ILLINOIS INSTITUTE OF TECHNOLOGY

OMB Circular A-133 Audit Report

Year ended May 31, 2008

(With Independent Auditors' Reports Thereon)

ILLINOIS INSTITUTE OF TECHNOLOGY

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KPMG
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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated 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 their net assets and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2008 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States*, *Local Governments, and Non-Profit Organizations*, and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit 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

Chicago, Illinois
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.

(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.

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.

ILLINOIS INSTITUTE OF TECHNOLOGY

Schedule of Expenditures of Federal Awards

Year ended May 31, 2008

Program title	Award number	CFDA number	Federal expenditures
Major Programs:			
Research and Development Cluster – Direct awards:			
Department of Agriculture:			
Cochran Fellowship Program – International Training – Foreign Participant		10.962	$ 7,757
Department of Defense:			
Procurement Technical Assistance For Business Firms		12.002	17
Basic and Applied Scientific Research		12.300	622,018
Basic Scientific Research		12.431	99,586
Air Force Defense Research Sciences Program		12.800	53,180
			774,801
Department of Justice:			
Law Enforcement Assistance – FBI Field Police Training		16.302	236,715
Department of Transportation:			
Highway Research and Development Program		20.200	218,709
Department of Treasury:			
Low-Income Taxpayer Clinics		21.008	100,936
National Science Foundation:			
Engineering Grants		47.041	1,225,510
Mathematical and Physical Sciences		47.049	551,508
Geosciences		47.050	33,974
Computer and Information Science and Engineering		47.070	896,267
Biological Sciences		47.074	175,609
Social, Behavioral, and Economic Sciences		47.075	8,493
Education and Human Resources		47.076	72,488
			2,963,849
Small Business Administration:			
Internet-Based Technical Assistance		59.005	244,254
Environmental Protection Agency:			
P3 Award: National Student Design Competition for Sustainability		66.516	24,199
Environmental Information Exchange Network Grant Program and Surveys – Studies Investigation and Special Purpose Grants	X3-83220401-0	66.xxx	68,135
			92,334
Department of Energy:			
Department of Energy Programs		81.xxx	210,048
Office of Science Financial Assistance Program		81.049	389,818
			599,866
Department of Health and Human Resources:			
Food and Drug Administration – Research		93.103	6,072,165
Alcohol Research Programs		93.273	393,992
Discovery and Applied Research for Technological Innovations to Improve Human Health		93.286	681,255
National Center for Research Resources		93.389	1,289,691
Cancer Treatment Research		93.395	702,718
Cancer Research Manpower		93.398	74,651
Heart and Vascular Diseases Research		93.837	216,562
Lung Diseases Research		93.838	9,278
Arthritis, Musculoskeletal and Skin Diseases Research		93.846	122,863
Kidney Diseases, Urology and Hematology Research		93.849	21,775
			9,584,950
National Aeronautics and Space Administration:			
Aerospace Education Services Program		43.001	52,991
Department of Homeland Security:			
Challenge Grant		97.xxx	5,000
Research and Development Cluster – Direct awards			14,882,162

