ILLINOIS MEDICAL DISTRICT COMMISSION

(A Component Unit of the State of Illinois)

CHICAGO, ILLINOIS

FINANCIAL STATEMENTS OF THE
PLEDGED REVENUE PROPERTIES FUND

YEAR ENDED JUNE 30, 2017

ILLINOIS MEDICAL DISTRICT COMMISSION
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JUNE 30, 2017

TABLE OF CONTENTS

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Independent Auditor's Report

To the Board of Commissioners
Illinois Medical District Commission

Report on the Financial Statements

We have audited the accompanying financial statements of the Illinois Medical District Commission - Pledged Revenue Properties Fund of the Illinois Medical District Commission (the "Commission") as of and for the year ended June 30, 2017 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 auditor's 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 Pledged Revenue Properties Fund of the Illinois Medical District Commission as of June 30, 2017 and the changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Commissioners
Illinois Medical District Commission

Emphasis of Matter

We draw attention to Note 2, which explains that these financial statements present only the Pledged Revenue Properties Fund and do not purport to, and do not, present fairly the financial position of the Illinois Medical District Commission as of June 30, 2017, the changes in its financial position, and the changes in its cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matter

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion nor provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Plante & Moran, PLLC

February 27, 2018

Illinois Medical District Commission
Pledged Revenue Properties Fund
Management's Discussion and Analysis

This section of the Pledged Revenue Properties Fund's financial report presents our discussion and analysis of the Pledged Revenue Properties Fund's financial performance during the fiscal years that ended on June 30, 2017 and 2016. Please read it in conjunction with the Pledged Revenue Properties Fund's financial statements, which follow this section.

Financial Highlights

- The Pledged Revenue Properties Fund's total net position decreased to $13,931,079. This year's decrease of $4,312,964 is almost entirely attributable to the debt restructuring by the Commission.
- During fiscal year 2017, the Pledged Revenue Properties Fund's operating expenses were $1,346,136, a decrease of $42,998 over fiscal year 2016's operating expenses. The fiscal year 2017 expense reduction is attributed to a decrease in repairs and maintenance expense and other small variances.
- During fiscal year 2017, the Pledged Revenue Properties Fund's operating revenues were $3,116,272, a decrease of $365,724 over fiscal year 2016.
- In fiscal year 2017 nonoperating debt restructuring expense and loss on debt extinguishment was $4,598,065; the Pledged Revenue Properties Fund used proceeds from a prior year sale along with the issuance of new debt. This significant change does not have an operational impact on the Commission.

OVERVIEW OFTHE FINANCIAL STATEMENTS

The financial statements of the Pledged Revenue Properties Fund have been prepared on the accrual basis of accounting following the business-type activities reporting requirements of the Governmental Accounting Standards Board (GASB) as a single enterprise fund. These statements are as follows:

- **Statement of Net Position** - Includes all of the Pledged Revenue Properties Fund's assets and liabilities and provides information about the amounts and investments in assets and the obligations to Pledged Revenue Properties Fund creditors. It also provides a basis of assessing the liquidity and financial flexibility of the Pledged Revenue Properties Fund. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial health of the Pledged Revenue Properties Fund is improving or deteriorating.

- **Statement of Revenues, Expenses, and Changes in Net Position** - Provides information as to the increase or decrease of current year revenues over expenses.

- **Statement of Cash Flows** - Provides information about the Pledged Revenue Properties Fund's cash receipts and disbursements during the reporting period. The statement discloses net cash provided by or used in operating activities, noncapital financing activities, capital and related financing activities, and investing activities.

Condensed Financial Information

The following table presents condensed information about the Pledged Revenue Properties Fund's financial position as of June 30, 2016 and 2017:

	2016	2017
Other assets	$ 14,418,767	$ 2,147,455
Capital assets	33,379,533	32,774,263
Total assets	47,798,300	34,921,718
Current liabilities	2,680,336	2,271,731
Long-term liabilities	26,873,921	18,718,908
Total liabilities	29,554,257	20,990,639
Net position		
Net investment in capital assets	5,045,614	13,159,256
Restricted	13,513,968	-
Unrestricted	(315,539)	771,823
Total net position	$ 18,244,043	$ 13,931,079

The difference in other assets is attributable to a decrease in noncurrent cash and investments of $13,513,968. The significant decrease is the result of utilizing restricted cash for a partial redemption of bond debt in fiscal year 2017.

