

**ILLINOIS INSTITUTE OF TECHNOLOGY**

Consolidated Financial Statements and Supplementary Information

May 31, 2010 and 2009

(With Independent Auditors' Report 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, 2010 and 2009, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit 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, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

As described in note 2 to the consolidated financial statements, the University adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Section 958, *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, and Enhanced Disclosures for All Endowment Funds*, effective June 30, 2009.

**KPMG LLP**

Chicago, Illinois  
October 12, 2010

**ILLINOIS INSTITUTE OF TECHNOLOGY**

Consolidated Statements of Financial Position

May 31, 2010 and 2009

(In thousands of dollars)

<b>Assets</b>	<b>2010</b>	<b>2009</b>
Cash	\$ 3,040	2,839
Bond proceeds held by trustees	16,130	2,174
Notes and accounts receivable:		
Grants and contracts, less allowance of \$297 in 2010 and \$347 in 2009	8,118	8,945
Students:		
Tuition, less allowance of \$3,302 in 2010 and \$654 in 2009	7,610	9,882
Notes, less allowance of \$532 in 2010 and \$373 in 2009	11,598	11,352
Pledges, less allowance of \$218 in 2010 and \$232 in 2009 (note 5)	20,047	14,226
Other	3,495	2,257
Inventories, prepaid expenses, and deferred charges	3,822	2,320
Investments (note 4)	176,609	177,424
Physical properties, less accumulated depreciation (note 6)	270,897	275,185
Beneficial interest in perpetual trusts (note 7)	18,688	17,213
Total assets	\$ 540,054	523,817
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 21,583	20,095
Accrued salaries and wages	14,719	17,165
Deferred revenue	17,932	15,531
Deposits by students and others	3,383	2,228
Accrued postretirement benefit obligation (note 9)	2,068	1,661
Obligation under split-interest agreements	1,408	1,308
Notes and bonds payable (note 8)	222,315	208,740
Advances from the U.S. government for student loans	8,117	8,094
Asset retirement obligation	6,778	9,243
Total liabilities	298,303	284,065
Net assets (note 12):		
Unrestricted	36,365	49,504
Temporarily restricted	33,539	18,855
Permanently restricted	171,847	171,393
Total net assets	241,751	239,752
Total liabilities and net assets	\$ 540,054	523,817

See accompanying notes to consolidated financial statements.

**ILLINOIS INSTITUTE OF TECHNOLOGY**

Consolidated Statement of Activities

Year ended May 31, 2010

(In thousands of dollars)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Operating revenue:				
Tuition and fees, net of scholarships of \$56,807	\$ 112,312	—	—	112,312
Government grants and contracts	49,621	—	—	49,621
Private grants and contracts	6,149	—	—	6,149
Private gifts	6,224	10,606	—	16,830
Endowment spending distribution (note 13)	17,046	—	—	17,046
Sales and services of auxiliary enterprises	12,556	—	—	12,556
Other sources	12,977	—	—	12,977
Net assets released from restrictions	2,934	(2,934)	—	—
<b>Total operating revenue</b>	<b>219,819</b>	<b>7,672</b>	<b>—</b>	<b>227,491</b>
Operating expenses:				
Faculty salaries	48,573	—	—	48,573
Administrative salaries	43,663	—	—	43,663
Part-time salaries	14,860	—	—	14,860
Employee benefits	21,744	—	—	21,744
Operations and maintenance	22,315	—	—	22,315
Supplies and services	43,067	—	—	43,067
Professional fees and advertising	13,124	—	—	13,124
IITRI research	12,467	—	—	12,467
Interest on indebtedness	10,137	—	—	10,137
Depreciation	14,823	—	—	14,823
<b>Total operating expenses</b>	<b>244,773</b>	<b>—</b>	<b>—</b>	<b>244,773</b>
<b>Increase (decrease) in net assets from operating activities</b>	<b>(24,954)</b>	<b>7,672</b>	<b>—</b>	<b>(17,282)</b>
Nonoperating revenue and expenses:				
Private gifts	—	—	4,428	4,428
Release of net assets restricted for capital	954	(954)	—	—
Net asset reclassification (note 2)	5,428	—	(5,428)	—
Net gain on investments (note 4)	22,117	—	1,454	23,571
Endowment spending distribution (note 13)	(17,046)	—	—	(17,046)
Endowment income (note 4)	3,954	—	—	3,954
Net loss on disposal of assets	(237)	—	—	(237)
Asset retirement obligation	2,343	—	—	2,343
Other	2,268	—	—	2,268
<b>Increase (decrease) in net assets from nonoperating activities</b>	<b>19,781</b>	<b>(954)</b>	<b>454</b>	<b>19,281</b>
<b>Increase (decrease) in net assets before endowment net asset reclassification</b>	<b>(5,173)</b>	<b>6,718</b>	<b>454</b>	<b>1,999</b>
Endowment net asset reclassification (note 13)	(7,966)	7,966	—	—
<b>Increase (decrease) in net assets</b>	<b>(13,139)</b>	<b>14,684</b>	<b>454</b>	<b>1,999</b>
Net assets at beginning of year	49,504	18,855	171,393	239,752
<b>Net assets at end of year</b>	<b>\$ 36,365</b>	<b>33,539</b>	<b>171,847</b>	<b>241,751</b>

See accompanying notes to consolidated financial statements.

