ILLINOIS INSTITUTE OF TECHNOLOGY

Consolidated Financial Statements and Supplemental Information

May 31, 2008 and 2007

(With Independent Auditors' Report Thereon)

ILLINOIS INSTITUTE OF TECHNOLOGY

Table of Contents

KPMG LLP
303 East Wacker Drive
Chicago, IL 60601-5212

Independent Auditors' Report

The Board of Trustees
Illinois Institute of Technology:

We have audited the accompanying consolidated statements of financial position of Illinois Institute of Technology (the University) as of May 31, 2008 and 2007, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the University's management. 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 financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As described in note 8 to the consolidated financial statements, the University adopted Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, effective May 31, 2008.

KPMG LLP

October 2, 2008

ILLINOIS INSTITUTE OF TECHNOLOGY

Consolidated Statements of Financial Position

May 31, 2008 and 2007

(In thousands of dollars)

Assets		**2008**	**2007**
Cash	$	2,189	1,901
Bond proceeds held by trustees		6,980	23,758
Investments (note 3)		293,458	345,226
Notes and accounts receivable:			
Grants and contracts, less allowance of $105 in 2008 and 2007		13,274	14,924
Students:			
Tuition, less allowance of $205 in 2008 and $7,775 in 2007		7,000	7,168
Notes, less allowance of $373 in 2008 and 2007		10,320	9,239
Pledges, less allowance of $254 in 2008 and $283 in 2007 (note 4)		13,015	17,926
Other		2,687	2,185
Inventories, prepaid expenses, and deferred charges		2,312	2,924
Physical properties, less accumulated depreciation (note 5)		268,390	246,919
Beneficial interest in perpetual trusts (note 6)		21,836	22,333
Total assets	$	641,461	694,503
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	20,434	22,986
Accrued salaries and wages		16,902	14,148
Deferred revenue		20,057	24,255
Deposits by students and others		2,407	3,650
Accrued postretirement benefit obligation (note 8)		1,462	1,417
Obligation under split-interest agreements		1,099	1,174
Notes and bonds payable (note 7)		187,891	178,220
Advances from the U.S. Government for student loans		8,094	8,094
Asset retirement obligation		9,033	9,344
Total liabilities		267,379	263,288
Net assets (note 11):			
Unrestricted		184,232	246,522
Temporarily restricted		23,766	26,005
Permanently restricted		166,084	158,688
Total net assets		374,082	431,215
Total liabilities and net assets	$	641,461	694,503

See accompanying notes to consolidated financial statements.

ILLINOIS INSTITUTE OF TECHNOLOGY

Consolidated Statement of Activities

Year ended May 31, 2008

(In thousands of dollars)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating revenue:				
Tuition and fees, net of scholarships of $46,365	$ 96,747	—	—	96,747
Government grants and contracts	44,323	—	—	44,323
Private grants and contracts	19,615	—	—	19,615
Private gifts	6,337	9,607	—	15,944
Endowment spending distribution (note 3)	16,935	—	—	16,935
Sales and services of auxiliary enterprises	12,502	—	—	12,502
Other sources	13,587	—	—	13,587
Net assets released from restrictions	9,030	(9,030)	—	—
Total operating revenue	219,076	577	—	219,653
Operating expenses:				
Faculty salaries	46,914	—	—	46,914
Administrative salaries	40,382	—	—	40,382
Part-time salaries	14,049	—	—	14,049
Employee benefits	18,751	—	—	18,751
Operations and maintenance	25,859	—	—	25,859
Supplies and services	40,253	—	—	40,253
Professional fees and advertising	13,545	—	—	13,545
IITRI research	22,145	—	—	22,145
Depreciation	14,085	—	—	14,085
Total operating expenses	235,983	—	—	235,983
Increase (decrease) in net assets from operating activities	(16,907)	577	—	(16,330)
Nonoperating revenue and expenses:				
Private gifts	—	—	4,923	4,923
Change in donor restriction	—	(2,800)	2,800	—
Interest on indebtedness	(9,064)	—	—	(9,064)
Net gain (loss) on investments (note 3)	(43,494)	11	(569)	(44,052)
Endowment income (note 3)	7,108	—	—	7,108
Net loss on disposal of assets	(28)	—	—	(28)
Asset retirement obligation accretion	55	—	—	55
Other	(422)	(27)	242	(207)
Increase (decrease) in net assets from nonoperating activities	(45,845)	(2,816)	7,396	(41,265)
Increase (decrease) in net assets before effect of adoption of change in accounting principle	(62,752)	(2,239)	7,396	(57,595)
Effect of adoption of change in accounting principle (note 8)	462	—	—	462
Increase (decrease) in net assets	(62,290)	(2,239)	7,396	(57,133)
Net assets at beginning of year	246,522	26,005	158,688	431,215
Net assets at end of year	$ 184,232	23,766	166,084	374,082

See accompanying notes to consolidated financial statements.

