

ILLINOIS INSTITUTE OF TECHNOLOGY

Consolidated Financial Statements and Supplemental Information

May 31, 2009 and 2008

(With Independent Auditors' Report Thereon)

ILLINOIS INSTITUTE OF TECHNOLOGY

Table of Contents

	Page
Independent Auditors' Report	1
Consolidated Financial Statements:	
Statements of Financial Position	2
Statements of Activities	3
Statements of Cash Flows	5
Notes to Consolidated Financial Statements	6
Supplemental Information	
Independent Auditors' Report on Supplemental Information	28
Consolidating Statement of Financial Position – May 31, 2009	29
Consolidating Statement of Activities – Year ended May 31, 2009	30
Consolidating Statement of Cash Flows – Year ended May 31, 2009	31



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, 2009 and 2008, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Illinois Institute of Technology as of May 31, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

September 30, 2009

ILLINOIS INSTITUTE OF TECHNOLOGY

Consolidated Statements of Financial Position

May 31, 2009 and 2008

(In thousands of dollars)

Assets	2009	2008
Cash	\$ 2,839	2,189
Bond proceeds held by trustees	2,174	6,980
Investments (note 4)	177,424	293,458
Notes and accounts receivable:		
Grants and contracts, less allowance of \$347 in 2009 and \$105 in 2008	8,945	13,274
Students:		
Tuition, less allowance of \$654 in 2009 and \$205 in 2008	9,882	7,000
Notes, less allowance of \$373 in 2009 and 2008	11,352	10,411
Pledges, less allowance of \$232 in 2009 and \$254 in 2008 (note 5)	14,226	13,015
Other	2,257	2,596
Inventories, prepaid expenses, and deferred charges	2,320	2,312
Physical properties, less accumulated depreciation (note 6)	275,185	268,390
Beneficial interest in perpetual trusts (note 7)	17,213	21,836
Total assets	\$ 523,817	641,461
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 20,095	20,434
Accrued salaries and wages	17,165	16,902
Deferred revenue	15,531	20,057
Deposits by students and others	2,228	2,407
Accrued postretirement benefit obligation (note 9)	1,661	1,462
Obligation under split-interest agreements	1,308	1,099
Notes and bonds payable (note 8)	208,740	187,891
Advances from the U.S. Government for student loans	8,094	8,094
Asset retirement obligation	9,243	9,033
Total liabilities	284,065	267,379
Net assets (note 12):		
Unrestricted	49,504	184,232
Temporarily restricted	18,855	23,766
Permanently restricted	171,393	166,084
Total net assets	239,752	374,082
Total liabilities and net assets	\$ 523,817	641,461

See accompanying notes to consolidated financial statements.

ILLINOIS INSTITUTE OF TECHNOLOGY

Consolidated Statement of Activities

Year ended May 31, 2009

(In thousands of dollars)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Operating revenue:				
Tuition and fees, net of scholarships of \$52,708	\$ 102,456	—	—	102,456
Government grants and contracts	39,464	—	—	39,464
Private grants and contracts	13,218	—	—	13,218
Private gifts	7,353	1,251	—	8,604
Endowment spending distribution (note 13)	15,986	—	—	15,986
Sales and services of auxiliary enterprises	12,060	—	—	12,060
Other sources	16,006	—	—	16,006
Net assets released from restrictions	6,162	(6,162)	—	—
Total operating revenue	212,705	(4,911)	—	207,794
Operating expenses:				
Faculty salaries	49,309	—	—	49,309
Administrative salaries	44,016	—	—	44,016
Part-time salaries	14,751	—	—	14,751
Employee benefits	21,071	—	—	21,071
Operations and maintenance	23,193	—	—	23,193
Supplies and services	33,251	—	—	33,251
Professional fees and advertising	13,196	—	—	13,196
IITRI research	14,497	—	—	14,497
Depreciation	15,127	—	—	15,127
Total operating expenses	228,411	—	—	228,411
Decrease in net assets from operating activities	(15,706)	(4,911)	—	(20,617)
Nonoperating revenue and expenses:				
Private gifts	—	—	9,932	9,932
Interest on indebtedness	(9,447)	—	—	(9,447)
Net loss on investments (note 4)	(96,182)	—	(4,623)	(100,805)
Net loss on impairment of asset	(1,900)	—	—	(1,900)
Endowment spending distribution (note 13)	(15,986)	—	—	(15,986)
Endowment income (note 4)	4,813	—	—	4,813
Net loss on disposal of assets	(180)	—	—	(180)
Asset retirement obligation accretion	(248)	—	—	(248)
Other	108	—	—	108
Increase (decrease) in net assets from nonoperating activities	(119,022)	—	5,309	(113,713)
Increase (decrease) in net assets	(134,728)	(4,911)	5,309	(134,330)
Net assets at beginning of year	184,232	23,766	166,084	374,082
Net assets at end of year	\$ 49,504	18,855	171,393	239,752

See accompanying notes to consolidated financial statements.