**ILLINOIS INSTITUTE OF TECHNOLOGY**

Consolidated Statement of Activities

Year ended May 31, 2009

(In thousands of dollars)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Operating revenue:				
Tuition and fees, net of scholarships of \$52,708	\$ 102,456	—	—	102,456
Government grants and contracts	39,464	—	—	39,464
Private grants and contracts	13,218	—	—	13,218
Private gifts	7,353	1,251	—	8,604
Endowment spending distribution (note 13)	15,986	—	—	15,986
Sales and services of auxiliary enterprises	12,060	—	—	12,060
Other sources	16,006	—	—	16,006
Net assets released from restrictions	6,162	(6,162)	—	—
Total operating revenue	<u>212,705</u>	<u>(4,911)</u>	<u>—</u>	<u>207,794</u>
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
Interest on indebtedness	9,447	—	—	9,447
Depreciation	15,127	—	—	15,127
Total operating expenses	<u>237,858</u>	<u>—</u>	<u>—</u>	<u>237,858</u>
Decrease in net assets from operating activities	<u>(25,153)</u>	<u>(4,911)</u>	<u>—</u>	<u>(30,064)</u>
Nonoperating revenue and expenses:				
Private gifts	—	—	9,932	9,932
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
Decrease in net assets from nonoperating activities	<u>(109,575)</u>	<u>—</u>	<u>5,309</u>	<u>(104,266)</u>
Decrease in net assets	<u>(134,728)</u>	<u>(4,911)</u>	<u>5,309</u>	<u>(134,330)</u>
Net assets at beginning of year	<u>184,232</u>	<u>23,766</u>	<u>166,084</u>	<u>374,082</u>
Net assets at end of year	<u>\$ 49,504</u>	<u>18,855</u>	<u>171,393</u>	<u>239,752</u>

See accompanying notes to consolidated financial statements.

**ILLINOIS INSTITUTE OF TECHNOLOGY**

Consolidated Statements of Cash Flows

Years ended May 31, 2010 and 2009

(In thousands of dollars)

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 1,999	(134,330)
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities:		
Private gifts restricted for long-term investment	(4,428)	(9,932)
Depreciation	14,823	15,127
(Gain) loss on beneficial interest in perpetual trusts	(1,475)	4,623
Contribution of fixed assets	(1,000)	—
Net loss on disposal of assets	237	180
Loss on impairment of asset	—	1,900
Net (gain) loss on investments	(22,096)	111,978
Accretion on asset retirement obligation	341	248
Changes in assets and liabilities:		
Receivables: tuition, grants, pledges, affiliate and other	(3,960)	575
Inventories, prepaid expenses, and deferred charges	(1,502)	(8)
Accounts payable and accrued expenses	1,488	(339)
Accrued salaries and wages	(2,446)	263
Deferred revenue	2,401	(4,526)
Deposits by students and others	1,155	(179)
Accrued postretirement benefit obligation	407	199
Obligations under split-interest agreements	100	209
Advances from U.S. government for student loans	23	—
Asset retirement obligation	(2,806)	(38)
Net cash used in operating activities	<u>(16,739)</u>	<u>(14,050)</u>
Cash flows from investing activities:		
Proceeds from sale of investments	169,683	133,505
Purchase of investments	(146,772)	(129,449)
Change in bond proceeds held by trustees	(13,956)	4,806
Purchase of physical properties	(9,772)	(24,002)
Issuance of notes receivable	(1,253)	(2,346)
Payments received on notes receivable	1,007	1,405
Net cash used in investing activities	<u>(1,063)</u>	<u>(16,081)</u>
Cash flows from financing activities:		
Private gifts restricted for long-term investment	4,428	9,932
Payments on notes and bonds payable	(925)	(1,151)
Payments on borrowings under line of credit	(15,500)	—
Proceeds from borrowings under line of credit	—	22,000
Proceeds from issuance of bonds payable	30,000	—
Net cash provided by financing activities	<u>18,003</u>	<u>30,781</u>
Increase in cash	201	650
Cash at:		
Beginning of year	<u>2,839</u>	<u>2,189</u>
End of year	\$ <u>3,040</u>	\$ <u>2,839</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 8,246	8,801

See accompanying notes to consolidated financial statements.

# ILLINOIS INSTITUTE OF TECHNOLOGY

## Notes to Consolidated Financial Statements

May 31, 2010 and 2009

(In thousands of dollars)

### (1) Nature of Organization

#### (a) *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.

#### (b) *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 consolidated financial statements have been prepared to focus on the organization as a whole and to present balances and transactions in accordance with donor-imposed restrictions.



# ILLINOIS INSTITUTE OF TECHNOLOGY

## Notes to Consolidated Financial Statements

May 31, 2010 and 2009

(In thousands of dollars)

Net assets and related activity are classified and reported as follows:

***Unrestricted*** – Net assets that are not subject to donor-imposed restrictions.

***Temporarily Restricted*** – Net assets that are subject to donor-imposed restrictions that will be met either by actions of the University or the passage of time. Items that affect this net asset category are gifts for which restrictions have not been satisfied and annuity and life income gifts for which the ultimate purpose of the proceeds is not permanently restricted.

***Permanently Restricted*** – Net assets that are subject to donor-imposed restrictions that require them to be maintained permanently by the University. Items that affect this net asset category include gifts wherein donors stipulate that the corpus be held in perpetuity (primarily gifts for endowment and providing loans to students) and only the income be made available for program operations, and annuity and life income gifts for which the ultimate purpose of the proceeds is permanently restricted.

(c) ***Operations***

Operating results in the consolidated statements of activities reflect all transaction increasing or decreasing unrestricted net assets except those items associated with long-term investment, 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) is reported as reclassifications between applicable classes of net assets. During 2010, the University reclassified to unrestricted net assets, \$5,428 of loan funds that were previously reported as permanently restricted 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

# ILLINOIS INSTITUTE OF TECHNOLOGY

## Notes to Consolidated Financial Statements

May 31, 2010 and 2009

(In thousands of dollars)

used to acquire land, building, and equipment with such donor restrictions are reported as revenue of the temporarily restricted net asset class; the restrictions are considered to be released at the time of acquisition of such long-lived assets.