ILLINOIS INSTITUTE OF TECHNOLOGY

Consolidated Statement of Activities

Year ended May 31, 2007

(In thousands of dollars)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating revenue:				
Tuition and fees, net of scholarships of $38,740	$ 85,249	—	—	85,249
Government grants and contracts	44,474	—	—	44,474
Private grants and contracts	15,415	—	—	15,415
Private gifts	11,630	7,586	—	19,216
Endowment spending distribution (note 3)	14,723	—	—	14,723
Sales and services of auxiliary enterprises	12,760	—	—	12,760
Other sources	13,159	293	—	13,452
Net assets released from restrictions	5,484	(5,484)	—	—
Total operating revenue	202,894	2,395	—	205,289
Operating expenses:				
Faculty salaries	42,901	—	—	42,901
Administrative salaries	36,142	—	—	36,142
Part-time salaries	12,821	—	—	12,821
Employee benefits	15,598	—	—	15,598
Operations and maintenance	20,709	—	—	20,709
Supplies and services	38,133	—	—	38,133
Professional fees and advertising	10,077	—	—	10,077
IITRI research	20,406	—	—	20,406
Depreciation	12,640	—	—	12,640
Total operating expenses	209,427	—	—	209,427
Increase (decrease) in net assets from operating activities	(6,533)	2,395	—	(4,138)
Nonoperating revenue and expenses:				
Private gifts	—	—	9,029	9,029
Change in donor restriction		(845)	845	—
Interest on indebtedness	(9,025)	—	—	(9,025)
Net gain on investments (note 3)	31,928	140	1,469	33,537
Endowment income (note 3)	7,456	—	—	7,456
Net loss on disposal of assets	(291)	—	—	(291)
Faculty incentive retirement benefit	(1,417)	—	—	(1,417)
Asset retirement obligation accretion	(193)	—	—	(193)
Other	1,928	106	414	2,448
Increase (decrease) in net assets from nonoperating activities	30,386	(599)	11,757	41,544
Increase in net assets	23,853	1,796	11,757	37,406
Net assets at beginning of year	222,669	24,209	146,931	393,809
Net assets at end of year	$ 246,522	26,005	158,688	431,215

See accompanying notes to consolidated financial statements.

ILLINOIS INSTITUTE OF TECHNOLOGY

Consolidated Statements of Cash Flows

Years ended May 31, 2008 and 2007

(In thousands of dollars)

		2008	2007
Cash flows from operating activities:			
Increase (decrease) in net assets	$	(57,133)	37,406
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities:			
Effect of change in accounting principle		(462)	—
Private gifts restricted for long-term investment		(4,923)	(9,029)
Depreciation		14,085	12,640
(Gain) loss on beneficial interest in perpetual trusts		497	(1,480)
Contribution of fixed assets		(55)	—
Net loss on disposal of assets		28	291
Net (gain) loss on investments		26,620	(46,780)
Accretion on asset retirement obligation		(55)	(586)
Changes in assets and liabilities:			
Receivables: tuition, grants, pledges, affiliate and other		6,227	(2,352)
Inventories, prepaid expenses, and deferred charges		612	(386)
Accounts payable and accrued expenses		(2,552)	2,463
Accrued salaries and wages		2,754	(260)
Deferred revenue		(4,198)	(1,077)
Deposits by students and others		(1,243)	751
Accrued postretirement benefit obligation		507	1,417
Obligations under split-interest agreements		(75)	(121)
Asset retirement obligation		(256)	—
Net cash used in operating activities		(19,622)	(7,103)
Cash flows from investing activities:			
Proceeds from sale of investments		246,575	589,525
Purchase of investments		(221,427)	(577,539)
Bond proceeds held by trustees		16,778	27,923
Purchase of physical properties		(35,529)	(42,743)
Issuance of notes receivable		(2,500)	(1,922)
Payments received on notes receivable		1,419	1,896
Net cash provided by (used in) investing activities		5,316	(2,860)
Cash flows from financing activities:			
Private gifts restricted for endowments		4,923	9,029
Payments on notes and bonds payable		(860)	(982)
Proceeds from borrowings under line of credit		10,531	—
Net cash provided by financing activities		14,594	8,047
Increase (decrease) in cash		288	(1,916)
Cash at:			
Beginning of year		1,901	3,817
End of year	$	2,189	1,901
Supplemental disclosure of cash flow information:			
Cash paid for interest	$	8,547	8,895

See accompanying notes to consolidated financial statements.

