KPMG

ILLINOIS INSTITUTE OF TECHNOLOGY

Consolidated Financial Statements and Supplementary Information

May 31, 2016 and 2015

(With Independent Auditors' Report Thereon)

ILLINOIS INSTITUTE OF TECHNOLOGY

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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, 2016 and 2015, 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 auditors consider 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, 2016 and 2015, 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 27, 2016

ILLINOIS INSTITUTE OF TECHNOLOGY

Consolidated Statements of Financial Position

May 31, 2016 and 2015

(In thousands of dollars)

Assets		2016	2015
Cash	$	8,246	13,931
Notes and accounts receivable:			
Grants and contracts, less allowance of $222 in 2016 and $219 in 2015		7,891	6,739
Students:			
Tuition, less allowance of $1,022 in 2016 and $813 in 2015		5,186	10,576
Notes, less allowance of $619 in 2016 and $712 in 2015		9,674	9,883
Other, less allowance of $672 in 2016 and $715 in 2015		1,084	1,623
Pledges, net (note 5)		18,899	23,482
Inventories, prepaid expenses, and deferred charges		4,496	4,737
Investments (note 2)		232,807	243,584
Bond proceeds held by trustees		2,778	2,722
Physical properties, less accumulated depreciation (note 7)		269,122	266,599
Beneficial interest in perpetual trusts (note 8)		19,540	21,212
Total assets	$	579,723	605,088
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	14,583	19,450
Accrued salaries and wages		15,906	14,928
Deferred revenue		16,013	19,926
Deposits by students and others		2,236	1,780
Accrued postretirement benefit obligation (note 10)		2,625	3,488
Obligation under split-interest agreements		476	587
Notes and bonds payable (note 9)		198,900	204,975
Advances from the U.S. government for student loans		7,954	8,117
Asset retirement obligation		2,034	2,473
Total liabilities		260,727	275,724
Net assets (note 11):			
Unrestricted		57,579	74,621
Temporarily restricted		54,630	46,997
Permanently restricted		206,787	207,746
Total net assets		318,996	329,364
Total liabilities and net assets	$	579,723	605,088

See accompanying notes to consolidated financial statements.

ILLINOIS INSTITUTE OF TECHNOLOGY

Consolidated Statement of Activities

Year ended May 31, 2016

(In thousands of dollars)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating revenue:				
Tuition and fees, net of scholarships of $97,588	$ 152,099	—	—	152,099
Government grants and contracts	52,673	—	—	52,673
Private grants and contracts	14,685	—	—	14,685
Private gifts	9,790	2,699	—	12,489
Endowment spending distribution (note 4)	8,841	—	—	8,841
Endowment net assets released from restrictions	3,759	—	—	3,759
Sales and services of auxiliary enterprises	14,509	—	—	14,509
Other sources	17,745	—	—	17,745
Net assets released from restrictions	354	(354)	—	—
Total operating revenue	274,455	2,345	—	276,800
Operating expenses:				
Faculty salaries	65,043	—	—	65,043
Administrative salaries	53,645	—	—	53,645
Part-time salaries	14,430	—	—	14,430
Employee benefits	26,851	—	—	26,851
Operations and maintenance	25,906	—	—	25,906
Supplies and services	41,240	—	—	41,240
Professional fees and advertising	13,635	—	—	13,635
IITRI research	16,602	—	—	16,602
Interest on indebtedness	9,993	—	—	9,993
Depreciation	13,977	—	—	13,977
Total operating expenses	281,322	—	—	281,322
(Decrease) increase in net assets from operating activities	(6,867)	2,345	—	(4,522)
Nonoperating revenue and expenses:				
Private gifts	—	11,153	777	11,930
Net loss on investments (note 2)	(5,381)	(3,102)	(64)	(8,547)
Net loss on beneficial interest on perpetual trusts	—	—	(1,672)	(1,672)
Endowment spending distribution (note 4)	(8,709)	(3,891)	—	(12,600)
Investment income (note 2)	3,375	1,107	—	4,482
Change in asset retirement obligation	715	—	—	715
Other	(175)	21	—	(154)
Increase (decrease) in net assets from nonoperating activities	(10,175)	5,288	(959)	(5,846)
Increase (decrease) in net assets	(17,042)	7,633	(959)	(10,368)
Net assets at beginning of year	74,621	46,997	207,746	329,364
Net assets at end of year	$ 57,579	54,630	206,787	318,996

See accompanying notes to consolidated financial statements.

