ILLINOIS INSTITUTE OF TECHNOLOGY

OMB Circular A-133 Audit Report

Year ended May 31, 2011

(With Independent Auditors' Reports Thereon)

ILLINOIS INSTITUTE OF TECHNOLOGY

Table of Contents

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

Independent Auditors' Report

The Board of Trustees
Illinois Institute of Technology:

We have audited the accompanying consolidated statements of financial position of Illinois Institute of Technology (the University) as of May 31, 2011 and 2010, 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 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. 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 the University as of May 31, 2011 and 2010, 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 October 27, 2011 on our consideration of 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.

KPMG LLP

Chicago, Illinois
October 27, 2011

ILLINOIS INSTITUTE OF TECHNOLOGY

Consolidated Statements of Financial Position

May 31, 2011 and 2010

(In thousands of dollars)

Assets		2011	2010
Cash	$	16,400	3,040
Bond proceeds held by trustees		6,040	16,130
Notes and accounts receivable:			
Grants and contracts, less allowance of $310 in 2011 and $297 in 2010		10,494	8,118
Students:			
Tuition, less allowance of $848 in 2011 and $3,302 in 2010		7,968	7,610
Notes, less allowance of $563 in 2011 and $532 in 2010		11,166	11,598
Pledges, less allowance of $175 in 2011 and $218 in 2010 (note 5)		26,197	20,047
Other, less allowance of $786 in 2011 and $0 in 2010		2,473	3,495
Inventories, prepaid expenses, and deferred charges		3,955	3,822
Investments (note 4)		189,793	176,609
Physical properties, less accumulated depreciation (note 6)		277,900	270,897
Beneficial interest in perpetual trusts (note 7)		21,404	18,688
Total assets	$	573,790	540,054
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	24,006	21,583
Accrued salaries and wages		14,181	14,719
Deferred revenue		23,242	17,932
Deposits by students and others		3,170	3,383
Accrued postretirement benefit obligation (note 9)		2,301	2,068
Obligation under split-interest agreements		1,410	1,408
Notes and bonds payable (note 8)		218,505	222,315
Advances from the U.S. government for student loans		8,117	8,117
Asset retirement obligation		5,363	6,778
Total liabilities		300,295	298,303
Net assets (note 12):			
Unrestricted		50,539	36,365
Temporarily restricted		31,435	33,539
Permanently restricted		191,521	171,847
Total net assets		273,495	241,751
Total liabilities and net assets	$	573,790	540,054

See accompanying notes to consolidated financial statements.

ILLINOIS INSTITUTE OF TECHNOLOGY

Consolidated Statement of Activities

Year ended May 31, 2011

(In thousands of dollars)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating revenue:				
Tuition and fees, net of scholarships of $64,363	$ 121,691	—	—	121,691
Government grants and contracts	65,957	—	—	65,957
Private grants and contracts	7,854	—	—	7,854
Private gifts	7,612	1,160	—	8,772
Endowment spending distribution (note 13)	13,552	—	—	13,552
Endowment net assets released from restrictions (note 13)	2,022	(2,022)	—	—
Sales and services of auxiliary enterprises	12,297	—	—	12,297
Other sources	17,006	—	—	17,006
Net assets released from restrictions	3,023	(3,023)	—	—
Total operating revenue	251,014	(3,885)	—	247,129
Operating expenses:				
Faculty salaries	51,201	—	—	51,201
Administrative salaries	44,648	—	—	44,648
Part-time salaries	13,819	—	—	13,819
Employee benefits	22,607	—	—	22,607
Operations and maintenance	22,149	—	—	22,149
Supplies and services	45,946	—	—	45,946
Professional fees and advertising	11,749	—	—	11,749
IITRI research	14,436	—	—	14,436
Interest on indebtedness	11,967	—	—	11,967
Depreciation	14,830	—	—	14,830
Total operating expenses	253,352	—	—	253,352
Decrease in net assets from operating activities	(2,338)	(3,885)	—	(6,223)
Nonoperating revenue and expenses:				
Private gifts	—	—	16,917	16,917
Net asset reclassification (note 13)	146	(146)	—	—
Net gain on investments (note 4)	24,900	1,433	2,757	29,090
Net loss on impairment of assets (note 6)	(720)	—	—	(720)
Endowment spending distribution (note 13)	(13,552)	—	—	(13,552)
Endowment income (note 4)	803	494	—	1,297
Net loss on disposal of assets	(102)	—	—	(102)
Asset retirement obligation	1,414	—	—	1,414
Other	3,623	—	—	3,623
Increase in net assets from nonoperating activities	16,512	1,781	19,674	37,967
Increase (decrease) in net assets before endowment net asset reclassification	14,174	(2,104)	19,674	31,744
Endowment net asset reclassification (note 13)	—	—	—	—
Increase (decrease) in net assets	14,174	(2,104)	19,674	31,744
Net assets at beginning of year	36,365	33,539	171,847	241,751
Net assets at end of year	$ 50,539	31,435	191,521	273,495

See accompanying notes to consolidated financial statements.

ILLINOIS INSTITUTE OF TECHNOLOGY

Consolidated Statement of Activities

Year ended May 31, 2010

(In thousands of dollars)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
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)	—	—
Total operating revenue	219,819	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	12,467	—	—	12,467
Interest on indebtedness	10,137	—	—	10,137
Depreciation	14,823	—	—	14,823
Total operating expenses	244,773	—	—	244,773
Increase (decrease) in net assets from operating activities	(24,954)	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 (note 13)	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
Increase (decrease) in net assets from nonoperating activities	19,781	(954)	454	19,281
Increase (decrease) in net assets before endowment net asset reclassification	(5,173)	6,718	454	1,999
Endowment net asset reclassification (note 13)	(7,966)	7,966	—	—
Increase (decrease) in net assets	(13,139)	14,684	454	1,999
Net assets at beginning of year	49,504	18,855	171,393	239,752
Net assets at end of year	$ 36,365	33,539	171,847	241,751

See accompanying notes to consolidated financial statements.