ILLINOIS INSTITUTE OF TECHNOLOGY

Schedule of Expenditures of Federal Awards

Year ended May 31, 2008

Program title	Award number	CFDA number	Federal expenditures
Research and Development Cluster – Indirect awards:			
Department of Agriculture:			
Integrated Programs – passed through:			
University of Georgia		10.303	$ 71,612
International Agricultural Research Program – passed through:			
US-EGYPT JOINT SCI & TECH		10.961	8,927
			80,539
Department of Education:			
Fund for the Improvement of Postsecondary Education – passed through:			
Biotechnology Institute		84.116	39,712
Department of Defense:			
Basic and Applied Scientific Research – passed through:			
Lockheed Martin		12.300	50,325
Bit Systems, Inc.		12.300	114,233
			164,558
Basic Applied and Advanced Research in Science and Engineering – passed through:			
California Institute of Technology		12.630	77,578
Mathematical Sciences Program – passed through:			
National Security Agency		12.901	12,689
Research and Technology Development – passed through:			
ONRRO Chicago		12.910	3,423
Department of Defense Contracts – passed through:			
Wyle Labs		12.xxx	27,997
Public Safety Partnership and Community Policing Grants – passed through:			
Iowa State University		16.710	451
Department of Transportation:			
Aviation Research Grants – passed through:			
Stanford University		20.108	55,591
Department of Transportation – passed through:			
University of Wisconsin	DTRS99-G-0005	20.xxx	97,265
National Aeronautics and Space Administration Contracts – passed through:			
ARSC – Aerospace Corporation	NNC04CB08C	43.xxx	(26)
Aerospace Education Services Program	2005-3386-01	43.001	146,678
			146,652
Computer and Information Science and Engineering – passed through:			
Florida International University		47.070	75,914
University of Illinois Springfield		47.070	5,256
			81,170
National Science Foundation Contracts – passed through:			
Harvard University	SES-0531146	47.xxx	69,620
Chicago State University		47.076	28,326
Western Michigan University		47.076	48,282
X-Ray Optical Systems		47.xxx	15,141
			161,369
Environmental Protection Agency:			
Great Lakes Program – passed through:			
Indiana University		66.469	14,363
Department of Veteran Affairs – passed through			
Hines VA Hospital	M399004	64.xxx	47,101
Office of Scientific and Technical Information – passed through			
Argonne National Laboratory		81.064	153,984

ILLINOIS INSTITUTE OF TECHNOLOGY

Schedule of Expenditures of Federal Awards

Year ended May 31, 2008

Program title	Award number	CFDA number	Federal expenditures
Department of Energy Contracts – passed through:			
Battelle		81.xxx	$ (34,805)
Brookhaven National Lab	103720	81.xxx	99,197
Argonne National Laboratory		81.xxx	511,070
Fermilab		81.xxx	66,520
University of California – Berkeley	SC6813695	81.xxx	81,345
University of Illinois – Chicago		81.xxx	17,606
Los Alamos National Lab		81.xxx	70,397
Muons Inc.	DE-FG02-06ER86281	81.xxx	30,362
National Renewable Energy Lab		81.xxx	57,970
			899,662
Department of Energy:			
Office of Science Financial Assistance Program – passed through:			
Argonne National Laboratory		81.049	365,876
Fermilab		81.049	61,512
University of Missouri – Columbia	C00000975-01	81.049	1
Aspen Systems		81.049	245,501
			672,890
Oral Diseases and Disorders Research – passed through:			
University of Illinois at Chicago	2R01DE007989-09	93.121	35,882
Mental Health Research Grants – passed through:			
Children’s Memorial Hospital	2003-230V-IIT	93.242	5,928
Discovery and Applied Research for Technological Innovations to Improve Human Health – passed through	0600 370 ZC68 815	93.286	(80,671)
National Center for Research Resources – passed through:			
University of Florence		93.389	100
Cell Biology and Biophysics Research – passed through:			
University of Maryland Biotechnology Institute		93.821	70,824
Heart and Vascular Diseases Research – passed through:			
University of Illinois at Chicago		93.837	63,831
University of Wisconsin		93.837	48,238
			112,069
Arthritis, Musculoskeletal and Skin Diseases Research – passed through:			
Duke University		93.846	(10,500)
Rush University Medical Center		93.846	236,426
			225,926
Kidney Diseases, Urology and Hematology Research – passed through:			
Loyola University		93.849	1,121
Extramural Research Programs in the Neurosciences and Neurological Disorders – passed through:			
Argonne National Laboratory		93.853	97,360
Allergy Immunology and Transplantation Research – passed through:			
Stanford University		93.855	2,993
Pharmacology Physiology and Biological Chemistry – passed through:			
Stanford University		93.859	19,218
Vision Research – passed through:			
University of Illinois at Urbana – Champaign		93.867	9,654
Department of Health and Human Services Contracts – passed through:			
Duke University	R37 AR014317-35	93.xxx	22,500
Northwestern University		93.xxx	24,496
Rush University Medical Center		93.xxx	19,888
University of Chicago	R01GM61101	93.xxx	128,110
University of Georgia	R166565	93.xxx	13,444
			208,438

