ILLINOIS INSTITUTE OF TECHNOLOGY

OMB Circular A133 Audit Report

Year ended May 31, 2013

(With Independent Auditors' Reports Thereon)

ILLINOIS INSTITUTE OF TECHNOLOGY

Table of Contents

KPMG LLP
Aon Center
Suite 5500
200 East Randolph Drive
Chicago, IL 60601-6436

Independent Auditors' Report

The Board of Trustees
Illinois Institute of Technology:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Illinois Institute of Technology (the University), which comprise the consolidated statements of financial position as of May 31, 2013 and 2012, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statement that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Illinois Institute of Technology as of May 31, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2013 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

KPMG LLP

Chicago, Illinois
October 3, 2013

ILLINOIS INSTITUTE OF TECHNOLOGY

Consolidated Statements of Financial Position

May 31, 2013 and 2012

(In thousands of dollars)

Assets		**2013**	**2012**
Cash	$	11,181	18,373
Notes and accounts receivable:			
Grants and contracts, less allowance of $402 in 2013 and $308 in 2012		11,332	8,762
Students:			
Tuition, less allowance of $1,006 in 2013 and $1,521 in 2012		2,284	2,287
Notes, less allowance of $360 in 2013 and $498 in 2012		10,618	10,751
Other, less allowance of $378 in 2013 and $297 in 2012		1,579	2,309
Pledges, net (note 5)		27,330	28,568
Inventories, prepaid expenses, and deferred charges		4,245	4,299
Investments (note 4)		217,262	176,439
Bond proceeds held by trustees		4,197	4,210
Physical properties, less accumulated depreciation (note 6)		269,007	274,147
Beneficial interest in perpetual trusts (note 7)		21,298	20,053
Total assets	$	580,333	550,198
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	17,501	20,149
Accrued salaries and wages		13,111	14,038
Deferred revenue		12,340	13,702
Deposits by students and others		1,940	2,519
Accrued postretirement benefit obligation (note 9)		2,623	2,466
Obligation under split-interest agreements		837	778
Notes and bonds payable (note 8)		216,115	217,660
Advances from the U.S. government for student loans		8,117	8,117
Asset retirement obligation		3,671	4,161
Total liabilities		276,255	283,590
Net assets (note 12):			
Unrestricted		50,730	42,479
Temporarily restricted		51,655	23,973
Permanently restricted		201,693	200,156
Total net assets		304,078	266,608
Total liabilities and net assets	$	580,333	550,198

See accompanying notes to consolidated financial statements.

ILLINOIS INSTITUTE OF TECHNOLOGY

Consolidated Statement of Activities

Year ended May 31, 2013

(In thousands of dollars)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating revenue:				
Tuition and fees, net of scholarships of $81,845	$ 140,454	—	—	140,454
Government grants and contracts	58,036	—	—	58,036
Private grants and contracts	7,086	—	—	7,086
Private gifts	11,095	—	—	11,095
Endowment spending distribution (note 13)	4,465	—	—	4,465
Endowment net assets released from restrictions (note 13)	6,235	—	—	6,235
Sales and services of auxiliary enterprises	12,315	—	—	12,315
Other sources	19,615	—	—	19,615
Net assets released from restrictions	7,179	(7,179)	—	—
Total operating revenue	266,480	(7,179)	—	259,301
Operating expenses:				
Faculty salaries	57,285	—	—	57,285
Administrative salaries	47,077	—	—	47,077
Part-time salaries	13,795	—	—	13,795
Employee benefits	24,892	—	—	24,892
Operations and maintenance	23,164	—	—	23,164
Supplies and services	47,042	—	—	47,042
Professional fees and advertising	15,046	—	—	15,046
IITRI research	11,760	—	—	11,760
Interest on indebtedness	10,881	—	—	10,881
Depreciation	14,681	—	—	14,681
Total operating expenses	265,623	—	—	265,623
Increase (decrease) in net assets from operating activities	857	(7,179)	—	(6,322)
Nonoperating revenue and expenses:				
Private gifts	—	18,855	4,792	23,647
Net asset reclassification	4,603	—	(4,603)	—
Net gain on investments (note 4)	7,469	18,470	1,348	27,287
Endowment spending distribution (note 13)	(4,465)	—	—	(4,465)
Endowment net assets released from restrictions (note 13)	—	(6,235)	—	(6,235)
Endowment income (note 4)	56	3,771	—	3,827
Net loss on disposal of assets	(13)	—	—	(13)
Change in asset retirement obligation	803	—	—	803
Other	(1,059)	—	—	(1,059)
Increase in net assets from nonoperating activities	7,394	34,861	1,537	43,792
Increase in net assets	8,251	27,682	1,537	37,470
Net assets at beginning of year	42,479	23,973	200,156	266,608
Net assets at end of year	$ 50,730	51,655	201,693	304,078

See accompanying notes to consolidated financial statements.

ILLINOIS INSTITUTE OF TECHNOLOGY

Consolidated Statement of Activities

Year ended May 31, 2012

(In thousands of dollars)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating revenue:				
Tuition and fees, net of scholarships of $73,840	$ 135,075	—	—	135,075
Government grants and contracts	58,886	—	—	58,886
Private grants and contracts	6,572	—	—	6,572
Private gifts	6,385	—	—	6,385
Endowment spending distribution (note 13)	11,876	—	—	11,876
Endowment net assets released from restrictions (note 13)	1,124	—	—	1,124
Sales and services of auxiliary enterprises	12,112	—	—	12,112
Other sources	15,392	—	—	15,392
Net assets released from restrictions	2,777	—	—	2,777
Total operating revenue	250,199	—	—	250,199
Operating expenses:				
Faculty salaries	53,006	—	—	53,006
Administrative salaries	46,037	—	—	46,037
Part-time salaries	13,976	—	—	13,976
Employee benefits	21,581	—	—	21,581
Operations and maintenance	21,026	—	—	21,026
Supplies and services	45,296	—	—	45,296
Professional fees and advertising	11,091	—	—	11,091
IITRI research	10,637	—	—	10,637
Interest on indebtedness	11,003	—	—	11,003
Depreciation	14,850	—	—	14,850
Total operating expenses	248,503	—	—	248,503
Increase in net assets from operating activities	1,696	—	—	1,696
Nonoperating revenue and expenses:				
Private gifts	—	3,380	10,130	13,510
Release from restriction	6,263	(6,263)	—	—
Change in donor designation	245	—	(245)	—
Net loss on investments (note 4)	(6,928)	(678)	(1,250)	(8,856)
Net loss on impairment of assets (note 6)	(645)	—	—	(645)
Endowment spending distribution (note 13)	(11,876)	—	—	(11,876)
Endowment net assets released from restrictions (note 13)	—	(1,124)	—	(1,124)
Endowment income (note 4)	2,232	—	—	2,232
Net loss on disposal of assets	(46)	—	—	(46)
Change in asset retirement obligation	1,544	—	—	1,544
Other	(545)	—	—	(545)
Net assets released from restrictions	—	(2,777)	—	(2,777)
(Decrease) increase in net assets from nonoperating activities	(9,756)	(7,462)	8,635	(8,583)
(Decrease) increase in net assets	(8,060)	(7,462)	8,635	(6,887)
Net assets at beginning of year	50,539	31,435	191,521	273,495
Net assets at end of year	$ 42,479	23,973	200,156	266,608

See accompanying notes to consolidated financial statements.