ILLINOIS INSTITUTE OF TECHNOLOGY

Consolidated Statement of Activities

Year ended May 31, 2015

(In thousands of dollars)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating revenue:				
Tuition and fees, net of scholarships of $90,339	$ 154,554	—	—	154,554
Government grants and contracts	53,591	—	—	53,591
Private grants and contracts	9,680	—	—	9,680
Private gifts	9,362	2,694	—	12,056
Endowment spending distribution (note 4)	7,203	—	—	7,203
Endowment net assets released from restrictions (note 4)	4,497	—	—	4,497
Sales and services of auxiliary enterprises	15,428	—	—	15,428
Other sources	19,130	—	—	19,130
Net assets released from restrictions	9	(9)	—	—
Total operating revenue	273,454	2,685	—	276,139
Operating expenses:				
Faculty salaries	62,183	—	—	62,183
Administrative salaries	51,038	—	—	51,038
Part-time salaries	14,137	—	—	14,137
Employee benefits	25,519	—	—	25,519
Operations and maintenance	26,666	—	—	26,666
Supplies and services	43,365	—	—	43,365
Professional fees and advertising	17,289	—	—	17,289
IITRI research	13,135	—	—	13,135
Interest on indebtedness	10,281	—	—	10,281
Depreciation	13,945	—	—	13,945
Total operating expenses	277,558	—	—	277,558
(Decrease) increase in net assets from operating activities	(4,104)	2,685	—	(1,419)
Nonoperating revenue and expenses:				
Private gifts	—	7,143	1,249	8,392
Net asset reclassification	344	260	(604)	—
Net gain on investments (note 2)	5,560	1,799	82	7,441
Net gain on beneficial interest on perpetual trusts	—	—	89	89
Endowment spending distribution (note 4)	(6,740)	(4,960)	—	(11,700)
Net assets released from restrictions	9,444	(9,444)	—	—
Investment income (note 2)	2,951	1,627	—	4,578
Change in asset retirement obligation	1,883	—	—	1,883
Other	(1,122)	(113)	(254)	(1,489)
Increase (decrease) in net assets from nonoperating activities	12,320	(3,688)	562	9,194
Increase (decrease) in net assets	8,216	(1,003)	562	7,775
Net assets at beginning of year	66,405	48,000	207,184	321,589
Net assets at end of year	$ 74,621	46,997	207,746	329,364

See accompanying notes to consolidated financial statements.

ILLINOIS INSTITUTE OF TECHNOLOGY

Consolidated Statements of Cash Flows

Years ended May 31, 2016 and 2015

(In thousands of dollars)

		2016	2015
Cash flows from operating activities:			
(Decrease) increase in net assets	$	(10,368)	7,775
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:			
Private gifts restricted for long-term investment		(7,347)	(5,256)
Depreciation		13,977	13,945
Loss (gain) on beneficial interest in perpetual trusts		1,672	(89)
Net loss (gain) on investments		8,547	(7,352)
Accretion on asset retirement obligation		715	1,883
Changes in assets and liabilities:			
Receivables: tuition, grants, pledges, and other		9,360	(10,166)
Inventories, prepaid expenses, and deferred charges		241	298
Accounts payable and accrued expenses		(4,867)	3,002
Accrued salaries and wages		978	433
Deferred revenue		(3,913)	3,842
Deposits by students and others		456	(454)
Accrued postretirement benefit obligation		(863)	509
Obligations under split-interest agreements		(111)	(277)
Advances from the U.S. government for student loans		(163)	—
Asset retirement obligation		(1,154)	(2,632)
Net cash provided by operating activities		7,160	5,461
Cash flows from investing activities:			
Proceeds from sale of investments		37,584	43,791
Purchase of investments		(35,354)	(32,126)
Change in bond proceeds held by trustees, net		(56)	(9)
Purchase of physical properties		(16,500)	(21,186)
Issuance of notes receivable		(1,691)	(1,921)
Payments received on notes receivable		1,900	2,118
Net cash used in investing activities		(14,117)	(9,333)
Cash flows from financing activities:			
Private gifts restricted for long-term investment		7,347	5,256
Payments on notes and bonds payable		(6,075)	(4,995)
Net cash provided by financing activities		1,272	261
Change in cash		(5,685)	(3,611)
Cash at:			
Beginning of year		13,931	17,542
End of year	$	8,246	13,931
Supplemental disclosure of cash flow information:			
Cash paid for interest	$	9,706	9,949

See accompanying notes to consolidated financial statements.

