ILLINOIS INSTITUTE OF TECHNOLOGY

Consolidated Financial Statements and Supplementary Information

May 31, 2014 and 2013

(With Independent Auditors’ Report Thereon)

ILLINOIS INSTITUTE OF TECHNOLOGY

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KPMG LLP
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200 East Randolph Drive
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Independent Auditors' Report

The Board of Trustees
Illinois Institute of Technology:

We have audited the accompanying consolidated financial statements of Illinois Institute of Technology, which comprise the consolidated statements of financial position as of May 31, 2014 and 2013, 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 statements 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from 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 auditors consider 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.

KPMG

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, 2014 and 2013, 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.

KPMG LLP

Chicago, Illinois
October 23, 2014

ILLINOIS INSTITUTE OF TECHNOLOGY

Consolidated Statements of Financial Position

May 31, 2014 and 2013

(In thousands of dollars)

Assets		**2014**	**2013**
Cash	$	17,542	11,181
Notes and accounts receivable:			
Grants and contracts, less allowance of $251 in 2014 and $402 in 2013		7,576	11,332
Students:			
Tuition, less allowance of $894 in 2014 and $1,006 in 2013		3,589	2,284
Notes, less allowance of $716 in 2014 and $360 in 2013		10,080	10,618
Other, less allowance of $838 in 2014 and $378 in 2013		682	1,579
Pledges, net (note 5)		20,407	27,330
Inventories, prepaid expenses, and deferred charges		5,035	4,245
Investments (note 2)		247,897	217,262
Bond proceeds held by trustees		2,713	4,197
Physical properties, less accumulated depreciation (note 7)		259,358	269,007
Beneficial interest in perpetual trusts (note 8)		21,123	21,298
Total assets	$	596,002	580,333
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	16,448	17,501
Accrued salaries and wages		14,495	13,111
Deferred revenue		16,084	12,340
Deposits by students and others		2,234	1,940
Accrued postretirement benefit obligation (note 10)		2,979	2,623
Obligation under split-interest agreements		864	837
Notes and bonds payable (note 9)		209,970	216,115
Advances from the U.S. government for student loans		8,117	8,117
Asset retirement obligation		3,222	3,671
Total liabilities		274,413	276,255
Net assets (note 11):			
Unrestricted		66,405	60,439
Temporarily restricted		48,000	41,946
Permanently restricted		207,184	201,693
Total net assets		321,589	304,078
Total liabilities and net assets	$	596,002	580,333

See accompanying notes to consolidated financial statements.

ILLINOIS INSTITUTE OF TECHNOLOGY

Consolidated Statement of Activities

Year ended May 31, 2014

(In thousands of dollars)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating revenue:				
Tuition and fees, net of scholarships of $85,970	$ 145,353	—	—	145,353
Government grants and contracts	49,635	—	—	49,635
Private grants and contracts	10,059	—	—	10,059
Private gifts	10,844	779	—	11,623
Endowment spending distribution (note 4)	7,453	—	—	7,453
Endowment net assets released from restrictions (note 4)	3,647	—	—	3,647
Sales and services of auxiliary enterprises	13,392	—	—	13,392
Other sources	20,822	—	—	20,822
Net assets released from restrictions	—	—	—	—
Total operating revenue	261,205	779	—	261,984
Operating expenses:				
Faculty salaries	59,236	—	—	59,236
Administrative salaries	48,492	—	—	48,492
Part-time salaries	13,544	—	—	13,544
Employee benefits	25,234	—	—	25,234
Operations and maintenance	23,604	—	—	23,604
Supplies and services	47,617	—	—	47,617
Professional fees and advertising	13,586	—	—	13,586
IITRI research	11,638	—	—	11,638
Interest on indebtedness	10,677	—	—	10,677
Depreciation	14,199	—	—	14,199
Total operating expenses	267,827	—	—	267,827
(Decrease) increase in net assets from operating activities	(6,622)	779	—	(5,843)
Nonoperating revenue and expenses:				
Private gifts	1,001	417	5,607	7,025
Net gain on investments (note 2)	14,424	6,676	(116)	20,984
Endowment spending distribution (note 4)	(7,453)	(3,647)	—	(11,100)
Investment income (note 2)	2,616	1,829	—	4,445
Net gain on disposal of assets	1,435	—	—	1,435
Change in asset retirement obligation	822	—	—	822
Other	(257)	—	—	(257)
Increase in net assets from nonoperating activities	12,588	5,275	5,491	23,354
Increase in net assets	5,966	6,054	5,491	17,511
Net assets at beginning of year	60,439	41,946	201,693	304,078
Net assets at end of year	$ 66,405	48,000	207,184	321,589