ILLINOIS INSTITUTE OF TECHNOLOGY

Consolidated Statements of Cash Flows

Years ended May 31, 2013 and 2012

(In thousands of dollars)

		2013	2012
Cash flows from operating activities:			
Increase (decrease) in net assets	$	37,470	(6,887)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:			
Private gifts restricted for long-term investment		(24,817)	(10,831)
Depreciation		14,681	14,850
(Gain) loss on beneficial interest in perpetual trusts		(1,245)	1,351
Net loss on disposal of assets		13	46
Loss on impairment of asset		—	645
Net (gain) loss on investments		(26,042)	7,505
Accretion on asset retirement obligation		803	253
Changes in assets and liabilities:			
Receivables: tuition, grants, affiliate, and other		(598)	5,590
Inventories, prepaid expenses, and deferred charges		54	(344)
Accounts payable and accrued expenses		(2,648)	(3,857)
Accrued salaries and wages		(927)	(143)
Deferred revenue		(1,362)	(9,540)
Deposits by students and others		(579)	(651)
Accrued postretirement benefit obligation		157	165
Obligations under split-interest agreements		59	(632)
Asset retirement obligation		(1,293)	(1,455)
Net cash used in operating activities		(6,274)	(3,935)
Cash flows from investing activities:			
Proceeds from sale of investments		32,655	34,469
Purchase of investments		(47,436)	(28,620)
Change in bond proceeds held by trustees		13	1,830
Purchase of physical properties		(9,555)	(11,788)
Issuance of notes receivable		(1,637)	(1,587)
Payments received on notes receivable		1,770	1,618
Net cash used in investing activities		(24,190)	(4,078)
Cash flows from financing activities:			
Private gifts restricted for long-term investment		24,817	10,831
Payments on notes and bonds payable		(1,545)	(845)
Net cash provided by financing activities		23,272	9,986
Change in cash		(7,192)	1,973
Cash at:			
Beginning of year		18,373	16,400
End of year	$	11,181	18,373
Supplemental disclosure of cash flow information:			
Cash paid for interest	$	10,134	10,134

See accompanying notes to consolidated financial statements.

(1) Nature of Organization

Illinois Institute of Technology

Illinois Institute of Technology (the University) is a private not-for-profit coeducational technical institution that is dedicated to superior teaching and excellent scholarship. Located in Chicago, Illinois, the University enrolls a diverse student body from across the nation and a number of foreign countries.

IIT India is a private not-for-profit entity headquartered in Bangalore, India. The entity has been created to facilitate IIT's ability to deliver long distance internet-based educational programs to residents of various cities in India.

IIT France is a private not-for-profit entity located in Paris, France. The entity has been created to recruit French and European students to the programs of the University and to welcome visiting students from the University.

IIT Research Institute

IIT Research Institute (IITRI) is a not-for-profit corporation working for the advancement of knowledge and the beneficial application of science to meet the needs of society. IITRI's articles of incorporation provide that, in addition to its primary purpose, it will support and assist the University, and in the 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.

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 and pledges 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 transactions 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. 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 the temporarily restricted net asset class; the restrictions are considered to be released at the time the long-lived assets are placed in service.

(Continued)

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

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

IITRI's research project revenue results from contract research and other services under a variety of contracts, some of which provide for reimbursement of cost plus fees and others, which are fixed-price or time-and-materials type contracts and are reported as grants and contracts revenue on the consolidated 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 includes 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, 2013 and 2012, these governmental clients accounted for approximately 79% and 84%, respectively, of IITRI's operating revenue of $16,235 and $15,880, respectively. Included in IITRI's grants and contracts revenue for 2013 and 2012 and grants and contracts receivable at May 31, 2013 and 2012 are unbilled receivables in the amounts of approximately $1,713 and $2,162, 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 expenses 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 using the income capitalization and sale comparison methodology. Management's estimate of the fair value of private equity, venture capital, and hedged fund investments is determined based on net asset values (NAV) provided by the external investment managers. The valuations for these investments 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 of Perkins loans 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, a gain or loss is recorded based on the net book value at the time of sale or retirement. 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.

(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 reported as an obligation under split-interest agreements. 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 (IRS) stating that they are exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code except for tax on unrelated business income. It is management's belief that none of its activities have produced material unrelated business income, and that the University has operated in a manner that qualifies it for tax-exempt status.

U.S. generally accepted accounting principles require University management to evaluate tax positions taken by the University and IITRI and recognize a tax liability (or asset) if the University and IITRI have taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. Management has analyzed tax positions taken by the University and IITRI and has concluded that as of May 31, 2013 and 2012, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the consolidated financial statements. The University and IITRI are subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The University and IITRI management believes it is no longer subject to income tax examinations for years prior to 2008.

(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.

(n) Reclassifications

Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

(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 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. In 2013 and 2012, the University uses the following valuation techniques to measure the financial instruments 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 or exchange funds, exchange-traded instruments, and listed equities.

Level 3 consists of investments for which there are no active markets. The University has real estate investments, hedged equity mutual funds, private equity and venture capital funds, and beneficial interests in perpetual trusts as Level 3. The May 31, 2013 and 2012 real estate is valued utilizing the income capitalization and sale comparison methodology completed by an independent real estate appraiser. The University's interests in alternative investment funds, such as hedged equity mutual funds and private equity and venture capital funds, are generally reported at the NAV, which is used as a practical expedient to estimate fair value, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. As of May 31, 2013 and 2012, the University had no plans to sell investments at

(Continued)

(In thousands of dollars)

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 $18,503 for 2013 and $18,837 for 2012 of investments in alternative investment funds, which are reported at fair value. The University has concluded that the NAV reported by the underlying fund approximates the fair value for these investments. 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 unfunded commitment of $589 relative to the Commonfund and Roundtable alternative investments.

Assets Measured on a Recurring Basis

The following tables present information about the University's financial assets that are measured at fair value on a recurring basis as of May 31, 2013 and 2012, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value.

	2013				Redemption	Days'
	Level 1	Level 2	Level 3	Total	or liquidation	notice
Investments:						
Cash and cash equivalents	$ 31,179	—	—	31,179	Daily	One
Domestic equities:						
Fixed income	41,473	—	—	41,473	Daily	One
Large cap equity	51,230	—	—	51,230	Daily	One
Tactical opportunities	8,453	—	—	8,453	Daily	One
State street global	1,765	—	—	1,765	Daily	One
Small cap	4,961	—	—	4,961	Daily	One
Total	107,882	—	—	107,882		

(In thousands of dollars)

	2013					
	Level 1	Level 2	Level 3	Total	Redemption or liquidation	Days' notice
Global (ex-U.S.) equities:						
Developed international equity	$ 49,913	—	—	49,913	Daily	One
Hedged equity funds of funds:						
Multiple strategies – total return	—	—	8,985	8,985	Locked-up (1)	60
Multiple strategies – absolute return	—	—	3,568	3,568	Locked-up (1)	60
Total	—	—	12,553	12,553		
Private equity and venture capital funds:						
Commonfund capital international	—	—	1,211	1,211	None	N/A
Commonfund capital venture	—	—	1,880	1,880	None	N/A
Commonfund capital private equity	—	—	2,344	2,344	None	N/A
Roundtable	—	—	515	515	None	N/A
Total	—	—	5,950	5,950		
Real assets:						
IIT Tower	—	—	4,000	4,000	Illiquid (2)	N/A
Total	—	—	4,000	4,000		
Other securities:						
Fixed income (IITRI)	5,383	—	—	5,383	Daily	One
Domestic equities	402	—	—	402	Daily	One
Total	5,785	—	—	5,785		
Total investments	194,759	—	22,503	217,262		
Other assets:						
Cash	11,181	—	—	11,181	Daily	One
Bond proceeds	4,197	—	—	4,197	Daily	One
Perpetual trusts	—	—	21,298	21,298	None	N/A
Total other assets	15,378	—	21,298	36,676		
Total	$ 210,137	—	43,801	253,938		

(1) One year from the initial investment

(2) Real estate property owned by endowment

(In thousands of dollars)