Revenue from University government grant and contract agreements is recognized as it is earned through expenditure in accordance with the agreement.

Tuition and other revenue received prior to the end of one fiscal year, which relates to future periods, are recorded as deferred revenue.

IITRI's research project revenue results from contract research and other services under a variety of contracts, some of which provide for reimbursement of cost plus fees and others, which are fixed-price or time-and-materials type contracts. IITRI generally recognizes revenue when a contract has been executed, the contract price is fixed or determinable, delivery of the services or product has occurred, and collectibility of the contract price is considered probable. Revenue on cost-plus contracts is recognized as costs are incurred and include a proportionate share of the fees earned. The percentage-of-completion method is used to recognize revenue on fixed contracts based on various performance measures. From time to time, facts develop that require IITRI to revise its estimated total costs or revenues expected. The cumulative effect of revised estimates is recorded in the period in which the facts requiring revisions become known. The full amount of anticipated losses on any type of contract is recognized in the period in which they become known. Under time-and-materials contracts, labor and related costs are reimbursed at negotiated, fixed hourly rates. Revenue on time-and-materials contracts is recognized at contractually billable rates as labor hours and direct expenses are incurred.

Historically, governmental clients have been a major source of revenue for IITRI. For the fiscal years ended May 31, 2010 and 2009, these governmental clients accounted for approximately 84% and 52%, respectively, of IITRI's operating revenue of \$12,380 and \$16,473, respectively. In addition, IITRI had one significant industrial customer, comprising of approximately 20%, respectively, of their contract revenue in 2009. During 2010, IITRI discontinued the research programs conducted for the significant customer. Included in IITRI's revenue for 2010 and 2009 and accounts receivable at May 31, 2010 and 2009 are unbilled receivables in the amounts of approximately \$1,464 and \$1,916, respectively.

The amount of contract and grant revenue reflected in the consolidated financial statements is subject to review and adjustment by contracting agencies, principally the federal government. The amount, if any, of expenditures which may be disallowed by the contracting agencies cannot be determined at this time. It is the opinion of management that such disallowances, if any, will not be significant.

(e) ***Investments***

Investments are reported at fair value. The fair values of investments in stocks, equity mutual funds, bonds and fixed income mutual funds are generally determined based on quoted market prices. 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

# ILLINOIS INSTITUTE OF TECHNOLOGY

## Notes to Consolidated Financial Statements

May 31, 2010 and 2009

(In thousands of dollars)

fair value of private equity 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. During fiscal year 2010, the University received \$25,000 from Alion for the outstanding notes receivable and detachable stock warrants.

**(f) Notes Receivable**

Student notes receivable consist primarily of Perkins loans, the Illinois Student Assistance Commission Federal Family Educational Loan program, and University loans. 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 three to 50 years.

Upon sale or retirement of an asset, cost and the related accumulated depreciation are deducted from the accounts, and a gain or loss is recorded. Minor expenditures for renovations, construction, and replacement of equipment are charged to current operations and are not capitalized.

**(i) Impairment of Long-Lived Assets**

The University and IITRI account for long-lived assets in accordance with the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Section 360 Subtopic 10, *Impairment or Disposal of Long-lived Assets*. FASB ASC Section 360 Subtopic 10 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.

# ILLINOIS INSTITUTE OF TECHNOLOGY

## Notes to Consolidated Financial Statements

May 31, 2010 and 2009

(In thousands of dollars)

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 that 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, 2010 of \$23,600 is reported in accounts payable and accrued expenses.

**(m) Use of Estimates**

The preparation of consolidated 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

# ILLINOIS INSTITUTE OF TECHNOLOGY

## Notes to Consolidated Financial Statements

May 31, 2010 and 2009

(In thousands of dollars)

of the consolidated 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**

On June 1, 2009, the University adopted FASB ASC Section 855, *Subsequent Events*. FASB ASC 855 requires the University to establish general standards of accounting for the disclosure of events that occur after the balance sheet date but before consolidated financial statements are issued. This includes disclosing the date through which subsequent events have been evaluated, as well as whether that date is the date the consolidated financial statements were issued or the date the consolidated financial statements were available to be issued. The University has included this required disclosure within note 17.

On June 30, 2009, the University adopted the net asset classification for the FASB ASC Section 958, *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, and Enhanced Disclosures for All Endowment Funds*. The ASC 958 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). The University adopted the required FASB ASC 958 endowment disclosures fiscal year 2009 consolidated financial statements. The University has included this required disclosure within note 13.

### **(3) Fair Value Measurement**

FASB ASC Section 820, *Fair Value Measurements and Disclosures*, 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.

FASB ASC Section 820 establishes a fair value hierarchy that 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.

## ILLINOIS INSTITUTE OF TECHNOLOGY

### Notes to Consolidated Financial Statements

May 31, 2010 and 2009

(In thousands of dollars)

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

Level 1 consists of financial instruments, such as cash and cash equivalents, bond proceeds, 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 the real estate investments, equity mutual funds and private equity funds as Level 3. The real estate investment is valued at the net present value of the projected cash flow from the investment. The University's interests in alternative investment funds such as equity mutual funds and private equity funds, are generally reported at the net asset value (NAV), which is used as a practical expedient to estimate fair value, unless it is probably that all or a portion of the investment will be sold for an amount different from NAV. As of May 31, 2010 and 2009, the University had no plans to sell investments at amounts different from NAV. 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 \$18,970 of investments in alternative investment funds, which are reported at fair value. For \$18,970 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.

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***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, 2010 and 2009, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value.