(1) Nature of Organization

Illinois Institute of Technology

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 coeducational technical institution that is dedicated to superior teaching and excellent scholarship. Located in Bangalore, India, the institution services students from across India.

IIT France is a private not-for-profit entity located in Paris, France. The entity has been created to promote French and European students to the programs of the University and to welcome visiting students from the University.

IIT Research Institute

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 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 elect IITRI's Board of Governors. IITRI also prepares separate annual financial statements as of September 30, its fiscal year-end.

(2) Summary of Significant Accounting Policies and Reporting Practices

(a) Principles of Consolidation

The accompanying consolidated financial statements, 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) Basis of Presentation

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 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 are 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.

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 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 transaction increasing or decreasing unrestricted net assets except those items associates with long-term investment, interest expense, 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. Expenses are reported as decreases in unrestricted net assets. 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 and/or the stipulated time period has elapsed) are 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.

(Continued)

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 of acquisition of such long-lived assets.

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.

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. 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 collectibility of the contract price is considered probable. Revenue on cost-plus contracts is recognized as costs are incurred and include 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 fiscal years ended May 31, 2008 and 2007, these governmental clients accounted for approximately 42% and 48%, respectively, of IITRI's operating revenue of $26,555 and $25,110 respectively. In addition, IITRI has one significant industrial customer, which comprised approximately 28% and 36%, respectively, of their contract revenue in 2008 and 2007. Included in IITRI's revenue for 2008 and 2007 and accounts receivable at May 31, 2008 and 2007 are unbilled receivables in the amounts of approximately $2,111 and $3,923, respectively.

The amount of contract and grant 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 expenditures which 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 are generally determined based on quoted market prices or estimated fair values provided by external investment managers or other sources. Direct investments in real estate included in the investment portfolio are recorded at fair value determined based on the discounted value of the future cash flows. Management's estimate of the fair value of private equity and hedge fund investments is determined based on valuations provided by the external investment managers. The valuations for these investments necessarily 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.

Investments from the sale of IITRI net assets consist of cash equivalents and Alion notes receivable with detachable stock warrants received, which are reported at fair value. The fair value of the notes receivable are determined based on the discounted value of the interim interest payments and the face amount of each note over their respective lives, plus the discounted projected value of the attached warrants, based on their respective required rates of return as estimated by management.

(f) Notes Receivable

Student notes receivable consist primarily of Perkins loans, the Illinois Student Assistance Commission Federal Family Educational Loan program, and University loans. Perkins loans are comprised of 89% U.S. Government funds and 11% University funds. The University establishes valuation allowances for notes receivable based on estimates of future collectibility. The University wrote off student receivables of $7,500 during fiscal year 2008 which consequently reduced the allowance to $205 as of May 31, 2008.

(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 three to 50 years.

Upon sale or retirement of an asset, cost and the related accumulated depreciation are deducted from the accounts, and a gain or loss is recorded. 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 Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-lived Assets*. This Statement 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 which are held by third parties. 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 included as liabilities. 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 indicating that they are tax-exempt organizations as provided in Section 501(c)(3) of the Internal Revenue Code of 1986 and, except for taxes related to unrelated business income, are exempt from Federal and state income taxes.

Management has included a provision for income taxes on unrelated business income related the University's interest in certain partnership investments. The unrelated business income liability of $253,000 is reported in accounts payable and accrued expenses.

(m) Use of Estimates

The preparation of 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

(n) New Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement on Financial Accounting Standard No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (SFAS 158). SFAS 158 requires an employer to recognize the over funded or under funded status of a defined benefit pension and other postretirement plans as an asset or liability in its statement of financial position at year-end, and to recognize changes in the funded status directly to unrestricted net assets in the year in which the changes occur. As discussed in footnote 8, the University adopted SFAS 158 effective for the fiscal year ended May 31, 2008.