(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 France is a private not-for-profit entity located in Paris, France. The entity has been created to recruit French and European students to the programs of the University and to welcome visiting students from the University. IIT France was dissolved effective December 16, 2014.

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, IIT France, and IITRI. 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.

(Continued)

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 University 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.

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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, 2016 and 2015, these governmental clients accounted for approximately 52% and 68%, respectively, of IITRI's operating revenue of $21,005 and $17,373, respectively. Included in IITRI's grants and contracts revenue for 2016 and 2015 and grants and contracts receivable at May 31, 2016 and 2015 are unbilled receivables in the amounts of approximately $2,441 and $1,318, 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.

(Continued)

(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 cost, which is determined by the first-in, first-out method 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.

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, 2016 and 2015, 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 2013.

(m) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles 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.

(In thousands of dollars)

(2) Investments

Investments consist of the following at May 31:

		2016		2015	
		Cost	**Fair value**	**Cost**	**Fair value**
Cash equivalents	$	24,605	24,645	22,024	22,024
Stocks		312	540	306	520
Equity mutual funds		127,729	127,202	120,669	139,561
Bonds (IITRI)		5,087	5,087	5,777	5,777
Fixed income mutual funds		52,172	47,607	49,113	49,252
Hedge equity funds		12,171	12,938	12,171	13,540
Private equity and venture capital funds		3,912	2,988	4,186	4,885
Real estate		12,900	11,800	12,900	8,025
Total investments	$	238,888	232,807	227,146	243,584

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:

		2016	2015
Return on investments:			
Interest and dividends	$	4,482	4,578
Net realized gain on sale of investments		13,951	16,976
Net unrealized gain on investments		(22,498)	(9,535)
Net return on investments	$	(4,065)	12,019

The return on investments reflects income from investments held by IITRI of $82 and $83 for 2016 and 2015, respectively.

(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 2016 and 2015, 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, 2016 and 2015 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 mutual 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, 2016 and 2015, the University had no plans to sell investments at amounts different from NAV. The University has $15,926 and $18,425 for 2016 and 2015, 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 no unfunded commitments relative to the Commonfund and Roundtable private equity and venture capital and 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, 2016 and 2015, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value:

(In thousands of dollars)

	2016					
	Level 1	Level 2	Level 3	Total	Redemption or liquidation	Days' notice
Investments:						
Cash and cash equivalents	$ 24,645	—	—	24,645	Daily	One
Domestic equities:						
Fixed income	47,607	—	—	47,607	Daily	One
Large cap equity	53,910	—	—	53,910	Daily	One
Tactical opportunities	13,479	—	—	13,479	Daily	One
State Street Global	1,661	—	—	1,661	Daily	One
Small cap	5,764	—	—	5,764	Daily	One
Total	122,421	—	—	122,421		
Global (ex-U.S.) equities:						
Developed international	52,388	—	—	52,388	Daily	One
Hedged equity funds of funds:						
Multiple strategies:						
Total return	—	—	—	9,377	Locked-up (1, 3)	60
Absolute return	—	—	—	3,561	Locked-up (1, 3)	60
Total	—	—	—	12,938		
Private equity and venture capital funds:						
Commonfund:						
Capital international	—	—	—	522	None (3)	N/A
Capital venture	—	—	—	1,111	None (3)	N/A
Capital private equity	—	—	—	1,221	None (3)	N/A
Roundtable	—	—	—	134	None (3)	N/A
Total	—	—	—	2,988		
Real assets:						
IIT Tower	—	—	11,800	11,800	Illiquid (2)	N/A
Total	—	—	11,800	11,800		
Other securities:						
Fixed income (IITRI)	5,087	—	—	5,087	Daily	One
Domestic equities	540	—	—	540	Daily	One
Total	5,627	—	—	5,627		
Total investments	205,081	—	11,800	232,807		
Other assets:						
Cash	8,246	—	—	8,246		
Bond proceeds	2,778	—	—	2,778	Daily	One
Perpetual trusts	—	—	19,540	19,540	None	N/A
Total other assets	11,024	—	19,540	30,564		
Total	$ 216,105	—	31,340	263,371		

(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, 2016 and 2015

(In thousands of dollars)