	2010			Total	Redemption or liquidation	Days' notice
	Level 1	Level 2	Level 3			
<b>Investments:</b>						
Cash and cash equivalents	33,633	—	—	33,633	Daily	One
Total	33,633	—	—	33,633		
<b>Domestic equities:</b>						
Fixed income	20,076	—	—	20,076	Daily	One
Large Cap Equity	36,217	—	—	36,217	Daily	One
Tactical opportunities	16,573	—	—	16,573	Daily	One
Small Cap	3,207	—	—	3,207	Daily	One
Total	76,073	—	—	76,073		
<b>Global (ex-U.S.) equities:</b>						
Developed international equity	35,683	—	—	35,683	Daily	One
<b>Hedged equity funds of funds:</b>						
Multiple strategies total return	—	—	8,117	8,117	Locked-up(1)	60
Multiple strategies – absolute return	—	—	3,106	3,106	Locked-up(1)	60
Total	—	—	11,223	11,223		
<b>Private equity and venture capital funds:</b>						
Commonfund Capital International	—	—	1,643	1,643	None	N/A
Commonfund Capital Venture	—	—	2,068	2,068	None	N/A
Commonfund Capital Private Equity Roundtable	—	—	3,406	3,406	None	N/A
			630	630	None	N/A
Total	—	—	7,747	7,747		
<b>Real assets:</b>						
IITRI Tower	—	—	4,227	4,227	Illiquid (2)	N/A
Total	—	—	4,227	4,227		
<b>Other securities:</b>						
Fixed income (IITRI)	7,774	—	—	7,774	Daily	One
Domestic equities	249	—	—	249	Daily	One
Total	8,023	—	—	8,023		
<b>Other assets:</b>						
Bond proceeds	16,130	—	—	16,130	Daily	One
Perpetual trusts	—	—	18,688	18,688	None	N/A
Total	16,130	—	18,688	34,818		
Total	\$ 169,542	—	41,885	211,427		

(1) 1 year from the initial investment.

(2) Real Estate property owned by endowment

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	2009			Redemption or liquidation	Days' notice	
	Level 1	Level 2	Level 3			Total
Investments:						
Cash and cash equivalents	27,640	—	—	27,640	Daily	One
Total	27,640	—	—	27,640		
Domestic equities:						
Fixed income	21,860	—	—	21,860	Daily	One
Large Cap Equity	45,889	—	—	45,889	Daily	One
Tactical opportunities	1,993	—	—	1,993	Daily	One
Small Cap	8,178	—	—	8,178	Daily	One
Total	77,920	—	—	77,920		
Global (ex-U.S.) equities:						
Developed international equity	19,362	—	—	19,362	Daily	One
Hedged equity funds of funds:						
Multiple strategies total return	—	—	11,608	11,608	Locked-up(1)	60
Multiple strategies – absolute return	—	—	4,912	4,912	Locked-up(1)	60
Total	—	—	16,520	16,520		
Private equity and venture capital funds:						
Commonfund Capital International	—	—	1,266	1,266	None	N/A
Commonfund Capital Venture	—	—	1,854	1,854	None	N/A
Commonfund Capital Private Equity	—	—	2,773	2,773	None	N/A
Roundtable	—	—	759	759	None	N/A
Total	—	—	6,652	6,652		
Real assets:						
IITRI Tower	—	—	8,348	8,348	Illiquid (2)	N/A
Alion notes and warrants	—	—	12,003	12,003	Illiquid (3)	N/A
Total	—	—	20,351	20,351		
Other securities:						
Fixed income (IITRI)	8,834	—	—	8,834	Daily	One
Domestic equities	145	—	—	145	Daily	One
Total	8,979	—	—	8,979		
Other assets:						
Bond proceeds	2,174	—	—	2,174	Daily	One
Perpetual trusts	—	—	17,213	17,213	None	N/A
Total	2,174	—	17,213	19,387		
Total	\$ 136,075	—	60,736	196,811		

(1) 1 year from the initial investment.

(2) Real Estate property owned by endowment

(3) Investment redeemed in 2010



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Aggregate investment liquidity as of May 31, 2010 and 2009, is presented below based on redemption or sale period:

	<u>2010</u>	<u>2009</u>
Investment redemption or sale period:		
Daily	\$ 153,412	133,901
Subject to rolling lock-ups	11,223	16,520
Illiquid	4,227	20,351
Redemptions not permitted	<u>7,747</u>	<u>6,652</u>
Totals	<u>\$ 176,609</u>	<u>177,424</u>

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 years ended May 31, 2010 and 2009:

	<u>Alion notes and warrants</u>	<u>Real estate</u>	<u>Equity mutual funds</u>	<u>Private equity funds</u>	<u>Beneficial interest in perpetual trusts</u>	<u>Total</u>
Beginning balance, June 1, 2009	\$ 12,003	8,348	16,520	6,652	17,213	60,736
Net realized and unrealized gains/(losses)	12,997	(4,121)	(5,297)	1,095	1,475	6,149
Purchases, issuances, and settlements	(25,000)	—	—	—	—	(25,000)
Transfers in (out) of Level 3	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Ending balance, May 31, 2010	<u>\$ —</u>	<u>4,227</u>	<u>11,223</u>	<u>7,747</u>	<u>18,688</u>	<u>41,885</u>

The amount of total gains or losses for the period included in net return on investments attributable to the change in unrealized gains or losses relating to assets still held at May 31, 2010

	\$ 12,997	(4,121)	(5,297)	1,095	1,475	6,149
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(In thousands of dollars)

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

**(4) Investments**

Investments consist of the following at May 31:

	<b>2010</b>		<b>2009</b>	
	<u>Cost</u>	<u>Fair value</u>	<u>Cost</u>	<u>Fair value</u>
Cash equivalents	\$ 33,632	33,633	27,636	27,640
Stocks	219	249	131	145
Equity mutual funds	96,190	87,296	133,585	94,440
Bonds (IITRI)	7,498	7,774	8,682	8,834
Fixed income mutual funds	35,430	35,683	21,691	19,362
Private equity funds	6,418	7,747	6,450	6,652
Real estate	13,803	4,227	13,803	8,348
Alien notes and warrants	—	—	32,202	12,003
Total investments	\$ <u>193,190</u>	<u>176,609</u>	<u>244,180</u>	<u>177,424</u>

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.