ILLINOIS INSTITUTE OF TECHNOLOGY

Consolidated Statement of Activities

Year ended May 31, 2008

(In thousands of dollars)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
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 13)	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	<u>219,076</u>	<u>577</u>	<u>—</u>	<u>219,653</u>
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	<u>235,983</u>	<u>—</u>	<u>—</u>	<u>235,983</u>
Increase (decrease) in net assets from operating activities	<u>(16,907)</u>	<u>577</u>	<u>—</u>	<u>(16,330)</u>
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 4)	(43,494)	11	(569)	(44,052)
Endowment income (note 13)	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	<u>(45,845)</u>	<u>(2,816)</u>	<u>7,396</u>	<u>(41,265)</u>
Increase (decrease) in net assets before effect of adoption of change in accounting principle	<u>(62,752)</u>	<u>(2,239)</u>	<u>7,396</u>	<u>(57,595)</u>
Effect of adoption of change in accounting principle (note 9)	<u>462</u>	<u>—</u>	<u>—</u>	<u>462</u>
Increase (decrease) in net assets	<u>(62,290)</u>	<u>(2,239)</u>	<u>7,396</u>	<u>(57,133)</u>
Net assets at beginning of year	<u>246,522</u>	<u>26,005</u>	<u>158,688</u>	<u>431,215</u>
Net assets at end of year	<u>\$ 184,232</u>	<u>23,766</u>	<u>166,084</u>	<u>374,082</u>

See accompanying notes to consolidated financial statements.

ILLINOIS INSTITUTE OF TECHNOLOGY

Consolidated Statements of Cash Flows

Years ended May 31, 2009 and 2008

(In thousands of dollars)

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Decrease in net assets	\$ (134,330)	(57,133)
Adjustments to reconcile 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	(9,932)	(4,923)
Depreciation	15,127	14,085
Loss on beneficial interest in perpetual trusts	4,623	497
Contribution of fixed assets	—	(55)
Net loss on disposal of assets	180	28
Loss on impairment of asset	1,900	—
Net loss on investments	111,978	26,620
Accretion on asset retirement obligation	248	(55)
Changes in assets and liabilities:		
Receivables: tuition, grants, pledges, affiliate and other	575	6,227
Inventories, prepaid expenses, and deferred charges	(8)	612
Accounts payable and accrued expenses	(339)	(2,552)
Accrued salaries and wages	263	2,754
Deferred revenue	(4,526)	(4,198)
Deposits by students and others	(179)	(1,243)
Accrued postretirement benefit obligation	199	507
Obligations under split-interest agreements	209	(75)
Asset retirement obligation	(38)	(256)
Net cash used in operating activities	<u>(14,050)</u>	<u>(19,622)</u>
Cash flows from investing activities:		
Proceeds from sale of investments	133,505	246,575
Purchase of investments	(129,449)	(221,427)
Bond proceeds held by trustees	4,806	16,778
Purchase of physical properties	(24,002)	(35,529)
Issuance of notes receivable	(2,346)	(2,500)
Payments received on notes receivable	1,405	1,419
Net cash provided by (used in) investing activities	<u>(16,081)</u>	<u>5,316</u>
Cash flows from financing activities:		
Private gifts restricted for long-term investment	9,932	4,923
Payments on notes and bonds payable	(1,151)	(860)
Proceeds from borrowings under line of credit	22,000	10,531
Net cash provided by financing activities	<u>30,781</u>	<u>14,594</u>
Increase in cash	650	288
Cash at:		
Beginning of year	<u>2,189</u>	<u>1,901</u>
End of year	\$ <u><u>2,839</u></u>	\$ <u><u>2,189</u></u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 8,801	8,547

See accompanying notes to consolidated financial statements.

ILLINOIS INSTITUTE OF TECHNOLOGY

Notes to Consolidated Financial Statements

May 31, 2009 and 2008

(In thousands of dollars)

(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 entity headquartered in Bangalore, India. The entity has been created to facilitate IIT's ability to deliver long distance internet-based educational programs to residents of various cities in 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 are members of the IITRI corporation. Four officers of the University serve ex officio as members of the IITRI 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.

ILLINOIS INSTITUTE OF TECHNOLOGY

Notes to Consolidated Financial Statements

May 31, 2009 and 2008

(In thousands of dollars)

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 associated 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.

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

ILLINOIS INSTITUTE OF TECHNOLOGY

Notes to Consolidated Financial Statements

May 31, 2009 and 2008

(In thousands of dollars)

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, 2009 and 2008, these governmental clients accounted for approximately 52% and 42%, respectively, of IITRI's operating revenue of \$16,473 and \$26,555, respectively. In addition, IITRI has one significant industrial customer, which comprised approximately 20% and 28%, respectively, of their contract revenue in 2009 and 2008. Included in IITRI's revenue for 2009 and 2008 and accounts receivable at May 31, 2009 and 2008 are unbilled receivables in the amounts of approximately \$1,916 and \$2,111, 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.