	2012 Level 1	Level 2	Level 3	Total	Redemption or liquidation	Days' notice
Investments:						
Cash and cash equivalents	$ 14,177	—	—	14,177	Daily	One
Domestic equities:						
Fixed income	34,837	—	—	34,837	Daily	One
Large cap equity	46,313	—	—	46,313	Daily	One
Tactical opportunities	12,328	—	—	12,328	Daily	One
State street global	1,744	—	—	1,744	Daily	One
Small cap	3,771	—	—	3,771	Daily	One
Total	98,993	—	—	98,993		
Global (ex-U.S.) equities:						
Developed international equity	35,997	—	—	35,997	Daily	One
Hedged equity funds of funds:						
Multiple strategies – total return	—	—	8,061	8,061	Locked-up (1)	60
Multiple strategies – absolute return	—	—	3,347	3,347	Locked-up (1)	60
Total	—	—	11,408	11,408		
Private equity and venture capital funds:						
Commonfund capital international	—	—	1,352	1,352	None	N/A
Commonfund capital venture	—	—	2,612	2,612	None	N/A
Commonfund capital private equity	—	—	3,080	3,080	None	N/A
Roundtable	—	—	385	385	None	N/A
Total	—	—	7,429	7,429		
Real assets:						
IIT Tower	—	—	4,000	4,000	Illiquid (2)	N/A
Total	—	—	4,000	4,000		
Other securities:						
Fixed income (IITRI)	4,136	—	—	4,136	Daily	One
Domestic equities	299	—	—	299	Daily	One
Total	4,435	—	—	4,435		
Total investments	153,602	—	22,837	176,439		
Other assets:						
Bond proceeds	4,210	—	—	4,210	Daily	One
Perpetual trusts	—	—	20,053	20,053	None	N/A
Total other assets	4,210	—	20,053	24,263		
Total	$ 157,812	—	42,890	200,702		

(1) One year from the initial investment

(2) Real estate property owned by endowment

(In thousands of dollars)

Aggregate investment liquidity as of May 31, 2013 and 2012 is presented below based on redemption or sale period:

		2013	2012
Investment redemption or sale period:			
Daily	$	194,759	153,602
Subject to rolling lock-ups		12,553	11,408
Illiquid		4,000	4,000
Redemptions not permitted		5,950	7,429
Totals	$	217,262	176,439

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, 2013 and 2012:

		Real estate	Equity mutual funds	Private equity funds	Beneficial interest in perpetual trusts	Total
Beginning balance, June 1, 2012	$	4,000	11,408	7,429	20,053	42,890
Net realized and unrealized gains		—	1,145	386	1,245	2,776
Purchases		—	—	92	—	92
Distributions		—	—	(1,957)	—	(1,957)
Ending balance, May 31, 2013	$	4,000	12,553	5,950	21,298	43,801
The amount of total gain for the period included in net return on investments attributable to the change in unrealized gain relating to assets still held at May 31, 2013	$	—	1,145	386	1,245	2,776

(In thousands of dollars)

		Real estate	Equity mutual funds	Private equity funds	Beneficial interest in perpetual trusts	Total
Beginning balance, June 1, 2011	$	4,200	11,640	8,228	21,404	45,472
Net realized and unrealized (losses) gains		(200)	(232)	676	(1,351)	(1,107)
Purchases		—	—	307	—	307
Distributions		—	—	(1,782)	—	(1,782)
Ending balance, May 31, 2012	$	4,000	11,408	7,429	20,053	42,890
The amount of total losses for the period included in net return on investments attributable to the change in unrealized losses relating to assets still held at May 31, 2012	$	(200)	(232)	676	(1,351)	(1,107)

(4) Investments

Investments consist of the following at May 31:

		2013		2012	
		Cost	Fair value	Cost	Fair value
Cash equivalents	$	31,179	31,179	14,177	14,177
Stocks		299	402	258	299
Equity mutual funds		97,631	116,322	100,737	98,993
Bonds (IITRI)		5,388	5,383	4,133	4,136
Fixed income mutual funds		40,294	41,473	31,545	35,997
Hedge equity funds		12,171	12,553	12,171	11,408
Private equity funds		1,802	5,950	3,719	7,429
Real estate		12,900	4,000	12,900	4,000
Total investments	$	201,664	217,262	179,640	176,439

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.

(In thousands of dollars)

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

		2013	2012
Return on investments:			
Interest and dividends	$	3,827	2,232
Net realized gain on sale of investments		8,488	5,013
Net unrealized (loss) gain on investments		18,799	(12,518)
Net return on investments	$	31,114	(5,273)

The return on investments reflects income from investments held by IITRI of $56 and $57 for 2013 and 2012, respectively. The net change on investments reported on the consolidated statements of activities includes the permanently restricted gain on the beneficial interest in perpetual trusts of $1,245 for 2013 and loss of $1,351 for 2012.

(5) Pledges Receivable

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

		2013	2012
Pledges receivable	$	27,440	28,737
Discount to present value future cash flows		(110)	(169)
Net pledges receivable	$	27,330	28,568

The following is a summary showing the expected timing of collection of total gross unconditional pledges receivable outstanding as of May 31, 2013:

Fiscal year(s)		Amount
Less than one year	$	9,687
1 to 5 years		17,753
	$	27,440

(In thousands of dollars)

(6) Physical Properties

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

		2013	2012
Land and land improvements	$	28,729	28,729
Building and building improvements		385,352	381,132
Equipment and library collection		88,755	86,881
Construction in progress		5,846	2,857
Total physical properties		508,682	499,599
Less accumulated depreciation		239,675	225,452
Physical properties, net	$	269,007	274,147

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 $645 during 2012, and a loss in the consolidated statement of activities in nonoperating revenue and expenses. At May 31, 2013 and 2012, the land parcel was valued at $5,800 and $4,535, respectively. On August 15, 2013, the University sold the land parcel for $5,925. The University will record a $1,390 gain during 2014.

(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, 2013 and 2012, the share of these trusts from which the University derives income had a combined fair value of $21,298 and $20,053, respectively. These trusts provided unrestricted income of $751 and $626 in fiscal 2013 and 2012, recorded in investment income on the consolidated statements of activities.

(8) Notes and Bonds Payable

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

	Interest rate		2013	2012
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%		29,340	30,000
IITRI – IFA Series 2004, payable in varying installments through 2034	Variable		12,775	13,660
Short-term line of credit	Various		14,000	14,000
Total notes and bonds payable		$	216,115	217,660

(In thousands of dollars)

The following is a summary of required principal payments on outstanding secured obligations as of May 31, 2013:

Fiscal year ending:		
2014	$	18,695
2015		4,960
2016		6,085
2017		6,395
2018		6,715
2019 and beyond		173,265
Total notes and bonds payable	$	216,115

In March 2006, the University issued $160,000 in fixed rate revenue bonds through the Illinois Finance Authority (IFA) 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 2036 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 (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 5.25% 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 issued an $18,820 bond issue of adjustable rate demand debt under the tax-exempt authority of the Illinois Finance Authority (IFA Series 2004). 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 a line-of-credit agreement that allow borrowings up to $20,000 in 2013 and $20,150 in 2012. Borrowings under the line of credit will bear interest at the prime commercial rate or adjusted LIBOR with interest being payable on a monthly 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, 2013 and 2012.

The University and IITRI are subject to certain debt covenants. As of May 31, 2013, management believes those covenants have been met.

The fair value of long term debt as of May 31, 2013 and 2012 was:

	2013		**2012**	
	Fair value	**Carrying value**	**Fair value**	**Carrying value**
$	200,617	202,115	191,441	202,775

The fair value of long-term debt is determined by quoted prices for comparable borrowings as of May 31, 2013 and 2012, which is considered to be level 2 in the fair value hierarchy. The quoted prices are available but the assets are traded less frequently and thus valuation is accomplished using similar securities, the parameters of which can be directly observed.

(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 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.

		2013	**2012**
Change in accumulated postretirement benefit obligation at beginning of the period	$	2,466	2,301
Service cost		—	5
Interest cost		96	111
Actuarial gain		198	136
Actuarial benefit payments net contributions		(137)	(87)
Accumulated postretirement benefit obligation at end of the period	$	2,623	2,466

(Continued)

(In thousands of dollars)

		2013	2012
Change in fair value of plan assets:			
Fair value of plan assets at beginning of period	$	—	—
Employer contribution		137	87
Participant contributions		50	51
Total benefit payments		(187)	(138)
Fair value of plan assets at end of the period	$	—	—
Funded status	$	2,623	2,466
Amounts recognized in the consolidated statements of financial position consist of:			
Current liabilities	$	149	137
Noncurrent liabilities		2,474	2,329
Accrued postretirement benefit obligation	$	2,623	2,466

In fiscal year 2008, the University adopted FASB ASC Section 715 Subtopic 60, *Defined Benefit Plans – Other Postretirement*. The accumulated charge to unrestricted net assets consists of amounts that have not yet been recognized in net periodic benefit cost at May 31 are as follows:

		2013	2012
Unrecognized actuarial loss	$	432	235
Unrecognized prior service costs		26	38

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 is $0, $12, and $13, respectively.