ILLINOIS INSTITUTE OF TECHNOLOGY

Consolidated Statements of Cash Flows

Years ended May 31, 2011 and 2010

(In thousands of dollars)

	2011	2010
Cash flows from operating activities:		
Increase in net assets	$ 31,744	1,999
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Private gifts restricted for long-term investment	(10,767)	(4,428)
Depreciation	14,830	14,823
Gain on beneficial interest in perpetual trusts	(2,716)	(1,475)
Contribution of fixed assets	—	(1,000)
Net loss on disposal of assets	102	237
Loss on impairment of asset	720	—
Net gain on investments	(26,144)	(22,096)
Accretion on asset retirement obligation	327	341
Changes in assets and liabilities:		
Receivables: tuition, grants, pledges, affiliate, and other	(7,862)	(3,960)
Inventories, prepaid expenses, and deferred charges	(133)	(1,502)
Accounts payable and accrued expenses	—	1,488
Accrued salaries and wages	2,423	(2,446)
Deferred revenue	(538)	2,401
Deposits by students and others	5,310	1,155
Accrued postretirement benefit obligation	(213)	407
Obligations under split-interest agreements	233	100
Advances from U.S. government for student loans	2	23
Asset retirement obligation	(1,742)	(2,806)
Net cash used in operating activities	5,576	(16,739)
Cash flows from investing activities:		
Proceeds from sale of investments	53,524	169,683
Purchase of investments	(40,564)	(146,772)
Change in bond proceeds held by trustees	10,090	(13,956)
Purchase of physical properties	(22,655)	(9,772)
Issuance of notes receivable	(947)	(1,253)
Payments received on notes receivable	1,379	1,007
Net cash provided by (used in) investing activities	827	(1,063)
Cash flows from financing activities:		
Private gifts restricted for long-term investment	10,767	4,428
Payments on notes and bonds payable	(810)	(925)
Payments on borrowings under line of credit	(3,000)	(15,500)
Proceeds from issuance of bonds payable	—	30,000
Net cash provided by financing activities	6,957	18,003
Increase in cash	13,360	201
Cash at:		
Beginning of year	3,040	2,839
End of year	$ 16,400	3,040
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 9,167	8,246

See accompanying notes to consolidated financial statements.

(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.

(Continued)

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, the stipulated time period has elapsed, and/or amounts have been appropriated by the governing board for expenditures) is 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 and are reported as grants and contracts revenue on the statements of activities.

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 and are reported as grants and contracts revenue on the statements of activities. 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, 2011 and 2010, these governmental clients accounted for approximately 74% and 84%, respectively, of IITRI's operating revenue of $18,796 and $12,380, respectively. In addition, IITRI had one significant industrial customer, comprising 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 grants and contracts revenue for 2011 and 2010 and grants and contracts receivable at May 31, 2011 and 2010 are unbilled receivables in the amounts of approximately $3,234 and $1,464, respectively.

The amount of grants and contracts 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 that 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 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.

(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 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.

(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. 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.

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(j) Beneficial Interest in Perpetual Trusts

The University has a beneficial interest in certain perpetual trusts that are held by third parties and are reported at fair value. 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, 2011 of $16 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 of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

(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.

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 real estate investments, equity mutual funds, private equity funds, and beneficial interests in perpetual trusts as Level 3. The May 31, 2011 real estate is valued utilizing the income capitalization and sale comparison methodology completed by an independent real estate appraiser. The May 31, 2010 real estate is valued at the net present value of the projected cash flows completed by the University. 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, 2011 and 2010, 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 of the investments in these trusts are based on quoted market prices published by financial institutions.

The University has $19,868 of investments in alternative investment funds, which are reported at fair value. For $19,868 of those investments, the University has concluded that the NAV reported by the underlying fund approximates the fair value of the investment. These investments are redeemable with the fund at NAV 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 NAV 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 NAV. 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 NAV, and the discount could be significant. The University has no unfunded commitments relative to these investments.

(In thousands of dollars)

Assets Measured on a Recurring Basis

The following tables present information about the University's financial assets that are measured at the fair value of the recurring basis as of May 31, 2011 and 2010, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value.

	2011					
	Level 1	**Level 2**	**Level 3**	**Total**	**Redemption or liquidation**	**Days' notice**
Investments:						
Cash and cash equivalents	$ 20,530	—	—	20,530	Daily	One
Total	20,530	—	—	20,530		
Domestic equities:						
Fixed income	33,800	—	—	33,800	Daily	One
Large Cap Equity	46,029	—	—	46,029	Daily	One
Tactical opportunities	14,282	—	—	14,282	Daily	One
State Street Global	2,031	—	—	2,031	Daily	One
Small Cap	4,087	—	—	4,087	Daily	One
Total	100,229	—	—	100,229		
Global (ex-U.S.) equities:						
Developed international equity	38,748	—	—	38,748	Daily	One
Hedged equity funds of funds:						
Multiple strategies total return	—	—	8,323	8,323	Locked-up (1)	60
Multiple strategies – absolute return	—	—	3,317	3,317	Locked-up (1)	60
Total	—	—	11,640	11,640		
Private equity and venture capital funds:						
Commonfund Capital International	—	—	1,782	1,782	None	N/A
Commonfund Capital Venture	—	—	2,685	2,685	None	N/A
Commonfund Capital Private Equity	—	—	3,241	3,241	None	N/A
Roundtable	—	—	520	520	None	N/A
Total	—	—	8,228	8,228		
Real assets:						
IITRI Tower	—	—	4,200	4,200	Illiquid (2)	N/A
Total	—	—	4,200	4,200		
Other securities:						
Fixed income (IITRI)	5,885	—	—	5,885	Daily	One
Domestic equities	333	—	—	333	Daily	One
Total	6,218	—	—	6,218		
Other assets:						
Bond proceeds	6,040	—	—	6,040	Daily	One
Perpetual trusts	—	—	21,404	21,404	None	N/A
Total	6,040	—	21,404	27,444		
Total	$ 171,765	—	45,472	217,237		

(1) 1 year from the initial investment.
(2) Real Estate property owned by endowment

(In thousands of dollars)

	2010					
	Level 1	**Level 2**	**Level 3**	**Total**	**Redemption or liquidation**	**Days' notice**
Investments:						
Cash and cash equivalents	$ 21,843	—	—	21,843	Daily	One
Total	21,843	—	—	21,843		
Domestic equities:						
Fixed income	33,097	—	—	33,097	Daily	One
Large Cap Equity	36,217	—	—	36,217	Daily	One
Tactical opportunities	16,573	—	—	16,573	Daily	One
State Street Global	1,764	—	—	1,764	Daily	One
Small Cap	3,207	—	—	3,207	Daily	One
Total	90,858	—	—	90,858		
Global (ex-U.S.) equities:						
Developed international equity	32,688	—	—	32,688	Daily	One
Hedged equity funds of funds:						
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		
Private equity and venture capital funds:						
Commonfund Capital International	—	—	1,643	1,643	None	N/A
Commonfund Capital Venture	—	—	2,068	2,068	None	N/A
Commonfund Capital Private Equity	—	—	3,406	3,406	None	N/A
Roundtable	—	—	630	630	None	N/A
Total	—	—	7,747	7,747		
Real assets:						
IITRI Tower	—	—	4,227	4,227	Illiquid (2)	N/A
Total	—	—	4,227	4,227		
Other securities:						
Fixed income (IITRI)	7,774	—	—	7,774	Daily	One
Domestic equities	249	—	—	249	Daily	One
Total	8,023	—	—	8,023		
Other assets:						
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

The fiscal year 2010 fair value Level 1 cash and cash equivalents and domestic equities were reclassified between each category. The reclassification did not change the fiscal year 2010 totals.

