THE IIT STATE STREET CORPORATION, NFP

FINANCIAL STATEMENTS

YEARS ENDED MAY 31, 2017 AND 2016

CliftonLarsonAllen LLP

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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, 2017 and 2016, and the related statements of activities and changes in net assets, 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.

Opinion

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Oak Brook, Illinois
October 16, 2017

THE IIT STATE STREET CORPORATION, NFP
STATEMENTS OF FINANCIAL POSITION
MAY 31, 2017 AND 2016

	2017	2016
ASSETS		
ASSETS		
Cash	$ 1,111,282	$ 511,667
Term Deposits	5,673,004	5,620,643
Receivable due from Illinois Institute of Technology	559,373	488,223
Property, Plant, and Equipment, Net	20,065,560	21,090,090
Total Assets	$ 27,409,219	$ 27,710,623
LIABILITIES AND NET ASSETS		
LIABILITIES		
Notes Payable	$ 25,199,211	$ 25,682,680
UNRESTRICTED NET ASSETS	2,210,008	2,027,943
Total Liabilities and Net Assets	$ 27,409,219	$ 27,710,623

See accompanying Notes to Financial Statements.

THE IIT STATE STREET CORPORATION, NFP
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED MAY 31, 2017 AND 2016

	2017	2016
REVENUES		
Rooms Revenue	$ 2,911,317	$ 3,166,216
Interest	53,614	37,922
Total Revenues	2,964,931	3,204,138
EXPENSES		
Building Repairs and Maintenance	405,583	313,649
Utilities	275,304	252,999
General and Administrative Expenses	492,686	575,262
Management Fee	30,117	41,009
Interest	554,646	405,487
Depreciation	1,024,530	1,016,403
Total Expenses	2,782,866	2,604,809
CHANGE IN NET ASSETS	182,065	599,329
Net Assets - Beginning of Year	2,027,943	1,428,614
NET ASSETS - END OF YEAR	$ 2,210,008	$ 2,027,943

See accompanying Notes to Financial Statements.

THE IIT STATE STREET CORPORATION, NFP
STATEMENTS OF CASH FLOWS
YEARS ENDED MAY 31, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ 182,065	$ 599,329
Adjustments to Reconcile Change in Net Deficit to Net Cash Provided by Operating Activities:		
Depreciation	1,024,530	1,016,403
Amortized Interest Expense	21,531	21,531
Effects of Changes in Operating Assets and Liabilities:		
Receivable Due from Illinois Institute of Technology	(71,150)	1,035,798
Net Cash Provided by Operating Activities	1,156,976	2,673,061
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Term Deposits	(52,361)	(1,576,679)
Additions to Property, Plant, and Equipment	-	(677,036)
Net Cash Used by Investing Activities	(52,361)	(2,253,715)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Notes Payable	(505,000)	(435,000)
NET INCREASE (DECREASE) IN CASH	599,615	(15,654)
Cash - Beginning of Year	511,667	527,321
CASH - END OF YEAR	$ 1,111,282	$ 511,667
SUPPLEMENTARY INFORMATION		
Cash Paid for Interest	$ 533,115	$ 383,956

See accompanying Notes to Financial Statements.

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 nonprofit 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 74% and 82% for the years ended May 31, 2017 and 2016, 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 accounting principles generally accepted in the United States of America for nonprofit organizations. Accounting principles generally accepted in the United States of America require 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, 2017 and 2016, 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.

Accounts Receivable

Accounts are stated at the amount the Corporation expects to collect, net of an allowance for doubtful accounts. The Corporation maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its customers to make the required payments. Past due balances over 90 days and other higher risk accounts are reviewed individually to determine which accounts, if any, should be deemed uncollectible. As of May 31, 2017 and 2016, all receivables were considered collectible and no allowance for doubtful accounts was made for uncollectible accounts. See Note 4 for additional details.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, Plant, and Equipment

Property is recorded at cost. Replacements and improvements in excess of $5,000 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 or the remaining term of the lease, which for the building is 40 years, for leasehold improvements is 28 years, for building improvements 20 years, for furniture, fixtures, and equipment 10 years.

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, 2017 and 2016.

Deferred Financing Costs

Bond issuance costs were paid from the proceeds of the bond offering (see Note 2). Such costs have been amortized over the life of the related bonds on a straight-line basis (See Notes 2 and 7).

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, 2017 and 2016.

The Corporation follows 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.

Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities 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.

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.

Recent Accounting Pronouncements

Revenue Recognition

In May 2014, the Financial Accounting Standards Board (FASB) issued amended guidance to clarify the principles for recognizing revenue from contracts with customers. The guidance requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The guidance also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Additionally, qualitative and quantitative disclosures are required regarding customer contracts, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. The guidance will initially be applied retrospectively using one of two methods.

The standard will be effective for the Corporation for annual periods beginning after December 15, 2018. Early adoption is permitted beginning for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period.

Leases

In February 2016, the FASB issued amended guidance for the treatment of leases. The guidance requires lessees to recognize a right-of-use asset and a corresponding lease liability for all operating and finance leases with lease terms greater than one year. The guidance changes the accounting for sale and leaseback transactions to conform to the new revenue recognition standard. The guidance also requires both qualitative and quantitative disclosures regarding the nature of the Corporation’s leasing activities. The guidance will initially be applied using a modified retrospective approach. The amendments in the guidance are effective for fiscal years beginning after December 15, 2019. Early adoption is permitted.

