<u>136,550</u>
Total notes and bonds payable		\$	<u><u>185,945</u></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. The Series 2006B term bond bears a 6.10% rate that matured on April 1, 2015.

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.

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.

The University maintains a line-of-credit agreement that allow borrowings up to \$20,000 in 2018 and in 2017. 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

**ILLINOIS INSTITUTE OF TECHNOLOGY**  
Notes to Consolidated Financial Statements  
May 31, 2018 and 2017  
(In thousands of dollars)

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 \$14,000 as of May 31, 2018 and 2017.

The University and IITRI are subject to certain debt covenants. As of May 31, 2018, management believes those covenants have been met.

**(10) 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>2018</u>	<u>2017</u>
Change in accumulated postretirement benefit obligation at beginning of the period	\$ 2,408	2,625
Service cost	13	1
Interest cost	90	89
Actuarial gain (loss)	(109)	(148)
Actuarial benefit payments net contributions	<u>(203)</u>	<u>(159)</u>
Accumulated postretirement benefit obligation at end of the period	<u>\$ 2,199</u>	<u>2,408</u>
	<u>2018</u>	<u>2017</u>
Change in fair value of plan assets:		
Fair value of plan assets at beginning of period	\$ —	—
Employer contribution	203	159
Participant contributions	13	45
Total benefit payments	<u>(216)</u>	<u>(204)</u>
Fair value of plan assets at end of the period	<u>\$ —</u>	<u>—</u>
Funded status	\$ (2,199)	(2,408)
Composition of amounts reported in the consolidated statements of financial position consist of:		
Current liabilities	\$ 176	198
Noncurrent liabilities	<u>2,023</u>	<u>2,210</u>
Accrued postretirement benefit obligation	<u>\$ 2,199</u>	<u>2,408</u>

**ILLINOIS INSTITUTE OF TECHNOLOGY**  
Notes to Consolidated Financial Statements  
May 31, 2018 and 2017  
(In thousands of dollars)

The University follows FASB ASC Section 715 Subtopic 60, *Defined Benefit Plans – Other Postretirement*. The accumulated charge to unrestricted net assets consists of amounts that have not yet been recognized in net periodic benefit cost at May 31 are as follows:

	<u>2018</u>	<u>2017</u>
Unrecognized actuarial loss	\$ 46	154
Unrecognized prior service costs	—	1

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, \$1, and \$0, respectively.

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

	<u>2018</u>	<u>2017</u>
Service cost	\$ 13	1
Interest cost	90	89
Amortization of prior service cost	—	4
Net periodic postretirement benefit cost	<u>\$ 103</u>	<u>94</u>

**(a) Actuarial Assumptions**

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

	<u>2018</u>	<u>2017</u>
Discount rate (expense)	4.00 %	4.00 %
Discount rate (obligation)	4.02	3.92
Healthcare cost trend rates:		
Healthcare cost trend rate assumed for next year	6.17	6.50
Ultimate rate	4.50	4.50
Year that the ultimate rate is reached	2027	2026

**ILLINOIS INSTITUTE OF TECHNOLOGY**  
Notes to Consolidated Financial Statements  
May 31, 2018 and 2017  
(In thousands of dollars)

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:

	<b>2018</b>	<b>2017</b>
Effect on total service cost and interest cost:		
One-percentage point increase	\$ 9	9
One-percentage point decrease	(9)	(8)
Effect on year-end postretirement benefit obligation:		
One-percentage point increase	\$ 188	198
One-percentage point decrease	(165)	(175)

**(b) 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:

Fiscal year:	
2019	\$ 176
2020	175
2021	175
2022	173
2023	170
2024–2027	841

**(c) 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.

**ILLINOIS INSTITUTE OF TECHNOLOGY**  
Notes to Consolidated Financial Statements  
May 31, 2018 and 2017  
(In thousands of dollars)

**(11) Net Assets**

Certain unrestricted net assets are designated for specific purposes by the board of trustees of the University and are summarized as follows at May 31:

	<u>2018</u>	<u>2017</u>
Endowments		
Board designated	\$ 54,881	54,666
Donor restricted	<u>(10,952)</u>	<u>(11,723)</u>
Endowments total	<u>43,929</u>	<u>42,943</u>
Undesignated		
Unrestricted for university operations	2,102	(31,125)
Loan fund	5,859	5,833
Net investment in plant	<u>71,004</u>	<u>50,001</u>
Undesignated total	<u>78,965</u>	<u>24,709</u>
Total	<u>\$ 122,894</u>	<u>67,652</u>

Donor restrictions on temporarily restricted net assets consist of the following at May 31:

	<u>2018</u>	<u>2017</u>
General operations	\$ 12,325	14,831
Endowment	16,033	15,014
Donor-designated for plant	24,512	24,195
Scholarships	2,843	1,027
Split-interest annuity agreements	<u>741</u>	<u>891</u>
Total	<u>\$ 56,454</u>	<u>55,958</u>

Permanently restricted net assets consist of the following at May 31:

	<u>2018</u>	<u>2017</u>
Endowment	\$ 188,595	183,925
Endowment pledges	3,242	1,865
Donor-restricted revolving loan funds	3,827	3,827
Split-interest annuity agreements	292	582
Beneficial interest in perpetual trusts	<u>22,012</u>	<u>20,817</u>
Total	<u>\$ 217,968</u>	<u>211,016</u>

**ILLINOIS INSTITUTE OF TECHNOLOGY**  
Notes to Consolidated Financial Statements  
May 31, 2018 and 2017  
(In thousands of dollars)

The amount of outstanding loans from quasi-endowments to unrestricted funds is \$0 and \$1,943 at May 31, 2018 and 2017, respectively.

**(12) Employee Benefit Plans**

**(a) Pension 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, 2018 and 2017 were \$7,391 and \$7,402 by the University and \$388 and \$366 by IITRI, respectively.

**(b) 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.

**(13) 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.

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

	<u>2018</u>	<u>2017</u>
Instruction	\$ 82,660	81,017
Research and other grant activities	75,664	75,809
Academic support	18,494	17,861
Student services	19,241	18,220
Institutional support	54,522	58,530
Auxiliary enterprises	<u>20,203</u>	<u>20,211</u>
Total	<u>\$ 270,784</u>	<u>271,648</u>

**ILLINOIS INSTITUTE OF TECHNOLOGY**  
Notes to Consolidated Financial Statements  
May 31, 2018 and 2017  
(In thousands of dollars)

**(14) 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 May 2002, the University entered into a 40-year ground lease agreement with IIT State Street, NFP (State Street Corp) to lease property on the University's campus for the purpose of building housing to lease to students, faculty, and staff of the University or employees of other not-for-profit educational institutions in the area. IIT State Street, NFP is a 501(c)(3) corporation that is affiliated with, but not controlled by, the University and, accordingly, is not included in the University's consolidated financial statements.

In December 2003, the University entered into a five-year operating lease with State Street Corp whereby the University committed to lease unoccupied beds at the leased property sufficient to allow State Street Corp to achieve a debt service ratio of 1.0. On August 30, 2006, the operating lease was amended to extend the expiration date to September 30, 2013; thereafter, the operating lease will automatically renew for successive one-year periods. For years ended May 31, 2018 and 2017, it was not necessary for the University to lease unoccupied beds due to State Street Corp achieving a 1.0 debt service ratio.

In May 2018, the University purchased the three five-story buildings commonly referred to as State Street Village. A release and termination for the original operating and ground leases was signed by both parties. The State Street Corporation was dissolved in May 2018.

In January 2006, the University entered into a 55-year ground lease agreement with Townsend Chicago, LLC (Townsend). Townsend purchased from the University 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. The University is leasing approximately 21% of the building back from Townsend for an initial term of 18 years.

In March 2010, the University entered into a seven-year agreement to lease additional space of the Technology Business Center, which was effective June 2010. Related to this University's agreement, Townsend and the University agreed to establish a charitable donation to offset the University's expenses attributed to the agreement until May 2013. In June 2013, the University began funding the lease payments with University funds. The agreement ended May 2017 and was not renewed.