(In thousands of dollars)

Aggregate investment liquidity as of May 31, 2011 and 2010, is presented below based on redemption or sale period:

		2011	2010
Investment redemption or sale period:			
Daily	$	165,725	153,412
Subject to rolling lock-ups		11,640	11,223
Illiquid		4,200	4,227
Redemptions not permitted		8,228	7,747
Totals	$	189,793	176,609

The tables below present 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, 2011 and 2010:

		Real estate	Equity mutual funds	Private equity funds	Beneficial interest in perpetual trusts	Total
Beginning balance, June 1, 2010	$	4,227	11,223	7,747	18,688	41,885
Net realized and unrealized gains (losses)		(27)	417	481	2,716	3,587
Purchases, issuances, and settlements		—	—	—	—	—
Transfers in (out) of Level 3		—	—	—	—	—
Ending balance, May 31, 2011	$	4,200	11,640	8,228	21,404	45,472
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, 2011	$	(27)	417	481	2,716	3,587

(In thousands of dollars)

		Alion notes and warrants	Real estate	Equity mutual funds	Private equity funds	Beneficial interest in perpetual trusts	Total
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		—	—	—	—	—	—
Ending balance, May 31, 2010	$	—	4,227	11,223	7,747	18,688	41,885
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

(4) Investments

Investments consist of the following at May 31:

		2011		2010	
		Cost	Fair value	Cost	Fair value
Cash equivalents	$	20,530	20,530	21,842	21,843
Stocks		254	333	219	249
Equity mutual funds		89,496	103,634	95,808	87,863
Bonds (IITRI)		6,391	5,885	7,498	7,774
Fixed income mutual funds		33,540	35,343	35,430	35,683
Private equity funds		17,365	19,868	18,590	18,970
Real estate		13,803	4,200	13,803	4,227
Total investments	$	181,379	189,793	193,190	176,609

For investment purposes, the University pools substantially all assets of its endowment accounts. Each account owns “units” of the consolidated investment pool. The pooled assets are valued on a monthly basis and a fair value per unit is determined which is used to calculate the number of units purchased by accounts entering the pool and redeemed by accounts withdrawing from the pool. Income (interest, dividends, and rents) earned by the investment pool is distributed to the individual accounts on the basis of average units owned by each account in the pool during the year. The fiscal year 2010 cash equivalents, equity mutual funds, and private equity funds cost and fair value amounts were reclassified between each category. The reclassification did not change the fiscal year 2010 total investments.

(In thousands of dollars)

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

		2011	2010
Return on investments:			
Interest and dividends	$	1,297	3,954
Net realized gain on sale of investments		1,379	72,621
Net unrealized gain (loss) on investments		24,995	(50,525)
Net return on investments	$	27,671	26,050

The return on investments reflects income from investments held by IITRI of $33 and $475 for 2011 and 2010, respectively. The net gain on investments reported on the statement of activities includes the permanently restricted gain on the beneficial interest in perpetual trusts of $2,716 and $1,475 for 2011 and 2010, respectively.

(5) Pledges Receivable

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

		2011	2010
Pledges receivable	$	28,807	23,077
Allowance for uncollectible pledges		(175)	(218)
Discount to present value future cash flows		(2,435)	(2,812)
Net pledges receivable	$	26,197	20,047

The following is a summary showing the expected timing of collection of total gross unconditional pledges receivable outstanding as of May 31, 2011:

Fiscal year(s)		Amount
2012	$	10,537
2013 through 2017		18,092
2018 and thereafter		178
	$	28,807

(In thousands of dollars)

(6) Physical Properties

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

		2011	2010
Land and land improvements	$	29,319	30,039
Building and building improvements		366,761	349,047
Equipment and library collection		85,587	89,801
Construction in progress		8,875	10,406
Total physical properties		490,542	479,293
Less accumulated depreciation		212,642	208,396
Physical properties, net	$	277,900	270,897

During 2011, 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 $720 and a loss in the consolidated statement of activities in nonoperating revenue and expenses. At May 31, 2011, the land parcel was valued at $5,180.

(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, 2011 and 2010, the share of these trusts from which the University derives income had a combined fair value of $21,404 and $18,688, respectively. These trusts provided unrestricted income of $404 and $400 in fiscal 2011 and 2010, respectively.

(8) Notes and Bonds Payable

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

	Interest rate		2011	2010
University:				
IFA Bonds, Series 2006, payable in varying installments through 2036	5.00% and 6.10%	$	160,000	160,000
IFA Bonds, Series 2009, payable in varying installments through 2034	4.750% to 7.125%		30,000	30,000
IITRI – IFA Series 2004, payable in varying installments through 2034	Variable		14,505	15,315
Short-term line of credit	Various		14,000	17,000
Total notes and bonds payable		$	218,505	222,315

(In thousands of dollars)

The following is a summary of required principal payments on outstanding secured obligations as of May 31, 2011:

Fiscal year ending:		
2012	$	14,845
2013		1,545
2014		4,695
2015		4,960
2016		6,085
2017 and beyond		186,375
Total notes and bonds payable	$	218,505

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 JPMorgan Chase Bank through March 31, 2014, 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 JPMorgan Chase 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 JPMorgan Chase Bank require the bonds to be amortized over a 13-year life carrying interest rate of base rate plus 1%; accordingly, the current amortization schedule results in final payment in year 2023, which does not violate the terms of IITRI's loan agreement.

(In thousands of dollars)

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. The amount outstanding under the agreement was $14,000 as of May 31, 2011 and $17,000 as of May 31, 2010.

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, 2011 and 2010.

The University and IITRI are subject to certain debt covenants. As of May 31, 2011, 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, 2011 and 2010 based on quoted market prices for the same or similar issues.

(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, 2011 and 2010 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.

		2011	2010
Change in accumulated postretirement benefit obligation at beginning of the period	$	2,068	1,662
Service cost		12	10
Interest cost		113	103
Plan amendments		—	—
Actuarial gain		160	315
Actuarial benefit payments net contributions		(52)	(22)
Accumulated postretirement benefit obligation at end of the period		2,301	2,068

(In thousands of dollars)

		2011	2010
Change in fair value of plan assets:			
Fair value of plan assets at beginning of period	$	—	—
Employer contribution		52	29
Participant contributions		53	34
Total benefit payments		(105)	(63)
Fair value of plan assets at end of the period		—	—
Funded status	$	(2,301)	(2,068)
Amounts recognized in the statement of financial position consist of:			
Current liabilities	$	102	82
Non-current liabilities		2,199	1,986
Accrued postretirement benefit obligation	$	2,301	2,068

In fiscal year 2008, the University adopted FASB ASC Section 715 Subtopic 60, *Defined Benefit Plans – Other Postretirement*. In fiscal year 2011, 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 $99 and unrecognized prior service costs of $49. 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 gain of $61 and unrecognized prior service costs of $62. These amounts will be subsequently recognized in future years as components of net periodic pension cost. The estimated amortization of transition obligation, prior service cost, and net losses in the next fiscal year are $0, $12, and $0, respectively.