In 2017 current liabilities decreased by $408,605; this is primarily the result of a decrease in in bond debt. Long-term liabilities declined by $8,155,013 because of the partial bond redemption and regularly scheduled payments throughout the year.

The following table presents condensed information about the Pledged Revenue Properties Fund's revenue and expenses for the years ended June 30, 2016 and 2017:

	2016	2017
Operating revenue	$ 3,481,996	$ 3,116,272
Operating expenses, other than depreciation	641,760	595,798
Depreciation and amortization	747,374	750,338
Operating income	2,092,862	1,770,136
Interest expense	(1,663,236)	(1,721,282)
Debt restructuring expense	-	(1,717,942)
Loss on early debt extinguishment	-	(2,880,123)
Transfers	13,534,765	236,247
Increase (decrease) in net position	$ 13,964,391	$ (4,312,964)

Operating revenue decreased 10.5 percent. Operating expenses other than depreciation decreased by $45,962, which is a 7.2 percent reduction. Expense categories that experienced declines were legal, consulting, utilities and repairs and maintenance.

There were no capital grants in fiscal 2017.

Budgetary Highlights

The 2017 actual results in comparison to the original budget were favorable. The Pledged Revenue Properties Fund's 2017 budget called for Budgetary income of $1,487,000. The Commission ended the 2017 year with Budgetary income of $2,520,474. This large variance is attributable to revenue from a major tenant.

Capital Asset and Debt Administration

At the end of 2017, the Pledged Revenue Properties Fund's had invested $32,774,263 in capital assets, including land, buildings and equipment (see Note 6 to the financial statements). This is a decrease of 1.8 percent from last year.

At year end the Pledged Revenue Properties Fund had $7,800,938 in bonds outstanding, a net decrease of 72.5 percent over last year. The Pledged Revenue Properties Fund increased debt via a mortgage in fiscal year 2017; the proceeds were used to pay down bond debt. The mortgage payable is $11,814,069. More detailed information about the Pledged Revenue Properties Fund's long-term liabilities is presented in Note 7 to the financial statements.

Economic Factors and Next Year's Budgets and Rates

Cost controls continue to be in effect, and we believe we will meet our budgetary goals in fiscal year 2018. Bond interest will decline. In fiscal year 2018 the Pledged Revenue Properties Fund will complete a collateral substitution, redefining pledged properties. The substitution agreement takes effect on July 1, 2017, aligning pledged revenues with the ongoing bond debt and operating expenses for the associated properties.

Contacting the Commission's Management

This financial report is intended to provide the Pledged Revenue Properties Fund's users with a general overview of the Pledged Revenue Properties Fund's finances and to show the Commission's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Commission via email at administration@medicaldistrict.org.

Illinois Medical District Commission
Pledged Revenue Properties Fund
Statement of Net Position
As of June 30, 2017

		Pledged Revenue
ASSETS		
Current assets:		
Cash and cash equivalents	$	2,100,137
Accounts receivable, net		38,415
Total current assets		2,138,552
Noncurrent assets:		
Capital assets - net		32,774,263
Other assets		8,903
Total noncurrent assets		32,783,166
Total assets		34,921,718
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses		88,186
Debt restructuring payable		850,000
Unearned revenue		137,909
Interest payable		289,537
Security deposits		10,000
Due to other state agency		635,000
Mortgage payable		261,099
Total current liabilities		2,271,731
Noncurrent liabilities:		
Due to other State agency		7,165,938
Mortgage payable		11,552,970
Total noncurrent liabilities		18,718,908
Total liabilities		20,990,639
NET POSITION		
Net investment in capital assets		13,159,256
Unrestricted		771,823
TOTAL NET POSITION	$	13,931,079