	2015					
	Level 1	**Level 2**	**Level 3**	**Total**	**Redemption or liquidation**	**Days' notice**
Investments:						
Cash and cash equivalents	$ 22,024	—	—	22,024	Daily	One
Domestic equities:						
Fixed income	49,252	—	—	49,252	Daily	One
Large cap equity	57,663	—	—	57,663	Daily	One
Tactical opportunities	13,269	—	—	13,269	Daily	One
State street global	1,900	—	—	1,900	Daily	One
Small cap	6,120	—	—	6,120	Daily	One
Total	128,204	—	—	128,204		
Global (ex-U.S.) equities:						
Developed international	60,609	—	—	60,609	Daily	One
Hedged equity funds of funds:						
Multiple strategies:						
Total return	—	—	—	9,831	Locked-up (1, 3)	60
Absolute return	—	—	—	3,709	Locked-up (1, 3)	60
Total	—	—	—	13,540		
Private equity and venture capital funds:						
Commonfund:						
Capital international	—	—	—	739	None (3)	N/A
Capital venture	—	—	—	1,574	None (3)	N/A
Capital private equity	—	—	—	1,781	None (3)	N/A
Roundtable	—	—	—	791	None (3)	N/A
Total	—	—	—	4,885		
Real assets:						
IIT Tower	—	—	8,025	8,025	Illiquid (2)	N/A
Total	—	—	8,025	8,025		
Other securities:						
Fixed income (IITRI)	5,777	—	—	5,777	Daily	One
Domestic equities	520	—	—	520	Daily	One
Total	6,297	—	—	6,297		
Total investments	217,134	—	8,025	243,584		
Other assets:						
Cash	13,931	—	—	13,931		
Bond proceeds	2,722	—	—	2,722	Daily	One
Perpetual trusts	—	—	21,212	21,212	None	N/A
Total other assets	16,653	—	21,212	37,865		
Total	$ 233,787	—	29,237	281,449		

(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.

(In thousands of dollars)

Aggregate investment liquidity as of May 31, 2016 and 2015 is presented below based on redemption or sale period:

		2016	2015
Investment redemption or sale period:			
Daily	$	205,081	217,134
Subject to rolling lock-ups		12,938	13,540
Illiquid		11,800	8,025
Redemptions not permitted		2,988	4,885
Total	$	232,807	243,584

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, 2016 and 2015:

		Real estate	Beneficial interest in perpetual trusts	Total
Beginning balance, June 1, 2015	$	8,025	21,212	29,237
Net realized and unrealized gains (losses)		3,775	(1,672)	2,103
Purchases		—	—	—
Distributions		—	—	—
Ending balance, May 31, 2016	$	11,800	19,540	31,340
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, 2016	$	3,775	(1,672)	2,103

(In thousands of dollars)

		Real estate	Beneficial interest in perpetual trusts	Total
Beginning balance, June 1, 2014	$	5,495	21,123	26,618
Net realized and unrealized gains		2,530	89	2,619
Purchases		—	—	—
Distributions		—	—	—
Ending balance, May 31, 2015	$	8,025	21,212	29,237
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, 2015	$	2,530	89	2,619

(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.

(In thousands of dollars)

Endowment net assets consist of the following as of May 31, 2016:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment corpus	$	(17,545)	10,028	180,355	172,838
Donor-restricted endowment pledges		—	—	2,615	2,615
Board-designated funds		51,395	—	—	51,395
Total	$	33,850	10,028	182,970	226,848

Endowment net assets consist of the following as of May 31, 2015:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment corpus	$	(11,075)	15,544	176,342	180,811
Donor-restricted endowment pledges		—	—	5,295	5,295
Board-designated funds		54,647	—	—	54,647
Total	$	43,572	15,544	181,637	240,753

(In thousands of dollars)

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

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Net assets, beginning of year	$ 43,572	15,544	181,637	240,753
Endowment-related investment return:				
Endowment-related investment income, net	2,351	1,107	—	3,458
Endowment-related net realized and unrealized loss	(6,590)	(3,102)	—	(9,692)
Total endowment-related investment return	(4,239)	(1,995)	—	(6,234)
Contributions:				
Additions to endowment	3,599	—	4,013	7,612
Change in permanently restricted pledges	—	—	286	286
Appropriation	(8,841)	(3,759)	—	(12,600)
Reclassification	(164)	164	—	—
Net assets, end of year	$ 33,927	9,954	185,936	229,817

Changes in endowment net assets for the year ended May 31, 2015 are as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Net assets, beginning of year	$ 43,009	17,078	179,896	239,983
Endowment-related investment return:				
Endowment-related investment income, net	2,161	1,627	—	3,788
Endowment-related net realized and unrealized gain	5,489	1,799	—	7,288
Total endowment-related investment return	7,650	3,426	—	11,076
Contributions:				
Additions to endowment	69	—	4,390	4,459
Change in permanently restricted pledges	—	—	(3,065)	(3,065)
Appropriation	(6,740)	(4,960)	—	(11,700)
Reclassification	(416)	—	416	—
Net assets, end of year	$ 43,572	15,544	181,637	240,753

(In thousands of dollars)

(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 $17,545 and $11,075 as of May 31, 2016 and 2015, 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.