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

		2011	2010
Service cost	$	12	10
Interest cost		113	103
Amortization of net gain		—	(16)
Amortization of prior service cost		12	11
Net periodic postretirement benefit cost	$	137	108

(Continued)

(In thousands of dollars)

(a) Actuarial Assumptions

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

	2011	2010
Discount rate (expense)	4.94%	5.52%
Discount rate (obligation)	5.52	5.52
Healthcare cost trend rates:		
Healthcare cost trend rate assumed for next year	10.00	11.00
Ultimate rate	5.00	5.00
Year that the ultimate rate is reached	2016	2016

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

		2011	2010
Effect on total service cost and interest cost:			
One-percentage point increase	$	15	13
One-percentage point decrease		(13)	(12)
Effect on year-end postretirement benefit obligation:			
One-percentage point increase		258	231
One-percentage point decrease		(222)	(200)

(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:		
2012	$	102
2013		114
2014		131
2015		138
2016		152
2017 – 2019		834

(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.

(In thousands of dollars)

(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, 2011 and 2010 were $6,006 and $5,806 by the University and $348 and $351 by IITRI, respectively.

(b) Healthcare Benefit Plans

The University maintains a healthcare 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 healthcare 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 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:

	2011	2010
Instruction	$ 86,839	83,187
Research and other grant activities	74,758	58,668
Academic support	24,929	24,382
Student services	16,153	15,135
Institutional support	38,014	50,358
Auxiliary enterprises	12,659	13,043
Total	$ 253,352	244,773

(In thousands of dollars)

(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:

		2011	2010
Funds designated by the board of trustees for endowment	$	69,904	69,866
Undesignated		(19,365)	(33,501)
Total	$	50,539	36,365

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

		2011	2010
Scholarships	$	4,430	3,484
Instruction and academic departments		5,779	7,124
General operations		20,294	21,999
Split-interest annuity agreements		932	932
Total	$	31,435	33,539

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

		2011	2010
Endowment investments	$	148,571	140,514
Endowment pledges		15,257	6,452
Donor-restricted revolving loans funds		4,051	4,051
Split-interest annuity agreements		2,238	2,142
Beneficial interest in perpetual trusts		21,404	18,688
Total	$	191,521	171,847

Beginning in fiscal year 2011, the University is presenting its permanently restricted endowment net assets as endowment investments and endowment pledges. The fiscal year 2010 amounts were reclassified for comparative purposes.

The amount of outstanding loans from quasi-endowments to unrestricted funds is $11,671 and $11,790 at May 31, 2011 and 2010, 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, net assets associated

(Continued)

(In thousands of dollars)

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, 2011:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ (1,682)	7,725	163,828	169,871
Board-designated funds	39,592	—	—	39,592
Total	$ 37,910	7,725	163,828	209,463

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

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

(In thousands of dollars)

Changes in endowment net assets for year ended May 31, 2011:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Net assets, beginning of year	$	25,107	7,966	146,966	180,039
Endowment-related investment return:					
Endowment-related investment income, net		770	494	—	1,264
Endowment-related net realized and unrealized gains		22,400	1,433	—	23,833
Total endowment-related investment return		23,170	1,927	—	25,097
Contributions		13	—	8,057	8,070
Pledges		—	—	8,805	8,805
Appropriation		(16,978)	(2,022)	—	(19,000)
Reclassifications		6,598	(146)	—	6,452
Net assets, end of year	$	37,910	7,725	163,828	209,463

The fiscal year 2010 unrestricted endowment net assets were improperly reduced by $6,452. The University reclassified the $6,452 during fiscal year 2011 to properly present ending endowment net assets in this footnote disclosure at May 31, 2011.

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

		Unrestricted	Temporarily restricted	Permanently restricted	Total
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 gains		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

(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 UPMIFA requires the University to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were $1,682 and $2,291 as of May 31, 2011 and 2010. 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 $15,574 for fiscal year 2011 and $17,046 for fiscal year 2010. The board of trustees budgeted endowment distribution is $13,000 for fiscal year 2012.

(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 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 IIT 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 housing complex, the lease obligates the University to lease unoccupied beds from IIT to the extent necessary to permit IIT to pay its annual debt service.

In January 2006, the University entered into a 55-year ground lease agreement with Townsend Chicago, LLC (Townsend). The ground lease agreement requires Townsend 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 $808, $828, $849, $870, 892, respectively, over each of the next five years and $9,381 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 $1,027 and $1,060 over the next two years for rent. The lease expires on August 31, 2012. The lease involves occupying space in the building located at 350 North LaSalle.

In March 2010, the University entered into a seven-year agreement to lease additional space of the Technology Business Center, which would not be effective until June 1, 2010. Related to this agreement, Townsend and the University agreed to establish a charitable donation to offset the universities expenses attributed to the agreement.

(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 expired on June 30, 2011 with provisions to renew annually. The University renewed the irrevocable letter of credit on June 15, 2011 in the amount of $6,362 and expires on June 30, 2012 with provisions to renew annually.

(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, 2011 through October 27, 2011 which was the date the consolidated financial statements were issued.