During the year ending May 31, 2008, the University adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48 clarifies the application of Statement on Financial Accounting Standard No. 109, *Accounting for Income Taxes* by defining a criterion that an individual tax position must meet for any part of the benefit of that position to be recognized in an organization's financial statements. There was no impact to the University's consolidated financial statements as a result of implementing FIN 48.

(In thousands of dollars)

(3) Investments

Investments consist of the following at May 31:

	2008		2007	
	Cost	Fair Value	Cost	Fair Value
Cash equivalents	$ 9,441	9,459	22,522	22,606
Real estate	13,803	14,412	13,803	14,417
Stocks	123	138	215	240
Equity mutual funds	170,963	167,376	133,459	146,550
Bonds	14,025	13,983	14,563	14,521
Fixed income mutual funds	25,531	24,944	25,911	25,666
Hedge funds	841	2,051	8,427	19,574
Private equity funds	6,194	8,100	18,992	27,315
Alion notes and warrants	32,202	52,995	32,202	74,337
Total investments	$ 273,123	293,458	270,094	345,226

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 changed its investment managers during March 2007 and, as a result, liquidated substantially all of the marketable securities in its investment portfolio. The University recorded a realized gain of approximately $22,000 relative to the sale of its marketable investment portfolio.

The University 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. Endowment payouts for operations of $16,935 for fiscal year 2008 and $14,723 for fiscal year 2007 were set by the University's board of trustees.

(In thousands of dollars)

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

		2008	2007
Return on investments:			
Interest and dividends	$	7,108	8,255
Net realized gain on sale of investments		28,177	32,235
Net unrealized gain (loss) on investments		(54,797)	14,545
Net return on investments	$	(19,512)	55,035

The return on investments reflects interest income of $815 for 2008 and $799 for 2007 and an unrealized loss of $42 for 2007 from investments held by IITRI.

(4) Pledges Receivable

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

		2008	2007
Pledges receivable	$	16,064	21,263
Allowance for uncollectible pledges		(254)	(283)
Discount to present value future cash flows		(2,795)	(3,054)
Net pledges receivable	$	13,015	17,926

The following is a summary showing the expected timing of collection of total unconditional pledges receivable outstanding as of May 31, 2008:

Fiscal year(s)		Amount
2009	$	4,148
2010 through 2014		10,336
2015 and thereafter		1,580
	$	16,064

(In thousands of dollars)

(5) Physical Properties

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

		2008	2007
Land and land improvements	$	31,939	27,610
Building and building improvements		296,791	253,164
Equipment and library collection		88,972	80,995
Construction in progress		33,534	55,456
Total physical properties		451,236	417,225
Less accumulated depreciation		182,846	170,306
Physical properties, net	$	268,390	246,919

The University executed an agreement to purchase two parcels of land for $7,800 in December 2006. Phase I ($3,500) of the purchase of a surface parking lot at the corner of Jefferson and Jackson Streets, Chicago, Illinois, which is in close proximity to the University's downtown campus occurred. The purchase agreement included a put-option, which allows the University the option to reconvey the first land parcel back to the seller by October 15, 2007 with a refund of the initial purchase payment of $3,500. The option was not exercised and Phase II ($4,300) was executed in 2008 to complete the purchase of the parcels of land.

(6) 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, 2008 and 2007, the share of these trusts from which the University derives income had a combined fair value of $21,836 and $22,333, respectively. These trusts provided unrestricted income of $471 and $465 in fiscal 2008 and 2007, respectively.

(Continued)

(In thousands of dollars)

(7) Notes and Bonds Payable

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

	Interest rate	2008	2007
University:			
IFA Bonds, Series 2006, payable in varying installments through 2036	5.0% and 6.10%	$ 160,000	160,000
Note payable to ISAC for student lender program	Various	261	230
City of Chicago Energy Loan	Interest free	300	450
IITRI (IFA Series 2004, payable in varying installments through 2034	Variable	16,830	17,540
Short-term line of credit	Various	10,500	—
Total notes and bonds payable		$ 187,891	178,220

The following is a summary of required principal payments, excluding amounts due under the note payable to ISAC, on outstanding secured obligations as of May 31, 2008:

Fiscal year ending:	
2009	$ 11,425
2010	810
2011	845
2012	885
2013	925
2014 and beyond	172,740
Total notes and bonds payable	$ 187,630

In March 2006, the University issued $160,000 in fixed rate revenue bonds through the Illinois Finance Authority 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 2026 and term bonds due April 1, 2031 and April 1, 2036. The Series 2006B term bond bears a 6.10% rate maturing April 1, 2015.

