

THE IIT STATE STREET CORPORATION, NFP
Chicago, Illinois

FINANCIAL STATEMENTS
May 31, 2013 and 2012



CliftonLarsonAllen

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITORS' REPORT	1
 FINANCIAL STATEMENTS	
Statements of Financial Position	3
Statements of Activities.....	4
Statements of Cash Flows	5
 Notes to Financial Statements	 6

INDEPENDENT AUDITORS' REPORT

Board of Directors
The IIT State Street Corporation, NFP
Chicago, Illinois

We have audited the accompanying financial statements of The IIT State Street Corporation, NFP (the "Corporation"), which comprise the statements of financial position as of May 31, 2013 and 2012, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Board of Directors
The IIT State Street Corporation, NFP

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of May 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Oak Brook, Illinois
October 31, 2013

THE IIT STATE STREET CORPORATION, NFP
STATEMENTS OF FINANCIAL POSITION
May 31, 2013 and 2012

ASSETS

	<u>2013</u>	<u>2012</u>
CURRENT ASSETS		
Cash	\$ 573,300	\$ 772,690
Term deposits	2,574,780	1,702,298
Receivable due from University	<u>721,781</u>	<u>650,109</u>
Total current assets	<u>3,869,861</u>	<u>3,125,097</u>
 NONCURRENT ASSETS		
Property, plant, and equipment, net of accumulated depreciation of \$8,846,149 and \$7,789,105 at May 31, 2013 and 2012, respectively	22,494,454	22,828,094
Deferred financing costs, net of accumulated amortization of \$240,573 and \$219,042 at May 31, 2013 and 2012, respectively	<u>446,913</u>	<u>468,444</u>
Total noncurrent assets	<u>22,941,367</u>	<u>23,296,538</u>
 TOTAL ASSETS	 <u>\$ 26,811,228</u>	 <u>\$ 26,421,635</u>

LIABILITIES AND NET DEFICIT

CURRENT LIABILITIES		
Current portion of notes payable	\$ 150,000	\$ 75,000
 LONG-TERM DEBT		
Notes payable	<u>26,870,000</u>	<u>27,020,000</u>
Total liabilities	27,020,000	27,095,000
 NET DEFICIT	 <u>(208,772)</u>	 <u>(673,365)</u>
 TOTAL LIABILITIES AND NET DEFICIT	 <u>\$ 26,811,228</u>	 <u>\$ 26,421,635</u>

The accompanying notes are an integral part of the financial statements.

THE IIT STATE STREET CORPORATION, NFP
STATEMENTS OF ACTIVITIES
Years Ended May 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
REVENUES		
Rooms revenue	\$ 3,240,007	\$ 3,010,761
Interest	<u>23,045</u>	<u>22,518</u>
Total revenue	<u>3,263,052</u>	<u>3,033,279</u>
EXPENSES		
General and administrative expenses	1,241,539	1,457,048
Interest	478,345	373,028
Depreciation	1,057,044	984,704
Amortization	<u>21,531</u>	<u>21,531</u>
Total expenses	<u>2,798,459</u>	<u>2,836,311</u>
CHANGE IN NET DEFICIT	464,593	196,968
NET DEFICIT, BEGINNING OF YEAR	<u>(673,365)</u>	<u>(870,333)</u>
NET DEFICIT, END OF YEAR	<u>\$ (208,772)</u>	<u>\$ (673,365)</u>

The accompanying notes are an integral part of the financial statements.

THE IIT STATE STREET CORPORATION, NFP
STATEMENTS OF CASH FLOWS
Years Ended May 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net deficit	\$ 464,593	\$ 196,968
Adjustments to reconcile change in net deficit to net cash provided by operating activities:		
Depreciation	1,057,044	984,704
Amortization of deferred financing fees	21,531	21,531
Effects of changes in operating assets and liabilities:		
Receivable due from University	<u>(71,672)</u>	<u>648,464</u>
Net cash provided by operating activities	<u>1,471,496</u>	<u>1,851,667</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of term deposits	(872,482)	(618,311)
Additions to property	<u>(723,404)</u>	<u>(498,535)</u>
Net cash used in investing activities	<u>(1,595,886)</u>	<u>(1,116,846)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on notes payable	<u>(75,000)</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH	(199,390)	734,821
CASH, BEGINNING OF YEAR	<u>772,690</u>	<u>37,869</u>
CASH, END OF YEAR	<u>\$ 573,300</u>	<u>\$ 772,690</u>
SUPPLEMENTARY INFORMATION		
Cash paid for interest	<u>\$ 478,345</u>	<u>\$ 373,028</u>

The accompanying notes are an integral part of the financial statements.