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

		2013	2012
Service cost	$	—	5
Interest cost		96	111
Amortization of prior service cost		12	12
Net periodic postretirement benefit cost	$	108	128

(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:

	2013	2012
Discount rate (expense)	4.01%	4.94%
Discount rate (obligation)	4.15	4.01
Healthcare cost trend rates:		
Healthcare cost trend rate assumed for next year	8.00	9.50
Ultimate rate	5.00	5.00
Year that the ultimate rate is reached	2025	2021

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:

		2013	2012
Effect on total service cost and interest cost:			
One-percentage point increase	$	11	13
One-percentage point decrease		(9)	(11)
Effect on year-end postretirement benefit obligation:			
One-percentage point increase	$	283	272
One-percentage point decrease		(244)	(233)

(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:		
2014	$	148
2015		151
2016		160
2017		155
2018		162
2019 – 2022		884

(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, 2013 and 2012 were $6,374 and $6,099 by the University and $349 and $342 by IITRI, respectively.

(b) Healthcare Benefits 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 Blue Cross Blue Shield of Illinois and Dearborn National. 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:

		2013	2012
Instruction	$	89,972	84,249
Research and other grant activities		67,971	64,813
Academic support		27,115	25,199
Student services		18,754	17,632
Institutional support		51,318	43,606
Auxiliary enterprises		10,493	13,004
Total	$	265,623	248,503

(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:

		2013	2012
Funds designated by the board of trustees	$	66,760	69,202
Undesignated		(16,030)	(26,723)
Total	$	50,730	42,479

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

		2013	2012
General operations	$	20,874	18,040
Property, plant, and equipment		13,948	—
Instruction and academic departments		5,224	2,298
Scholarships		10,677	2,703
Split-interest annuity agreements		932	932
Total	$	51,655	23,973

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

		2013	2012
Endowment	$	162,263	155,776
Endowment pledges		12,036	18,182
Donor-restricted revolving loan funds		3,827	4,051
Split-interest annuity agreements		2,269	2,094
Beneficial interest in perpetual trusts		21,298	20,053
Total	$	201,693	200,156

The amount of outstanding loans from quasi-endowments to unrestricted funds is $10,653 and $11,177 at May 31, 2013 and 2012, 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 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.

(In thousands of dollars)

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 endowments; 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, 2013:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	(3,908)	23,165	174,299	193,556
Board-designated funds		28,353	—	—	28,353
Total	$	24,445	23,165	174,299	221,909

Endowment net assets consist of the following as of May 31, 2012:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	(4,481)	5,923	173,958	175,400
Board-designated funds		23,013	—	—	23,013
Total	$	18,532	5,923	173,958	198,413

(In thousands of dollars)

Changes in endowment net assets for the year ended May 31, 2013 are as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Net assets, beginning of year	$ 18,532	5,923	173,958	198,413
Endowment-related investment return:				
Endowment-related investment income, net	56	3,771	—	3,827
Endowment-related net realized and unrealized gain	5,909	19,706	—	25,615
Total endowment-related investment return	5,965	23,477	—	29,442
Contributions	33	—	4,721	4,754
Change in donor restriction	4,380	—	(4,380)	—
Appropriation	(4,465)	(6,235)	—	(10,700)
Net assets, end of year	$ 24,445	23,165	174,299	221,909

Changes in endowment net assets for the year ended May 31, 2012 are as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Net assets, beginning of year	$ 37,910	7,725	163,828	209,463
Endowment-related investment return:				
Endowment-related investment income, net	2,175	—	—	2,175
Endowment-related net realized and unrealized loss	(9,677)	(678)	—	(10,355)
Total endowment-related investment return	(7,502)	(678)	—	(8,180)
Contributions	—	—	10,130	10,130
Appropriation	(11,876)	(1,124)	—	(13,000)
Net assets, end of year	$ 18,532	5,923	173,958	198,413

(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 gave to the University to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were $3,908 and

$4,481 as of May 31, 2013 and 2012, respectively. These deficiencies are the result of unfavorable investments returns in fiscal year 2012, as well as appropriations deemed prudent, for certain programs, by the board of trustees. Subsequent gains that restore the fair value of such funds to the required level are 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 for 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 quarterly endowment balance for the prior 12 quarters. The board of trustees set endowment distribution is $10,700 for fiscal year 2013 and $13,000 for fiscal year 2012. The board of trustees budgeted endowment distribution is $11,100 for fiscal year 2014.

(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 (State Street Corp) 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. 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.

In December 2003, the University entered into a five-year operating lease with State Street Corp whereby the University committed to lease unoccupied beds at the leased property sufficient to allow State Street Corp to achieve a debt service ratio of 1.0. On August 30, 2006, the operating lease was amended to extend the expiration date to September 30, 2013; thereafter, the operating lease will automatically renew for successive one-year periods. For years ended May 31, 2013 and 2012, it was not necessary for the University to lease unoccupied beds due to State Street Corp achieving a 1.0 debt service ratio.

(In thousands of dollars)

In January 2006, the University entered into a 55-year ground lease agreement with Townsend Chicago, LLC (Townsend). 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.

In January 2007, the University entered into a five-year space rental lease with 350 LLC, which expired on August 31, 2012. In May 2011, the University extended the lease for an additional five years, so the new expiration date is now August 31, 2017. 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 was effective June 2010. Related to this University's agreement, Townsend and the University agreed to establish a charitable donation to offset the University's expenses attributed to the agreement until May 2013. In June 2013, the University will begin funding the lease payments with University funds.

In May 2012, the University entered into an agreement with Chicagoland Entrepreneurial Center for space on the twelfth floor of the Merchandise Mart through April 30, 2013. Prior to its expiration, the University elected to exercise its option to extend the agreement an additional year through April 30, 2014.

The University also entered into an agreement with Academic Analytics, LLC for the use of a Web-based data portal to access content and tools of the database. The terms of the agreement extend to June 30, 2016.

A schedule of current and future operating lease commitments under these lease obligations are as follows:

Year ending May 31:		
2013	$	2,019
2014		2,080
2015		2,116
2016		2,104
2017		937
2018		961
Thereafter		6,569
	$	16,786

(15) Financing Receivables

The University adopted Accounting Standards Updates (ASU) No. 2010-20, *Disclosure about the Credit Quality of Financing Receivables and the Allowance for Credit Losses* (Topic 310), effective May 31, 2012. This ASU is intended to provide financial statement users with greater transparency about an entity's allowance for credit losses and the credit quality of its financial receivables. This ASU amends existing disclosures and provides additional disclosures about its financing receivables on a disaggregated basis.

(In thousands of dollars)

Financing Receivables

The University's financing receivables consist of a revolving loan fund for Federal Perkins Loans for which the University acts as an agent for the federal government and institutional loan funds created by the University to assist students in funding their education. These loans are valued based on the outstanding principal balance, less an allowance for estimated losses. Interest earned on outstanding loan balances is recorded based on the terms of the individual loan agreements and continues to accrue even when past due.

The availability of funds for loans under the Federal Perkins Loan program is dependent on reimbursements to the pool from repayments on outstanding loans. Funds held in the federal loan programs of $8,117 are ultimately refundable to the government and are classified as a liability in the consolidated statements of financial position.

Balances of financing receivables as of May 31, 2013 consist of the following:

		Perkins loans	Institutional loans	Total
Gross balance	$	7,533	3,445	10,978
Allowances		(210)	(150)	(360)
Balance at May 31, 2013	$	7,323	3,295	10,618

Balances of financing receivables as of May 31, 2012 consist of the following:

		Perkins Loans	Institutional Loans	Total
Gross balance	$	7,367	3,882	11,249
Allowances		(237)	(261)	(498)
Balance at May 31, 2012	$	7,130	3,621	10,751

For each class of financing receivables, the following table presents the credit quality indicator as determined by the delinquency status of the loan as of May 31, 2013. The delinquency status is updated monthly by the University's loan servicer.

