ILLINOIS INSTITUTE OF TECHNOLOGY

OMB Circular A-133 Audit Report

Year ended May 31, 2009

(With Independent Auditors' Reports Thereon)

ILLINOIS INSTITUTE OF TECHNOLOGY

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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 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 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 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2009 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 2009 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 2009 basic consolidated financial statements taken as a whole.

KPMG LLP

Chicago, Illinois
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)

		Unrestricted	Temporarily restricted	Permanently restricted	Total
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)

	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 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	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 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	(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 9)	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 Statements of Cash Flows

Years ended May 31, 2009 and 2008

(In thousands of dollars)

		2009	2008
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		(14,050)	(19,622)
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		(16,081)	5,316
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		30,781	14,594
Increase in cash		650	288
Cash at:			
Beginning of year		2,189	1,901
End of year	$	2,839	2,189
Supplemental disclosure of cash flow information:			
Cash paid for interest	$	8,801	8,547

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 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.

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

(Continued)

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.

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(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.

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(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.

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(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.

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 form 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.

(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.

	Level 1	Level 2	Level 3
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
Subtotal before perpetual trusts	133,901	—	43,523
Beneficial interest in perpetual trusts	—	—	17,213
Total	$ 133,901	—	60,736

(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:

		Alion notes and warrants	Real estate	Equity mutual funds	Private equity funds	Beneficial interest in perpetual trusts	Total
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	$	12,003	8,348	16,520	6,652	17,213	60,736
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	
		Cost	Fair value	Cost	Fair value
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	$	244,180	177,424	273,123	293,458

(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:

		2009	2008
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		(46,421)	(54,797)
Net return on investments	$	(95,992)	(19,512)

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:

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

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

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

(In thousands of dollars)

(6) Physical Properties

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

		2009	2008
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	$	275,185	268,390

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.

(In thousands of dollars)

(8) Notes and Bonds Payable

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

	Interest rate		2009	2008
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		$	208,740	187,891

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		168,775
Total notes and bonds payable	$	208,740

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.

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.

(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.

(In thousands of dollars)

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

		2009	2008
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	$	87	525

Actuarial Assumptions

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

	2009	2008
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:

		2009	2008
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)

(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.

(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:

		2009	2008
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	$	237,858	245,047

(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:

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

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

		2009	2008
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	$	18,855	23,766

(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, nets 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.

(In thousands of dollars)

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

		Unrestricted	Permanently restricted	Total
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:

		Unrestricted	Permanently restricted	Total
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:

		Unrestricted	Permanently restricted	Total
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

(Continued)

(In thousands of dollars)

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

		Unrestricted	Permanently restricted	Total
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
Total endowment-related investment return		11,106	—	11,106
Contributions		28,809	7,329	36,138
Appropriation		(16,935)	—	(16,935)
Net assets, end of year	$	159,082	134,990	294,072

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.

(Continued)

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.

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.

ILLINOIS INSTITUTE OF TECHNOLOGY

Schedule of Expenditures of Federal Awards

Year ended May 31, 2009

Program title	Award number	CFDA number	Federal expenditures
Major Programs:			
Research and Development Cluster – Direct awards:			
Department of Agriculture:			
Food and Drug Administration			
Food and Drug Administration Programs		10.xxx	$ 512,759
Grants for Agricultural Research Competitive Research		10.206	(11,154)
Integrated Programs (B)		10.303	83,955
Cochran Fellowship Program – International Training – Foreign Participant		10.962	769
			586,329
National Institute of Standards and Technology:			
Measurement and Engineering Research and Standards		11.609	7,275
Department of Defense:			
Basic and Applied Scientific Research		12.300	177,329
Military Medical Research and Development		12.420	(65,243)
Basic Scientific Research		12.431	316,330
Air Force Defense Research Sciences Program	FA8655-07-1-5096	12.800	161,721
			590,137
Department of Justice:			
Law Enforcement Assistance – FBI Field Police Training		16.302	(256)
Department of Transportation:			
Department of Transportation programs	FAA 07-G-012	20.xxx	303,350
Department of Treasury:			
Low-Income Taxpayer Clinics		21.008	92,510
Department of Treasury programs		21.xxx	(13,016)
			79,494
National Aeronautics and Space Administration:			
Aerospace Education Services Program		43.001	(550)
NASA Research programs	NASA NNC05GA64G	43.xxx	(14,572)
National Science Foundation:			
National Science Foundation research programs		47.xxx	545,876
Engineering Grants		47.041	1,271,674
Mathematical and Physical Sciences		47.049	553,309
Geosciences		47.050	40,316
Computer and Information Science and Engineering		47.070	1,312,828
Biological Sciences	NSF MCB-0644015	47.074	172,194
Social, Behavioral, and Economic Sciences		47.075	(4,085)
Education and Human Resources		47.076	82,755
			3,974,867
U.S. Small Business Administration:			
Internet-Based Technical Assistance	SBA HQ-05-I-0027	59.005	26,657
Economic Injury Disaster Loans	SBA SBAHQ-08-I-0052	59.002	215,701
			242,358
Environmental Protection Agency:			
Environmental Protection agency programs		66.xxx	47,317
P3 Award: National Student Design Competition for Sustainability Environmental Information Exchange Network Grant Program and Surveys – Studies Investigation and Special Purpose Grants		66.516	7,907
Department of Energy:			
Department of Energy Programs		81.xxx	259,999
Office of Science Financial Assistance Program		81.049	374,602
Renewable Energy Research and Development		81.087	170,811
			805,412
Department of Health and Human Resources:			
Health and Human Services programs		93.xxx	107,890
Food and Drug Administration – Research		93.103	5,153,490
Alcohol Research Programs		93.273	155,674
Discovery and Applied Research for Technological Innovations to Improve Human Health	R01 EB001672-05	93.286	179,477