Financial Statements of Nonprofit Entities

In August 2016, the Financial Accounting Standards Board (FASB) issued amended guidance to improve the current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity’s liquidity, financial performance, and cash flows. The main provisions of the update are:

- Present on the face of the statement of financial position amounts for two classes of net assets at the end of the year, rather than the current three classes.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Statements of Nonprofit Entities (Continued)

- Present on the face of the statement of activities the amount of the change in each of the two classes of net assets.
- Continue to present on the face of the statement of cash flows the net amount for operating cash flows using either the direct or indirect method of reporting. However, no longer require the presentation or disclosure of the indirect method reconciliation, if using the direct method.
- Enhanced disclosures in the following areas:
  - Board-designated net assets
  - Donor restricted net assets
  - Qualitative and quantitative information on liquidity
  - Amounts of expenses by both their natural and functional classification
  - Methods used to allocate costs among program and supporting functions
  - Underwater endowments
- Report investment return net of external and direct internal investment expenses and no longer require disclosures of those netted expenses.

The amendments should be applied on a retrospective basis in the year that the pronouncement is first applied. The standard will be effective for the Corporation for annual periods beginning after December 15, 2017. Early adoption is permitted.

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 original 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.

NOTE 2 NOTES PAYABLE (CONTINUED)

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 0.41% and 0.80% as of May 31, 2017 and 2016, 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 following is a summary of required principal payments for the notes payable:

Year Ending May 31,	Amount
2018	$ 580,000
2019	660,000
2020	750,000
2021	855,000
2022	950,000
Thereafter	21,765,000
Total	25,560,000
Deferred Financing Costs, Net	360,789
Total Notes Payable	$ 25,199,211

NOTE 3 PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment at May 31, 2017 and 2016 are summarized as follows:

	2017	2016
Building	$ 26,687,203	$ 26,687,203
Building Improvements	2,991,085	2,991,085
Leasehold Improvements	146,371	146,371
Furniture, Fixtures, and Equipment	3,018,688	3,018,688
Total	32,843,347	32,843,347
Less: Accumulated Depreciation	12,777,787	11,753,257
Total Property, Plant, and Equipment	$ 20,065,560	$ 21,090,090

NOTE 4 TRANSACTIONS WITH RELATED PARTIES

At May 31, 2017 and 2016, the Corporation had accounts receivable of $559,373 and $488,223, respectively, due from the University. The receivable is noninterest-bearing and is payable on demand.

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, 2018 and requires a nonrefundable letter of credit fee in the amount of 1.25% per year, on the available amount to be drawn. This fee totaled $327,581 and $334,881 for the years ended May 31, 2017 and 2016, respectively, and is included in interest expense in the accompanying statements of activities. At May 31, 2017 and 2016, no amounts were drawn against the letter of credit. The letter of credit contains various covenants which have been met as of May 31, 2017 and 2016.

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.

NOTE 5 COMMITMENTS AND CONTINGENCIES (CONTINUED)

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 will automatically renew for successive one-year periods after this date, unless the Corporation provides, in writing, 60 days notice of its intent not to renew the lease. For the years ended May 31, 2017 and 2016, 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 $30,117 and $41,009 are included within the accompanying statements of activities as of May 31, 2017 and 2016, respectively. Therefore, the receivable due from the University 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.

NOTE 6 FUNCTIONAL EXPENSES

The Corporation provides housing to students, faculty, and staff of the University or of other nonprofit educational institutions affiliated with the University or located on, or adjacent to, the University's main campus. Expenses related to providing these services are as follows for the years ended May 31, 2017 and 2016:

	2017	2016
Program	$ 2,290,180	$ 2,029,547
Management and General Support	492,686	575,262
Total Operating Expenses	$ 2,782,866	$ 2,604,809

NOTE 7 CHANGE IN ACCOUNTING PRINCIPLE

Accounting guidance in FASB Accounting Standards Update (ASU) No. 2015-03, *Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs* is in effect as of May 31, 2017. ASU 2015-03 requires organizations to present debt issuance costs as a direct deduction from the face amount of the related borrowings, amortize debt issuance costs using the effective interest method over the life of the debt, and record the amortization as a component of interest expense. This is not materially different from the straight-line method utilized as of May 31, 2017 and has no effect on previously reported total net assets or changes in net assets.

NOTE 8 RECLASSIFICATIONS

Certain reclassifications have been made to the 2016 financial statement amounts in order to conform to the 2017 presentation. These reclassifications have had no impact on the total net assets, or changes in net assets previously reported.

NOTE 9 SUBSEQUENT EVENTS

Management evaluated subsequent events through October 16, 2017 the date the financial statements were available to be issued. Events or transactions occurring after May 31, 2017, but prior to October 16, 2017 that provided additional evidence about conditions that existed at May 31, 2017, have been recognized in the financial statements for the year ended May 31, 2017. Events or transactions that provided evidence about conditions that did not exist at May 31, 2017, 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, 2017.

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