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 $12,600 for fiscal year 2016 and $11,700 for fiscal year 2015. The board of trustees budgeted endowment distribution is $12,600 for fiscal year 2017.

(5) Pledges Receivable

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

		2016	2015
Pledges receivable	$	19,101	23,790
Discount to present value future cash flows		(202)	(308)
Net pledges receivable	$	18,899	23,482

(In thousands of dollars)

The following is a summary showing the expected timing of collection of total gross unconditional pledges receivable outstanding as of May 31, 2016:

Fiscal year(s)		Amount
Less than one year	$	8,834
1 to 5 years		10,267
	$	19,101

(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 $7,954 and $8,117 are ultimately refundable to the government and are classified as a liability in the consolidated statements of financial position as of May 31, 2016 and 2015, respectively.

Balances of financing receivables as of May 31, 2016 consist of the following:

		Perkins loans	Institutional loans	Total
Gross balance	$	7,195	3,098	10,293
Allowances		—	(619)	(619)
Balance at May 31, 2016	$	7,195	2,479	9,674

Balances of financing receivables as of May 31, 2015 consist of the following:

		Perkins loans	Institutional loans	Total
Gross balance	$	7,379	3,216	10,595
Allowances		(31)	(681)	(712)
Balance at May 31, 2015	$	7,348	2,535	9,883

(In thousands of dollars)

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, 2016. The delinquency status is updated monthly by the University's loan servicer.

		Perkins	Institutional	Total
Performing	$	6,479	1,771	8,250
Nonperforming (defaulted)		716	1,327	2,043
Balance at May 31, 2016	$	7,195	3,098	10,293

The delinquency status as of May 31, 2015 is as follows:

		Perkins	Institutional	Total
Performing	$	6,797	1,975	8,772
Nonperforming (defaulted)		582	1,241	1,823
Balance at May 31, 2015	$	7,379	3,216	10,595

The aging of financing receivables as of May 31, 2016 is presented as follows:

Aging		31–60	61–90	91+	Total past due	Total current	Total
Perkins	$	350	44	609	1,003	6,192	7,195
Institutional		84	82	1,369	1,535	1,563	3,098
Total	$	434	126	1,978	2,538	7,755	10,293

The aging of financing receivables as of May 31, 2015 is presented as follows:

Aging		31–60	61–90	91+	Total past due	Total current	Total
Perkins	$	239	12	684	935	6,444	7,379
Institutional		41	27	1,387	1,455	1,761	3,216
Total	$	280	39	2,071	2,390	8,205	10,595

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.

(In thousands of dollars)

Changes in allowance for estimated losses on financing receivables as of May 31, 2016 are presented as follows:

Balance at June 1, 2015	$	712
Write-off		(6)
Increase (decrease) reserve		(87)
Balance at May 31, 2016	$	619

Changes in allowance for estimated losses on financing receivables as of May 31, 2015 are presented as follows:

Balance at June 1, 2014	$	716
Write-off		(4)
Increase reserve		—
Balance at May 31, 2015	$	712

(7) Physical Properties

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

		2016	2015
Land and land improvements	$	24,165	24,165
Building and building improvements		417,705	408,869
Equipment		95,905	93,085
Construction in progress		11,915	7,223
Total physical properties		549,690	533,342
Less accumulated depreciation		280,568	266,743
Physical properties, net	$	269,122	266,599

(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, 2016 and 2015, the share of these trusts from which the University derives income had a combined fair value of $19,540 and $21,212, respectively. These trusts provided unrestricted investment income of $679 and $584 in fiscal years 2016 and 2015 respectively.

(Continued)

(In thousands of dollars)

(9) Notes and Bonds Payable

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

	Interest rate		2016	2015
University:				
IFA Bonds, Series 2006, payable in varying installments through 2036	5.00% and 6.10%	$	149,360	153,660
IFA Bonds, Series 2009, payable in varying installments through 2034	4.750% to 7.125%		27,140	27,915
IITRI – IFA Series 2014, payable in varying installments through 2034	Variable		8,400	9,400
Short-term line of credit	Various		14,000	14,000
Total notes and bonds payable		$	198,900	204,975

The following is a summary of required principal payments on outstanding secured obligations as of May 31, 2016:

Fiscal year ending:		
2017	$	19,860
2018		6,135
2019		6,430
2020		6,735
2021		7,065
2022 and beyond		152,675
Total notes and bonds payable	$	198,900

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 2016 and in 2015. 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 $14,000 as of May 31, 2016 and 2015.