(Continued)

ILLINOIS INSTITUTE OF TECHNOLOGY

Schedule of Expenditures of Federal Awards

Year ended May 31, 2008

Program title	Award number	CFDA number		Federal expenditures
Department of Homeland Security – passed through:				
University of Minnesota	X9106033101	97.061	$	142,176
University of Minnesota	R9106000114	97.xxx		85,179
				227,355
US Agency for International Development:				
US Agency for International Development Contract – passed through:				
Association for Liaison Office for University Cooperation in Development	A-00-97-59-0	98.xxx		198,295
Research and Development Cluster – Indirect awards				3,871,486
Total Research and Development Cluster				18,753,648
Student Financial Aid Cluster:				
Department of Education:				
Federal Supplemental Educational Opportunity Grants		84.007		368,921
Federal Family Education Loans		84.032		44,977,673
Federal Work-Study Program		84.033		1,001,277
Federal Perkins Loan Program		84.038		1,590,064
Federal Pell Grant Program		84.063		1,632,436
Academic Competitiveness Grants		84.375		81,579
National Science and Mathematics Access to Retain Talent (SMART) Grants		84.376		168,000
Total Student Financial Aid Cluster				49,819,950
Total Major Programs				68,573,598
Nonmajor Programs:				
Direct awards:				
Department of Agriculture:				
Grants for Agricultural Research – Competitive Research Grants		10.206		278,240
Department of Education:				
Rehabilitation Long-Term Training		84.129		426,857
Byrd Honors Scholarships		84.185		16,592
Other – Direct Awards				721,689
Indirect Awards:				
Department of Education – passed through:		84.366		
Illinois State Board of Education				126,063
Other – Indirect awards				126,063
Total Nonmajor Programs				847,752
Total Federal Awards			$	69,421,350

See accompanying independent auditors' reports and notes to schedule of expenditures of federal awards.

(1) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) summarizes the federal awards received by the Illinois Institute of Technology (the University) under programs of the federal government for the fiscal year ended May 31, 2008. The Schedule excludes expenditures of federal awards of IIT Research Institute, a subsidiary of the University. Expenditures of federal awards for IIT Research Institute will be separately audited in accordance with Office of Management and Budget (OMB) Circular A-133, *Audits of Institutions of States, Local Governments, and Non-Profit Organizations.*

For purposes of the Schedule, federal awards include all grants, contracts, and similar agreements entered into directly between the University and agencies and departments of the federal government and all subawards to the University by nonfederal organizations pursuant to federal grants, contracts, and similar agreements. The awards are classified into major program and nonmajor program categories in accordance with the provisions of OMB Circular A-133. Such categories are as follows:

Major Programs

Research and Development Cluster – Includes awards for research and development activities at the University sponsored by various agencies of the federal government.

Student Financial Assistance Cluster – Includes certain awards to provide financial assistance to students, primarily under the Federal Work Study (FWS), Federal Pell Grant (Pell), and Federal Supplemental Educational Opportunity Grant (FSEOG) programs of the U.S. Department of Education. Also, the University receives awards to make loans to eligible students under the Federal Perkins Loan Program, and federally guaranteed loans are issued to students by the University under the Federal Family Education Loan Program (FFEL).

Nonmajor Programs

Other Federal Awards – Includes awards for program activities at the University sponsored by various agencies of the federal government.

Total expenditures per the Schedule do not directly agree to the revenue line items on the University’s May 31, 2008 consolidated statement of activities. The federal expenditures are classified in the accompanying consolidated statement of activities as government grants and contracts revenue, totaling approximately $44,323,000. The remaining government grants and contracts consist of approximately $11,353,936 of awards received from states and other sources, with the balance of approximately $11,173,000 related to IIT Research Institute, a consolidated separate legal entity.