Illinois Medical District Commission
Pledged Revenue Properties Fund
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2017

	Pledged Revenue
OPERATING REVENUES	
Rental income	$ 3,050,586
Other operating revenues	65,686
Total operating revenues	3,116,272
OPERATING EXPENSES	
Property management and development	
Capital outlay	5,500
Consulting services	25,938
Insurance	54,147
Legal and professional fees	28,717
Office expense	29
Other	63,748
Rental expense	9,001
Repairs and maintenance	90,103
Salaries, wages and related expenses	149,200
Small tools and equipment	536
Supplies	1,509
Telecommunications	27,153
Utilities	140,217
Subtotal property management and development	595,798
Depreciation expense	750,338
Total operating expenses	1,346,136
Operating income	1,770,136
NONOPERATING REVENUES (EXPENSES)	
Interest expense	(1,721,282)
Debt restructuring expense	(1,717,942)
Loss on early debt extinguishment	(2,880,123)
Net nonoperating expenses	(6,319,347)
Loss before transfers	(4,549,211)
Transfers	236,247
Decrease in Net Position	(4,312,964)
NET POSITION	
Net position, beginning of year	18,244,043
Net position, end of year	$ 13,931,079

Illinois Medical District Commission
Pledged Revenue Properties Fund
Statement of Cash Flows
For the Year Ended June 30, 2017

	Pledged Revenue
CASH FLOWS FROM OPERATING ACTIVITIES	
Payments received from tenants	$ 2,851,232
Receipts from suppliers	(573,025)
Payments to employees	(136,767)
Net cash provided by operating activities	2,141,440
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers - from Non-pledged fund	236,247
Net cash provided by noncapital financing activities	236,247
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Payments on loan from other State agency	(20,375,652)
Proceeds from issuance of mortgage debt	11,814,069
Purchase of capital assets	(145,068)
Debt restructuring costs	(4,162,950)
Interest paid on capital debt and leases	(1,777,196)
Net cash used in capital financing activities	(14,646,797)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from investments	13,513,966
Net cash provided by investing activities	13,513,966
Net increase in cash and cash equivalents	1,244,856
Cash and cash equivalents, beginning of year	855,281
Cash and cash equivalents, end of year	$ 2,100,137
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income	$ 1,770,136
Adjustments to reconcile operating income to net cash provided by operating activities:	
Noncash expenses included in operating income:	
Depreciation	750,338
Changes in assets and liabilities:	
Accounts receivable	2,200
Accounts payable and accrued expenses	(113,994)
Unearned revenue	(266,340)
Security deposits	(900)
Net cash provided by operating activities	$ 2,141,440

NOTE 1 - ORGANIZATION

The Illinois Medical District Commission (the "Commission") is a special district created by statute (70 ILCS 915/0.01 et. seq.). Under this statute, it was formerly considered part of the executive branch of the State of Illinois and operated under the authority and review of the Illinois General Assembly. On July 18, 2012, Public Act 97-0825 was signed into law by the governor of Illinois. This Act amended the Illinois Medical District Commission Act (70 ILCS 915). This amendment designates the Commission as a unit of local government and therefore, the Commission is no longer considered a state agency. The Commission had requested a determination from the comptroller's office as to whether the Commission will continue to be reported as a component unit of the State of Illinois for financial reporting purposes after the date of the amendment. After reviewing the change in legislation affecting the Commission as well as the effects of the State's implementation of GASB Statement No. 61, the comptroller's office concluded on February 20, 2013 that the Commission will continue to be reported as a discretely presented component unit of the State due to the board appointment and ability to impose its will.

The purpose of the Commission is to maintain the proper surroundings for a medical center and a related technology center in order to attract, stabilize, and retain therein hospitals, clinics, research facilities, or other facilities permitted under the Illinois Medical District Act (Act). Also, the Commission is to provide for the orderly creation and expansion of various county and local governmental facilities, other ancillary or related facilities, medical research, and high technology parks, together with the necessary land, buildings, facilities, equipment, and personal property as permitted under the Act, and is to administer and exercise ultimate authority for the Chicago Technology Park.