ILLINOIS INSTITUTE OF TECHNOLOGY

Schedule of Expenditures of Federal Awards

Year ended May 31, 2011

Program title	Award number	CFDA number	Federal expenditures
Major Programs:			
Research and Development Cluster – Direct awards:			
Department of Agriculture:			
Food and Drug Administration:			
Integrated Programs (B)	USDA 2008-51110-04345	10.303	$ 138,741
Agriculture and Foot Research Initiative (AFRI)	USDA 2011-67017-30016	10.310	10,371
Agriculture and Foot Research Initiative (AFRI)	USDA 2010-65201-20593	10.310	115,380
			264,492
Department of Commerce:			
ARRA Special Economic Development and Adjustment Assistance		11.307	2,584,150
Department of Defense:			
Office of Naval Research	ONR N00014-10-1-0752	12.300	139,441
Office of Naval Research	ONR N00014-10-1-0769	12.300	49,665
Basic Scientific Research	ARO W911NF-06-1-0249	12.431	(174)
Basic Scientific Research	DOD W911NF-08-2-0058	12.431	512,395
Basic Scientific Research	ARO W911NF-09-2-0071	12.431	281,416
Basic Scientific Research	ARO W911NF-11-2-0018	12.431	32,459
Air Force Defense Research Sciences Program	AFOSR FA9550-07-10241	12.800	262,798
Air Force Defense Research Sciences Program	AFOSR FA9550-07-10241	12.800	117,714
National Security Agency	NSA H98230-08-1-0043	12.901	16,359
			1,412,073
Department of Transportation:			
Department of Transportation programs	FHWA Dtfh61-06-G0005	20.xxx	136,749
Department of Transportation programs	FHWA Dtfh61-10-G0009	20.xxx	156,481
Aviation Research Grants	GNSS FAA 07-G-012	20.108	232,764
			525,994
Department of Treasury:			
Low-Income Taxpayer Clinics	IRS LITC 2010	21.008	52,848
Low-Income Taxpayer Clinics	IRS LITC 2011	21.008	38,227
			91,075
National Aeronautics and Space Administration:			
Aerospace Education Services Program		43.001	74,430
National Science Foundation:			
National Science Foundation research programs		47.xxx	352,995
Engineering Grants		47.041	141,195
Engineering Grants	DMI-0529165	47.041	128,499
Engineering Grants	BES-0546113	47.041	63,303
Engineering Grants	CBET-0731201	47.041	55,594
Engineering Grants	CBET-0854430	47.041	51,318
Engineering Grants	CMMI-0728212	47.041	97,713
Engineering Grants	CMMI-0800912	47.041	105,867
Engineering Grants	CMMI-0900597	47.041	10,722
Engineering Grants	CMMI-1030903	47.041	9,345
Engineering Grants	ECCS-0725666	47.041	54,150
Engineering Grants	ECCS-0936877	47.041	8,675
Engineering Grants	EEC-0502174	47.041	23,608
Engineering Grants	EEC-0629416	47.041	34,585
Engineering Grants	EEC-0852013	47.041	117,882
Engineering Grants	CMMI-090079	47.041	20,968
Engineering Grants	CMMI-1055805	47.041	45
Engineering Grants	CBET-0967906	47.041	86,330
Engineering Grants	CBET-1025461	47.041	13,317
Engineering Grants	CBET-0853528	47.041	28,751
Engineering Grants	CMMI-0847030	47.041	128,908
Engineering Grants	EEC-0852048	47.041	95,557
Engineering Grants	CBET-0966764	47.041	145,458
Mathematical and Physical Sciences		47.049	171,833
Mathematical and Physical Sciences	DMR-0806935	47.049	54,125
Mathematical and Physical Sciences	DMS-0713848	47.049	6,680
Mathematical and Physical Sciences	DMS-0938235	47.049	29,366
Mathematical and Physical Sciences	DMR-1006953	47.049	99,381
Mathematical and Physical Sciences	DMR-0600690	47.049	(1,346)
Mathematical and Physical Sciences	DMR-0964812	47.049	111,505
Mathematical and Physical Sciences	DMS-1025422	47.049	25,614
Mathematical and Physical Sciences	PHY-0969953	47.049	13,330
Mathematical and Physical Sciences	PHY-0969989	47.049	44,377
Mathematical and Physical Sciences	DMS-0908099	47.049	139,047
Mathematical and Physical Sciences	PHY-0757952	47.049	24,823
Geosciences	OCE-0620539	47.050	23,376
Computer and Information Science and Engineering		47.070	36,332
Computer and Information Science and Engineering	CCF-0621435	47.070	114,170
Computer and Information Science and Engineering	CCF-0702737	47.070	24,828
Computer and Information Science and Engineering	CNS-0720549	47.070	20,976
Computer and Information Science and Engineering	CNS-0722003	47.070	6,751
Computer and Information Science and Engineering	CNS-0746643	47.070	58,594
Computer and Information Science and Engineering	CNS-0751200	47.070	52,950

ILLINOIS INSTITUTE OF TECHNOLOGY

Schedule of Expenditures of Federal Awards

Year ended May 31, 2011

Program title	Award number	CFDA number	Federal expenditures
Computer and Information Science and Engineering	CNS-0831831	47.070	$ 27,335
Computer and Information Science and Engineering	CNS-0832093	47.070	66,052
Computer and Information Science and Engineering	CNS-0832120	47.070	67,153
Computer and Information Science and Engineering	CNS-0834514	47.070	76,976
Computer and Information Science and Engineering	CNS-0837495	47.070	52,811
Computer and Information Science and Engineering	CNS-0916666	47.070	53,141
Computer and Information Science and Engineering	CNS-0938149	47.070	2,000
Computer and Information Science and Engineering	CCF-0937877	47.070	84,301
Computer and Information Science and Engineering	CNS 1035894	47.070	54,440
Computer and Information Science and Engineering	CNS 1057879	47.070	26,064
Computer and Information Science and Engineering	NETS-NECO CNS-0831963	47.070	42,776
Computer and Information Science and Engineering	CNS-1018731	47.070	49,135
Computer and Information Science and Engineering	CNS-1018786	47.070	134,043
Biological Sciences		47.074	199,021
Biological Sciences	IOS-1022058	47.074	59,244
Social, Behavioral, and Economic Sciences	SES-0933810	47.075	53,024
Social, Behavioral, and Economic Sciences	BCS-0953967	47.075	98,842
Education and Human Resources	DGE-0514344	47.076	(1,700)
Education and Human Resources	DRL 1020207	47.076	137,622
Education and Human Resources	DUE-0817531	47.076	66,465
Education and Human Resources	DUE-0942179	47.076	33,999
Software Infrastructure for Sustained Innovation	NSF OCI-1047963	47.080	47
Software Infrastructure for Sustained Innovation	NSF OCI-1054974	47.080	42,854
ARRA Trans-NSF Recovery Act Research Support		47.082	83,847
ARRA Trans-NSF Recovery Act Research Support		47.082	21,747
ARRA Trans-NSF Recovery Act Research Support	DMS-0914923	47.082	79,635
ARRA Trans-NSF Recovery Act Research Support	DMS-0923111	47.082	7,731
ARRA Trans-NSF Recovery Act Research Support	CNS-0916743	47.082	27,182
ARRA Trans-NSF Recovery Act Research Support	OCI-0904670	47.082	72,381
			4,549,665
Small Business Administration			
Small Business Administration Grants		59.xxx	681,433
Small Business Administration Grants	SBA HA-08-I-0133	59.xxx	53,476
Small Business Administration Grants	SBA-HQ-09-I-0026	59.xxx	60,582
Economic Injury Disaster Loans	SBAHQ-08-I-0052	59.002	1,228
Economic Injury Disaster Loans	SBAHQ-10-I-0040	59.002	209,655
			1,006,374
Department of Veterans Affairs:			
Veterans Benefits Administration		64.xxx	62,895
			62,895
Department of Energy:			
Department of Energy Programs	DE-FC02-06ER41442	81.xxx	36,363
Department of Energy Programs	DE-F0007758 US DOE/NETL	81.xxx	543
Department of Energy Programs		81.xxx	(20,425)
Office of Science Financial Assistance Program	DE-F02-01ER41159	81.049	56,599
Office of Science Financial Assistance Program	DE-FG02-94ER40840	81.049	394,752
ARRA Office of Science Financial Assistance Program	DE-FG02-94ER40840	81.049	60,592
Office of Science Financial Assistance Program	DE-SC0002100	81.049	58,025
University Coal Research	DE-FE0003997	81.057	36,240
Renewable Energy Research and Development	DE-EE0000461	81.087	73,346
ARRA Renewable Energy Research and Development	DE-EE0002979	81.087	4,828,603
Renewable Energy Research and Development	DE-FC26-08NT02875	81.087	158,318
ARRA Renewable Energy Research and Development	DE-FC26-08NT02875	81.087	1,595,910
Renewable Energy Research and Development	DE-FG26-08NT01921	81.087	(36,994)
ARRA Renewable Energy Research and Development	E-EE001380	81.087	350,694
Defense Nuclear Nonproliferation Research (B)	DE-NA0000422	81.113	192,135
Nuclear Energy Research, Development and Demonstration (B)	DE-NE0000343	81.121	121,859
Nuclear Energy Research, Development and Demonstration (B)	DE-NE0000105	81.121	5,000
Electricity Delivery and Energy Reliability, Research, Development and Analysis (B)	DE-OE0000449	81.122	1,236,931
			9,148,491
Department of Health and Human Services:			
Health and Human Services programs	FSIS-C-11-2008	93.xxx	903,408
Food and Drug Administration – Research	FDA 223039902	93.103	71,245
Food and Drug Administration – Research	1U01 FD003872	93.103	1,192,686
Food and Drug Administration – Research	1U01FD003801-01	93.103	1,474
Food and Drug Administration – Research		93.103	3,775,411
Alcohol Research Programs	1R15DC011650-01	93.173	1,354
Discovery and Applied Research for Technological Innovations to Improve Human Health	NIH 1R21Eb005273-1A2	93.286	222,117
Discovery and Applied Research for Technological Innovations to Improve Human Health	NIH 1R01EB009715-01A1	93.286	184,750
Discovery and Applied Research for Technological Innovations to Improve Human Health	NIH 1R01EB010049-01A1	93.286	203,963
Discovery and Applied Research for Technological Innovations to Improve Human Health		93.286	291,961