ILLINOIS INSTITUTE OF TECHNOLOGY

Notes to Consolidated Financial Statements

May 31, 2009 and 2008

(In thousands of dollars)

(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 net asset values 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.

(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 3 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.

ILLINOIS INSTITUTE OF TECHNOLOGY

Notes to Consolidated Financial Statements

May 31, 2009 and 2008

(In thousands of dollars)

(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 to the University's interest in certain partnership investments. The unrelated business income liability at May 31, 2009 of \$315 is reported in accounts payable and accrued expenses.

ILLINOIS INSTITUTE OF TECHNOLOGY

Notes to Consolidated Financial Statements

May 31, 2009 and 2008

(In thousands of dollars)

(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

The University adopted the Financial Accounting Standards Board (FASB) issued Statement on Financial Accounting Standard No. 157, *Fair Value Measurements* (SFAS 157) effective June 1, 2008. SFAS 157 defines fair value, establishes a framework for measuring fair value in U.S. generally accepted accounting principles, and expands disclosures about fair value measurements.

The University also adopted the disclosure provisions of FASB Staff Position (FSP) 117-1, *Endowments of Not-For-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), and Enhanced Disclosure for All Endowment Funds* (FSP 117-1) effective June 1, 2008. FSP 117-1 requires additional disclosures about endowments (both donor-restricted funds and board-designated funds) for all organizations, including those that are not yet subject to an enacted version of UPMIFA. UPMIFA legislation was enacted by the State of Illinois effective June 30, 2009. The reclassification of net assets required by FSP 117-1 will be adopted by the University effective June 1, 2009.

(3) Fair Value Measurement

The Statement of Financial Accounting Standard No. 157, *Fair Value Measurements*, defines fair value as the price that could be received for an asset or paid to transfer a liability in the University's principal or most advantageous market of the asset or liability in an orderly transaction between market participants on the measurement date.

SFAS 157 establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

ILLINOIS INSTITUTE OF TECHNOLOGY

Notes to Consolidated Financial Statements

May 31, 2009 and 2008

(In thousands of dollars)

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain private debt and equity instruments and alternative investments.

In many cases, a valuation technique used to measure fair value includes inputs from multiple levels of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy. The University uses the following valuation techniques to measure the investments fair value:

Level 1 consists of financial instruments, such as mutual funds, stocks and money market funds whose value is based on quoted market prices published by a financial institution, exchange fund, exchange-trade instruments and listed equities.

Level 3 consists of investments for which there are no active markets. The University has classified the notes and warrants and the real estate investments as Level 3. The Alion notes and warrants investment is valued using the estimated inputs determined by management. The real estate investment is valued at the net present value of the projected cash flow from the investment. The equity mutual funds and private equity funds are securities whose valuations are based on independent investment managers' inputs and values. Beneficial interests in perpetual trusts are held by various financial institutions. These values are based on the University's proportionate share of the investments. The fair values are based on quoted market prices published by financial institutions.

The University has \$23,172 of investments in alternative investment funds which are reported at fair value. For \$23,172 of those investments, the University has concluded that the net asset value reported by the underlying fund approximates the fair value of the investment. These investments are redeemable with the fund at net asset value under the original terms of the partnership agreements and/or subscription agreements and operations of the underlying funds. However, it is possible that these redemption rights may be restricted or eliminated by the funds in the future in accordance with the underlying fund agreements. Due to the nature of the investments held by the funds, changes in market conditions and the economic environment may significantly impact the net asset value of the funds and, consequently, the fair value of the University's interests in the funds. Furthermore, changes to the liquidity provisions of the funds may significantly impact the fair value of the University's interest in the funds.

Although a secondary market exists for these investments, it is not active and individual transactions are typically not observable. When transactions occur in this limited secondary market, they may occur at discounts to the reported net asset value. Therefore, if the redemption rights in the funds were restricted or eliminated and the University were to sell these investments in the secondary market, it is reasonably possible that a buyer in the secondary market may require a discount to the reported net asset value, and the discount could be significant.

ILLINOIS INSTITUTE OF TECHNOLOGY

Notes to Consolidated Financial Statements

May 31, 2009 and 2008

(In thousands of dollars)

Assets Measured on a Recurring Basis

The following table presents information about the University's financial assets that are measured at the fair value of the recurring basis as of May 31, 2009, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:			
Investments			
Cash and cash equivalents	\$ 27,640	—	—
Stocks	145	—	—
Equity mutual funds	77,920	—	16,520
Bonds (IITRI)	8,834	—	—
Fixed income mutual funds	19,362	—	—
Hedge funds	—	—	—
Private equity funds	—	—	6,652
Alion notes and warrants	—	—	12,003
Real estate	—	—	8,348
	<hr/>	<hr/>	<hr/>
Subtotal before perpetual trusts	133,901	—	43,523
Beneficial interest in perpetual trusts	—	—	17,213
	<hr/>	<hr/>	<hr/>
Total	\$ <u>133,901</u>	<u>—</u>	<u>60,736</u>