NOTE 2 - FINANCIAL STATEMENTS

On January 31, 2006, the Illinois Finance Authority (IFA) issued $40 million of revenue bonds (Series 2006) on behalf of the Illinois Medical District Commission. Concurrently, the Commission and the IFA entered into a Loan and Security Agreement, in which the IFA loaned the $40 million to the Commission for the purpose of acquiring and developing certain properties referred to as Pledged Revenue Properties. These properties consisted of certain real estate parcels within the Illinois Medical District upon which the Commission intended to construct facilities to be used for medical and other ancillary activities.

Bond documents related to the issuance contain exhibits which describe the properties to be acquired and developed. These exhibits were amended over the years to revise the descriptions of properties to be considered as Pledged Revenue Properties. The bond documents also contain a requirement that the Commission submit, commencing with the fiscal year ended June 30, 2006, audited financial statements (balance sheet, revenue and expense statement, and statement of cash flows) related specifically to the Pledged Revenue Properties Fund. The financial statements contained herein represent the Commission's compliance with this requirement. The financial statements present only the Pledged Revenue Properties Fund and do not present fairly the financial position of the Illinois Medical District Commission as of June 30, 2017 and the changes in its financial position and cash flows.

NOTE 3 - SIGNIFICANT ACCOUNTING PRINCIPLES AND POLICIES

The accompanying basic financial statements of the Pledged Revenue Properties Fund have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as prescribed in pronouncements of the Governmental Accounting Standards Board (GASB).

NOTE 3 - SIGNIFICANT ACCOUNTING PRINCIPLES AND POLICIES (Continued)

A. Financial Reporting Entity

The accompanying financial statements as listed in the table of contents include only the account balances and activity of the Pledged Revenue Properties Fund of the Commission. The entity-wide financial statements of the Commission include the account balances and the activities of the nonpledged properties. Such financial statements have been audited and issued under a separate cover. A copy of that audit can be obtained on the Commission's website at www.imdc.org.

B. Basis of Accounting

For financial reporting purposes, the Pledged Revenue Properties Fund is considered a special-purpose government fund engaged only in business-type activities as defined by GASB Statement No. 34. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services. Accordingly, the Pledged Revenue Properties Fund's financial statements have been presented on the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place. Revenue from grants, entitlements, and similar items are recognized in the fiscal year in which all eligibility requirements imposed by the provider have been met.

Appropriations made from the State of Illinois General Revenue or Capital Development Funds for the benefit of the Commission are recognized as revenues to the extent expended, limited to available appropriations and represent only the portion of these shared funds that can be directly attributed to the operations of the Commission.

During fiscal year 2017, the Pledged Revenue Properties Fund did not receive an appropriation from the State of Illinois.

C. Classification of Revenues and Expenses

The Pledged Revenue Properties Fund has classified its revenues and expenses as either operating or nonoperating according to the following criteria:

Operating revenues and expenses
Operating revenues and expenses include activities that directly relate to the operational purposes of the Pledged Revenue Properties Fund. Operating revenues primarily include rent and service payments from tenants. Operating expenses primarily include expenses related to property management and development as well as depreciation and amortization expense.

Nonoperating expenses
Nonoperating expenses include interest expense and debt restructuring expense.

D. Cash and Cash Equivalents

Cash and cash equivalents include debt securities with a maturity of 90 days or less at the time of acquisition, money market accounts, and cash in banks for locally held funds.

NOTE 3 - SIGNIFICANT ACCOUNTING PRINCIPLES AND POLICIES (Continued)

E. Accounts, Grants, and Notes Receivable

Accounts receivable include amounts due from tenants for rent, parking, or other chargeable costs. The amounts are presented net of an allowance for doubtful accounts.

Unearned revenue relates to advance payments of rent and other tenant expenses.

F. Capital Assets

Capital assets include property and equipment, which are reported at cost. Donated assets are reported at estimated fair value when received. Capital assets are depreciated using the straight-line method.