(Continued)

ILLINOIS INSTITUTE OF TECHNOLOGY

Schedule of Expenditures of Federal Awards

Year ended May 31, 2011

Program title	Award number	CFDA number	Federal expenditures
Cardiovascular Diseases Research	1R21HL108272-01	93.387	$ 3,428
Cardiovascular Diseases Research	5 R01 HL065425-09	93.387	97,927
Cardiovascular Diseases Research	NIH 5R01HL091017	93.387	375,951
ARRA Cardiovascular Diseases Research	NIH 5R01HL091017	93.387	113,667
National Center for Research Resources	NIH YR 13 5P41RR008630-13	93.389	1,287,402
Cancer Detection and Diagnosis Research	1R21CA139386-01	93.394	156,190
Cancer Treatment Research	5 R01 CA111976-04	93.395	(5,046)
Cancer Treatment Research	R01 CA112503-03	93.395	10,698
Cancer Biology Research		93.396	274,218
Cancer Research Manpower	NCI/NIH 1F31CA1326190-01	93.398	64,860
ARRA Trans-NIH Recovery Act Research Support	1 R15 EY020807-01	93.701	60,648
ARRA Trans-NIH Recovery Act Research Support	1 R21 HL094916-01 A1	93.701	182,818
Arthritis, Musculoskeletal and Skin Diseases Research	NIH/Niams Ar053970-1	93.846	87,828
Diabetes Endocrinology and Metabolism Research	NIH 1 R01 DK085611-01	93.847	203,647
Allergy Immunology and Transplantation Research	NIH 1R01AI073892-01A1	93.855	180,809
Child Health and Human Development Extramural Research	R21 HD055478	93.865	56,381
Research Treatment and Education Programs on Lyme	NIH 1P20MH085981-01	93.942	843,822
			10,843,617
Research and Development Cluster – Direct Awards			30,563,256
Research and Development Cluster – Indirect Awards:			
Department of Agriculture:			
Integrated Programs:			
Passed through:			
Michigan Research Institute		10.200	(30,344)
University of Georgia		10.303	127,935
			97,591
Department of Commerce			
Special Economic Development and Adjustment Assistance			
Passed through:			
State of Illinois		11.307	1,163,480
Measurement and Engineering Research and Standards			
Passed through:			
National Institute of Standards and Technology		11.609	14,600
			1,178,080
Department of Defense Contracts – passed through:			
Jacobs Technology Inc		12.xxx	19,642
Transition45 Technologies Inc		12.xxx	42,557
EPIR Technologies		12.xxx	169,763
University of Illinois At Chicago		12.xxx	6,076
Basic Science Research – passed through:			
Michigan Research Institute		12.431	304,546
Basic, Applied, and Advanced Research in Science and Engineering			
passed through:			
California Institute of Technology		12.630	(7,254)
Boeing		12.630	118,946
			654,276
US Department of Justice:			
US department of Justice Research Grant Programs			
passed through:			
Chicago Police Department		16.xxx	96,592
Department of Transportation:			
Highway planning and construction – passed through:			
University of Illinois at Chicago		20.205	15,743
University Transportation Centers Program – passed through:			
University of Illinois at Chicago		20.701	26,019
			41,762
National Aeronautics and Space Administration:			
Aerospace Education Services Program – passed through:			
University of Illinois- Champaign		43.001	83,636
National Science Foundation:			
National Science Foundation Contracts – passed through:			
Harvard University		47.xxx	24,504
University of California		47.xxx	11,020
ARRA University of Kansas Center for Research Inc		47.xxx	2,238
University of Chicago		47.xxx	40,942
Education and Human Resources – passed through:			
Chicago State University		47.076	10,070
National Academy of Engineering		47.076	51,428
Trans-NSF Recovery Act Research Support – passed through:			
ARRA University of Illinois – Chicago		47.076	44,235
			184,437