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

	<u>2010</u>	<u>2009</u>
Return on investments:		
Interest and dividends	\$ 3,954	4,813
Net realized loss on sale of investments	74,096	(54,384)
Net unrealized loss on investments	<u>(50,525)</u>	<u>(46,421)</u>
Net return on investments	\$ <u>27,525</u>	<u>(95,992)</u>

The return on investments reflects income from investments held by IITRI of \$475 and \$505 for 2010 and 2009, respectively.

**(5) Pledges Receivable**

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

	<u>2010</u>	<u>2009</u>
Pledges receivable	\$ 23,077	17,325
Allowance for uncollectible pledges	(218)	(232)
Discount to present value future cash flows	<u>(2,812)</u>	<u>(2,867)</u>
Net pledges receivable	\$ <u>20,047</u>	<u>14,226</u>

The following is a summary showing the expected timing of collection of total gross unconditional pledges receivable outstanding as of May 31, 2010:

<u>Fiscal year(s)</u>	<u>Amount</u>
2011	\$ 12,512
2012 through 2016	10,179
2017 and thereafter	<u>386</u>
	\$ <u>23,077</u>

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**(6) Physical Properties**

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

	<u>2010</u>	<u>2009</u>
Land and land improvements	\$ 30,039	30,039
Building and building improvements	349,047	342,587
Equipment and library collection	89,801	90,904
Construction in progress	<u>10,406</u>	<u>9,173</u>
Total physical properties	479,293	472,703
Less accumulated depreciation	<u>208,396</u>	<u>197,518</u>
Physical properties, net	<u>\$ 270,897</u>	<u>275,185</u>

During 2009, in accordance with FASB ASC Section 360 Subtopic 10, *Impairment or Disposal of Long Lived Assets*, the University recorded an impairment of the land parcel for \$1,900 and an expense on the consolidated statement of activities in nonoperating revenue and expenses. At May 31, 2010, the land parcel was valued at \$5,900.

**(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, 2010 and 2009, the share of these trusts from which the University derives income had a combined fair value of \$18,688 and \$17,213, respectively. These trusts provided unrestricted income of \$400 and \$459 in fiscal 2010 and 2009, respectively.

**(8) Notes and Bonds Payable**

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

	<u>Interest rate</u>	<u>2010</u>	<u>2009</u>
University:			
IFA Bonds, Series 2006, payable in varying installments through 2036	5.0% and 6.10%	\$ 160,000	160,000
IFA Bonds, Series 2009, payable in varying installments through 2034	4.75% to 7.125%	30,000	—
City of Chicago Energy Loan	Interest free	—	150
IITRI – IFA Series 2004, payable in varying installments through 2034	Variable	15,315	16,090
Short-term line of credit	Various	<u>17,000</u>	<u>32,500</u>
Total notes and bonds payable		<u>\$ 222,315</u>	<u>208,740</u>

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The following is a summary of required principal payments on outstanding secured obligations as of May 31, 2010:

Fiscal year ending:		
2011	\$	17,810
2012		845
2013		1,545
2014		4,695
2015		4,960
2016 and beyond		<u>192,460</u>
Total notes and bonds payable	\$	<u><u>222,315</u></u>

In March 2006, the University issued \$160,000 in fixed rate revenue bonds through the Illinois Finance Authority consisting of \$153,600 (IFA Series 2006A) and \$6,340 (IFA Series 2006B). Proceeds from the bonds were used to advance refund the IEFA Series 1999 Bonds, refund the outstanding IEFA Series 2000 Bonds, refund the outstanding IEFA Series 2004 Bonds and finance a portion of the costs of the construction, renovation, and equipping of certain of the educational facilities of the University and pay for certain expenses incurred in conjunction with the issuance of the Series 2006A and 2006B Bonds. The fixed rate on the Series 2006A Bonds is 5% with serial bonds maturing from April 2016 through 2026 and term bonds due April 1, 2031 and April 1, 2036. The Series 2006B term bond bears a 6.10% rate maturing April 1, 2015.

In July 2009, The University issued \$30,000 in fixed rate revenue bonds through the Illinois Finance Authority consisting of \$30,000 (IFA Series 2009). Proceeds from the bonds were used to finance a portion of the costs of the renovation of the educational facilities of the University, establish a debt service reserve fund and pay certain costs incurred in connection with the bond issue. The fixed rates on the Series 2009 Bonds are 4.75% and 5.52% serial bonds maturing in February 2013 and 2014 and 6.25%, 6.50% and 7.125% term bonds maturing in February 1, 2019, 2023 and 2034.

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; and (iii) 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. IITRI renewed the letter of credit on July 7, 2010 through April 4, 2011. 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 30-year period, the terms of the letter of credit between IITRI and Fifth Third Bank require the bonds to be amortized over a 20-year life carrying interest rate of 1%; accordingly, the current amortization schedule results in final payment in year 2023, which does not violate the terms of IITRI's loan agreement.

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The University maintains line-of-credit agreements that allow borrowings up to \$20,150. Borrowings under the line will bear interest at the prime commercial rate or adjusted LIBOR with interest being payable on a quarterly basis. The borrowing under the line of credit will be payable on demand, but if no demand is made, borrowing shall automatically mature on the interest payable date next following the date the loan is made. In August 2009, the University paid in full the \$7,500 line of credit that allowed borrowings up to \$8,000. Amounts outstanding under these agreements were \$0 and \$17,000 as of May 31, 2010 and \$7,500 and \$25,000 as of May 31, 2009.

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 on a monthly basis. 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, 2010 and 2009.