THE IIT STATE STREET CORPORATION, NFP
NOTES TO FINANCIAL STATEMENTS
May 31, 2013 and 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The IIT State Street Corporation, NFP (the "Corporation") is an Illinois nonprofit, tax-exempt organization created on June 25, 2001 to operate exclusively for charitable and educational purposes. The Corporation is organized to operate exclusively for the benefit of, to perform functions of, and to carry out the purposes of Illinois Institute of Technology (the "University"), by undertaking such activities such as providing housing for students, faculty, and staff of the University or of other not-for-profit educational institutions affiliated with the University or located on, or adjacent to, the University's main campus located in Chicago, Illinois. The Corporation constructed three five-story buildings containing 114 residential units (accommodating 367 beds). Construction was completed in August 2003. The property's average normal occupancy was approximately 92% and 88% for the years ended May 31, 2013 and 2012, respectively.

Basis of Accounting

The financial statements of the Corporation have been prepared on the accrual basis of accounting and accordingly, reflect all significant receivables, payables, and other liabilities.

Financial Statement Presentation

Financial statement presentation follows generally accepted accounting principles (GAAP) for not-for-profit organizations. GAAP requires the Corporation to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. As of May 31, 2013 and 2012, the Corporation had no temporarily or permanently restricted net assets. In addition, the Corporation is required to present a Statement of Cash Flows.

Term Deposits

The Corporation has certificates of deposit that range in maturity from six months to three years. The deposits are carried at cost plus interest earned which approximates fair value.

Property, Plant, and Equipment

Property is recorded at cost. Replacements and improvements are capitalized, while repairs and maintenance are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful life of the asset, which for the building is 40 years, for building improvements 20 years, for furniture, fixtures, and equipment 10 years.

THE IIT STATE STREET CORPORATION, NFP
NOTES TO FINANCIAL STATEMENTS
May 31, 2013 and 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, Plant and Equipment (continued)

The Corporation periodically reviews the carrying value of the property to determine if circumstances exist indicating impairment in the carrying value of the investment in the property or that depreciation periods should be modified. If facts or circumstances support the possibility of impairment, the Corporation will prepare an estimate of the undiscounted future cash flows; without interest charges, of the property and determine if the investment in such property is recoverable based on the undiscounted future cash flows. If impairment is indicated, an adjustment will be made to the carrying value of the property to reflect the property at fair value. The Corporation does not believe that there are any factors or circumstances indicating impairment of any of its investment at May 31, 2013 and 2012.

Deferred Financing Costs

Bond issuance costs were paid from the proceeds of the bond offering. See Note 2. Such costs have been capitalized and are amortized over the life of the related bonds on a straight-line basis, which is not materially different from the effective interest method.

Tax-Exempt Status

The Corporation has received a determination letter from the Internal Revenue Service (IRS) indicating it is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, except for taxes pertaining to unrelated business income, is exempt from federal and state income taxes. In addition, the Corporation qualifies for the charitable contribution deduction under Section 509(a)(3). No provision for income taxes was required for the years ended May 31, 2013 and 2012.

The Corporation adopted the requirements for accounting for uncertain tax positions. The Corporation determined that it was not required to record a liability related to uncertain tax positions.

The federal and state tax returns of the Corporation for 2009, 2010, and 2011 are subject to examination by the IRS and state taxing authorities, generally for three years after they were filed.

Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

THE IIT STATE STREET CORPORATION, NFP
NOTES TO FINANCIAL STATEMENTS
May 31, 2013 and 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Room Revenue

Room revenue is recognized on a straight-line basis over the terms of the related leases. Lease terms are generally for one year or less.

NOTE 2 - NOTES PAYABLE

In May 2002, the Illinois Educational Facilities Authority (IEFA) executed the issuance and sale of \$28,635,000 aggregate principal amount of Student Housing Adjustable Rate Demand Revenue Bonds, Series 2002A (Series 2002A Bonds) and \$165,000 aggregate principal amount of Taxable Student Housing Adjustable Rate Demand Revenue Bonds, Series 2002B (Series 2002B Bonds). The Series 2002B Bonds matured on June 1, 2004, at which time the amount outstanding was paid in full.

The proceeds from the issuances and sale of the bonds were used to make loans to the Corporation. The Corporation used the proceeds to: (i) finance the construction, installation, and equipping of a new 114-unit student housing project (the "Project") on the University's main campus to house 367 students, staff, and faculty of the University and (ii) pay certain costs incurred in connection with the bond issue. The note payable, in the amount of \$28,635,000, is secured by the gross revenue, as defined, of the Project. The payment of principal and the accrual of interest requirements are identical to those of the bonds.

The Series 2002A Bonds are secured by a letter of credit and bear interest at a weekly interest rate that is sufficient to produce a par bid (an effective interest rate of 0.16% and 0.22% as of May 31, 2013 and 2012, respectively), not to exceed 12% per annum. Such interest rate may be converted to a different interest rate mode, as defined in the agreement, with the approval of the letter of credit issuer. The Series 2002A Bonds mature on June 1, 2033.