Program title	Award number	CFDA number	Federal expenditures
Department of Veteran Affairs:			
Department of Veteran Affairs – passed through:			
Hines VA Hospital		64.xxx	$ 106,216
Environmental Protection Agency:			
Passed through:			
WERF		66.xxx	10,040
Great Lakes Program – passed through:			
Indiana University		66.469	8,938
University of Illinois – Chicago		66.469	10,585
			29,563
Department of Energy Contracts – passed through:			
Lawrence Berely Lab		81.xxx	52,173
Argonne National Laboratory		81.xxx	1,225,541
URS Energy and Construction INC		81.xxx	175,070
University of Puerto Rico		81.xxx	42,767
Brookhaven National Lab		81.xxx	94,338
Los Alamos National Lab		81.xxx	102,229
Fermi National Laboratory		81.xxx	276,265
Office of Science Financial Assistance Program – passed through:			
Fermilab		81.049	1,185
Office of Scientific and Technical Information – passed through:			
Argonne National Laboratory		81.064	163,732
Renewable Energy Research and Development – passed through:			
Argonne National Laboratory		81.087	(25,925)
ARKEMA, Inc		81.087	91,185
Nuclear Energy Research, Development and Demonstration (B) – passed through:			
Battelle Energy Alliance		81.121	37,044
Electricity Delivery and Energy Reliability, Research, Development and Analysis (B)			
passed through:			
State of Illinois		81.122	742,259
Energy Efficiency and Conservation Block Grant - passed through:			
Cook County Department of Environmental Control		81.128	96,653
Advanced Research and Projects Agency – Energy Financial Assistance Program			
passed through:			
UTRC		81.135	(3,070)
			3,071,446
Department of Health and Human Services			
Food and Drug Administration Programs – passed through:			
Purdue University		93.xxx	20,528
CARES		93.xxx	(938)
University of Illinois at Chicago		93.xxx	68,919
Michigan Research Institute		93.xxx	165,186
Food and Drug Administration Research – passed through:			
National Institute for Pharmaceutical Technology and Education		93.103	25,414
Discovery and Applied Research for Technological Innovations			
to Improve Human Health – passed through:			
University of Massachusetts, Worcester		93.286	9,253
Substance Abuse and Mental Health Services			
Projects of Regional and National Significance (B) – passed through:			
Lake County Health Department		93.243	48,141
Colorado State University		93.243	36,777
Cancer Detection and Diagnosis Research – passed through:			
Washington University		93.394	114,613
Trans-NIH Recovery Act Research Support – passed through:			
ARRA Northwestern University		93.701	5,877
ARRA University of Chicago		93.701	18,690
ARRA University of Wisconsin		93.701	9,514
Heart and Vascular Diseases Research – passed through:			
University of Arizona		93.837	24,602
Loyola University – Chicago		93.837	75,523
University of Wisconsin		93.837	62,958
Diabetes, Digestive, and Kidney Diseases Extramural Research			
passed through:			
University of Chicago		93.847	18,048
Wake Forest University Health Sciences		93.847	42,467
Kidney Diseases Urology and Hematology Research			
passed through:			
CARES		93.849	36,056
Extramural Research Programs in the Neurosciences and Neurological			
passed through:			
Rehabilitation Institute Corporation		93.853	38,977

ILLINOIS INSTITUTE OF TECHNOLOGY

Schedule of Expenditures of Federal Awards

Year ended May 31, 2011

Program title	Award number	CFDA number	Federal expenditures
Pharmacology Physiology and Biological Chemistry – passed through:			
University of Utah		93.859	$ 126,431
			947,036
Department of Homeland Security			
Homeland Security Programs – passed through:			
University of Minnesota		97.xxx	126,586
Agency for International Development			
USAID Development Partnerships for			
University Cooperation and Development - passed through:			
HED		98.012	154,426
Research and Development Cluster – Indirect Awards			6,771,647
Total Research and Development Cluster			37,334,903
Student Financial Aid Cluster:			
Department of Education:			
Federal Supplemental Educational Opportunity Grants		84.007	507,764
Federal Work-Study Program		84.033	1,096,496
ARRA Federal Work-Study Program		84.033	8,156
Federal Perkins Loan Program		84.038	774,750
Federal Pell Grant Program		84.063	3,509,457
Federal Direct Loans		84.268	65,421,302
Academic Competitiveness Grants		84.375	107,425
National Science and Mathematics Access to Retain Talent (SMART) Grants		84.376	496,000
Total Student Financial Aid Cluster			71,921,350
Total Major Programs			109,256,253
Nonmajor Programs:			
Direct Awards:			
Department of Education:			
Rehabilitation Long-Term Training		84.129	564,877
Graduate Assistance in Areas of National Need		84.200	125,540
Other – Direct Awards			690,417
Indirect Awards:			
Fund for the Improvement of Postsecondary Education – passed through:			
Chicago Public Schools		84.366	200,141
Other – Indirect Awards			200,141
Total Nonmajor Programs			890,558
Total Federal Awards			$ 110,146,811

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

(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, 2011. 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 the Federal Direct Loan Program (FDL).

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, 2011 consolidated statement of activities. The federal expenditures are classified in the accompanying consolidated statement of activities as government grants and contracts revenue, totaling approximately $51,915,003. The remaining government grants and contracts consist of approximately $5,989,225 of awards received from states and other sources, with the balance of approximately $14,436,001 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, 2009 through May 31, 2012, 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 2008. The base rates for on- and off-campus and FDA research were 51%, 24%, and 8% of modified total direct costs, respectively. Approximately $6,210,718 of indirect costs were reimbursed to the University for the year ended May 31, 2011.

(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, 2011 are summarized as follows:

Direct loan programs – Perkins	$	774,750
Federal Direct Loans (FDL)		65,421,302
Total federal student loan programs	$	66,196,052

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 $8,504,499 at May 31, 2011. The University received an administrative cost allowance of $115,293 under the Perkins program during the fiscal year ended May 31, 2011.

The University is responsible only for the performance of certain administrative duties with respect to the FDL, 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, 2011.

ILLINOIS INSTITUTE OF TECHNOLOGY

Notes to Schedule of Expenditures of Federal Awards

Year ended May 31, 2011

(4) Summary of Subrecipient Payments

Expenditures made to subrecipients under federal awards for the year ended May 31, 2011 were as follows:

Research and Development Cluster:		
Department of Health and Human Services	$	1,292,148
Department of Defense		117,831
Department of Energy		1,547,170
Department of Transportation		92,037
National Science Foundation		147,178
U.S. Small Business Administration		309,064
U.S. Department of Agriculture		63,472
U.S. Agency of International Development		25,958
Total	$	3,594,858

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 (the University) as of and for the year ended May 31, 2011, and have issued our report thereon dated October 27, 2011. 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

Management of the University is responsible for establishing and maintaining effective 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 our 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 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 entity'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 management of the University in a separate letter dated October 4, 2011.

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

KPMG LLP

Chicago, Illinois
October 27, 2011

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

Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on 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 could have a direct and material effect on each of the University's major federal programs for the year ended May 31, 2011, except those requirements discussed in the third paragraph 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 $14,436,001 in federal awards that are not included in the University's schedule of expenditures of federal awards for the year ended May 31, 2011. Our audit, described below, did not include the operations of IIT Research Institute because those awards are audited separately.

We did not audit the University's compliance with the requirements governing the billing, collection, and due diligence functions in accordance with the requirements of the Student Financial Assistance Cluster: Federal Perkins Loan Program as described in the Compliance Supplement. Those requirements govern functions performed by ESCI. 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. ESCI's compliance with the requirements governing the functions that it performs for the University for the year ended June 30, 2011 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 ESCI'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 in 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 of 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 could have a direct and material effect on each of the University's major federal programs for the year ended May 31, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as findings 11-01, 11–02, and 11–03.