ILLINOIS INSTITUTE OF TECHNOLOGY

Schedule of Expenditures of Federal Awards

Year ended May 31, 2009

Program title	Award number	CFDA number	Federal expenditures
National Center for Research Resources		93.389	$ 1,790,309
Cancer Detection and Diagnosis Research		93.394	1,577
Cancer Treatment Research		93.395	710,189
Cancer Biology Research		93.396	255,847
Cancer Research Manpower		93.398	44,649
Heart and Vascular Diseases Research		93.837	673,785
Arthritis, Musculoskeletal and Skin Diseases Research		93.846	67,447
Kidney Diseases, Urology and Hematology Research		93.849	36,001
Allergy Immunology and Transplantation Research		93.855	60,694
			9,237,029
Research and Development Cluster – Direct Awards			15,866,097
Research and Development Cluster – Indirect Awards:			
Department of Agriculture:			
Integrated Programs:			
Passed through:			
University of Georgia		10.303	124,888
Grants for Agricultural Research Special Research Grants:			
Passed through:			
Michigan Research Institute		10.200	110,999
International Agricultural Research Program – passed through:			
US-EGYPT JOINT SCI & TECH		10.961	20,158
Department of Defense:			256,045
Basic Applied and Advanced Research in Science and Engineering – passed through:			
California Institute of Technology		12.630	92,406
Boeing		12.630	28,562
			120,968
Mathematical Sciences Program – passed through:			
National Security Agency	NSA H98230-08-1-0043	12.901	23,508
Department of Defense Contracts – passed through:			
Wyle Labs		12.xxx	(2,997)
Aspen Systems		12.xxx	(46,604)
EPIR Technologies		12.xxx	17,077
University of Illinois At Chicago	FA7014-07-C0047	12.xxx	30,182
Metron Inc.		12.xxx	18,648
			16,306
Department of Transportation:			
Aviation Research Grants – passed through:			
Stanford University	STANFORD/FAA97G01200	20.108	8,046
Highway planning and construction – passed through:			
University of Illinois at Chicago	UIC/IDOT 2008-04435-06	20.205	7,527
National Aeronautics and Space Administration:			
Aerospace Education Services Program – passed through:			
University of Illinois- Champaign	UIUC/NASA 05-3386-01	43.001	100,201
National Science Foundation:			
National Science Foundation Contracts – passed through:			
Harvard University	SES-0531146	47.xxx	9,955
Geosciences – passed through:			
University of Notre Dame		47.050	262,153
Computer and Information Science and Engineering – passed through:			
University of Illinois Springfield		47.070	122
Florida International University		47.070	42,681
Education and Human Resources- passed through:			
Chicago State University	NSF HRD-041300	47.076	19,493
Chicago State University		47.076	(7,714)
Western Michigan University		47.076	1
			326,691
U.S. Small Business Administration:			
Illinois Coalition		59.xxx	134,276
Environmental Protection Agency:			
Great Lakes Program – passed through:			
Indiana University		66.469	(114)

(Continued)