The University and IITRI are subject to certain debt covenants. As of May 31, 2010, 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, 2010 and 2009 based on quoted market prices for the same or similar issues.

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**(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 consolidated statements of financial position at May 31, 2010 and 2009 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.

	<b>2010</b>	<b>2009</b>
Change in accumulated postretirement benefit obligation at beginning of the period	\$ 1,662	1,462
Service cost	10	13
Interest cost	103	91
Plan amendments	—	—
Actuarial gain	315	119
Actuarial benefit payments net contributions	(22)	(24)
Accumulated postretirement benefit obligation at end of the period	2,068	1,661
Change in fair value of plan assets:		
Fair value of plan assets at beginning of period	—	—
Employer contribution	29	24
Participant contributions	34	39
Total benefit payments	(63)	(63)
Fair value of plan assets at end of the period	—	—
Funded status	\$ (2,068)	(1,661)
Amounts recognized in the statement of financial position consist of:		
Accrued postretirement benefit obligation	\$ 2,068	1,661

In fiscal year 2008, the University adopted FASB ASC Section 715 Subtopic 60, *Defined Benefit Plans – Other Postretirement*. In fiscal year 2010, 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 \$61 and unrecognized prior service costs of \$61. These amounts will be subsequently recognized in future years as components of net periodic pension cost.

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

	<b>2010</b>	<b>2009</b>
Service cost	\$ 10	13
Interest cost	103	91
Amortization of net gain	(16)	(28)
Amortization of prior service cost	11	11
Net periodic postretirement benefit cost	\$ 108	87

**(a) Actuarial Assumptions**

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

	<b>2010</b>	<b>2009</b>
Discount rate (expense)	5.52%	6.00%
Discount rate (obligation)	5.52	6.00
Health care cost trend rates:		
Next two fiscal years	11.00	10.0 – 11.0
Next seven fiscal years	5.00	5.0 – 9.0
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:

	<b>2010</b>	<b>2009</b>
Effect on total service cost and interest cost:		
One-percentage point increase	\$ 13	117
One-percentage point decrease	(12)	93
Effect on year-end postretirement benefit obligation:		
One-percentage point increase	231	189
One-percentage point decrease	(200)	(163)



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**(b) *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:		
2011	\$	82
2012		96
2013		115
2014		129
2015		133
2016 – 2019		831

**(c) *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**

**(a) *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, 2010 and 2009 were \$5,806 and \$5,700 by the University and \$351 and \$362 by IITRI, respectively.

**(b) *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.

**(11) Functional Classification of Expenses**

Operating and nonoperating expenses are reported in the consolidated statements of activities by natural business category. The University's primary program services are instruction and research. Expenses

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reported as academic support, student services, institutional support, and auxiliary enterprises are incurred in support of these primary program services.

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

	<u>2010</u>	<u>2009</u>
Instruction	\$ 83,187	85,786
Research and other grant activities	58,668	56,564
Academic support	24,382	25,841
Student services	15,135	15,568
Institutional support	50,358	40,501
Auxiliary enterprises	13,043	13,598
Total	<u>\$ 244,773</u>	<u>237,858</u>

**(12) Net Assets**

Certain unrestricted net assets are designated for specific purposes by the board of trustees of the University and are summarized as follows at May 31:

	<u>2010</u>	<u>2009</u>
Funds designated by the board of trustees for endowment	\$ 69,866	68,990
Undesignated	(33,501)	(19,486)
Total	<u>\$ 36,365</u>	<u>49,504</u>

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

	<u>2010</u>	<u>2009</u>
Scholarships	\$ 3,484	1,319
Instruction and academic departments	7,124	8,374
General operations	21,999	8,230
Split-interest annuity agreements	932	932
Total	<u>\$ 33,539</u>	<u>18,855</u>

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

	<u>2010</u>	<u>2009</u>
Endowment investments	\$ 146,966	146,525
Donor-restricted revolving loans funds	4,051	5,426
Split-interest annuity agreements	2,142	2,229
Beneficial interest in perpetual trusts	<u>18,688</u>	<u>17,213</u>
Total	<u>\$ 171,847</u>	<u>171,393</u>

The amount of outstanding loans from quasi-endowments to unrestricted funds is \$11,790 and \$5,232 at May 31, 2010 and 2009, respectively.

**(13) Endowments**

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 Prudent Management of Institutional Funds Act (UPMIFA) 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. Notwithstanding the foregoing, this determination is not intended to, and shall not; affect the University's authority under UPMIFA to spend any amounts from an endowment fund on a short-term basis even if the market value of the endowment fund is below the original value of the gifts by the donor. 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 temporarily restricted net assets unless there are specific purpose restrictions that have not been met by the University.

Endowment net assets consist of the following as of May 31, 2010:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (2,291)	7,966	146,966	152,641
Board-designated funds	<u>27,398</u>	<u>—</u>	<u>—</u>	<u>27,398</u>
Total	<u>\$ 25,107</u>	<u>7,966</u>	<u>146,966</u>	<u>180,039</u>

**ILLINOIS INSTITUTE OF TECHNOLOGY**

Notes to Consolidated Financial Statements

May 31, 2010 and 2009

(In thousands of dollars)

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

	<u>Unrestricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (8,589)	146,525	137,936
Board-designated funds	36,975	—	36,975
<b>Total</b>	<b>\$ 28,386</b>	<b>146,525</b>	<b>174,911</b>

Changes in endowment net assets for year ended May 31, 2010:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Net assets, beginning of year	\$ 28,386	—	146,525	174,911
Endowment-related investment return:				
Endowment-related investment income, net	4,127	—	—	4,127
Endowment-related net realized and unrealized losses	22,338	—	—	22,338
Total endowment-related investment return	26,465	—	—	26,465
Contributions and pledges	3,521	—	4,493	8,014
Appropriation	(25,300)	—	—	(25,300)
Reclassifications	(7,965)	7,966	(4,052)	(4,051)
Net assets, end of year	\$ 25,107	7,966	146,966	180,039

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

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

# ILLINOIS INSTITUTE OF TECHNOLOGY

## Notes to Consolidated Financial Statements

May 31, 2010 and 2009

(In thousands of dollars)

**(a) 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 \$2,291 and \$8,589 as of May 31, 2010 and 2009. These deficiencies are the result of unfavorable investments results experienced over the past two fiscal years, which overwhelmed the earnings accumulations on recent permanently restricted contributions, as well as some instances of continued spending appropriations for certain programs that were deemed prudent by the board of trustees. Subsequent gains that restore the fair value of such funds to the required level will be classified as increases in unrestricted net assets.