The University has also been designated a lender by the U.S. Department of Education for the Federal Stafford Loan program. As a lender the University participates in the Federal Family Education Loan Program and offers loans to University graduate students. In order to provide funding to support the lender program, the University has contracted with the Illinois Student Assistance Commission (ISAC). The arrangement with ISAC provides that once the University approves a loan to a student, ISAC will loan the funds to the University to forward to the student. After the student separates from the University, ISAC, or one of its designated agencies, will purchase the loan from the University, at which time the University will liquidate its debt to ISAC, and ISAC will then service the loan through the repayment process.

In August 2004, IITRI sold an $18,820 bond issue of adjustable rate demand debt under the tax-exempt authority of the Illinois Finance Authority (IFA). The proceeds from the sale were used to (i) renovate and construct lab and office space; (ii) establish a debt service reserve fund; (iii) and pay certain costs incurred in connection with the bond issue. Additionally, IITRI has obtained an irrevocable letter of credit issued by Fifth Third Bank through August 4, 2010, which is renewable annually upon mutual consent of the parties. In the event that the agent is unable to remarket the bonds, the bonds become a demand note under the irrevocable letter of credit issued by Fifth Third Bank. If the letter of credit is not renewed and an alternate credit facility is not in place, IITRI's bonds are subject to mandatory redemption. Although the loan agreement between IITRI and IFA is for a thirty year period, the terms of the letter of credit between IITRI and Fifth Third Bank require the bonds to be amortized over a twenty year life carrying interest rate of 1.00%; accordingly, the current amortization schedule results in final payment in year 2023, which does not violate the terms of IITRI's loan agreement.

The University maintains two line of credit agreements that allow borrowings up to $8,000 and $25,000. Borrowings under both lines will bear interest at the prime commercial rate or adjusted LIBOR with interest being payable quarterly. The borrowings under the lines of credit will be payable on demand, but if no demand is made, borrowings shall automatically mature on the interest payable date next following the date the loan is made. Amounts outstanding under these agreements were $7,500 and $3,000, respectively, as of May 31, 2008. No amounts were outstanding as of May 31, 2007.

IITRI maintains a line of credit agreement that allows borrowings of up to $350. Borrowings under this line will bear interest at the prime commercial rate with interest payable monthly. IITRI may make principal payments at any time and in any amount, or on demand of the lender. The line of credit does not have a termination date. No amounts were outstanding under this agreement as of May 31, 2008 and 2007.

The University and IITRI are subject to certain debt covenants. As of May 31, 2008, those covenants have been met.

The carrying value of long-term debt does not differ materially from its estimated fair value as of May 31, 2008 and 2007, based on quoted market prices for the same or similar issues.

(In thousands of dollars)

(8) 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 statement of financial position at May 31, 2008 and May 31, 2007 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.

		2008		2007
Change in accumulated postretirement benefit obligation at beginning of the period	$	11,059		10,945
Service cost		99		285
Interest cost		186		372
Plan amendments		(9,817)		—
Actuarial gain		(47)		(492)
Actuarial benefit payments net contributions		(18)		(50)
Accumulated postretirement benefit obligation at end of the period		1,462		11,060
Change in fair value of plan assets				
Fair value of plan assets at beginning of period		—		—
Employer contribution		18		50
Participant contributions		30		—
Total benefit payments		(48)		(50)
Fair value of plan assets at end of the period		—		—
Funded status	$	(1,462)	$	(11,060)
Unrecognized net actuarial loss				492
Unrecognized prior service cost				(10,135)
Net amount recognized in the statement of financial position			$	1,417
Amounts recognized in the statement of financial position consist of:				
Liability	$	(1,462)		(1,417)

The incremental effect for the adoption of SFAS 158 was a decrease in accrued postretirement benefit obligation of $462 with a corresponding increase in net assets. The accumulated charge to unrestricted net assets consists of amounts that have not yet been recognized in net periodic benefit cost as follows: unrecognized actuarial loss of $539 and unrecognized prior service costs of $77. These amounts will be subsequently recognized in future years as components of net periodic pension cost.