(b) Expenditure and Revenue Recognition

Expenditures are recognized as incurred and related revenue is recognized up to award amounts for financial statement and program reporting. Award reporting periods do not necessarily coincide with the fiscal reporting period of the University. The existence of certain credit balances on the Schedule is primarily due to the reclassification of expenditures incurred and related revenue recorded in the University's prior fiscal reporting period.

(c) Subrecipients

Certain funds are passed through to subrecipient organizations by the University. Expenditures reimbursed by the University are presented in the Schedule. See note 4 for a summary of payments made to subrecipients during the year ended May 31, 2008.

(d) Pass-Through Funds

The University is the subrecipient of federal funds from nonfederal organizations, which are reported on the Schedule as pass-through funds.

(2) Indirect Costs

The University has four-year predetermined fixed indirect cost rates, effective June 1, 2003 through May 31, 2007, which have been negotiated with its cognizant agency, the U.S. Department of Health and Human Services. The predetermined fixed rates were based on the University's financial information for fiscal year 2003. The base rates for on – and off – campus research were 50% and 24% of modified total direct costs, respectively. Approximately $3,700,000 of indirect costs were reimbursed to the University for the year ended May 31, 2008.

(3) Federal Student Loan Programs

Loans made by the University to eligible students under federal student loan programs and federally guaranteed loans issued to students of the University by financial institutions during the fiscal year ended May 31, 2008, are summarized as follows:

Direct loan programs – Perkins	$	1,590,064
Guaranteed loan programs – Stafford and other		44,977,673
Total federal student loan programs	$	46,567,737

The Perkins program is administered directly by the University and balances and transactions relating to this program are included in the University's consolidated financial statements. The balance of loans outstanding under the Perkins program was $7,576,224 at May 31, 2008. The University received an administrative cost allowance of $154,084 under the Perkins program during the fiscal year ended May 31, 2008.

The University is responsible only for the performance of certain administrative duties with respect to the FFEL and, accordingly, these loans are not included in its financial statements, and it is not practical to determine the balance of loans outstanding to students and former students of the University under these programs at May 31, 2008.

(4) Summary of Subrecipient Payments

Expenditures made to subrecipients under federal awards for the year ended May 31, 2008, were as follows:

Research and Development Cluster:		
Department of Defense	$	18,333
Department of Justice		94,048
National Science Foundation		300,983
Environmental Protection Agency		8,982
Department of Transportation		13,424
Department of Health and Human Services		549,372
Total	$	985,142

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

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Trustees
Illinois Institute of Technology:

We have audited the consolidated financial statements of Illinois Institute of Technology as of and for the year ended May 31, 2008, and have issued our report thereon dated October 2, 2008. Our report was modified to include an emphasis paragraph stating that the University adopted the provisions of Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, effective May 31, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

KPMG

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to University management in a separate letter dated October 2, 2008.

This report is intended solely for the information and use of the Board of Trustees and management of the University, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

Chicago, Illinois
October 2, 2008

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

Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

The Board of Trustees
Illinois Institute of Technology:

Compliance

We have audited the compliance of Illinois Institute of Technology (the University) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* (Compliance Supplement) that are applicable to each of its major federal programs for the year ended May 31, 2008, except those requirements discussed in the third and fourth paragraphs of this report. The University's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

The University's consolidated financial statements include the operations of IIT Research Institute, which received $11,173,000 in federal awards that are not included in the University's schedule of expenditures of federal awards for the year ended May 31, 2008. Our audit, described below, did not include the operations of IIT Research Institute because their federal awards are audited separately.

We did not audit the University's compliance with the requirements governing the billing, collection, and due diligence functions in accordance with the requirements of the Student Financial Assistance Cluster: Federal Perkins Loan Program as described in the Compliance Supplement. Those requirements govern functions performed by Affiliated Computer Services, Inc. Education Services (ACS). Since we did not apply auditing procedures to satisfy ourselves as to compliance with those requirements, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on compliance with those requirements. ACS' compliance with the requirements governing the functions that it performs for the University for the year ended June 30, 2008 was examined by other accountants in accordance with the U.S. Department of Education's Audit Guide, *Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers*. Our report does not include the results of the other accountants' examination of ACS' compliance with such requirements.