The University and IITRI are subject to certain debt covenants. As of May 31, 2016, management believes those covenants have been met or have obtained waivers.

(In thousands of dollars)

(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:

		2016	2015
Change in accumulated postretirement benefit obligation at beginning of the period	$	3,488	2,979
Service cost		—	33
Interest cost		137	116
Actuarial gain (loss)		(826)	440
Actuarial benefit payments net contributions		(174)	(80)
Accumulated postretirement benefit obligation at end of the period	$	2,625	3,488

		2016	2015
Change in fair value of plan assets:			
Fair value of plan assets at beginning of period	$	—	—
Employer contribution		173	80
Participant contributions		39	61
Total benefit payments		(212)	(141)
Fair value of plan assets at end of the period	$	—	—
Funded status	$	(2,625)	(3,488)
Composition of amounts reported in the consolidated statements of financial position consist of:			
Current liabilities	$	173	161
Noncurrent liabilities		2,452	3,327
Accrued postretirement benefit obligation	$	2,625	3,488

(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:

		2016	2015
Unrecognized actuarial loss	$	306	1,195
Unrecognized prior service costs		1	2

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 $63, respectively.

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

		2016	2015
Service cost	$	—	33
Interest cost		137	116
Amortization of prior service cost		1	12
Net periodic postretirement benefit cost	$	138	161

(a) Actuarial Assumptions

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

	2016	2015
Discount rate (expense)	4.02%	4.00%
Discount rate (obligation)	3.49	4.02
Healthcare cost trend rates:		
Healthcare cost trend rate assumed for next year	11.00	7.60
Ultimate rate	4.50	5.00
Year that the ultimate rate is reached	2023	2023

(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:

		2016	2015
Effect on total service cost and interest cost:			
One-percentage point increase	$	9	18
One-percentage point decrease		(18)	(16)
Effect on year-end postretirement benefit obligation:			
One-percentage point increase		243	412
One-percentage point decrease		(214)	(352)

(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:		
2017	$	173
2018		176
2019		178
2020		177
2021		186
2022–2025		879

(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.

(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:

		2016	2015
Endowments			
Board designated	$	51,395	54,647
Donor restricted		(17,545)	(11,075)
Endowments total		33,850	43,572
Undesignated			
Unrestricted for university operations		(38,617)	(43,010)
Loan fund		5,834	5,709
Net investment in plant		56,512	68,350
Undesignated total		23,729	31,049
Total	$	57,579	74,621

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

		2016	2015
General operations	$	18,761	17,117
Endowment		10,028	15,544
Donor-designated for plant		23,305	11,139
Scholarships		1,575	2,287
Split-interest annuity agreements		961	910
Total	$	54,630	46,997

(In thousands of dollars)

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

		2016	2015
Endowment	$	180,355	176,342
Endowment pledges		2,615	5,295
Donor-restricted revolving loan funds		3,827	3,827
Split-interest annuity agreements		450	1,070
Beneficial interest in perpetual trusts		19,540	21,212
Total	$	206,787	207,746

The amount of outstanding loans from quasi-endowments to unrestricted funds is $2,800 and $4,090 at May 31, 2016 and 2015, 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, 2016 and 2015 were $7,607 and $7,238 by the University and $371 and $358 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.

(Continued)

(In thousands of dollars)

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

		2016	2015
Instruction	$	86,898	82,012
Research and other grant activities		76,854	77,129
Academic support		19,447	20,800
Student services		19,965	20,453
Institutional support		57,225	55,734
Auxiliary enterprises		20,933	21,430
Total	$	281,322	277,558

(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, 2016 and 2015, it was not necessary for the University to lease unoccupied beds due to State Street Corp achieving a 1.0 debt service ratio.

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 January 2007, the University entered into a five-year space rental lease with 350 LLC, which expired on August 31, 2012. In May 2011, the University extended the lease for an additional five years, so the new expiration date is now August 31, 2017. The lease involves occupying space in the building located at 350

(Continued)

(In thousands of dollars)

North LaSalle. On August 28, 2015, the University elected its one-time right to terminate the lease effective as of August 31, 2015.

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.

In May 2012, the University entered into an agreement with Chicagoland Entrepreneurial Center 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, 2017.