**(b) 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 \$17,046 for fiscal year 2010 and \$15,986 for fiscal year 2009. The board of trustees budgeted endowment distribution is \$15,573 for fiscal year 2011.

**(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.

## ILLINOIS INSTITUTE OF TECHNOLOGY

### Notes to Consolidated Financial Statements

May 31, 2010 and 2009

(In thousands of dollars)

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 consolidated 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 55-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 18 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) Participation in Federal Financial Assistance Program**

On May 20, 2010, the University received a letter from the United States Department of Education (USDE) stating that the University had failed to meet the financial responsibility standards in 34 CFR 668.171. As a result, the University is participating in the USDE's Student Financial Assistance programs under the Provisional Certification Alternative (Zone Alternative) for the next three award years. As a condition of participating under the Zone Alternative, the University was required to obtain an irrevocable letter of credit in the amount of \$5,270 payable to the USDE. The letter of credit was issued on August 6, 2010 and expires on June 30, 2011 with provisions to renew annually.

**ILLINOIS INSTITUTE OF TECHNOLOGY**

Notes to Consolidated Financial Statements

May 31, 2010 and 2009

(In thousands of dollars)

**(17) Subsequent Events**

In connection with the preparation of the consolidated financial statements and in accordance with recently issued FASB ASC Section 855 – *Subsequent Events*, management evaluated subsequent events after the balance sheet date of May 31, 2010 through October 12, 2010, which was the date the consolidated financial statements were issued.



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

## **Independent Auditors' Report on Supplementary Information**

The Board of Trustees  
Illinois Institute of Technology:

We have audited and reported separately herein on the consolidated financial statements of Illinois Institute of Technology (the University) as of and for the year ended May 31, 2010.

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

*KPMG LLP*

Chicago, IL  
October 12, 2010



## ILLINOIS INSTITUTE OF TECHNOLOGY

## Consolidating Statement of Financial Position

May 31, 2010

(In thousands of dollars)

<b>Assets</b>	<b>University</b>	<b>IITRI</b>	<b>Eliminations</b>	<b>Total</b>
Cash	\$ 1,675	1,365	—	3,040
Bond proceeds held by trustees	14,376	1,754	—	16,130
Notes and accounts receivable:				
Grants and contracts, less allowance of \$297	5,243	2,875	—	8,118
Students:				
Tuition, less allowance of \$3,302	7,610	—	—	7,610
Notes, less allowance of \$532	11,507	91	—	11,598
Pledges, less allowance of \$218	20,047	—	—	20,047
Other	3,495	—	—	3,495
Affiliated organizations, net	259	—	(259) (a)	—
Inventories, prepaid expenses, and deferred charges	3,615	207	—	3,822
Equity interest in IITRI	13,154	—	(13,154) (b)	—
Investments	168,835	7,774	—	176,609
Physical properties, less accumulated depreciation	252,637	18,260	—	270,897
Beneficial interest in perpetual trusts	18,688	—	—	18,688
<b>Total assets</b>	<b>\$ 521,141</b>	<b>32,326</b>	<b>(13,413)</b>	<b>540,054</b>
<b>Liabilities and Net Assets</b>				
Liabilities:				
Accounts payable and accrued expenses	\$ 20,247	1,595	(259) (a)	21,583
Accrued salaries and wages	14,004	715	—	14,719
Deferred revenue	16,385	1,547	—	17,932
Deposits by students and others	3,383	—	—	3,383
Accrued postretirement benefit obligation	2,068	—	—	2,068
Obligation under split-interest agreements	1,408	—	—	1,408
Notes and bonds payable	207,000	15,315	—	222,315
Advances from U.S. government for student loans	8,117	—	—	8,117
Asset retirement obligation	6,778	—	—	6,778
<b>Total liabilities</b>	<b>279,390</b>	<b>19,172</b>	<b>(259)</b>	<b>298,303</b>
Net assets:				
Unrestricted	36,365	13,154	(13,154) (b)	36,365
Temporarily restricted	33,539	—	—	33,539
Permanently restricted	171,847	—	—	171,847
<b>Total net assets</b>	<b>241,751</b>	<b>13,154</b>	<b>(13,154)</b>	<b>241,751</b>
<b>Total liabilities and net assets</b>	<b>\$ 521,141</b>	<b>32,326</b>	<b>(13,413)</b>	<b>540,054</b>

(a) Elimination of interentity accounts payable/receivable.

(b) Elimination of equity interest in IITRI.

See accompanying independent auditors' report on supplementary information.