ILLINOIS INSTITUTE OF TECHNOLOGY

Notes to Consolidated Financial Statements

May 31, 2009 and 2008

(In thousands of dollars)

The table below presents a reconciliation and income statement classification of gains and losses for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended May 31, 2009:

	<u>Alion notes and warrants</u>	<u>Real estate</u>	<u>Equity mutual funds</u>	<u>Private equity funds</u>	<u>Beneficial interest in perpetual trusts</u>	<u>Total</u>
Beginning balance, June 1, 2008	\$ 52,995	14,412	30,906	8,100	21,836	128,249
Net realized and unrealized losses	(40,992)	(6,064)	(14,386)	(1,448)	(4,623)	(67,513)
Purchases, issuances, and settlements	—	—	—	—	—	—
Transfers in (out) of Level 3	—	—	—	—	—	—
Ending balance, May 31, 2009	\$ <u>12,003</u>	<u>8,348</u>	<u>16,520</u>	<u>6,652</u>	<u>17,213</u>	<u>60,736</u>
The amount of total gains or losses for the period included in net return on investments attributable to the change in unrealized gains or losses relating to assets still held at May 31, 2009	\$ (40,992)	(6,064)	(1,759)	(1,693)	(4,623)	(55,131)

(4) Investments

Investments consist of the following at May 31:

	2009		2008	
	<u>Cost</u>	<u>Fair value</u>	<u>Cost</u>	<u>Fair value</u>
Cash equivalents	\$ 27,636	27,640	9,441	9,459
Real estate	13,803	8,348	13,803	14,412
Stocks	131	145	123	138
Equity mutual funds	133,585	94,440	170,963	167,376
Bonds	8,682	8,834	14,025	13,983
Fixed income mutual funds	21,691	19,362	25,531	24,944
Hedge funds	—	—	841	2,051
Private equity funds	6,450	6,652	6,194	8,100
Alion notes and warrants	32,202	12,003	32,202	52,995
Total investments	\$ <u>244,180</u>	<u>177,424</u>	<u>273,123</u>	<u>293,458</u>

ILLINOIS INSTITUTE OF TECHNOLOGY

Notes to Consolidated Financial Statements

May 31, 2009 and 2008

(In thousands of dollars)

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.

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

	<u>2009</u>	<u>2008</u>
Return on investments:		
Interest and dividends	\$ 4,813	7,108
Net realized gain (loss) on sale of investments	(54,384)	28,177
Net unrealized loss on investments	<u>(46,421)</u>	<u>(54,797)</u>
Net return on investments	<u>\$ (95,992)</u>	<u>(19,512)</u>

The return on investments reflects interest income from investments held by IITRI of \$505 and \$815 for 2009 and 2008, respectively.

(5) Pledges Receivable

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

	<u>2009</u>	<u>2008</u>
Pledges receivable	\$ 17,325	16,064
Allowance for uncollectible pledges	(232)	(254)
Discount to present value future cash flows	<u>(2,867)</u>	<u>(2,795)</u>
Net pledges receivable	<u>\$ 14,226</u>	<u>13,015</u>

The following is a summary showing the expected timing of collection of total gross unconditional pledges receivable outstanding as of May 31, 2009:

<u>Fiscal year(s)</u>	<u>Amount</u>
2010	\$ 6,130
2011 through 2015	8,991
2016 and thereafter	<u>2,204</u>
	<u>\$ 17,325</u>

ILLINOIS INSTITUTE OF TECHNOLOGY

Notes to Consolidated Financial Statements

May 31, 2009 and 2008

(In thousands of dollars)

(6) Physical Properties

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

	<u>2009</u>	<u>2008</u>
Land and land improvements	\$ 30,039	31,939
Building and building improvements	342,587	296,791
Equipment and library collection	90,904	88,972
Construction in progress	9,173	33,534
Total physical properties	472,703	451,236
Less accumulated depreciation	197,518	182,846
Physical properties, net	<u>\$ 275,185</u>	<u>268,390</u>

During 2008, the University completed a 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. The land parcel was purchased for \$7,800. During 2009, the land parcel was valued at \$5,900. In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long Lived Assets*, the University recorded an impairment of the asset for \$1,900 and an expense on the statement of activities in nonoperating revenue and expenses.

(7) 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, 2009 and 2008, the share of these trusts from which the University derives income had a combined fair value of \$17,213 and \$21,836, respectively. These trusts provided unrestricted income of \$459 and \$471 in fiscal 2009 and 2008, respectively.

ILLINOIS INSTITUTE OF TECHNOLOGY

Notes to Consolidated Financial Statements

May 31, 2009 and 2008

(In thousands of dollars)

(8) Notes and Bonds Payable

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

	<u>Interest rate</u>	<u>2009</u>	<u>2008</u>
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
City of Chicago Energy Loan	Interest free	150	300
IITRI – IFA Series 2004, payable in varying installments through 2034	Variable	16,090	16,830
Short-term line of credit	Various	32,500	10,500
Total notes and bonds payable		<u>\$ 208,740</u>	<u>187,891</u>

The following is a summary of required principal payments, excluding amounts due under the note payable to Illinois Student Assistance Commission (ISAC), on outstanding secured obligations as of May 31, 2009:

Fiscal year ending:		
2010	\$	33,425
2011		810
2012		845
2013		885
2014		4,000
2015 and beyond		<u>168,775</u>
Total notes and bonds payable	\$	<u>208,740</u>

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.