The University also entered into an agreement with Academic Analytics, LLC for the use of a Web-based data portal to access content and tools of the database. The terms of the agreement extend to June 30, 2016.

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

Year ending May 31:		
2016	$	2,137
2017		973
2018		961
2019		985
2020		1,009
2021		1,034
Thereafter		4,525
	$	11,624

(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.

(16) 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, 2016 through October 27, 2016, which was the date the consolidated financial statements were issued.

KPMG LLP
Aon Center
Suite 5500
200 East Randolph Drive
Chicago, IL 60601-6436

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, 2016, and have issued our report thereon dated October 27, 2016, 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 27, 2016

Schedule 1

ILLINOIS INSTITUTE OF TECHNOLOGY

Consolidating Statement of Financial Position

May 31, 2016

(In thousands of dollars)

Assets		**University**	**IITRI**	**Eliminations**		**Total**
Cash	$	3,087	5,159	—		8,246
Notes and accounts receivable:						
Grants and contracts, less allowance of $222		4,137	3,754	—		7,891
Students:						
Tuition, less allowance of $1,022		5,186	—	—		5,186
Notes, less allowance of $619		9,674	—	—		9,674
Other, less allowance of $672		1,084	—	—		1,084
Pledges, net		18,899	—	—		18,899
Affiliated organizations, net		765	—	(765)	(a)	—
Inventories, prepaid expenses, and deferred charges		4,311	185	—		4,496
Equity interest in IITRI		16,488	—	(16,488)	(b)	—
Investments		227,720	5,087	—		232,807
Bond proceeds held by trustees		2,778	—	—		2,778
Physical properties, less accumulated depreciation		252,936	16,186	—		269,122
Beneficial interest in perpetual trusts		19,540	—	—		19,540
Total assets	$	566,605	30,371	(17,253)		579,723
Liabilities and Net Assets						
Liabilities:						
Accounts payable and accrued expenses	$	13,481	1,867	(765)	(a)	14,583
Accrued salaries and wages		15,127	779	—		15,906
Deferred revenue		13,176	2,837	—		16,013
Deposits by students and others		2,236	—	—		2,236
Accrued postretirement benefit obligation		2,625	—	—		2,625
Obligation under split-interest agreements		476	—	—		476
Notes and bonds payable		190,500	8,400	—		198,900
Advances from U.S. government for student loans		7,954	—	—		7,954
Asset retirement obligation		2,034	—	—		2,034
Total liabilities		247,609	13,883	(765)		260,727
Net assets:						
Unrestricted		57,579	16,488	(16,488)	(b)	57,579
Temporarily restricted		54,630	—	—		54,630
Permanently restricted		206,787	—	—		206,787
Total net assets		318,996	16,488	(16,488)		318,996
Total liabilities and net assets	$	566,605	30,371	(17,253)		579,723

(a) Elimination of inter-entity accounts payable/receivable
(b) Elimination of equity interest in IITRI

See accompanying independent auditors' report.

Schedule 2

ILLINOIS INSTITUTE OF TECHNOLOGY

Consolidating Statement of Activities

Year ended May 31, 2016

(In thousands of dollars)