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.

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.

**ILLINOIS INSTITUTE OF TECHNOLOGY**  
Notes to Consolidated Financial Statements  
May 31, 2018 and 2017  
(In thousands of dollars)

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

Year ending May 31:		
2019	\$	1,031
2020		1,059
2021		1,039
2022		1,065
2023		1,088
Thereafter		<u>2,310</u>
	\$	<u><u>7,592</u></u>

**(15) Broadband License and Excess Capacity Leases**

The University has 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. The University last renewed each license in 2017. 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 has 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. The termination agreement stated that the University would receive consideration of \$65 million for: (1) cancelling the BRS license, (2) terminating the existing lease for the BRS channel's excess capacity, and (3) discontinuing its use of the BRS channel. The University cancelled its license with the FCC on December 26, 2017. The remaining requirements of the agreement were met in February 2018 at which time the University received a payment of \$65 million from Clearwire. The University has reported a \$65 million gain on the cancellation of the license in the non-operating section of its consolidated statement of activities.

**ILLINOIS INSTITUTE OF TECHNOLOGY**  
Notes to Consolidated Financial Statements  
May 31, 2018 and 2017  
(In thousands of dollars)

The license and operating lease for the excess capacity on the EBS channel continue through 2040. The University expects to receive future minimum lease payments for the second channel as follows:

Year ending May 31:		\$	
2019		\$	2,063
2020			2,125
2021			2,189
2022			2,254
2023			2,322
Thereafter			52,049
		\$	63,002

**(16) 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.

**(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, 2018 through October 25, 2018, which was the date the consolidated financial statements were issued.

In June 2018, the University issued \$40,250 in revenue bonds through the Illinois Finance Authority (IFA). Of the total proceeds, \$17,900 were used to replenish cash reserves that were used in the acquisition of the three five story student residence buildings on campus commonly referred to as State Street Village. The remaining proceeds will be drawn and used for the refunding of the 2009 bonds when they become callable in fiscal year 2019. The University also used the proceeds for certain costs incurred in connection with the issuance of the bond and the refunding of the Series 2009 bonds.



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## **Independent Auditors' Report on Supplementary Information**

The Board of Trustees  
Illinois Institute of Technology:

We have audited the consolidated financial statements of Illinois Institute of Technology as of and for the year ended May 31, 2018, and have issued our report thereon dated October 25, 2018, which contained an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information included in Schedules 1 through 3 is presented for the purposes of additional analysis, and is 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.

**KPMG LLP**

Chicago, Illinois  
October 25, 2018

**ILLINOIS INSTITUTE OF TECHNOLOGY**  
Consolidating Statement of Financial Position

May 31, 2018

(In thousands of dollars)

<b>Assets</b>	<b>University</b>	<b>IITRI</b>	<b>Eliminations</b>	<b>Total</b>
Cash	\$ 24,080	2,783	—	26,863
Notes and accounts receivable:				
Grants and contracts, less allowance of \$252	5,277	3,666	—	8,943
Students:				
Tuition, less allowance of \$916	5,141	—	—	5,141
Notes, less allowance of \$620	9,514	—	—	9,514
Other, less allowance of \$636	1,051	—	—	1,051
Pledges, net	9,124	—	—	9,124
Affiliated organizations, net	287	—	(287) (a)	—
Inventories, prepaid expenses, and deferred charges	3,827	235	—	4,062
Equity interest in IITRI	16,396	—	(16,396) (b)	—
Investments	251,694	5,728	—	257,422
Bond proceeds held by trustees	2,817	—	—	2,817
Physical properties, less accumulated depreciation	284,548	15,678	—	300,226
Beneficial interest in perpetual trusts	22,012	—	—	22,012
<b>Total assets</b>	<b>\$ 635,768</b>	<b>28,090</b>	<b>(16,683)</b>	<b>647,175</b>
<b>Liabilities and Net Assets</b>				
Liabilities:				
Accounts payable and accrued expenses	\$ 12,538	1,737	(287) (a)	13,988
Accrued salaries and wages	16,076	633	—	16,709
Deferred revenue	16,756	2,924	—	19,680
Deposits by students and others	2,336	—	—	2,336
Accrued postretirement benefit obligation	2,199	—	—	2,199
Obligation under split-interest agreements	726	—	—	726
Notes and bonds payable	179,545	6,400	—	185,945
Advances from U.S. government for student loans	6,651	—	—	6,651
Asset retirement obligation	1,625	—	—	1,625
<b>Total liabilities</b>	<b>238,452</b>	<b>11,694</b>	<b>(287)</b>	<b>249,859</b>
Net assets:				
Unrestricted	122,894	16,396	(16,396) (b)	122,894
Temporarily restricted	56,454	—	—	56,454
Permanently restricted	217,968	—	—	217,968
<b>Total net assets</b>	<b>397,316</b>	<b>16,396</b>	<b>(16,396)</b>	<b>397,316</b>
<b>Total liabilities and net assets</b>	<b>\$ 635,768</b>	<b>28,090</b>	<b>(16,683)</b>	<b>647,175</b>