(Continued)

(In thousands of dollars)

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

	2008	2007
Service cost	$ 99	$ 285
Interest cost	186	371
Amortization of prior service cost	240	811
Net periodic postretirement benefit cost	$ 525	$ 1,467

Actuarial Assumptions

The weighted average assumptions used in the accounting for the postretirement plan for the year ended May 31, 2008 are shown below:

	2008	2007
Discount rate (expense)	6.00%	5.75%
Discount rate (obligation)	6.25	8.0
Health care cost trend rates:		
Next two fiscal years	11.0-12.0	11.0-12.0
Next seven fiscal years	5.0-10.0	5.0-10.0
Thereafter	5.00	5.00

Assumed health care cost trend rates have a significant effect on the amounts reported for health care plans. A one-percentage point change in assumed health care cost trend rates would have the following effects for the fiscal year ended May 31, 2008:

Effect on total service cost and interest cost:		
One percentage point increase	$ 321	155
One-percentage point decrease	(253)	(120)
Effect on year-end postretirement benefit obligation:		
One-percentage point increase	184	2,109
One percentage point decrease	(158)	(1,689)

(In thousands of dollars)

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		
2009	$	29
2010		41
2011		53
2012		66
2013		85
2014-2018		586

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.

(9) Employee Benefit Plans

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, 2008 and 2007 were $4,960 and $4,818 by the University and $402 and $404 by IITRI, respectively.

Health Care Benefit Plans

The University maintains a health care 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 health care 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 the Aetna Life Insurance Company. Under this Plan, premium contributions are shared by both IITRI and plan participants.

(In thousands of dollars)

(10) Functional Classification of Expenses

Expenses are reported in the statements of activities by natural business category. The University's primary program services are instruction and research. Expenses reported as academic support, student services, institutional support, and auxiliary enterprises are incurred in support of these primary program services.

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

		2008	2007
Instruction	$	80,311	72,428
Research and other grant activities		67,615	57,668
Academic support		27,562	26,758
Student services		16,056	15,044
Institutional support		40,367	36,139
Auxiliary enterprises		13,136	12,025
Total	$	245,047	220,062

(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:

		2008	2007
Net investment in land, buildings, and equipment	$	74,957	76,046
Funds designated by the board of trustees for endowment		73,533	20,201
Undesignated		35,742	150,275
Total	$	184,232	246,522

Included in the net investment in land, buildings, and equipment amount above are $5,423 and $5,731 of IITRI net assets at May 31, 2008 and 2007, respectively.

(In thousands of dollars)

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

		2008	2007
Net investment in land, buildings, and equipment	$	5,885	6,743
Scholarships		2,351	1,851
Instruction and academic departments		5,901	6,328
Library		427	518
General operations		8,137	9,492
Split-interest annuity agreements		1,065	1,073
Total	$	23,766	26,005

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

		2008	2007
Endowment investments	$	125,092	117,763
Endowments restricted for plant		9,898	9,898
Donor-restricted revolving loans funds		7,000	6,665
Split-interest annuity agreements		2,258	2,029
Beneficial interest in perpetual trusts		21,836	22,333
Total	$	166,084	158,688

The amount of outstanding loans from quasi-endowments to unrestricted funds is $5,798 and $6,900 at May 31, 2008 and 2007, respectively.

(12) 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, 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. Under this agreement, the University will receive annual lease payments of $5 over the term of the lease.

(Continued)

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 financial statements. IIT State Street, NFP, has borrowed $28,800 from IEFA to construct the dorms and $1,000 from the University for a supplemental reserve fund. The University has no obligation for the corporation's liabilities or debts. However, the University has provided $1,000 loan to State Street to establish the supplemental reserve fund, which was subsequently used to fund construction costs of the housing complex.

In August 2003, the University entered into a five year operating lease with IIT State Street, NFP. If there are vacancies in the IIT State Street housing complex, the lease obligates the University to lease unoccupied beds from IIT State Street to the extent necessary to permit IIT State Street to pay its annual debt service.

In January 2006, the University entered into a fifty-five year ground lease agreement with Townsend Chicago, LLC. The ground lease agreement requires Townsend Chicago, LLC to pay the University an initial rent payment of $1.9 million for the first 10 years and $11 million through 2031. 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 eighteen years. The University is required to pay $769, $788, $808, $828, $849 respectively over each of the next five years and $10,949 in years thereafter.

(13) 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.

KPMG LLP
303 East Wacker Drive
Chicago, IL 60601-5212

Independent Auditors' Report on Supplemental Information

The Board of Trustees
Illinois Institute of Technology:

We have audited and reported separately herein on the consolidated financial statements of Illinois Institute of Technology (the University) as of and for the years ended May 31, 2008 and 2007.