		Perkins	Institutional	Total
Performing	$	6,898	2,504	9,402
Nonperforming (defaulted)		635	941	1,576
Balance at May 31, 2013	$	7,533	3,445	10,978

(Continued)

(In thousands of dollars)

The delinquency status as of May 31, 2012 is as follows:

		Perkins	Institutional	Total
Performing	$	6,545	2,930	9,475
Nonperforming (defaulted)		822	952	1,774
Balance at May 31, 2012	$	7,367	3,882	11,249

The aging of financing receivables as of May 31, 2013 is presented as follows:

Aging		31-60	61-90	91+	Total past due	Total current	Total
Perkins	$	178	196	702	1,076	6,457	7,533
Institutional		35	29	1,216	1,280	2,165	3,445
Total	$	213	225	1,918	2,356	8,622	10,978

The aging of financing receivables as of May 31, 2012 is presented as follows:

Aging		31-60	61-90	91+	Total past due	Total current	Total
Perkins	$	103	139	504	746	6,621	7,367
Institutional		60	90	1,234	1,384	2,498	3,882
Total	$	163	229	1,738	2,130	9,119	11,249

Allowances for estimated losses are established based on prior collection experience and observed trends in the rate of default, as well as a consideration of current economic trends and indicators. Loan balances are written off when they are deemed to be ultimately uncollectible. Since student loans under the Perkins loan program can be assigned to the government when no longer collectible, a Perkins loan write-off will reduce the amount refundable to the government.

Changes in allowance for estimated losses on financing receivables as of May 31, 2013 are presented as follows:

Balance at June 1, 2012	$	498
Write-off		(138)
Balance at May 31, 2013	$	360

(In thousands of dollars)

Changes in allowance for estimated losses on financing receivables as of May 31, 2012 are presented as follows:

Balance at June 1, 2011	$	563
Write-off		(65)
Balance at May 31, 2012	$	498

(16) 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.

(17) Participation in Federal Financial Assistance Program

On May 11, 2013, the University received a letter from the United States Department of Education (USDE) stating that the University failed to meet the financial responsibility standards in 34 CFR 668.172. The University elected to participate in the USDE's Student Financial Assistance programs under the Provisional Certification Alternative (Zone Alternative) for the next award year.

(18) Subsequent Events

In connection with the preparation of the consolidated financial statements and in accordance FASB ASC Section 855, *Subsequent Events*, management evaluated subsequent events after the balance sheet date of May 31, 2013 through October 3, 2013, which was the date the consolidated financial statements were issued.

ILLINOIS INSTITUTE OF TECHNOLOGY

Schedule of Expenditures of Federal Awards

Year ended May 31, 2013

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	$ 12,056
Agriculture and Food Research Initiative (AFRI)	USDA 2010-65201-20593	10.310	106,780
Agriculture and Food Research Initiative (AFRI)	USDA 2011-67017-30016	10.310	191,393
			310,229
Department of Commerce:			
ARRA Special Economic Development and Adjustment Assistance	06-79-73018	11.307	(27)
			(27)
Department of Defense:			
Basic and Applied Scientific Research	ONR N00014-10-1-0752	12.300	112,352
Basic and Applied Scientific Research	ONR N00014-10-1-0769	12.300	122,744
Basic and Applied Scientific Research	ONR N00014-12-1-0733	12.300	297,271
Military Medical Research and Development	DOD W81XWH-12-1-0394	12.420	97,705
Basic Scientific Research	ARO W911NF-09-1-0378	12.431	177,619
Basic Scientific Research	ARO W911NF-09-2-0051	12.431	40,888
Basic Scientific Research	ARO W911NF-09-2-0071	12.431	429,676
Basic Scientific Research	ARO W911NF-10-1-0152	12.431	110,126
Basic Scientific Research	ARO W911NF-11-1-0197	12.431	(2,550)
Basic Scientific Research	ARO W911NF-11-2-0018	12.431	209,526
Air Force Defense Research Sciences Program	AFOSR FA9550-09-1-0189	12.800	172,840
Air Force Defense Research Sciences Program	AFOSR FA9550-11-1-0056	12.800	190,090
Air Force Defense Research Sciences Program	AFOSR FA9550-12-1-0206	12.800	109,167
Research and Technology Development	AFRL FA8850-11-1-1007	12.910	73,301
Department of Defense Programs	DOD W911NF-12-C-0021	12.XXX	1,704,905
			3,845,660
Department of Transportation:			
Aviation Research Grants	FAA 07-G-012	20.108	124,643
Aviation Research Grants	FAA 12-G-013	20.108	81,015
Aviation Research Grants	FAA 12-G-014	20.108	118,393
Department of Transportation Programs	FHWA DTFH61-10-C-00009	20.XXX	61
			324,112
National Aeronautics and Space Administration:			
Space Operations	NNX09AK65G	43.007	(4,500)
Cross Agency Support	NNX11AN31H	43.009	57,616
			53,116
National Science Foundation:			
Engineering Grants	CBET-0731201	47.041	11,993
Engineering Grants	CBET-0756473	47.041	(6,207)
Engineering Grants	CBET-0853528	47.041	36,334
Engineering Grants	CBET-0967906	47.041	88,528
Engineering Grants	CBET-1236576	47.041	33,141
Engineering Grants	CBET-1252924	47.041	46,415
Engineering Grants	CBET-1312289	47.041	43,916
Engineering Grants	CMMI-0800912	47.041	25,245
Engineering Grants	CMMI-0847030	47.041	46,979
Engineering Grants	CMMI-0900170	47.041	159,739
Engineering Grants	CMMI-0970079	47.041	25,010
Engineering Grants	CMMI-0900597	47.041	50,444
Engineering Grants	CMMI-1030347	47.041	1,781
Engineering Grants	CMMI-1030903	47.041	48,109
Engineering Grants	CMMI-1055805	47.041	83,680
Engineering Grants	CMMI-1100376	47.041	15,359
Engineering Grants	CMMI-1151018	47.041	17,253
Engineering Grants	CMMI-1100514	47.041	117,178
Engineering Grants	CMMI-1144949	47.041	18,409
Engineering Grants	CMMI-1261782	47.041	24,286
Engineering Grants	ECCS-1247944	47.041	16,164
Engineering Grants	EEC-0852013	47.041	8,444
Engineering Grants	EEC-0852048	47.041	(22,314)
Engineering Grants	EEC-1157041	47.041	109,780
Mathematical and Physical Sciences	AGS-1261369	47.049	1,156
Mathematical and Physical Sciences	AST-1248000	47.049	26,434
Mathematical and Physical Sciences	DMR-0706582	47.049	15,911
Mathematical and Physical Sciences	DMR-0806935	47.049	86,078
Mathematical and Physical Sciences	DMR-0934354	47.049	6,110
Mathematical and Physical Sciences	DMR-0964812	47.049	122,721
Mathematical and Physical Sciences	DMR-1006953	47.049	128,820
Mathematical and Physical Sciences	DMS-0908099	47.049	12,079
Mathematical and Physical Sciences	DMS-1025422	47.049	30,964
Mathematical and Physical Sciences	DMS-1115392	47.049	88,213