ILLINOIS INSTITUTE OF TECHNOLOGY

Schedule of Expenditures of Federal Awards

Year ended May 31, 2009

Program title	Award number	CFDA number		Federal expenditures
Department of Veteran Affairs				
Department of Veteran Affaiars - passed through: Hines VA Hospital	M399004	64.xxx	$	69,614
Department Energy:				
Office of Scientific and Technical Information - passed through: Argonne National Laboratory		81.064		111,973
Department of Energy Contracts – passed through:				
LLNS, LLC		81.xxx		11,624
Salare Security		81.xxx		31,777
University of Puerto Rico		81.xxx		26,296
Brookhaven National Lab		81.xxx		96,404
Los Alamos National Lab		81.xxx		13,770
Muons Inc.	DE-FG02-06ER86281	81.xxx		138,985
National Renewable Energy Lab		81.xxx		(3,777)
				315,079
Office of Science Financial Assistance Program – passed through:				
Argonne National Laboratory		81.049		830,778
Fermilab		81.049		54,083
				884,861
Department of Health and Human Services				
Food and Drug Administration Research – passed through: University of Maryland		93.103		(286)
Oral Diseases and Disorders Research – passed through: University of Illinois at Chicago	2R01DE007989-09	93.121		19,035
Research Related to Deafness and Communication Disorders: University of Chicago		93.173		699
Allied Health Project Grants: Rush Medical College		93.191		(4,320)
Mental Health Research Grants – passed through: Children's Memorial Hospital	2003-230V-IIT	93.242		19,518
Discovery and Applied Research for Technological Innovations to Improve Human Health – passed through: Rehabilitation Institute Corporation	R01 EB001672-05	93.286		41,127
National Center for Research Resources – passed through: University of Florence		93.389		265
Cancer Detection and Diagnosis Research – passed through: Fairway Medical Technologies		93.394		12,750
Cell Biology and Biophysics Research – passed through: University of Maryland		93.821		89,852
Heart and Vascular Diseases Research – passed through:				
University of Arizona		93.837		38,036
University of Illinois at Chicago		93.837		83,123
University of Wisconsin	111H823	93.837		72,415
				193,574
Lung Diseases Research – passed through: Lovelace Inc.		93.838		18,175
Arthritis, Musculoskeletal and Skin Diseases Research – passed through: Rush University Medical Center		93.846		(74,742)
				(74,742)
Diabetes Endocrinology and Metabolism Research – passed through: University of Illinois at Chicago	2008-02441-01-00	93.847		9,990
Extramural Research Programs in the Neurosciences and Neurological Disorders – passed through:				
Rehabilitation Institute Corporation		93.853		48,052
Argonne National Laboratory		93.853		51,391
				99,443
Allergy Immunology and Transplantation Research – passed through: Stanford University		93.855		22,770
Child Health and Human Development Extramural Research passed through: Rehabilitation Institute Corporation		93.865		43,698

(Continued)

ILLINOIS INSTITUTE OF TECHNOLOGY

Schedule of Expenditures of Federal Awards

Year ended May 31, 2009

Program title	Award number	CFDA number	Federal expenditures
Vision Research – passed through:			
University of Illinois at Urbana-Champaign		93.867	$ —
Department of Health and Human Services Contracts – passed through:			
Northwestern University		93.xxx	(2,174)
Loyola University		93.xxx	13,945
Rush University Medical Center		93.xxx	1,870
University of Georgia	R166565	93.xxx	35,484
			49,125
Department of Homeland Security			
Department of Homeland Security - passed through:			
University of Minnesota	X9106033101	97.061	114,625
U.S. Agency for International Development:			
U.S. Agency for International Development Contract – passed through			
Association for Liaison Office for University Cooperation in Development	A-00-97-59-0	98.xxx	124,148
Research and Development Cluster – Indirect Awards			3,154,427
Total Research and Development Cluster			19,020,524
Student Financial Aid Cluster:			
Department of Education:			
Federal Supplemental Educational Opportunity Grants		84.007	582,818
Federal Family Education Loans		84.032	46,897,177
Federal Work-Study Program		84.033	1,342,988
Federal Perkins Loan Program		84.038	1,452,012
Federal Pell Grant Program		84.063	2,090,331
Academic Competitiveness Grants		84.378	81,625
National Science and Mathematics Access to Retain Talent (SMART) Grants		84.376	124,000
Total Student Financial Aid Cluster			52,570,951
Total Major Programs			71,591,475
Nonmajor Programs:			
Direct Awards:			
Department of Education:			
Rehabilitation Long-Term Training		84.129	455,959
Byrd Honors Scholarships		84.185	1,450
Other – Direct Awards			457,409
Indirect Awards:			
Department of Education			
Mathematics and Science Partnerships - passed through:			
Illinois State Board of Education		84.366	162,378
Fund for the Improvement of Postsecondary Education – passed through:			
Biotechnology Institute		84.116	30,711
Other – Indirect Awards			193,089
Total Nonmajor Programs			650,498
Total Federal Awards			$ 72,241,973