We did not audit the University's compliance with the requirements governing Reporting and Special Tests and Provisions 1 through 14 in accordance with the requirements of the Federal Family Education Loan Program as described in Section 84.032L of the Compliance Supplement (school as lender). Those requirements govern functions performed by Illinois Designated Account Purchase Program (IDAPP). Since we did not apply auditing procedures to satisfy ourselves as to compliance with those requirements, the scope of work was not sufficient to enable us to express, and we do not express, an opinion on compliance with those requirements. IDAPP's compliance with the requirements governing the functions that it performs for the University was examined by other accountants in accordance with the

U.S. Department of Education's Audit Guide, *Compliance Audits (Attestation Engagements) for Lenders and Lender Servicers Participating in the Federal Family Education Loan Program*, for the year ended June 30, 2008. Our report does not include the results of the other accountants' examination of IDAPP's compliance with such requirements.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements described within the Compliance Supplement that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the University's compliance with those requirements.

In our opinion, the University complied, in all material respects, with the requirements referred to in the first paragraph above that are applicable to each of its major federal programs for the year ended May 31, 2008. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as findings 08-01 to 08-06.

Internal Control over Compliance

The management of the University is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the University's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

Requirements governing billing, collection, and due diligence functions in the Student Financial Assistance Cluster: Federal Perkins Loan Program as described in the Compliance Supplement are performed by ACS. Internal control over compliance relating to such functions for the year ended June 30, 2008 was reported on by other accountants in accordance with the U.S. Department of Education's Audit Guide, *Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers*. Our report does not include the results of the other accountants' testing of ACS' internal control over compliance related to such functions.

Requirements governing Reporting and Special Tests and Provisions 1 through 14 in the Federal Family Education Loan Program as described in Section 84.032L of the Compliance Supplement (school as lender) are performed by IDAPP. Internal control over compliance related to such functions was reported on by other accountants in accordance with the U.S. Department of Education's Audit Guide, *Compliance Audits (Attestation Engagements) for Lenders and Lender Servicers Participating in the Federal Family Education Loan Program*, for the year ended June 30, 2008. Therefore, the scope of our work did not extend to internal control maintained at IDAPP. Our report does not include the results of the other accountants' examination of IDAPP's internal control over compliance related to such functions.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the University's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as findings 08-01 to 08-06 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider the deficiencies described in the accompanying schedule of findings and questioned cost to be material weaknesses.

The University's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the University's responses, and accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Trustees and management of the University, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone than these specified parties.

KPMG LLP

Chicago, Illinois
March 30, 2009

(1) Summary of Auditors' Results:

(a) The type of opinion issued on the consolidated financial statements: **Unqualified opinion**

(b) Significant deficiencies in internal control disclosed by the audit of the consolidated financial statements: **None reported**

Material weaknesses: **No**

(c) Noncompliance which is material to the consolidated financial statements: **No**

(d) Significant deficiencies in internal control over major programs: **Yes**

Material weaknesses: **No**

(e) The type of report issued on compliance for major programs: **Unqualified opinion**

(f) Any audit findings which are required to be reported under Section .510(a) of OMB Circular A-133: **Yes**

(g) Major programs:

Student Financial Assistance Cluster (including the Federal Family Education Loan Lender Program) – various CFDA numbers

Research & Development Cluster – various CFDA numbers

(h) Dollar threshold used to distinguish between Type A and Type B programs: **$685,608**

(i) Auditee qualified as a low-risk auditee under Section .530 of OMB Circular A-133: **Yes**

(2) Findings relating to the financial statements reported in accordance with *Government Auditing Standards*: None

Findings and questioned costs relating to federal awards:

Federal Agency: U.S. Department of Education (USDE)

Program Name: Student Financial Assistance Cluster – Federal Family Education Loan Program (FFEL)

CFDA # and Program Expenditures: 84.032 ($44,977,673)

Award Numbers: None

Questioned Costs: None

Finding 08-01 Special Tests and Provisions – Student Status Changes

Requirement

In accordance with 34 CFR Section 682.10, the University is required to notify National Student Loan Data System (NSLDS) of changes in a student's status within 30 days of discovering the change, unless the University expects to complete its next Roster File within 60 days.