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

(b) Elimination of equity interest in IITRI

See accompanying independent auditors' report.

## ILLINOIS INSTITUTE OF TECHNOLOGY

## Consolidating Statement of Activities

Year ended May 31, 2018

(In thousands of dollars)

	Unrestricted			Total	Temporarily restricted – University	Permanently restricted – University	Total
	University	IITRI	Inter-entity eliminations				
Operating revenue:							
Tuition and fees, net of scholarships of \$104,630	\$ 139,693	—	—	139,693	—	—	139,693
Government grants and contracts	41,054	9,901	—	50,955	—	—	50,955
Private grants and contracts	3,224	9,199	—	12,423	—	—	12,423
Private gifts	11,144	—	—	11,144	3,363	—	14,507
Endowment spending distribution	6,835	—	—	6,835	—	—	6,835
Endowment net assets released from restrictions	5,665	—	—	5,665	—	—	5,665
Sales and services of auxiliary enterprises	12,577	—	—	12,577	—	—	12,577
Other sources	20,632	—	(2,462) (a)	18,170	—	—	18,170
Net assets released from restrictions	2,857	—	—	2,857	(2,857)	—	—
Total operating revenue	243,681	19,100	(2,462)	260,319	506	—	260,825
Operating expenses:							
Faculty salaries	62,753	—	—	62,753	—	—	62,753
Administrative salaries	47,284	—	—	47,284	—	—	47,284
Part-time salaries	13,891	—	—	13,891	—	—	13,891
Employee benefits	27,242	—	—	27,242	—	—	27,242
Operations and maintenance	23,977	—	—	23,977	—	—	23,977
Supplies and services	43,137	—	—	43,137	—	—	43,137
Professional fees and advertising	13,500	—	—	13,500	—	—	13,500
IITRI research	—	17,714	(2,462) (a)	15,252	—	—	15,252
Interest on indebtedness	9,299	127	—	9,426	—	—	9,426
Depreciation	13,000	1,322	—	14,322	—	—	14,322
Total operating expenses	254,083	19,163	(2,462)	270,784	—	—	270,784
(Decrease) increase in net assets from operating activities	(10,402)	(63)	—	(10,465)	506	—	(9,959)
Nonoperating revenue and expenses:							
Private gifts	—	—	—	—	211	4,057	4,268
Change in donor designation	(793)	—	—	(793)	(582)	1,375	—
Net gain on investments	4,945	(55)	—	4,890	4,489	70	9,449
Net gain on beneficial interest on perpetual trusts	—	—	—	—	—	1,195	1,195
Endowment spending distribution	(6,835)	—	—	(6,835)	(5,665)	—	(12,500)
Net assets released from restrictions	756	—	—	756	(756)	—	—
Investment income	3,371	54	—	3,425	2,335	—	5,760
Net loss on disposal of assets	—	—	—	—	—	—	—
Change in asset retirement obligation	388	—	—	388	—	—	388
Gain on cancellation of broadband license	65,000	—	—	65,000	—	—	65,000
Other	(1,051)	3	—	(1,048)	(24)	262	(810)
Change in value split interest agreements	(76)	—	—	(76)	(18)	(7)	(101)
Equity income from IITRI	(61)	—	61 (b)	—	—	—	—
Increase (decrease) in net assets from nonoperating activities	65,644	2	61	65,707	(10)	6,952	72,649
Increase (decrease) in net assets	55,242	(61)	61	55,242	496	6,952	62,690
Net assets at beginning of year	67,652	16,457	(16,457)	67,652	55,958	211,016	334,626
Net assets end of year	\$ 122,894	16,396	(16,396)	122,894	56,454	217,968	397,316