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements of the University taken as a whole. The supplementary information included in schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements of the University. Such information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

KPMG LLP

October 2, 2008

Schedule 1

ILLINOIS INSTITUTE OF TECHNOLOGY

Consolidating Statement of Financial Position

May 31, 2008

(In thousands of dollars)

Assets		**University**	**IITRI**	**Eliminations**		**Total**
Cash	$	1,777	412	—		2,189
Bond proceeds held by trustees		4,853	2,127	—		6,980
Investments		279,475	13,983	—		293,458
Notes and accounts receivable:						
Grants and contracts, less allowance of $105		9,382	3,892	—		13,274
Students:						
Tuition, less allowance of $205		7,000	—	—		7,000
Notes, less allowance of $373		10,320	—	—		10,320
Pledges, less allowance of $254		13,015	—	—		13,015
Other		2,596	91	—		2,687
Affiliated organizations, net		1,024		(1,024)	(a)	—
Inventories, prepaid expenses, and deferred charges		2,034	278	—		2,312
Equity interest in IITRI		17,186	—	(17,186)	(b)	—
Physical properties, less accumulated depreciation		248,264	20,126	—		268,390
Beneficial interest in perpetual trusts		21,836	—	—		21,836
Total assets	$	618,762	40,909	(18,210)		641,461
Liabilities and Net Assets						
Liabilities:						
Accounts payable and accrued expenses	$	20,353	1,105	(1,024)	(a)	20,434
Accrued salaries and wages		15,914	988	—		16,902
Deferred revenue		15,257	4,800	—		20,057
Deposits by students and others		2,407	—	—		2,407
Accrued postretirement benefit obligation		1,462	—	—		1,462
Obligation under split-interest agreements		1,099	—	—		1,099
Notes and bonds payable		171,061	16,830	—		187,891
Advances from U.S. Government for student loans		8,094	—	—		8,094
Asset retirement obligation		9,033	—	—		9,033
Total liabilities		244,680	23,723	(1,024)		267,379
Net assets:						
Unrestricted		184,232	17,186	(17,186)	(b)	184,232
Temporarily restricted		23,766	—	—		23,766
Permanently restricted		166,084	—	—		166,084
Total net assets		374,082	17,186	(17,186)		374,082
Total liabilities and net assets	$	618,762	40,909	(18,210)		641,461

(a) Elimination of interentity accounts payable/receivable.

(b) Elimination of equity interest in IITRI.

See accompanying independent auditors’ report on supplemental information.

Schedule 2

ILLINOIS INSTITUTE OF TECHNOLOGY

Consolidating Statement of Activities

Year ended May 31, 2008

(In thousands of dollars)

	Unrestricted				Temporarily restricted –	Permanently restricted –	
	University	IITRI	Interentity eliminations	Total	University	University	Total
Operating revenue:							
Tuition and fees, net of scholarships of $46,365	$ 96,747	—	—	96,747	—	—	96,747
Government grants and contracts	33,150	11,173	—	44,323	—	—	44,323
Private grants and contracts	4,233	15,382	—	19,615	—	—	19,615
Private gifts	6,337	—	—	6,337	9,607	—	15,944
Endowment spending distribution	16,935	—	—	16,935	—	—	16,935
Sales and services of auxiliary enterprises	12,502	—	—	12,502	—	—	12,502
Other sources	14,675	1	(1,089) (a)	13,587	—	—	13,587
Net assets released from restrictions	9,030	—	—	9,030	(9,030)	—	—
Total operating revenue	193,609	26,556	(1,089)	219,076	577	—	219,653
Operating expenses:							
Faculty salaries	46,914	—	—	46,914	—	—	46,914
Administrative salaries	40,382	—	—	40,382	—	—	40,382
Part-time salaries	14,049	—	—	14,049	—	—	14,049
Employee benefits	18,751	—	—	18,751	—	—	18,751
Operations and maintenance	25,859	—	—	25,859	—	—	25,859
Supplies and services	40,253	—	—	40,253	—	—	40,253
Professional fees and advertising	13,545	—	—	13,545	—	—	13,545
IITRI research	—	23,234	(1,089) (a)	22,145	—	—	22,145
Depreciation	12,597	1,488	—	14,085	—	—	14,085
Total operating expenses	212,350	24,722	(1,089)	235,983	—	—	235,983
Increase (decrease) in net assets from operating activities	(18,741)	1,834	—	(16,907)	577	—	(16,330)
Nonoperating revenue and expenses:							
Private gifts	—	—	—	—	—	4,923	4,923
Change in donor restriction	—	—	—	—	(2,800)	2,800	—
Interest on indebtedness	(8,402)	(662)	—	(9,064)	—	—	(9,064)
Net gain (loss) on investments	(43,494)	—	—	(43,494)	11	(569)	(44,052)
Endowment income	6,293	815	—	7,108	—	—	7,108
Net loss on disposal of assets	(28)	—	—	(28)	—	—	(28)
Asset retirement obligation accretion	55	—	—	55	—	—	55
Other	(422)	—	—	(422)	(27)	242	(207)
Equity income from IITRI	1,987	—	(1,987) (b)	—	—	—	—
Increase (decrease) in net assets from nonoperating activities	(44,011)	153	(1,987)	(45,845)	(2,816)	7,396	(41,265)
Increase (decrease) in net assets before effect of adoption of change in accounting principle	(62,752)	1,987	(1,987)	(62,752)	(2,239)	7,396	(57,595)
Effect of adoption of change in accounting principle	462	—	—	462	—	—	462
Increase (decrease) in net assets	(62,290)	1,987	(1,987)	(62,290)	(2,239)	7,396	(57,133)
Net assets at beginning of year	246,522	15,199	(15,199)	246,522	26,005	158,688	431,215
Net assets end of year	$ 184,232	17,186	(17,186)	184,232	23,766	166,084	374,082