Capitalization thresholds and estimated useful lives are as follows:

Capital Asset Category	Capitalization Threshold	Estimated Useful Life
Land	$ 100,000	N/A
Land improvements	25,000	30
Site improvements	25,000	20-30
Buildings	100,000	10-30
Building improvements	25,000	10-30
Intangible assets	100,000	3-25
Equipment	5,000	3-7

G. Long-term Obligations

Long-term debt and other long-term obligations, including amounts due to other State agencies and mortgage notes, are reported as liabilities in the statement of net position. Bond issuance costs are expensed at the time they are incurred.

H. Net Position

In the financial statements, net position is displayed in three components as follows:

Net investment in capital assets - This consists of capital assets, net of accumulated depreciation, less the outstanding balances of due to other state agency, capital lease obligations, lines of credit, and other liabilities that are attributable to the acquisition, construction, or improvement of those assets.

Restricted - This consists of net position that is legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the Pledged Revenue Properties Fund's policy to use restricted resources first, then unrestricted resources when they are needed.

Unrestricted - This consists of net position that does not meet the definition of restricted or net investment in capital assets.

NOTE 3 - SIGNIFICANT ACCOUNTING PRINCIPLES AND POLICIES (Continued)

I. Use of Estimates

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 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 4 - DEPOSITS AND INVESTMENTS

The Public Funds Investment Act (30 ILCS 235/1 et seq.) and Public Funds Deposit Act (30 ILCS 225/1 et seq.) provide general guidance concerning the criteria to be met for the placement of public funds in a financial institution and the types of investment instruments permitted. These statutes authorize the Commission to purchase certain obligations of the U.S. Treasury, federal agencies, and instrumentalities; certificates of deposit and time deposits covered by federal depository insurance; commercial paper of U.S. corporations with assets exceeding $500,000,000, if such paper is rated at the highest classification established by at least two standard rating services; money market mutual funds; and investment in the Illinois Funds.

The state treasurer is the custodian of the State's cash and cash equivalents for funds maintained in the State Treasury. The Commission independently manages cash and cash equivalents maintained outside the State Treasury. As of June 30, 2017, no Pledged Revenue Properties Fund monies were held in the State Treasury.

Deposits

The Pledged Revenue Properties Fund utilizes different bank accounts for the various activities of the Pledged Revenue Properties Fund. The book balance of such accounts was $2,100,137 at June 30, 2017, while the bank balance was $2,548,315.

Custodial credit risk for deposits exists when, in the event of the failure of a depository financial institution, the Pledged Revenue Properties Fund's deposits may not be recovered. As of June 30, 2017, the Pledged Revenue Properties Fund had no deposits that were uninsured or uncollateralized. The Pledged Revenue Properties Fund therefore has no custodial credit risk related to its deposits.

NOTE 5 - ACCOUNTS RECEIVABLE

Accounts receivable include amounts due from tenants for rent, parking, or other chargeable costs. The following table presents the amounts due to the Pledged Revenue Properties Fund by major type as well as the related allowance for doubtful accounts:

	Accounts Receivable	Allowance for Doubtful Accounts	Net
Rents and related fees	$ 38,415	$ 0	$ 38,415

NOTE 6 - CAPITAL ASSETS

Capital assets activities of the Pledged Revenue Properties Fund for the year ended June 30, 2017 are as follows:

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017
Cost:				
Land and land improvements	$ 15,585,995	$ -	$ -	$ 15,585,995
Site improvements	1,655,617	-	-	1,655,617
Buildings and building improvements	15,776,233	-	-	15,776,233
Construction in progress	6,338,557	711,352	581,035	6,468,874
Equipment	7,300	14,751	-	22,051
Total	39,363,702	726,103	581,035	39,508,770
Less accumulated depreciation:				
Site improvements	456,048	97,488	-	553,536
Buildings and building improvements	5,525,323	650,871	-	6,176,194
Equipment	2,798	1,979	-	4,777
Total	5,984,169	750,338	-	6,734,507
Capital assets - net	$ 33,379,533	$ (24,235)	$ 581,035	$ 32,774,263

NOTE 7 - SHORT-TERM AND LONG-TERM DEBT

Interest Payable

Interest payable includes interest due to the Illinois Finance Authority (IFA) of $248,795 and interest payable on the Signature Bank mortgage of $40,742.