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

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

See accompanying independent auditors' report.

## ILLINOIS INSTITUTE OF TECHNOLOGY

## Consolidating Statement of Cash Flows

Year ended May 31, 2018

(In thousands of dollars)

	<u>University</u>	<u>IITRI</u>	<u>Eliminations</u>	<u>Total</u>
Cash flows from operating activities:				
Increase (decrease) in net assets	\$ 62,690	(61)	61 (a)	62,690
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:				
Private gifts restricted for long-term investment	(6,631)	—	—	(6,631)
Depreciation	13,000	1,322	—	14,322
Net gain on beneficial interest in perpetual trusts	(1,195)	—	—	(1,195)
Proceeds from cancellation of broadband channel	(65,000)	—	—	(65,000)
Net gain on investments	(9,504)	55	—	(9,449)
Accretion on asset retirement obligation	388	—	—	388
Changes in assets and liabilities:				
Receivables: tuition, grants, pledges, and other	2,078	330	(151) (b)	2,257
Inventories, prepaid expenses, and deferred charges	215	(84)	—	131
Equity interest in IITRI	61	—	(61) (a)	—
Accounts payable and accrued expenses	(1,009)	983	151 (b)	125
Accrued salaries and wages	(915)	(29)	—	(944)
Deferred revenue	(1,289)	498	—	(791)
Deposits by students and others	(80)	—	—	(80)
Accrued postretirement benefit obligation	(209)	—	—	(209)
Obligations under split-interest agreements	112	—	—	112
Advances from the U.S. government for student loans	(988)	—	—	(988)
Asset retirement obligation	(614)	—	—	(614)
Net cash (used in) provided by operating activities	<u>(8,890)</u>	<u>3,014</u>	<u>—</u>	<u>(5,876)</u>
Cash flows from investing activities:				
Proceeds from sale of investments	54,283	—	—	54,283
Purchase of investments	(52,547)	(62)	—	(52,609)
Change in bond proceeds held by trustees	(23)	—	—	(23)
Purchase of physical properties	(43,985)	(685)	—	(44,670)
Proceeds from cancellation of broadband channel	65,000	—	—	65,000
Issuance of notes receivable	(2,205)	—	—	(2,205)
Payments received on notes receivable	1,922	—	—	1,922
Net cash provided by (used in) investing activities	<u>22,445</u>	<u>(747)</u>	<u>—</u>	<u>21,698</u>
Cash flows from financing activities:				
Private gifts restricted for long-term investment	6,631	—	—	6,631
Payments on notes and bonds payable	(5,615)	(1,000)	—	(6,615)
Net cash provided by (used in) financing activities	<u>1,016</u>	<u>(1,000)</u>	<u>—</u>	<u>16</u>
Change in cash	14,571	1,267	—	15,838
Cash at:				
Beginning of year	9,509	1,516	—	11,025
End of year	<u>\$ 24,080</u>	<u>2,783</u>	<u>—</u>	<u>26,863</u>
Supplemental disclosure of cash flow information:				
Cash paid for interest	\$ 9,074	127	—	9,201
Construction payable	2,521	—	—	2,521

(a) Elimination of change in equity interest in IITRI

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

See accompanying independent auditors' report.