ILLINOIS INSTITUTE OF TECHNOLOGY

Schedule of Expenditures of Federal Awards

Year ended May 31, 2013

Program title	Award number	CFDA number	Federal expenditures
Mathematical and Physical Sciences	DMS-1211256	47.049	$ 71,257
Mathematical and Physical Sciences	DMS-1217277	47.049	2,661
Mathematical and Physical Sciences	PHY-0758173	47.049	30
Mathematical and Physical Sciences	PHY-0969953	47.049	98,698
Mathematical and Physical Sciences	PHY-0969989	47.049	166,287
Mathematical and Physical Sciences	PHY-1205811	47.049	1,783
Computer and Information Science and Engineering	CCF-0937877	47.070	175,674
Computer and Information Science and Engineering	CNS-0746643	47.070	54,785
Computer and Information Science and Engineering	CNS-0831831	47.070	26,799
Computer and Information Science and Engineering	CNS-0831963	47.070	31,864
Computer and Information Science and Engineering	CNS-0832093	47.070	18,770
Computer and Information Science and Engineering	CNS-0832120	47.070	2,720
Computer and Information Science and Engineering	CNS-0834514	47.070	88,798
Computer and Information Science and Engineering	CNS-0916666	47.070	107,958
Computer and Information Science and Engineering	CNS-1018731	47.070	67,084
Computer and Information Science and Engineering	CNS-1018786	47.070	124,010
Computer and Information Science and Engineering	CNS-1035844	47.070	23,116
Computer and Information Science and Engineering	CNS 1035894	47.070	212,839
Computer and Information Science and Engineering	CNS-1053777	47.070	89,660
Computer and Information Science and Engineering	CNS-1054317	47.070	2,524
Computer and Information Science and Engineering	CNS 1057879	47.070	10,181
Computer and Information Science and Engineering	CNS-1116939	47.070	99,259
Computer and Information Science and Engineering	CNS-1117687	47.070	87,300
Computer and Information Science and Engineering	CNS-1117811	47.070	1,803
Computer and Information Science and Engineering	CNS-1265351	47.070	17,786
Computer and Information Science and Engineering	IIS-1125412	47.070	138,880
Biological Sciences	IOS-1022058	47.074	74,224
Biological Sciences	MCB-0644015	47.074	18,976
Social, Behavioral, and Economic Sciences	BCS-0953967	47.075	50,451
Social, Behavioral, and Economic Sciences	SES-0933810	47.075	83,734
Education and Human Resources	DRL-1157678	47.076	425,057
Education and Human Resources	DUE-0817531	47.076	(9,758)
Education and Human Resources	DUE-0942179	47.076	17,268
Education and Human Resources	DUE-1123323	47.076	40,459
Education and Human Resources	DUE-1140772	47.076	10,019
Office of International and Integrative Activities	OISE-1266075	47.079	23,202
Office of Cyberinfrastructure	OCI-1047963	47.080	87,311
Office of Cyberinfrastructure	OCI-1054974	47.080	100,332
ARRA Trans-NSF Recovery Act Research Support	CNS-0916743	47.082	82,684
ARRA Trans-NSF Recovery Act Research Support	DMS-0914923	47.082	24,189
ARRA Trans-NSF Recovery Act Research Support	OCI-0904670	47.082	112,318
			4,381,144
Department of Veterans Affairs:			
Veterans Benefits Administration	518-D05033	64.XXX	1,441
Veterans Benefits Administration	598-D15032	64.XXX	62,996
			64,437
Department of Energy:			
Office of Science Financial Assistance Program	DE-FG02-01ER41159	81.049	6,559
Office of Science Financial Assistance Program	DE-FG02-94ER40840	81.049	105,228
Office of Science Financial Assistance Program	DE-SC0002100	81.049	26,896
Office of Science Financial Assistance Program	DE-SC0007952	81.049	85,053
Office of Science Financial Assistance Program	DE-SC0008150	81.049	75,329
Office of Science Financial Assistance Program	DE-SC0008347	81.049	245,082
University Coal Research	DE-FE0003997	81.057	118,597
Renewable Energy Research and Development	DE-EE0000461	81.087	237,821
ARRA Renewable Energy Research and Development	DE-EE0001380	81.087	62,948
ARRA Renewable Energy Research and Development	DE-EE0002979	81.087	512,164
Renewable Energy Research and Development	DE-FC26-08NT02875	81.087	287,859
ARRA Renewable Energy Research and Development	DE-FC26-08NT02875	81.087	1,051,001
Defense Nuclear Nonproliferation Research (B)	DE-NA0000422	81.113	107,008
Nuclear Energy Research, Development and Demonstration (B)	DE-NE0000343	81.121	30,238
ARRA Electricity Delivery and Energy Reliability, Research, Development, and Analysis (B)	DE-OE0000449	81.122	821,094
Electricity Delivery and Energy Reliability, Research, Development, and Analysis (B)	DE-OE0000624	81.122	191,634
			3,964,511
Department of Education:			
Graduate Assistance in Areas of National Need	P200A090137	84.200	103,297
			103,297
Department of Health and Human Services:			
Food and Drug Administration – Research	5U01FD003801	93.103	4,546,600
Food and Drug Administration – Research	HHSF223201000003C	93.103	262,693
Research Related to Deafness and Communication Disorders	1R15DC011650-01	93.173	118,829
Mental Health Research Grants	5P20MH085981	93.242	1,124,394

ILLINOIS INSTITUTE OF TECHNOLOGY

Schedule of Expenditures of Federal Awards

Year ended May 31, 2013

Program title	Award number	CFDA number	Federal expenditures
Discovery and Applied Research for Technological Innovations to Improve Human Health	5R01EB009905-03	93.286	$ 337,664
Discovery and Applied Research for Technological Innovations to Improve Human Health	1R25EB013121-01A1	93.286	16,534
Minority Health and Health Disparities Research	1R24MD007925-01	93.307	63,296
Cancer Treatment Research	5R01CA112503-03	93.395	47,872
Cancer Biology Research	5R01CA128114-05	93.396	200,750
Cancer Research Manpower	5F32CA136102-03	93.398	17,833
ARRA Trans-NIH Recovery Act Research Support	1R15EY020807-01	93.701	113,863
Cardiovascular Diseases Research	5R01HL091017-05	93.837	376,788
ARRA Cardiovascular Diseases Research	3R01HL091017-02S1	93.837	6,216
Cardiovascular Diseases Research	1R21HL108272-01	93.837	59,995
Diabetes, Digestive, and Kidney Diseases Extramural Research	5R01DK085611-2	93.847	48,908
Extramural Research Programs in the Neurosciences and Neurological Disorders	1R21NS076827-01A1	93.853	121,413
Allergy Immunology and Transplantation Research	5R01AI073892-04	93.855	169,840
Biomedical Research and Research Training	9P41GM103622-17	93.859	1,620,150
			9,253,638
Department of Homeland Security:			
Department of Homeland Security Programs	HSHQDC-10-C-00173	97.XXX	63,399
			63,399
Research and Development Cluster – Direct Awards			22,363,516
Research and Development Cluster – Indirect Awards:			
Department of Agriculture:			
Integrated Programs:			
Passed through:			
University of Georgia		10.303	24,578
North Carolina State University		10.310	58,868
Texas Woman's University		10.310	20,411
			103,857
Department of Defense:			
Department of Defense Contracts – passed through:			
Alion Science and Technology Corporation		12.XXX	97,813
Engility Corporation		12.XXX	279,252
Jacobs Technology Inc		12.XXX	17,630
Transition 45 Technologies Inc		12.XXX	202,355
L-3 Communications, Inc		12.XXX	23,773
Basic Scientific Research – passed through:			
DGNSS Solutions LLC		12.431	3,979
University of Maryland Eastern Shore		12.431	18,332
Air Force Defense Research Sciences Program – passed through:			
Lickenbroack Technologies LLC		12.800	8,184
Princeton University		12.800	70,907
Research and Technology Development – passed through:			
Micro Probe Incorporated		12.910	138,233
Northern Illinois University		12.910	36,936
			897,394
Department of Justice:			
Department of Justice Research Grant Programs passed through:			
City of Chicago Police Department		16.XXX	245,798
			245,798
Department of Transportation:			
University Transportation Centers Program – passed through:			
Purdue University		20.701	22,612
			22,612
National Aeronautics and Space Administration:			
Science Program – passed through:			
University of Illinois		43.001	60,337
Space Operations – passed through:			
Worcester Polytechnic Institute		43.007	4,530
			64,867
National Science Foundation:			
National Science Foundation Contracts – passed through:			
University of Chicago		47.xxx	(10,480)
Engineering Grants – passed through:			
University of Connecticut		47.041	4,208
Washington University		47.041	8,869
Mathematical and Physical Sciences – passed through:			
Adler Planetarium		47.049	83,397
University of California		47.049	135,506
University of Chicago		47.049	45,454
Computer and Information Science and Engineering – passed through:			