ILLINOIS INSTITUTE OF TECHNOLOGY

Notes to Consolidated Financial Statements

May 31, 2009 and 2008

(In thousands of dollars)

Prior to fiscal year 2009, the University was designated a lender by the U.S. Department of Education for the Federal Stafford Loan program. As a lender, the University participated in the Federal Family Education Loan Program and offered loans to University graduate students. In order to provide funding to support the lender program, the University had contracted with the ISAC. The arrangement with ISAC provided that once the University approved a loan to a student, ISAC would loan the funds to the University to forward to the student. After the student separated from the University, ISAC, or one of its designated agencies, would purchase the loan from the University, at which time the University would liquidate its debt to ISAC, and ISAC would then service the loan through the repayment process. Due to the downturn in the credit market, the University stopped participating in the ISAC program and all outstanding loans were transferred to ISAC during fiscal year 2009.

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 \$25,000 as of May 31, 2009 and \$7,500 and \$3,000 as of May 31, 2008.

IITRI maintains a line of credit agreement that allows borrowings of up to \$250. 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, 2009 and 2008.

The University and IITRI are subject to certain debt covenants. As of May 31, 2009, 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, 2009 and 2008 based on quoted market prices for the same or similar issues.

ILLINOIS INSTITUTE OF TECHNOLOGY

Notes to Consolidated Financial Statements

May 31, 2009 and 2008

(In thousands of dollars)

(9) 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, 2009 and 2008 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.

	2009	2008
Change in accumulated postretirement benefit obligation at beginning of the period	\$ 1,462	11,059
Service cost	13	99
Interest cost	91	186
Plan amendments	—	(9,817)
Actuarial gain	119	(47)
Actuarial benefit payments net contributions	(24)	(18)
Accumulated postretirement benefit obligation at end of the period	1,661	1,462
Change in fair value of plan assets:		
Fair value of plan assets at beginning of period	—	—
Employer contribution	24	18
Participant contributions	39	30
Total benefit payments	(63)	(48)
Fair value of plan assets at end of the period	—	—
Funded status	\$ (1,661)	(1,462)
Amounts recognized in the statement of financial position consist of:		
Liability	\$ (1,661)	(1,462)

In fiscal year 2008, the incremental effect for the adoption of SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)*, was a decrease in accrued postretirement benefit obligation of \$462 with a corresponding increase in net assets. In fiscal year 2009, 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 \$392 and unrecognized prior service costs of \$66. These amounts will be subsequently recognized in future years as components of net periodic pension cost.

ILLINOIS INSTITUTE OF TECHNOLOGY

Notes to Consolidated Financial Statements

May 31, 2009 and 2008

(In thousands of dollars)

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

	<u>2009</u>	<u>2008</u>
Service cost	\$ 13	99
Interest cost	91	186
Amortization of net gain	(28)	—
Amortization of prior service cost	11	240
Net periodic postretirement benefit cost	\$ <u>87</u>	<u>525</u>

Actuarial Assumptions

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

	<u>2009</u>	<u>2008</u>
Discount rate (expense)	6.00%	6.00%
Discount rate (obligation)	6.00	6.00
Health care cost trend rates:		
Next two fiscal years	10.0 – 11.0	11.0 – 12.0
Next seven fiscal years	5.0 – 9.0	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 years ended May 31:

	<u>2009</u>	<u>2008</u>
Effect on total service cost and interest cost:		
One-percentage point increase	\$ 117	321
One-percentage point decrease	93	(253)
Effect on year-end postretirement benefit obligation:		
One-percentage point increase	189	184
One-percentage point decrease	(163)	(156)

ILLINOIS INSTITUTE OF TECHNOLOGY

Notes to Consolidated Financial Statements

May 31, 2009 and 2008

(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		
2010	\$	47
2011		63
2012		78
2013		94
2014		113
2015 – 2019		692

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.

(10) 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, 2009 and 2008 were \$5,700 and \$4,960 by the University and \$362 and \$402 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.