Additionally, OMB Circular A-110, *Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations* requires nonfederal entities receiving federal awards establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Effective internal controls should include establishing a reporting schedule to ensure student status change submissions comply with federally prescribed timeframes.

Condition Found

During our testwork over 50 FFEL borrowers that graduated, withdrew, or dropped out during the fiscal year, we noted that one (1) student status change was not submitted to the NSLDS within the required timeframe. The delay in reporting this instance was 65 days.

Effect

Failure to accurately report student status changes to NSLDS in a timely manner may result in FFEL borrowers not entering repayment status at the appropriate time.

Recommendation

We recommend the University revise its schedule for reporting student status changes to ensure status changes are submitted within the required timeframes.

Views of Responsible Officials

We concur with the recommendation to revise the schedule for reporting student status changes. The Registrar's Office has doubled the frequency of reporting data to the National Student Clearinghouse (NSC) and the National Student Loan Data System (NSLDS). Specifically, enrollment and graduation reports are transmitted on the last business day of every month. Additionally, metrics are gathered using delivered audit reports from Banner, to verify and correct enrollment data before it is sent to the Clearinghouse.

(Continued)

Federal Agency: U.S. Department of Education (USDE)

Program Name: Student Financial Assistance Cluster – Federal Family Education Loan Program (FFEL)

CFDA # and Program Expenditures: 84.032 ($44,977,673)

Award Numbers: None

Questioned Costs: None

Finding 08-02 Special Tests and Provisions – Student Disbursements

Requirement

In accordance with 34 CFR Section 668.167, the University is required to disburse student loan funds within three business days following the date the institution receives the funds from the lender.

Additionally, OMB Circular A-110 requires nonfederal entities receiving federal awards establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Effective internal controls should include supervisory review procedures designed to ensure that lender funds are disbursed within federally prescribed timeframes.

Condition Found

During our testwork over 60 student award disbursements during the fiscal year, we noted that the disbursement of FFEL loan proceeds of $1,940 made to one student occurred eleven business days after the University received the loan proceeds from the lender which was eight days past the timeframe required by federal regulations.

Upon further investigation of the entire population of FFEL disbursements, the University determined that additional FFEL loan proceeds totaling $182,083 were not disbursed to student accounts within three business days of receipt from the lender during fiscal year 2008.

Effect

Failure to disburse federal funds in a timely manner results in the University being required to remit the interest earned on the federal funds to the federal awarding agency and the potential to be ineligible to participate in the Title IV program.

Recommendation

We recommend the University review its student disbursement process to ensure that student loan funds are disbursed in a timely manner.

(Continued)

Views of Responsible Officials

We concur with the recommendation to review the student disbursement process to ensure that student loan funds are disbursed in a timely manner. Reorganization of the Financial Aid Office places the responsibility of ensuring that loans are applied to student accounts within 3 days of disbursement on the Loan and Grants Administrator of the Financial Aid Office. He or she reviews disbursed loans daily and returns/reissues any funds that have not been applied to student accounts. The Loan and Grants Administrator of the Financial Aid Office reports any issues to the Assistant Director of Financial Aid. The office is in the process of automating this process.

Federal Agency: U.S. Department of Education (USDE)

Program Name: Student Financial Assistance Cluster – Federal Pell Grant Program (Pell)

CFDA # and Program Expenditures: 84.063 ($1,632,436)

Award Numbers: P063P071349

Questioned Costs: None

Finding 08-03 Reporting – Pell Payment Data

Requirement

In accordance with 34 CFR Section 690.83, the University is required to submit to the U.S. Department of Education (USDE), using the Common Origination and Disbursements (COD) System, all students receiving Pell awards and their respective payment information.