Internal Control over Compliance

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 to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 ESCI. Internal control over compliance relating to such functions for the year ended June 30, 2011 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 ESCI's internal control over compliance related to such functions.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance 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 compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as findings 11-01, 11-02, and 11-03. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Schedule of Expenditure of Federal Awards

We have audited the consolidated financial statements of the University as of and for the year ended May 31, 2011 and have issued our report thereon dated October 27, 2011. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements taken as whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

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

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
January 23 2012,
except with respect to the opinion related to
the schedule of expenditures of federal awards
in paragraph ten, as to which the date is
October 27, 2011

ILLINOIS INSTITUTE OF TECHNOLOGY

Schedule of Findings and Questioned Costs

May 31, 2011

(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 opinions**

(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 Work Study Program – 84.033
Federal Work Study Program (ARRA) – 84.033
Federal Perkins Loan Program – 84.038
Federal Pell Grant Program – 84.063
Federal Direct Loan Program – 84.268
Academic Competitiveness Grant – 84.375
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: $3,000,000

(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:

Finding 11-01 Verification – Special Test and Provision

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

Program Name: Student Financial Aid Cluster

CFDA # and Program Expenditures: 84.007/84.033/84.033ARRA/84.038/84.063/84.268
84.375/84.376
($71,921,350)

Award Numbers: Various

Questioned Costs: $100

Requirement

An institution shall require each applicant whose application is selected by the central processor, based on edits specified by the USDE, to verify the items specified in 34 CFR Section 668.56. The institution shall also require applicants to verify any information used to calculate the expected family contribution (EFC) it has reason to believe is inaccurate.

Additionally, OMB Circular A-110, *Uniform Administrative Requirements for Grant and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, requires nonfederal entities receiving federal awards to establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Effective internal control should include ensuring corrections are made as required by federal regulations and supporting documentation is obtained and maintained in the verification file.

Condition Found

During our testwork over 40 students who were selected for verification by the USDE Central Processor, we noted untaxed benefits reported on the Institutional Student Information Record (ISIR) for two students was not consistent with information reported on the student's verification worksheet. Upon further investigation and discussion with management, we noted the verified information was not properly reported to the USDE for correction on the ISIR; as a result, these students were overawarded in the amount of $100.

Effect

Failure to properly perform verification procedures and correct ISIR information in accordance with federal regulations may result in students receiving awards for which they are not eligible and an unallowable costs being charged to the federal programs.

Recommendation

We recommend the University review its process to ensure all corrections required as the result of verification procedures are properly reported to the USDE in a timely manner and awards are adjusted for changes in the EFC as appropriate.

(Continued)

Views of Responsible Officials

Management agrees with the finding. A new management team in Student Financial Aid Office will implement new procedures to ensure verification procedures are properly reported to the USDE in a timely manner and awards are adjusted for changes in the EFC.

Finding 11-02 Reporting – Fiscal Operations Report and Application to Participate (FISAP)

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

Program Name: Student Financial Aid Cluster

CFDA # and Program Expenditures: 84.007/84.033/84.038 ($2,387,166)

Award Numbers: P007A111173/P033A111173

Questioned Costs: None

Requirement

According to 34 CFR 673.3, an institution is required to file an application to participate in the Federal Perkins Loan, Federal Work-Study, and Federal Supplemental Educational Opportunity Grants programs, which includes all information required by the USDE. In addition, OMB Circular A-110, *Uniform Administrative Requirements for Grant and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations* requires nonfederal entities receiving federal awards establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure amounts reported in the FISAP are adequately supported.

Additionally, OMB Circular A-110 requires nonfederal entities receiving federal awards to establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Effective internal control should include establishing a supervisor review to ensure information reported in the FISAP is adequately supported.

Condition Found

During our testwork over the FISAP for the program year ended June 30, 2010 (submitted in 2011), we noted the University could not provide detailed schedules to support the amounts reported for the students participating in the federal work study program who were employed in community service activities (Part V, Section G), reading tutors of children or employed in family literacy activities (Part V, Section H), or mathematics tutors of children (Part V, Section I).

Effect

Failure to adequately support amounts reported in the FISAP results in noncompliance and inhibits the ability of the USDE to properly monitor and evaluate the performance of the programs.

Recommendation

We recommend the University implement procedures to ensure the information reported in the FISAP is accurate and adequately supported.

(Continued)

Views of Responsible Officials

Management agrees with the finding. A new management team in Student Financial Aid Office will implement new procedures to ensure the FISAP report has supporting documentation and is accurate.

(Continued)

Finding 11-03 Subrecipient Monitoring – ARRA Special Test and Provision

Federal Agency: U.S. Department of Health and Human Services (USDHHS)
U.S. Department of Commerce (USDOC)
U.S. Department of Defense (USDOD)
U.S. Department of Transportation (USDOT)
U.S. Department of Treasury (USTD)
National Aeronautics and Space Administration (NASA)
National Science Foundation (NSF)
Small Business Administration (SBA)
U.S. Department of Energy (USDOE)
U.S. Environmental Protection Agency (USEPA)
U.S. Department of Education (USDE)
U.S. Department of Veterans Affairs (USDVA)
U.S. Department of Agriculture (USDA)
U.S. Agency for International Development (USAID)

Program Name: Research and Development Cluster

CFDA # and Program Expenditures: Various ($37,334,903)

Award Numbers: Various

Questioned Costs: None

Requirement

According to the American Recovery and Reinvestment Act, federal agencies must require recipients to agree to: (1) separately identify to each subrecipient, and document at the time of the subaward and disbursement of funds, the Federal Award number, CFDA number, and the amount of ARRA funds; and (2) require their subrecipients to provide similar identification in their Schedule of Expenditures of Federal Awards (SEFA) and data collection form.

Additionally, OMB Circular A-110 requires nonfederal entities receiving federal awards to establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Effective internal controls should include establishing procedures to ensure required information is communicated to subrecipients at the time of each disbursement.

(Continued)

Condition Found

During our testwork over the subrecipient monitoring ARRA special test and provision for the Research and Development Cluster, we noted the University did not have a process in place to identify the federal award number and catalog of federal domestic assistance (CFDA) number at the time of each disbursement. As a result, subrecipients were not notified of the required ARRA communications at the time of each disbursement. The University passed through approximately $1,528,506 of ARRA funds under the Research and Development Cluster, for the year ended May 31, 2011. Total subrecipient expenditures were $3,594,858 for the Research and Development Cluster, for the fiscal year ended May 31, 2011.

Effect

Failure to communicate required ARRA information at the time of each disbursement could result in subrecipients not properly identifying ARRA funding in their accounting records and on the schedule of expenditures of federal awards.

Recommendation

We recommend the University implement procedures to ensure ARRA information is properly communicated to its subrecipients at the time of each disbursement.

Views of Responsible Officials

Management agrees with the finding. The Grants and Contract Accounting implemented a procedure utilizing the Subrecipient Monitoring Checklist. The procedure will identify subcontract payments, requiring a letter to accompany the payment identifying ARRA funding as well as CFDA number/name.