ILLINOIS INSTITUTE OF TECHNOLOGY

Schedule of Expenditures of Federal Awards

Year ended May 31, 2013

Program title	Award number	CFDA number	Federal expenditures
The College Board		47.070	$ 4,042
Social, Behavioral, and Economic Sciences – passed through:			
University of Illinois		47.075	20,000
Education and Human Resources – passed through:			
Chicago Pre-College Science & Engineering Program, Inc		47.076	13,493
Chicago State University		47.076	9,967
Office of Cyberinfrastructure – passed through:			
Cornell University		47.080	13,325
Trans-NSF Recovery Act Research Support – passed through:			
ARRA University of Illinois		47.082	37,422
			365,203
Department of Veteran Affairs:			
Department of Veteran Affairs – passed through:			
Hines VA Hospital		64.xxx	113,502
			113,502
Environmental Protection Agency:			
Great Lakes Program – passed through:			
Chicago Park District		66.469	17,541
Indiana University		66.469	9,334
University of Illinois		66.469	14,541
Office of Research and Development Consolidated Research/Training/ Fellowships – passed through:			
HDR Engineering Inc.		66.511	52,115
Greater Research Opportunities (GRO) Fellowships For Undergraduate Environmental Study – passed through:			
Environmental Protection Industries, Inc		66.513	12,535
Environmental Policy and Innovation Grants – passed through:			
Water Environment Research Foundation		66.611	43,180
			149,246
Department of Energy:			
Department of Energy Contracts – passed through:			
Argonne National Laboratory		81.xxx	1,333,629
ARRA Argonne National Laboratory		81.xxx	41,545
Battelle Pacific Northwest National Laboratory		81.xxx	4,864
Brookhaven National Laboratory		81.xxx	(16,830)
Fermi National Laboratory		81.xxx	585,796
Lawrence Livermore National Laboratory		81.xxx	21,962
Los Alamos National Laboratory		81.xxx	32,563
Proton Energy Systems, Inc		81.xxx	32,853
Sandia National Labs		81.xxx	14,707
URS Energy and Construction Inc.		81.xxx	15,315
Office of Scientific and Technical Information – passed through:			
Argonne National Laboratory		81.064	50,659
Renewable Energy Research and Development – passed through:			
ARKEMA, Inc		81.087	116,233
E. I. du Pont de Nemours and Company		81.087	250,475
Nuclear Energy Research, Development and Demonstration (B) – passed through:			
Battelle Energy Alliance		81.121	126,401
			2,610,172
Department of Education:			
National Institute on Disability and Rehabilitation Research – passed through:			
Rehabilitation Institute of Chicago		84.133	36,667
			36,667
Department of Health and Human Services:			
Food and Drug Administration Programs – passed through:			
Michigan Research Institute		93.xxx	131,518
Purdue University		93.xxx	21,162
Food and Drug Administration Research – passed through:			
National Institute for Pharmaceutical Technology and Education		93.103	20,712
Human Genome Research – passed through:			
Electronic BioSciences, Inc		93.172	38,214
Substance Abuse and Mental Health Services:			
Projects of Regional and National Significance (B) – passed through:			
Lake County Health Department		93.243	77,095
Discovery and Applied Research for Technological Innovations to Improve Human Health – passed through:			
University of Colorado		93.286	42,910
University of Houston		93.286	38,719
Washington University		93.286	62,399
Cancer Detection and Diagnosis Research – passed through:			
Washington University		93.394	45,970

ILLINOIS INSTITUTE OF TECHNOLOGY

Schedule of Expenditures of Federal Awards

Year ended May 31, 2013

Program title	Award number	CFDA number	Federal expenditures
Cardiovascular Diseases Research – passed through:			
Loyola University – Chicago		93.837	$ 65,038
University of Arizona		93.837	(18,950)
University of California – San Diego		93.837	39,196
Arthritis, Musculoskeletal and Skin Diseases Research:			
Duke University		93.846	25,362
University of Maryland		93.846	113,311
Diabetes, Digestive, and Kidney Diseases Extramural Research passed through:			
Chicago Association for Research Education in Sciences		93.847	31,361
University of Chicago		93.847	299,866
Wake Forest University		93.847	(13,641)
Extramural Research Programs in the Neurosciences and Neurological Disorders passed through:			
Rehabilitation Institute of Chicago		93.853	42,770
Biomedical Research and Research Training – passed through:			
University of Utah		93.859	138,848
Child Health and Human Development Extramural Research – passed through:			
Rehabilitation Institute of Chicago		93.865	11,655
Medical Library Assistance:			
Parity Computing, Inc		93.879	21,179
			1,271,361
Department of Homeland Security:			
Centers for Homeland Security:			
University of Minnesota		97.061	77,821
Research and Development Cluster – Indirect Awards			5,921,833
Total Research and Development Cluster			28,285,349
Student Financial Aid Cluster:			
Department of Education:			
Federal Supplemental Educational Opportunity Grants		84.007	448,826
Federal Work-Study Program		84.033	839,484
Federal Perkins Loan Program		84.038	1,389,963
Federal Pell Grant Program		84.063	3,879,831
Federal Direct Loans		84.268	51,376,460
Total Student Financial Aid Cluster			57,934,564
Total Major Programs			86,219,913
Nonmajor Programs:			
Direct Awards:			
Small Business Administration:			
Small Business Administration Grants	SBAHQ-09-I-0026	59.xxx	357
Small Business Administration Grants	SBAHQ-10-C-0020	59.xxx	159,040
Small Business Administration Grants	SBAHQ-10-I-0078	59.xxx	3,688
Small Business Administration Grants	SBAHQ-12-C-0017	59.xxx	173,061
Economic Injury Disaster Loans	SBAHQ-08-I-0052	59.002	13
			336,159
Department of Education:			
Rehabilitation Long-Term Training		84.129	492,763
			492,763
Other – Direct Awards			828,922
Indirect Awards:			
Department of State:			
Environmental and Scientific Partnerships and Programs – passed through:			
American Council on Education		19.017	221,594
Small Business Administration:			
Small Business Administration Grants – passed through:			
O-H Community Partners		59.xxx	3,141
Department of Education:			
Mathematics and Science Partnerships – passed through:			
Illinois State Board of Education		84.366	11,984
Statewide Data Systems, Recovery Act – passed through:			
ARRA DePaul University		84.384	12,233
Agency for International Development:			
USAID Development Partnerships for University Cooperation and Development – passed through:			
Higher Education for Development		98.012	24,317
Other – Indirect Awards			273,269
Total Nonmajor Programs			1,102,191
Total Federal Awards			$ 87,322,104

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, 2013. 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 A133, *Audits of Institutions of States, Local Governments, and NonProfit 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 A133. 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 WorkStudy (FWS), and the Federal Supplemental Educational Opportunity Grant (FSEOG) programs of the U.S. Department of Education. Also, the University receives awards to make loans to eligible students under the Federal Perkins Loan Program and 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, 2013 consolidated statement of activities. The federal expenditures are classified in the accompanying consolidated statement of activities as government grants and contracts revenue, totaling approximately $45,212,000. The remaining government grants and contracts consist of approximately $3,675,000 of awards received from states and other sources, with the balance of approximately $16,325,000 related to IIT Research Institute, a consolidated separate legal entity.

(b) Expenditure Recognition

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

(2) Indirect Costs

The University has four-year predetermined fixed indirect cost rates, effective June 1, 2012 through May 31, 2015, 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 2010. The base rates for on- and off-campus and FDA research were 52%, 24%, and 9.5% of modified total direct costs, respectively. Approximately $6,314,279 of indirect costs were reimbursed to the University for the year ended May 31, 2013.