Additionally, OMB Circular A-110 requires nonfederal entities receiving federal awards establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Effective internal controls should include establishing a supervisor review to ensure the information submitted to the COD system is accurate and is updated within the required timeframes as federally prescribed.

Condition Found

During our testwork over 59 Pell transactions submitted through the USDE's COD system during the fiscal year, we noted the following:

- The disbursement date reported for 21 disbursements reported in USDE's COD System were incorrect. Errors in disbursement dates reported ranged from 5 to 96 days prior/subsequent to the actual disbursement date.
- The disbursement amounts reported for three disbursements reported in USDE's COD System were incorrect. Errors in amounts reported ranged from $539 to $2,155.
- The disbursement amount reported for one disbursement, included in the previous bullet, was never reported in the USDE's COD System. An error in the amount of $2,155 was incorrectly reported as one disbursement, rather than two separate disbursements, in the USDE COD System.
- Eighteen disbursements were not reported in USDE's COD System within the required 30 day timeframe. Delays in reporting these disbursements ranged from 15 to 171 days after the required timeframes.

Effect

Failure to report accurate Pell payment data in a timely manner may result in the institution becoming ineligible to participate in the Title IV program.

Recommendation

We recommend the University review and update its process to ensure that the information reported in the COD System is reported in a timely manner and is accurate.

Views of Responsible Officials

We concur with the recommendation to review and update the process to ensure that information is reported to COD in a timely and accurate manner. With the implementation of Banner, information sent to COD will be created in Banner. Since reporting, awarding, and disbursing of Pell is integrated in one system there will be no errors in the disbursement date, amount, or number. In the previous year, intermediate software requiring manual data entry was necessary.

Federal Agency: U.S. Department of Education (USDE)

Program Name: Student Financial Assistance Cluster:
Federal Supplemental Educational Opportunity Grants
Federal Family Education Loan Program
Federal Work Study Program
Federal Pell Grant Program
Academic Competitiveness Grant Program
National Science and Mathematics Access to Retain Talent (SMART) Grants

CFDA # and Program Expenditures: 84.007 ($368,921)
84.032 ($44,977,673)
84.033 ($1,001,277)
84.038 ($1,590,064)
84.063 ($1,632,436)
84.375 ($81,579)
84.376 ($168,000)

Award Numbers: None

Questioned Costs: None

Finding 08-04 Special Tests and Provisions – Institutional Eligibility

Requirement

In accordance with 34 CFR Section 600.21, the University is required to report to the U.S. Secretary of Education no later than 10 days after the change of a person who has the ability to substantially affect the actions of an institution, if that person did not previously have this ability.

Additionally, OMB Circular A-110 requires nonfederal entities receiving federal awards establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Effective internal controls should include establishing and implementing a specific policy and procedure regarding the updating of information in the Eligibility and Certification Approval Report (ECAR) to ensure compliance with federal laws and regulations.

Condition Found

During our audit, we noted the University had not reported the change in the University's president to the USDE within the timeframes required by federal regulations. Specifically, we noted the new President assumed his position on July 30, 2007; however, the change was not reported to USDE until September 24, 2007, with the submission of the Fiscal Operations Report and Application to Participate (FISAP).

Effect

Failure to report changes in key personnel within the institution in a timely manner may result in the institution becoming ineligible to participate in the Title IV program.

Recommendation

We recommend the University review its process for the reporting changes in personnel to the USDE and make any revisions necessary to ensure changes in key personnel are reported within required timeframes.

Views of Responsible Officials

We concur with the recommendation for the University to review the process for reporting changes in personnel to the USDE. The Associate Vice President of Undergraduate Enrollment and Financial Aid and the Assistant Vice President of Business and Finance of Downtown campus will inform their Financial Aid staffs when a change occurs in key personnel so that their personnel can update the Eligibility and Certification Approval Report (ECAR) system provided by the USDE for these purposes.