Payments on the notes payable were interest only through May 31, 2012. Principal payments began June 1, 2012. The outstanding balance on the note payable is due at maturity, June 1, 2033.

THE IIT STATE STREET CORPORATION, NFP
NOTES TO FINANCIAL STATEMENTS
May 31, 2013 and 2012

NOTE 2 - NOTES PAYABLE (continued)

The following is a summary of required principal payments for the notes payable:

Fiscal Years Ending

2014	\$ 150,000
2015	370,000
2016	435,000
2017	505,000
2018	580,000
Thereafter	<u>24,980,000</u>
Total	<u>\$ 27,020,000</u>

NOTE 3 - PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment at May 31, 2013 and 2012 are summarized as follows:

	<u>2012</u>	<u>2011</u>
Building	\$ 27,627,652	\$ 27,627,652
Building improvements	2,153,156	1,429,752
Furniture, fixtures, and equipment	<u>1,559,795</u>	<u>1,559,795</u>
Total	31,340,603	30,617,199
Less accumulated depreciation	<u>8,846,149</u>	<u>7,789,105</u>
Total property, plant, and equipment	<u>\$ 22,494,454</u>	<u>\$ 22,828,094</u>

NOTE 4 - TRANSACTIONS WITH RELATED PARTIES

At May 31, 2013 and 2012, the Corporation had accounts receivable of \$721,781 and \$650,109, respectively, due from the University. The receivable is non-interest-bearing and is payable on demand.

THE IIT STATE STREET CORPORATION, NFP
NOTES TO FINANCIAL STATEMENTS
May 31, 2013 and 2012

NOTE 5 - COMMITMENTS AND CONTINGENCIES

Letter of Credit

In order to enhance the marketability of the bonds, the Corporation executed a letter of credit agreement with a third party lender in the amount of \$27,652,644, of which \$27,095,000 is to support the unpaid principal amount of the bonds and \$557,644 is to support up to 35 days of accrued interest. The letter of credit expires on March 31, 2016 and requires a non-refundable letter of credit fee in the amount of 1.25% per year, on the available amount to be drawn. This fee totaled \$411,024 and \$307,062 for the years ended May 31, 2013 and 2012, respectively, and is included in interest expense in the accompanying Statements of Activities. At May 31, 2013 and 2012, no amounts were drawn against the letter of credit. The letter of credit contains various covenants which have been met as of May 31, 2013 and 2012.

Ground Lease

In May 2002, the Corporation entered into an agreement to lease the land underlying the Project from the University for an annual fee of \$5,342. The term of the lease is 40 years and expires on May 31, 2042.

Operating Lease

On December 30, 2003, the Corporation entered into an operating lease with the University, whereby the University committed to lease unoccupied beds at the Project sufficient to allow the Corporation to achieve a debt service ratio of 1.0. The lease was for five years. On August 30, 2006, the Corporation amended the lease which extended the expiration date to September 30, 2013. The lease shall automatically renew for successive one-year periods after this date. For the years ended May 31, 2013 and 2012, it was not necessary for the University to lease unoccupied beds due to the Corporation achieving a debt service ratio of 1.0.

Management Agreement

In May 2002, the Corporation entered into a management agreement with the University's housing office (the "Manager"). The Manager is responsible for the collection of all fees, payment of operating expenses, performance of certain management obligations, as defined in the agreement, and leasing of the facilities upon completion of the Project. The management agreement took effect on August 1, 2002 and has been extended annually thereafter, and will be extended automatically for additional one-year terms, unless either party provides notice of termination. Management fees of \$38,978 and \$30,274 are included within general and administrative expenses in the accompanying Statements of Activities as of May 31, 2013 and 2012, respectively. Therefore, the receivable due from affiliate shown on the Statements of Financial Position, represents the difference between fees collected and operating expenses paid by the University on behalf of the Corporation.

THE IIT STATE STREET CORPORATION, NFP
NOTES TO FINANCIAL STATEMENTS
May 31, 2013 and 2012

NOTE 6 - RECLASSIFICATIONS

Certain amounts from the year ended May 31, 2012 presentation have been reclassified to conform with the May 31, 2013 presentation. These reclassifications had no effect on either total net deficit or the change in net deficit previously reported.

NOTE 7 - SUBSEQUENT EVENTS

Management evaluated subsequent events through October 31, 2013, the date the financial statements were available to be issued. Events or transactions occurring after May 31, 2013, but prior to October 31, 2013 that provided additional evidence about conditions that existed at May 31, 2013, have been recognized in the financial statements for the year ended May 31, 2013. Events or transactions that provided evidence about conditions that did not exist at May 31, 2013, but arose before the financial statements were available to be issued have not been recognized in the financial statements for the year ended May 31, 2013.

This information is an integral part of accompanying financial statements.