## ILLINOIS INSTITUTE OF TECHNOLOGY

Consolidating Statement of Activities

Year ended May 31, 2010

(In thousands of dollars)

	Unrestricted			Temporarily restricted – University	Permanently restricted – University	Total
	University	IITRI	Interentity eliminations			
Operating revenue:						
Tuition and fees, net of scholarships of \$56,807	\$ 112,312	—	—	—	—	112,312
Government grants and contracts	39,272	10,349	—	—	—	49,621
Private grants and contracts	4,118	2,031	—	—	—	6,149
Private gifts	6,224	—	—	10,606	—	16,830
Endowment spending distribution	17,046	—	—	—	—	17,046
Sales and services of auxiliary enterprises	12,556	—	—	—	—	12,556
Other sources	15,097	—	(2,120)	—	—	12,977
Net assets released from restrictions	2,934	—	—	(2,934)	—	—
Total operating revenue	209,559	12,380	(2,120)	7,672	—	227,491
Operating expenses:						
Faculty salaries	48,573	—	—	—	—	48,573
Administrative salaries	43,663	—	—	—	—	43,663
Part-time salaries	14,860	—	—	—	—	14,860
Employee benefits	21,744	—	—	—	—	21,744
Operations and maintenance	22,315	—	—	—	—	22,315
Supplies and services	43,067	—	—	—	—	43,067
Professional fees and advertising	13,124	—	—	—	—	13,124
IITRI research	—	14,587	(2,120)	—	—	12,467
Interest on indebtedness	9,948	189	—	—	—	10,137
Depreciation	13,493	1,330	—	—	—	14,823
Total operating expenses	230,787	16,106	(2,120)	—	—	244,773
Decrease in net assets from operating activities	(21,228)	(3,726)	—	7,672	—	(17,282)
Nonoperating revenue and expenses:						
Private gifts	—	—	—	—	4,428	4,428
Release of net assets restricted for capital	954	—	—	(954)	—	—
Net asset reclassification	5,428	—	—	—	(5,428)	—
Net gain on investments	22,117	—	—	—	1,454	23,571
Net loss on impairment of asset	—	—	—	—	—	—
Endowment spending distribution	(17,046)	—	—	—	—	(17,046)
Endowment income	3,479	475	—	—	—	3,954
Net loss on disposal of assets	(237)	—	—	—	—	(237)
Asset retirement obligation	2,343	—	—	—	—	2,343
Other	2,257	11	—	—	—	2,268
Equity income from IITRI	(3,240)	—	3,240	—	—	—
Increase (decrease) in net assets from nonoperating activities	16,055	486	3,240	(954)	454	19,281
Increase (decrease) in net assets before endowment net asset reclassification	(5,173)	(3,240)	3,240	6,718	454	1,999
Endowment net asset reclassification (note 13)	(7,966)	—	—	7,966	—	—
Increase (decrease) in net assets	(13,139)	(3,240)	3,240	14,684	454	1,999
Net assets at beginning of year	49,504	16,394	(16,394)	18,855	171,393	239,752
Net assets end of year	\$ 36,365	13,154	(13,154)	33,539	171,847	241,751

(a) Elimination of interentity utility income and expense.

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

See accompanying independent auditors' report on supplementary information.

## ILLINOIS INSTITUTE OF TECHNOLOGY

## Consolidating Statement of Cash Flows

Year ended May 31, 2010

(In thousands of dollars)

	University	IITRI	Eliminations	Total
Cash flows from operating activities:				
Increase (decrease) in net assets	\$ 1,999	(3,240)	3,240	1,999
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities:				
Effect of change in accounting principle	—	—	—	—
Private gifts restricted for long-term investment	(4,428)	—	—	(4,428)
Depreciation	13,493	1,330	—	14,823
Gain on beneficial interest in perpetual trusts	(1,475)	—	—	(1,475)
Contribution of fixed assets	(1,000)	—	—	(1,000)
Net loss on disposal of assets	237	—	—	237
Loss on impairment of asset	—	—	—	—
Net gain on investments	(22,096)	—	—	(22,096)
Accretion on asset retirement obligation	341	—	—	341
Changes in assets and liabilities:				
Receivables: tuition, grants, pledges, affiliate and other	(3,863)	246	(343)	(3,960)
Inventories, prepaid expenses, and deferred charges	(1,571)	69	—	(1,502)
Equity interest in IITRI	3,240	—	(3,240)	—
Accounts payable and accrued expenses	1,066	79	343	1,488
Accrued salaries and wages	(2,587)	141	—	(2,446)
Deferred revenue	1,528	873	—	2,401
Deposits by students and others	1,155	—	—	1,155
Accrued postretirement benefit obligation	407	—	—	407
Obligations under split-interest agreements	100	—	—	100
Advances from U.S. government for student loans	23	—	—	23
Asset retirement obligation	(2,806)	—	—	(2,806)
Net cash used in operating activities	(16,237)	(502)	—	(16,739)
Cash flows from investing activities:				
Proceeds from sale of investments	168,623	1,060	—	169,683
Purchase of investments	(146,772)	—	—	(146,772)
Change in bond proceeds held by trustees	(14,376)	420	—	(13,956)
Purchase of physical properties	(9,533)	(239)	—	(9,772)
Issuance of notes receivable	(1,253)	—	—	(1,253)
Payments received on notes receivable	1,007	—	—	1,007
Net cash provided by (used in) investing activities	(2,304)	1,241	—	(1,063)
Cash flows from financing activities:				
Private gifts restricted for long-term investment	4,428	—	—	4,428
Payments on notes and bonds payable	(150)	(775)	—	(925)
Payments on borrowings under line of credit	(15,500)	—	—	(15,500)
Proceeds from borrowings under line of credit	—	—	—	—
Proceeds from issuance of bonds payable	30,000	—	—	30,000
Net cash provided by (used in) financing activities	18,778	(775)	—	18,003
Increase (decrease) in cash	237	(36)	—	201
Cash at:				
Beginning of year	1,438	1,401	—	2,839
End of year	\$ 1,675	1,365	—	3,040
Supplemental disclosure of cash flow information:				
Cash paid for interest	\$ 8,070	176	—	8,246

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

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

See accompanying independent auditors' report on supplemental information.