	Unrestricted University	Unrestricted IITRI	Unrestricted Inter-entity eliminations	Unrestricted Total	Temporarily restricted – University	Permanently restricted – University	Total
Operating revenue:							
Tuition and fees, net of scholarships of $97,588	$ 152,099	—	—	152,099	—	—	152,099
Government grants and contracts	41,764	10,909	—	52,673	—	—	52,673
Private grants and contracts	4,589	10,096	—	14,685	—	—	14,685
Private gifts	9,790	—	—	9,790	2,699	—	12,489
Endowment spending distribution	8,841	—	—	8,841	—	—	8,841
Endowment net assets released from restrictions	3,759	—	—	3,759	—	—	3,759
Sales and services of auxiliary enterprises	14,509	—	—	14,509	—	—	14,509
Other sources	19,913	—	(2,168) (a)	17,745	—	—	17,745
Net assets released from restrictions	354	—	—	354	(354)	—	—
Total operating revenue	255,618	21,005	(2,168)	274,455	2,345	—	276,800
Operating expenses:							
Faculty salaries	65,043	—	—	65,043	—	—	65,043
Administrative salaries	53,645	—	—	53,645	—	—	53,645
Part-time salaries	14,430	—	—	14,430	—	—	14,430
Employee benefits	26,851	—	—	26,851	—	—	26,851
Operations and maintenance	25,906	—	—	25,906	—	—	25,906
Supplies and services	41,240	—	—	41,240	—	—	41,240
Professional fees and advertising	13,635	—	—	13,635	—	—	13,635
IITRI research	—	18,770	(2,168) (a)	16,602	—	—	16,602
Interest on indebtedness	9,901	92	—	9,993	—	—	9,993
Depreciation	12,936	1,041	—	13,977	—	—	13,977
Total operating expenses	263,587	19,903	(2,168)	281,322	—	—	281,322
(Decrease) increase in net assets from operating activities	(7,969)	1,102	—	(6,867)	2,345	—	(4,522)
Nonoperating revenue and expenses:							
Private gifts	—	—	—	—	11,153	777	11,930
Net loss on investments	(5,381)	—	—	(5,381)	(3,102)	(64)	(8,547)
Net loss on beneficial interest on perpetual trusts	—	—	—	—	—	(1,672)	(1,672)
Endowment spending distribution	(8,709)	—	—	(8,709)	(3,891)	—	(12,600)
Investment income	3,293	82	—	3,375	1,107	—	4,482
Change in asset retirement obligation	715	—	—	715	—	—	715
Other	(175)	—	—	(175)	21	—	(154)
Equity income from IITRI	1,184	—	(1,184) (b)	—	—	—	—
Increase (decrease) in net assets from nonoperating activities	(9,073)	82	(1,184)	(10,175)	5,288	(959)	(5,846)
Increase (decrease) in net assets	(17,042)	1,184	(1,184)	(17,042)	7,633	(959)	(10,368)
Net assets at beginning of year	74,621	15,304	(15,304)	74,621	46,997	207,746	329,364
Net assets end of year	$ 57,579	16,488	(16,488)	57,579	54,630	206,787	318,996

(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.

Schedule 3

ILLINOIS INSTITUTE OF TECHNOLOGY

Consolidating Statement of Cash Flows

Year ended May 31, 2016

(In thousands of dollars)

		University	IITRI	Eliminations		Total
Cash flows from operating activities:						
Decrease (increase) in net assets	$	(10,368)	1,184	(1,184)	(a)	(10,368)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:						
Private gifts restricted for long-term investment		(7,347)	—	—		(7,347)
Depreciation		12,936	1,041	—		13,977
Loss on beneficial interest in perpetual trusts		1,672	—	—		1,672
Net loss on investments		8,547	—	—		8,547
Accretion on asset retirement obligation		715	—	—		715
Changes in assets and liabilities:						
Receivables: tuition, grants, pledges, and other		10,006	(1,093)	447	(b)	9,360
Inventories, prepaid expenses, and deferred charges		227	14	—		241
Equity interest in IITRI		(1,184)	—	1,184	(a)	—
Accounts payable and accrued expenses		(4,014)	(406)	(447)	(b)	(4,867)
Accrued salaries and wages		900	78	—		978
Deferred revenue		(4,945)	1,032	—		(3,913)
Deposits by students and others		456	—	—		456
Accrued postretirement benefit obligation		(863)	—	—		(863)
Obligations under split-interest agreements		(111)	—	—		(111)
Advances from the U.S. government for student loans		(163)	—	—		(163)
Asset retirement obligation		(1,154)	—	—		(1,154)
Net cash provided by operating activities		5,310	1,850	—		7,160
Cash flows from investing activities:						
Proceeds from sale of investments		36,894	690	—		37,584
Purchase of investments		(35,354)	—	—		(35,354)
Change in bond proceeds held by trustees		(56)	—	—		(56)
Purchase of physical properties		(14,735)	(1,765)	—		(16,500)
Issuance of notes receivable		(1,691)	—	—		(1,691)
Payments received on notes receivable		1,900	—	—		1,900
Net cash used in investing activities		(13,042)	(1,075)	—		(14,117)
Cash flows from financing activities:						
Private gifts restricted for long-term investment		7,347	—	—		7,347
Payments on notes and bonds payable		(5,075)	(1,000)	—		(6,075)
Net cash provided by (used in) financing activities		2,272	(1,000)	—		1,272
Change in cash		(5,460)	(225)	—		(5,685)
Cash at:						
Beginning of year		8,547	5,384	—		13,931
End of year	$	3,087	5,159	—		8,246
Supplemental disclosure of cash flow information:						
Cash paid for interest	$	9,615	91	—		9,706

(a) Elimination of change in equity interest in IITRI
(b) Elimination of change in inter-entity accounts payable/receivable

See accompanying independent auditors’ report.