Federal Agency: U.S. Department of Health and Human Services – Food and Drug Administration

Program Name: Research and Development Cluster

CFDA # and Program Expenditures: Various ($18,753,648)

Award Numbers: Various

Questioned Costs: None

Finding 08-05 Equipment and Real Property Management

Requirement

In accordance with OMB Circular A-133, equipment records shall be maintained to include a physical inventory of equipment occurring at least once every two years and reconciled to equipment records, and an appropriate control system shall be used to safeguard equipment.

OMB Circular A-110 requires the University to request disposition instructions from the federal awarding agency when the University no longer needs equipment acquired with federal funds. Additionally, OMB Circular A-110 requires the University to reimburse the federal awarding agency for their share of the sales proceeds.

Condition Found

During the physical observation of thirty pieces of equipment purchased with research and development funds, we noted one asset selected for testwork had been disposed prior to the performance of our procedures. The equipment was disposed of in July 2008 (subsequent to the end of the fiscal year); however, as of the date of our testwork, a disposition form had not been completed or authorized. As a result, property records had not been updated for the disposal until our observation was performed in September 2008 (approximately two months after the disposal occurred).

Effect

Failure to maintain accurate equipment records may result in the University incorrectly determining assets purchased and disposed of with Federal funds. Failure to obtain federal approval for equipment disposals and to remit the federal share of sales proceeds results in noncompliance with the regulations applicable to the University's federal program.

Recommendation

We recommend the University review its process for ensuring that equipment records are accurately maintained and updated within a timely manner.

(Continued)

Views of Responsible Officials

Management agrees with the finding and the below measures have been implemented to insure swift disposal of inoperative equipment. IIT Asset Tags are affixed to the item as soon as the tag is received by NCFST. IIT Asset Disposal Forms will be submitted as soon as possible once it is known that an asset has been disposed. IIT Fixed Asset Listing for Moffett Campus will be reviewed during February each year so that it can be updated before May 31. IIT Policy on Fixed Assets will be reviewed annually by the NCFST management.

Federal Agency: U.S. Department of Health and Human Services – Food and Drug Administration

Program Name: Research and Development Cluster

CFDA # and Program Expenditures: Various ($18,753,648)

Award Numbers: 5U01FD000431-20/5U01FD000431-19 REVISED

Questioned Costs: None

Finding 08-06 Procurement and Suspension and Debarment

Requirement

OMB Circular A-110 requires recipients of federal funding to only procure goods and services from or subcontract with responsible organizations which possess the ability to perform successfully under the terms and conditions of the proposed procurement. Contracts with organizations that are suspended and debarred are not allowed.

Condition Found

During our testwork over 30 nonpayroll expenditures (totaling $522,390), we noted the University had not obtained certifications from its vendors that they were not suspended or debarred or independently verified whether vendors were included on the excluded parties listing published by the federal government prior to contracting with these vendors. Of the 30 expenditures tested, only 3 expenditures were applicable, totaling $272,150, were with vendors with contracts greater than $25,000 for which procedures were required to be performed. Upon review of the excluded parties listing, we noted none of the vendors sampled were suspended or debarred as of the date of our testwork.

Effect

Failure to perform suspension and debarment check may result in the University entering into a contract agreement with suspended or debarred vendor. Furthermore, the University would not be eligible to be reimbursed with federal funds expended to the grant award.

Recommendation

We recommend the University review its process for performing a suspension and debarment check.

Views of Responsible Officials

Purchases are made on a decentralized basis following policies and procedures published by the Purchasing Department and in effect at the time of contracting.

While there was a procedure in place for determining suspension and debarment status through use of the Substitute W-9 Form sent to all vendors, it did not incorporate confirmation of vendor response to this form.

(Continued)

New procedures published in November 2008 state with greater clarity the requirement to determine vendor status regarding suspension and debarment by requiring vendor certification of status as part of the solicitation of bids and proposals.

Additionally, a new procedure is being written to address adding new vendors to the IIT database. This procedure will require vendor certification of suspension and debarment status. Addition of a vendor to the IIT database will be dependent on receipt of this certification.