(a) Elimination of interentity utility income and expense.

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

See accompanying independent auditors' report on supplemental information.

Schedule 3

ILLINOIS INSTITUTE OF TECHNOLOGY

Consolidating Statement of Cash Flows

Year ended May 31, 2008

(In thousands of dollars)

	University	IITRI	Eliminations		Total
Cash flows from operating activities:					
Increase (decrease) in net assets	$ (57,133)	1,987	(1,987)	(a)	(57,133)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:					
Effect of change in accounting principle	(462)	—	—		(462)
Private gifts restricted for long-term investment	(4,923)	—	—		(4,923)
Depreciation	12,597	1,488	—		14,085
Loss on beneficial interest in perpetual trusts	497	—	—		497
Contribution of fixed assets	(55)				(55)
Net loss on disposal of assets	28	—	—		28
Net loss on investments	26,620	—	—		26,620
Accretion on asset retirement obligation	(55)	—	—		(55)
Changes in assets and liabilities:					
Receivables: tuition, grants, pledges, affiliate and other	4,034	1,966	227	(b)	6,227
Inventories, prepaid expenses, and deferred charges	438	174	—		612
Equity interest in IITRI	(1,987)	—	1,987	(a)	—
Accounts payable and accrued expenses	(88)	(2,237)	(227)	(b)	(2,552)
Accrued salaries and wages	2,821	(67)	—		2,754
Deferred revenue	(1,500)	(2,698)	—		(4,198)
Deposits by students and others	(1,243)	—	—		(1,243)
Accrued postretirement benefit obligation	507	—	—		507
Obligations under split-interest agreements	(75)	—	—		(75)
Asset retirement obligation	(256)	—	—		(256)
Net cash provided by (used in) operating activities	(20,235)	613	—		(19,622)
Cash flows from investing activities:					
Proceeds from sale of investments	246,037	538	—		246,575
Purchase of investments	(221,427)	—	—		(221,427)
Bond proceeds held by trustees	16,772	6	—		16,778
Purchase of physical properties	(34,498)	(1,031)	—		(35,529)
Issuance of notes receivable	(2,500)	—	—		(2,500)
Payments received on notes receivable	1,419	—	—		1,419
Net cash provided by (used in) investing activities	5,803	(487)	—		5,316
Cash flows from financing activities:					
Private gifts restricted for long-term investment	4,923	—	—		4,923
Payments on notes and bonds payable	(150)	(710)	—		(860)
Proceeds from borrowings under line of credit	10,531	—	—		10,531
Net cash provided by (used in) financing activities	15,304	(710)	—		14,594
Increase (decrease) in cash	872	(584)	—		288
Cash at:					
Beginning of year	905	996	—		1,901
End of year	$ 1,777	412	—		2,189
Supplemental disclosure of cash flow information:					
Cash paid for interest	$ 8,075	472	—		8,547

(a) Elimination of change in equity interest in IITRI.

(b) Elimination of change in interentity accounts payable/receivable.

See accompanying independent auditors' report on supplemental information.