Due to Other State Agency

On January 31, 2006, the IFA, a state agency, issued $40 million of revenue bonds (Series 2006) on behalf of the Commission. Concurrently, the Commission and the IFA entered into a loan and security agreement, in which the IFA is to loan the $40 million to the Pledged Revenue Properties Fund of the Commission. The intent of this undertaking was to purchase certain real estate parcels within the Illinois Medical District and to construct facilities to be used for medical and other related activities. The security for the loan agreement includes all cash and investments in the trust accounts related to the revenue bonds held on behalf of the IFA (including a Debt Service Reserve Fund, discussed on the next page), the revenues from the acquired and built properties, pledged revenues from additional property owned by the Commission, and the moral obligation of the State of Illinois.

NOTE 7 - SHORT-TERM AND LONG-TERM DEBT (Continued)

Changes in debt payable to the IFA were as follows:

	Balance July 1, 2016	Increase / (Decrease)	Balance June 30, 2017	Due Within One Year
Due to IFA	$28,333,918	($20,532,980)	$ 7,800,938	$635,000

Certain cash and investment trust accounts held by a trustee on behalf of the IFA, totaling $6,249,062, have been netted against the balance payable to the IFA of $14,050,000 in the Pledged Revenue Properties Fund's financial statements. These funds are under the control of trustee for the benefit of the bond holders. A reconciliation of amounts payable to the IFA is shown in the debt service schedule below.

During the year ended June 30, 2017, the Commission voted to redeem the full balance of the series 2006A bonds and a portion of the series 2006B bonds to reduce future debt service requirements. The redemption occurred in May 2017 when $22,458,689 was deposited with an escrow agent to redeem a total of $19,375,000 in principal in addition to the payment of the accrued interest through the redemption date and the redemption premium. The Commission secured the resources for the redemption from a combination of disposing assets and securing a note from a lender. The note is presented as a Mortgage Payable under the liability section of the Statement of Net Position in the Pledged Revenue Properties Fund's financial statements. There are no additional cash flows required to service the bonds that were redeemed. The transaction was accounted for in accordance with GASB Statement No. 86 whereby the redemption premium of $2,880,123 was recorded as a nonoperating loss on debt extinguishment. Additional costs associated with the debt restructuring including legal expenses and the cost of preparing a piece of property for sale connected to the debt restructuring as described in Note 9.

Interest is paid on September 1 and March 1 of each year beginning in September 2006, with principal payments made on the September date only, beginning in 2010.

Future principal and interest requirements on the loan at June 30, 2017 are as follows (in thousands):

Year ending June 30,	Principal	Interest	Total
2018	$ 635	$ 730	$ 1,365
2019	670	697	1,367
2020	705	661	1,366
2021	745	622	1,367
2022	780	581	1,361
2023-2027	4,580	2,217	6,797
2028-2032	5,935	824	6,759
Total	14,050	6,332	20,382
Less amounts held in trust	6,249	-	6,249
Amount due to IFA	$ 7,801	$ 6,332	$ 14,133

NOTE 7 - SHORT-TERM AND LONG-TERM DEBT (Continued)

Debt Service Reserve Funds (DSR)

Within the provisions of the revenue bonds issued by the IFA, it is specified that funds be set aside with a trustee that will serve as a debt service reserve for the bonds. These funds are equivalent to one year's debt service (approximately $1.4 million in total) and are to be used whenever a deficiency exists in the payment of principal and/or interest on the Series 2006 Revenue Bonds. These funds are included in the trust assets above.

Debt Service Coverage Ratio

The loan and security agreement dated January 31, 2006 requires the Pledged Revenue Properties Fund of the Commission to achieve a debt service coverage ratio of at least 1.05 for each fiscal year commencing with the fiscal year beginning on July 1, 2009. For the fiscal year ended June 30, 2017, the Pledged Revenue Properties Fund of the Commission had a debt service coverage ratio of 0.98, which is below the required ratio of 1.05. Included in the calculation of this ratio are voluntary contributions of $500,000.