ILLINOIS INSTITUTE OF TECHNOLOGY

Notes to Consolidated Financial Statements

May 31, 2009 and 2008

(In thousands of dollars)

(11) Functional Classification of Expenses

Operating and nonoperating 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:

	<u>2009</u>	<u>2008</u>
Instruction	\$ 85,786	80,311
Research and other grant activities	56,564	67,615
Academic support	25,841	27,562
Student services	15,568	16,056
Institutional support	40,501	40,367
Auxiliary enterprises	13,598	13,136
Total	<u>\$ 237,858</u>	<u>245,047</u>

(12) 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:

	<u>2009</u>	<u>2008</u>
Funds designated by the board of trustees for endowment	\$ 68,990	73,533
Undesignated	(19,486)	110,699
Total	<u>\$ 49,504</u>	<u>184,232</u>

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

	<u>2009</u>	<u>2008</u>
Scholarships	\$ 1,028	2,351
Instruction and academic departments	6,028	5,901
General operations	10,867	14,449
Split-interest annuity agreements	932	1,065
Total	<u>\$ 18,855</u>	<u>23,766</u>

ILLINOIS INSTITUTE OF TECHNOLOGY

Notes to Consolidated Financial Statements

May 31, 2009 and 2008

(In thousands of dollars)

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

	2009	2008
Endowment investments	\$ 146,525	134,990
Donor-restricted revolving loans funds	5,426	7,000
Split-interest annuity agreements	2,229	2,258
Beneficial interest in perpetual trusts	17,213	21,836
Total	\$ 171,393	166,084

The amount of outstanding loans from quasi-endowments to unrestricted funds is \$5,232 and \$5,798 at May 31, 2009 and 2008, respectively.

(13) Endowments

The University adopted the provisions of FASB Staff Position (FSP) 117-1, *Endowments of Not-For-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), and Enhanced Disclosure for All Endowment Funds* (FSP 117-1) effective June 1, 2008.

The University endowments include both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by applicable standards, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowment, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees of the University has interpreted the State of Illinois Uniform Management of Institutional Funds Act (UMIFA) as requiring the preservation of the fair value of the original gifts as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As the result of this interpretation, the University classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of the subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time of accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as unrestricted net assets unless there are specific purpose restrictions that have not been met by the University.

ILLINOIS INSTITUTE OF TECHNOLOGY

Notes to Consolidated Financial Statements

May 31, 2009 and 2008

(In thousands of dollars)

Endowment net assets consist of the following as of May 31, 2009:

	<u>Unrestricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (22,363)	146,525	124,162
Board-designated funds	50,749	—	50,749
Total	\$ 28,386	146,525	174,911

Endowment net assets consist of the following as of May 31, 2008:

	<u>Unrestricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ 85,549	134,990	220,539
Board-designated funds	73,533	—	73,533
Total	\$ 159,082	134,990	294,072

Changes in endowment net assets for year ended May 31, 2009:

	<u>Unrestricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Net assets, beginning of year	\$ 159,082	134,990	294,072
Endowment-related investment return:			
Endowment-related investment income, net	3,245	—	3,245
Endowment-related net realized and unrealized losses	(96,402)	—	(96,402)
Total endowment-related investment return	(93,157)	—	(93,157)
Contributions	1,041	6,492	7,533
Appropriation	(33,537)	—	(33,537)
Reclassifications	(5,043)	5,043	—
Net assets, end of year	\$ 28,386	146,525	174,911

ILLINOIS INSTITUTE OF TECHNOLOGY

Notes to Consolidated Financial Statements

May 31, 2009 and 2008

(In thousands of dollars)

Changes in endowment net assets for year ended May 31, 2008:

	<u>Unrestricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Net assets, beginning of year	\$ 136,102	127,661	263,763
Endowment-related investment return:			
Endowment-related investment income, net	5,113	—	5,113
Endowment-related net realized and unrealized losses	5,993	—	5,993
	<hr/>	<hr/>	<hr/>
Total endowment-related investment return	11,106	—	11,106
Contributions	28,809	7,329	36,138
Appropriation	(16,935)	—	(16,935)
	<hr/>	<hr/>	<hr/>
Net assets, end of year	\$ 159,082	134,990	294,072
	<hr/>	<hr/>	<hr/>

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the Act requires the University to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were \$8,589 as of May 31, 2009. There were no such deficiencies as of May 31, 2008.

Spending Policy and Strategies Employed for Achieving Objectives

The University has adopted investment policy to provide a stable source of funds to help and support the ongoing operations and activities of the University. Pursuant to this objective, the University seeks to earn a long-term total rate of return sufficient to produce growth of endowment assets, net of spending requirements of 5%, inflation, and investment expenses.

The purpose of the endowment funds is to facilitate donors' desires to make substantial long-term gifts to the community and to develop a new and significant source of revenue of the University. In doing so, the endowment fund will provide a secure, long-term source of funds to: (a) fund special programs; (b) ensure long-term growth; (c) enhance the University's ability to meet changing community needs, and (d) support the administrative expenses of the University as deemed appropriate

To achieve these goals, the University's spending policy 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. The University's total endowment fund spending is based upon a target percentage of a subset of investments. The target percentage set by the board of trustees is 5% of the average endowment balance over the prior 12 quarters. The Board of Trustees set endowment distribution is \$15,986 for fiscal year 2009 and \$16,935 for fiscal year 2008. The Board of Trustees budgeted endowment distribution is \$15,246 for fiscal year 2010.