(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, 2013 are summarized as follows:

Direct loan programs – Perkins	$	1,389,963
Federal Direct Loans (FDL)		51,376,460
Total federal student loan programs	$	52,766,423

The Perkins program is administered directly by the University and balances and transactions relating to this program are included in the University's consolidated financial statements. The balance of loans outstanding under the Perkins program was $7,533,378 at May 31, 2013. The University received an administrative cost allowance of $128,263 under the Perkins program during the fiscal year ended May 31, 2013.

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, 2013.

(In thousands of dollars)

(4) Summary of Subrecipient Payments

Expenditures made to subrecipients under federal awards for the year ended May 31, 2013 were as follows:

Research and Development Cluster:		
Department of Health and Human Services	$	1,026,440
Department of Defense		1,329,902
Department of Energy		682,701
Department of Transportation		(1,648)
National Science Foundation		299,783
Department of Agriculture		66,153
Agency of International Development		27,442
Department of State		111,390
Other:		
Department of Education		5,500
Small Business Administration		191,719
Total	$	3,739,382

KPMG LLP
Aon Center
Suite 5500
200 East Randolph Drive
Chicago, IL 60601-6436

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, in accordance with the 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, the consolidated financial statements of Illinois Institute of Technology (the University), which comprise the consolidated statement of financial position as of May 31, 2013, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 3, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

A deficiency in internal control 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, 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. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's consolidated 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Chicago, Illinois
October 3, 2013

KPMG LLP
Aon Center
Suite 5500
200 East Randolph Drive
Chicago, IL 60601-6436

Independent Auditors' Report on Compliance for Each Major Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations

The Board of Trustees
Illinois Institute of Technology:

Report on Compliance for Each Major Federal Program

We have audited Illinois Institute of Technology's (the University) compliance with the types of compliance requirements described in the *OMB Circular A133 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, 2013. The University's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

The University's consolidated financial statements include the operations of IIT Research Institute, which expended $15,281,000 in federal awards, which is not included in the University's schedule of expenditures of federal awards for the year ended May 31, 2013. Our audit, described below, did not include the operations of IIT Research Institute because those awards are audited separately.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the University's major federal programs based on our audit of the types of compliance requirements referred to above. 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 A133, *Audits of States, Local Governments, and NonProfit Organizations*. Those standards and OMB Circular A133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the University's compliance.

Opinion on Each Major Federal Program

In our opinion, Illinois Institute of Technology complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended May 31, 2013.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A133, and which are described in the accompanying schedule of findings and questioned costs as items 2013-001 and 2013-002. Our opinion on each major federal program is not modified with respect to these matters.

The University's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The University's responses were not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the responses.

Report on Internal Control over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University's internal control over compliance with the type of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A133, 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.

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. A significant deficiency in internal control over compliance is a deficiency, or 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.

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 material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2013-001 and 2013-002, which we consider to be significant deficiencies.

The University's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The University's responses were not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards by OMB Circular A133

We have audited the consolidated financial statements of the University as of and for the year ended May 31, 2013, and have issued our report thereon dated October 3, 2013, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A133 and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

KPMG LLP

Chicago, Illinois
October 3, 2013

ILLINOIS INSTITUTE OF TECHNOLOGY

Schedule of Findings and Questioned Costs

Year ended May 31, 2013

(1) Summary of Auditors' Results

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

(f) Any audit findings, which are required to be reported under Section 510(a) of OMB Circular A133: **Yes**

(g) Major programs:

Student Financial Assistance Cluster:

Federal Supplemental Educational Opportunity Grant Program – 84.007

Federal Work Study Program – 84.033

Federal Perkins Loan Program – 84.038

Federal Pell Grant Program – 84.063

Federal Direct Loan Program – 84.268

Research & Development Cluster – various CFDA numbers

(h) Dollar threshold used to distinguish between Type A and Type B programs: **$2,867,030**

(i) Auditee qualified as a lowrisk auditee under Section 530 of OMB Circular A133: **Yes**

(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 2013-001 ***Verification – Special Test and Provisions***

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

Program Name: Student Financial Assistance Cluster – all programs

CFDA # and Program Expenditures: 84.007/84.033/84.038/84.063/84.268 ($57,934,564)

Award Numbers: P007A121173/P033A121173/P063P121349/P268K136726/P268K131349

Questioned Costs: None

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 A110, *Uniform Administrative Requirements for Grant and Agreements with Institutions of Higher Education, Hospitals, and Other NonProfit 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 a sample of 40 students (from a total population of 636 students) who were selected for verification by the U.S. Department of Education's Central Processor, we noted the following:

- For one student tested (who received SFA awards totaling $57,566), we noted the verification documentation provided by the student to support the student's adjusted gross family income (AGI) was not consistent with the Institutional Student Information Record (ISIR) used to package the student's financial aid awards. Specifically, we noted the supporting documentation provided to verify the student's AGI identified the amount as $5,505 while the ISIR reported $5,050. As a result of this error, the student's expected family contribution was understated by $221. Upon further review of the student's award package, the error did not affect the amounts awarded to this student under each federal program.
- For two students tested (who received SFA awards totaling $12,126 and $19,223), we noted the verification documentation provided by the student to support the number of household members in college was not consistent with the Institutional Student Information Record (ISIR) used to package the student's financial aid awards. Specifically, we noted the supporting documentation provided to verify the number of household members in college identified one fewer household member in college than reported on the ISIRs for both of these students. As a result, the expected family

contributions were understated and each students' Pell award exceeded the maximum allowable award by $300 ($600 in total).

The 40 students included in our sample received Student Financial Aid (SFA) awards totaling $509,686, including $110,041 of Pell grants.

Cause

In discussing these conditions with University management, they indicated these errors were the result of human error resulting from a misunderstanding of program requirements.

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 USDE in a timely manner and awards are adjusted for changes in the EFC as appropriate.

View of Responsible Officials

Management agrees with the finding that the ISIR was not properly verified. The validation process occurred before the University implemented new validation procedures. The University has developed a new data validation process that requires multiple reviews of the ISIR information.

Finding 2013-002 Untimely Collection of Student Loan Repayments – Special Tests and Provisions

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

Program Name: Student Financial Assistance Cluster – Federal Perkins Loan Program

CFDA # and Program Expenditures: 84.038 ($1,389,963)

Award Numbers: P268K136726/P268K131349

Questioned Costs: None

Requirements

According to 34 CFR Section 674.31(b)(2), under the Federal Perkins Loan, the institution must establish a repayment plan. The repayment period begins after an initial grace period of either six months or nine months after the student ceases to be at least a halftime student at an institution of higher education, depending on when the loan was made.

Additionally, OMB Circular A110 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.

Condition Found

The University outsources billing, collection, and due diligence functions of the Federal Perkins Loan program to a third-party service provider. During our testwork over a sample of 21 students who entered repayment in fiscal year 2013 (from a total population of 320 students), we noted four students tested did not enter repayment status in a timely manner. Specifically, the grace periods for these students ranged from 10 to 38 months after the student stopped attending the University on at least a half time basis. As a result, the University's collection of student loans occurred one to 29 months later than required by program regulations.

Upon further review of student loan records, the University and its service provider identified 49 additional students whose loans were not currently in repayment, but should have been sent to repayment in a prior year. Additionally, 20 students whose loans went into repayment during fiscal year 2013, but should have been sent to repayment in a prior year were identified by the University and its service provider.

As of May 31, 2013, there are 266 within the 9 month grace period and 1,545 students in repayment status. The University services the Perkins loans of approximately 2,902 students through its service provider as of May 31, 2013.

Cause

In discussing these conditions with University management, they indicated these errors were the result of an error in the service provider's record of the separation date for each of these students.

(Continued)

Effect

Failure to accurately identify information in student loan records prevents the University from collecting Perkins Loan repayments in accordance with program requirements.

Recommendation

We recommend that the University work with its service provider to verify the accuracy of student loan records to ensure students enter repayment in accordance with program regulations.

View of Responsible Officials

Management agrees with the finding that the service provider verify the accuracy of the student loans. The University and the service provider will implement a new student loan report to ensure the students enter into the repayment status per federal guidelines. In addition, the University and service provider are validating the student loan data again to ensure all records are accurate.