The deficiency in the debt service coverage ratio would not have existed with the exclusion of the Series 2006A bond payments made in fiscal year 2017, and management asserts that no risk of default existed. The May 2017 redemption removed the Series 2006A Bonds from a look-forward basis and produced a debt service coverage ratio of 1.18. The current revenues available for debt service to the debt service of the bonds payable, excluding the redeemed bonds, are sufficient to meet the debt service ratio of at least 1.05.

The debt service coverage ratio was prepared based on the definitions in the Indenture of Trust dated January 1, 2006. The debt service coverage ratio was computed by dividing revenues available for debt service over debt service on the bonds payable during the fiscal year. Revenues available for debt service are revenues less operating expenses for the period. Revenues and operating expenses are defined in the Indenture of Trust. Debt service is the regularly scheduled payments of principal of (whether at maturity or by mandatory sinking fund redemption) premium, if any, and interest due and payable on the bonds outstanding during the applicable period.

NOTE 7 - SHORT-TERM AND LONG-TERM DEBT (Continued)

Mortgage Notes

On September 1, 2016 the Commission secured a mortgage for $12,000,000. Proceeds from the note were used as part of the bond redemption described above and to purchase additional properties. This mortgage note will mature in 2021. The coupon rate on the mortgage note is 4.13% with interest paid monthly. The balance outstanding within the Pledged Revenue Properties Fund's financial statements was $11,814,069 as of June 30, 2017.

Future principal and interest requirements on this note at June 30, 2017 are as follows (in thousands):

Year ending June 30,	Principal	Interest	Total
2018	$ 261	$ 490	$ 751
2019	297	478	775
2020	309	467	776
2021	323	452	775
2022	10,624	186	10,810
Subtotal	11,814	2,073	13,887
Less current portion	261		261
Total	$ 11,553	$ 2,073	$ 13,626

NOTE 8 - RISK MANAGEMENT

The Pledged Revenue Properties Fund of the Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; workers' compensation; and natural disasters.

The Commission maintains commercial coverage for its medical benefits provided to employees, automobiles, workers' compensation, and property liability. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

NOTE 9 - CONTIGENCIES

The Pledged Revenue Properties Fund of the Commission is subject to various claims, legal actions, and inquiries related to compliance with environmental and other governmental laws and regulations from time to time. Although it is difficult to quantify the potential impact of these claims, management believes that the ultimate cost of these matters will not adversely affect the Pledged Revenue Properties Fund of the Commission's future financial condition or results of operations.

The Pledged Revenue Properties Fund has recorded a debt restructuring payable in the amount of $850,000 related to ongoing litigation with Costco, a Commission land tenant, in the basic financial statements as of June 30, 2017.

NOTE 10 - GRANT FUNDING

On February 25, 2014, the Department of Commerce and Economic Opportunity (DCEO) awarded the Commission a grant in the amount of $250,000. The grant funds are to be used for the HVAC system that will reduce energy consumption for the new lease to the Anatomical Gift Association of Illinois (AGA) at the building located at 2235 W 13th Street Chicago, Illinois.

In fiscal year 2017, there were no additional Illinois grant funds.

NOTE 11 - TENANT IMPROVEMENTS

The Commission renovated the second floor at 2100 W. Harrison Street to accommodate changes with the new tenant, Jesse Brown VA Medical Center (VA) effective October 2012. In connection with this renovation, VA paid $760,041 towards tenant improvements, which is amortized over the life of the lease. A portion of such tenant improvements amounting to $152,008 has been recognized as revenue in fiscal year 2017 within the Pledged Revenue Properties Fund and the remaining portion is part of the unearned revenue in the Pledged Revenue Properties Fund. Future amortization of the tenant improvements within the Pledged Revenue Properties Fund at June 30, 2017 is as follows:

Year Ending	Tenant Improvement Revenue Recognized
6/30/2018	$ 46,584