ILLINOIS INSTITUTE OF TECHNOLOGY

Notes to Consolidated Financial Statements

May 31, 2009 and 2008

(In thousands of dollars)

UPMIFA Reclassification

On June 30, 2009 (subsequent to the balance sheet date), the State of Illinois enacted the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The University will be required to reclassify the remaining portion of the donor-restricted endowment fund not classified as permanently restricted as temporarily restricted until appropriated for expenditure by the governing board. As a result of the enactment of UPMIFA, the University expects \$15,246 of unrestricted net assets to be reclassified to temporarily restricted net assets on June 30, 2009.

(14) 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 \$788, \$808, \$828, \$849, \$870 respectively over each of the next five years and \$9,991 in years thereafter.

ILLINOIS INSTITUTE OF TECHNOLOGY

Notes to Consolidated Financial Statements

May 31, 2009 and 2008

(In thousands of dollars)

In January 2007, the University entered into a five year space rental lease with 350 LLC. The lease agreement requires the University to pay \$994, \$1,027 and \$1,060 over the next three years for rent. The lease expires on August 31, 2012. The lease involves occupying space in the building located at 350 North LaSalle.

(15) 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.

(16) Subsequent Events

In July 2009, the University issued \$30,000 in fixed rate revenue bonds through Illinois Finance Authority. The bonds will be used to finance the costs of construction and renovations for educational facilities of the University and pay for certain expense incurred in conjunction with the issuance of the bonds.



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

**Independent Auditors' Report on
Supplemental Information**

The Board of Trustees
Illinois Institute of Technology:

We have audited and reported separately herein on the consolidated financial statements of Illinois Institute of Technology (the University) as of and for the years ended May 31, 2009 and 2008.

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

KPMG LLP

September 30, 2009

ILLINOIS INSTITUTE OF TECHNOLOGY

Consolidating Statement of Financial Position

May 31, 2009

(In thousands of dollars)

Assets	University	IITRI	Eliminations	Total
Cash	\$ 1,438	1,401	—	2,839
Bond proceeds held by trustees	—	2,174	—	2,174
Investments	168,590	8,834	—	177,424
Notes and accounts receivable:				
Grants and contracts, less allowance of \$347	5,863	3,082	—	8,945
Students:				
Tuition, less allowance of \$654	9,882	—	—	9,882
Notes, less allowance of \$373	11,261	91	—	11,352
Pledges, less allowance of \$232	14,226	—	—	14,226
Other	2,218	39	—	2,257
Affiliated organizations, net	602	—	(602) (a)	—
Inventories, prepaid expenses, and deferred charges	2,044	276	—	2,320
Equity interest in IITRI	16,394	—	(16,394) (b)	—
Physical properties, less accumulated depreciation	255,834	19,351	—	275,185
Beneficial interest in perpetual trusts	17,213	—	—	17,213
Total assets	<u>\$ 505,565</u>	<u>35,248</u>	<u>(16,996)</u>	<u>523,817</u>
Liabilities and Net Assets				
Liabilities:				
Accounts payable and accrued expenses	\$ 19,181	1,516	(602) (a)	20,095
Accrued salaries and wages	16,591	574	—	17,165
Deferred revenue	14,857	674	—	15,531
Deposits by students and others	2,228	—	—	2,228
Accrued postretirement benefit obligation	1,661	—	—	1,661
Obligation under split-interest agreements	1,308	—	—	1,308
Notes and bonds payable	192,650	16,090	—	208,740
Advances from U.S. Government for student loans	8,094	—	—	8,094
Asset retirement obligation	9,243	—	—	9,243
Total liabilities	<u>265,813</u>	<u>18,854</u>	<u>(602)</u>	<u>284,065</u>
Net assets:				
Unrestricted	49,504	16,394	(16,394) (b)	49,504
Temporarily restricted	18,855	—	—	18,855
Permanently restricted	171,393	—	—	171,393
Total net assets	<u>239,752</u>	<u>16,394</u>	<u>(16,394)</u>	<u>239,752</u>
Total liabilities and net assets	<u>\$ 505,565</u>	<u>35,248</u>	<u>(16,996)</u>	<u>523,817</u>

(a) Elimination of interentity accounts payable/receivable.

(b) Elimination of equity interest in IITRI.

See accompanying independent auditors' report on supplemental information.

ILLINOIS INSTITUTE OF TECHNOLOGY

Consolidating Statement of Activities

Year ended May 31, 2009

(In thousands of dollars)