See accompanying 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, 2009. 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 Pell Grant (Pell), Federal Work-Study (FWS), Federal Supplemental Educational Opportunity Grant (FSEOG), Academic Competitiveness Grant (ACG), and the National Science and Mathematics Access to Retain Talent Grant (SMART) 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 in the Schedule do not directly agree to the revenue line items on the University's May 31, 2009 consolidated statement of activities. The federal expenditures are classified in the accompanying consolidated statement of activities as government grants and contracts revenue, totaling approximately $39,464,000. The remaining government grants and contracts consist of approximately $9,700,000 of awards received from states and other sources, with the balance of approximately $8,620,000 related to IIT Research Institute, a consolidated separate legal entity.

(b) Expenditure Recognition

Expenditures are recognized as incurred. 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.

(2) Indirect Costs

The University has four-year predetermined fixed indirect cost rates, effective June 1, 2007 through May 31, 2009, 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 2007. The base rates for on- and off-campus research were 50% and 24% of modified total direct costs, respectively. Approximately $4,231,000 of indirect costs were reimbursed to the University for the year ended May 31, 2009.

(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, 2009, are summarized as follows:

Direct loan programs – Perkins	$	1,452,012
Federal Family Education Loans (FFEL)		46,897,177
Total federal student loan programs	$	48,349,189

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 $8,074,325 at May 31, 2009. The University received an administrative cost allowance of $157,389 under the Perkins program during the fiscal year ended May 31, 2009.

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, 2009.

ILLINOIS INSTITUTE OF TECHNOLOGY

Notes to Schedule of Expenditures of Federal Awards

Year ended May 31, 2009

(4) Summary of Subrecipient Payments

Expenditures made to subrecipients under federal awards for the year ended May 31, 2009, were as follows:

Research and Development Cluster:		
Department of Defense	$	127,917
USAID		39,604
National Small Business Administration		18,811
National Science Foundation		213,497
Department of Energy		52,606
Environmental Protection Agency		21,400
Department of Transportation		19,884
Department of Health and Human Services		389,087
Total	$	882,806

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, 2009, and have issued our report thereon dated September 30, 2009. 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 deficiency in internal control over financial reporting 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the University's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

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 September 30, 2009.

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
September 30, 2009

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, 2009, 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 $8,620,000 in federal awards that are not included in the University's schedule of expenditures of federal awards for the year ended May 31, 2009. Our audit, described below, did not include the operations of IIT Research Institute because those awards will be 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, 2009 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, 2009. 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, 2009. 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 finding 09-01.

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, 2009 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, 2009. 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 finding 09-01 to be a significant deficiency.

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 response 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 response, and accordingly, we express no opinion on it.

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 1, 2010

ILLINOIS INSTITUTE OF TECHNOLOGY

Schedule of Findings and Questioned Costs

Year ended May 31, 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:	
Federal Supplemental Educational Opportunity Grant Program	84.007
Federal Family Education Loan Program	84.032
Federal Work Study Program	84.033
Federal Perkins Loan Program	84.038
Federal Pell Grant Program	84.063
Academic Competitiveness Grant	84.378
National Science and Mathematics Access to Retain Talent (SMART) Grants	84.376

Research & Development Cluster – various CFDA numbers

(h) Dollar threshold used to distinguish between Type A and Type B programs: $716,784

(i) Auditee qualified as a low-risk auditee under Section. 530 of OMB Circular A-133: **No**

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

(3) Findings and questioned costs relating to federal awards:

Federal Agency: U.S. Department of Health and Human Services

Program Name: Research and Development Cluster

CFDA # and Program Expenditures: Various ($19,020,524)

Award Numbers: Various

Questioned Costs: None

Finding 09-01 *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 four assets selected for testwork which were not able to be located during our observation testwork. In addition, we noted two assets selected for testwork had been disposed of prior to the performance of our procedures. The equipment was disposed of in January and March 2009 (prior to the end of the fiscal year); As of the date of our testwork, a disposition form had been completed and authorized, however the property records had not been updated for the disposal until our observation was performed in August 2009 (approximately eight and six months after the disposal form was completed).

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 will ensure all University equipment is located during the annual equipment inventory. In addition, Management will annually communicate the equipment disposal policies and procedures with IIT departments.