	Unrestricted			Temporarily restricted – University	Permanently restricted – University	Total
	University	IITRI	Interentity eliminations			
Operating revenue:						
Tuition and fees, net of scholarships of \$52,708	\$ 102,456	—	—	—	—	102,456
Government grants and contracts	30,844	8,620	—	—	—	39,464
Private grants and contracts	5,365	7,853	—	—	—	13,218
Private gifts	7,653	—	(300)	1,251	—	8,604
Endowment spending distribution	15,986	—	—	—	—	15,986
Sales and services of auxiliary enterprises	12,060	—	—	—	—	12,060
Other sources	17,163	—	(1,157)	—	—	16,006
Net assets released from restrictions	6,162	—	—	(6,162)	—	—
Total operating revenue	197,689	16,473	(1,457)	(4,911)	—	207,794
Operating expenses:						
Faculty salaries	49,309	—	—	—	—	49,309
Administrative salaries	44,016	—	—	—	—	44,016
Part-time salaries	14,751	—	—	—	—	14,751
Employee benefits	21,071	—	—	—	—	21,071
Operations and maintenance	23,193	—	—	—	—	23,193
Supplies and services	33,251	—	—	—	—	33,251
Professional fees and advertising	13,196	—	—	—	—	13,196
IITRI research	—	15,654	(1,157)	—	—	14,497
Depreciation	13,802	1,325	—	—	—	15,127
Total operating expenses	212,589	16,979	(1,157)	—	—	228,411
Decrease in net assets from operating activities	(14,900)	(506)	(300)	(4,911)	—	(20,617)
Nonoperating revenue and expenses:						
Private gifts	—	—	—	—	9,932	9,932
Interest on indebtedness	(8,956)	(491)	—	—	—	(9,447)
Net loss on investments	(96,182)	—	—	—	(4,623)	(100,805)
Net loss on impairment of asset	(1,900)	—	—	—	—	(1,900)
Endowment spending distribution (note 13)	(15,986)	—	—	—	—	(15,986)
Endowment income	4,308	505	—	—	—	4,813
Net loss on disposal of assets	(180)	—	—	—	—	(180)
Asset retirement obligation accretion	(248)	—	—	—	—	(248)
Other	108	(300)	300	—	—	108
Equity income from IITRI	(792)	—	792	—	—	—
Increase (decrease) in net assets from nonoperating activities	(119,828)	(286)	1,092	—	5,309	(113,713)
Increase (decrease) in net assets	(134,728)	(792)	792	(4,911)	5,309	(134,330)
Net assets at beginning of year	184,232	17,186	(17,186)	23,766	166,084	374,082
Net assets end of year	\$ 49,504	16,394	(16,394)	18,855	171,393	239,752

(a) Elimination of interentity utility income and expense.

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

See accompanying independent auditors' report on supplemental information.

ILLINOIS INSTITUTE OF TECHNOLOGY

Consolidating Statement of Cash Flows

Year ended May 31, 2009

(In thousands of dollars)

	University	IITRI	Eliminations	Total
Cash flows from operating activities:				
Decrease in net assets	\$ (134,330)	(792)	792	(134,330)
Adjustments to reconcile decrease in net assets to net cash provided by (used in) operating activities:				
Effect of change in accounting principle	—	—	—	—
Private gifts restricted for long-term investment	(9,932)	—	—	(9,932)
Depreciation	13,802	1,325	—	15,127
Loss on beneficial interest in perpetual trusts	4,623	—	—	4,623
Contribution of fixed assets	—	—	—	—
Net loss on disposal of assets	180	—	—	180
Loss on impairment of asset	1,900	—	—	1,900
Net loss on investments	111,978	—	—	111,978
Accretion on asset retirement obligation	248	—	—	248
Changes in assets and liabilities:				
Receivables: tuition, grants, pledges, affiliate and other	226	771	(422)	575
Inventories, prepaid expenses, and deferred charges	(10)	2	—	(8)
Equity interest in IITRI	792	—	(792)	—
Accounts payable and accrued expenses	(1,172)	411	422	(339)
Accrued salaries and wages	677	(414)	—	263
Deferred revenue	(400)	(4,126)	—	(4,526)
Deposits by students and others	(179)	—	—	(179)
Accrued postretirement benefit obligation	199	—	—	199
Obligations under split-interest agreements	209	—	—	209
Asset retirement obligation	(38)	—	—	(38)
Net cash provided by (used in) operating activities	(11,227)	(2,823)	—	(14,050)
Cash flows from investing activities:				
Proceeds from sale of investments	128,356	5,149	—	133,505
Purchase of investments	(129,449)	—	—	(129,449)
Bond proceeds held by trustees	4,853	(47)	—	4,806
Purchase of physical properties	(23,452)	(550)	—	(24,002)
Issuance of notes receivable	(2,346)	—	—	(2,346)
Payments received on notes receivable	1,405	—	—	1,405
Net cash provided by (used in) investing activities	(20,633)	4,552	—	(16,081)
Cash flows from financing activities:				
Private gifts restricted for long-term investment	9,932	—	—	9,932
Payments on notes and bonds payable	(411)	(740)	—	(1,151)
Proceeds from borrowings under line of credit	22,000	—	—	22,000
Net cash provided by (used in) financing activities	31,521	(740)	—	30,781
Increase (decrease) in cash	(339)	989	—	650
Cash at:				
Beginning of year	1,777	412	—	2,189
End of year	\$ 1,438	1,401	—	2,839
Supplemental disclosure of cash flow information:				
Cash paid for interest	\$ 8,455	346	—	8,801

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

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

See accompanying independent auditors' report on supplemental information.