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)	8,277	—	—	8,277
Endowment net assets released from restrictions (note 13)	2,423	—	—	2,423
Sales and services of auxiliary enterprises	12,315	—	—	12,315
Other sources	19,615	—	—	19,615
Net assets released from restrictions	3,259	(3,259)	—	—
Total operating revenue	262,560	(3,259)	—	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
Decrease in net assets from operating activities	(3,063)	(3,259)	—	(6,322)
Nonoperating revenue and expenses:				
Private gifts	—	18,855	4,792	23,647
Net asset reclassification	4,604	—	(4,604)	—
Net gain on investments (note 4)	18,484	7,454	1,349	27,287
Endowment spending distribution (note 13)	(8,277)	(2,423)	—	(10,700)
Net asset release from restriction	3,920	(3,920)	—	—
Investment income (note 4)	2,561	1,266	—	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	21,023	21,232	1,537	43,792
Increase in net assets	17,960	17,973	1,537	37,470
Net assets at beginning of year	42,479	23,973	200,156	266,608
Net assets at end of year	$ 60,439	41,946	201,693	304,078

See accompanying notes to consolidated financial statements.

ILLINOIS INSTITUTE OF TECHNOLOGY

Consolidated Statements of Cash Flows

Years ended May 31, 2014 and 2013

(In thousands of dollars)

		2014	2013
Cash flows from operating activities:			
Increase in net assets	$	17,511	37,470
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:			
Private gifts restricted for long-term investment		(13,958)	(24,817)
Depreciation		14,199	14,681
Loss (gain) on beneficial interest in perpetual trusts		175	(1,245)
Net (gain) loss on disposal of assets		(1,435)	13
Net gain on investments		(21,159)	(26,042)
Accretion on asset retirement obligation		822	803
Changes in assets and liabilities:			
Receivables: tuition, grants, affiliate, and other		10,271	(598)
Inventories, prepaid expenses, and deferred charges		(790)	54
Accounts payable and accrued expenses		(1,053)	(2,648)
Accrued salaries and wages		1,384	(927)
Deferred revenue		3,744	(1,362)
Deposits by students and others		294	(579)
Accrued postretirement benefit obligation		356	157
Obligations under split-interest agreements		27	59
Asset retirement obligation		(1,271)	(1,293)
Net cash provided by (used in) operating activities		9,117	(6,274)
Cash flows from investing activities:			
Proceeds from sale of investments		50,314	32,655
Purchase of investments		(59,790)	(47,436)
Change in bond proceeds held by trustees, net		34	13
Sale of bond proceeds held by trustees		1,450	—
Purchase of physical properties		(8,999)	(9,555)
Sale of physical properties		5,884	—
Issuance of notes receivable		(4,576)	(1,637)
Payments received on notes receivable		5,114	1,770
Net cash used in investing activities		(10,569)	(24,190)
Cash flows from financing activities:			
Private gifts restricted for long-term investment		13,958	24,817
Payments on notes and bonds payable		(16,545)	(1,545)
Proceeds from issuance of bonds payable		10,400	—
Net cash provided by financing activities		7,813	23,272
Change in cash		6,361	(7,192)
Cash at:			
Beginning of year		11,181	18,373
End of year	$	17,542	11,181
Supplemental disclosure of cash flow information:			
Cash paid for interest	$	10,119	10,134

See accompanying notes to consolidated financial statements.

(1) Summary of Significant Accounting Policies and Reporting Practices

(a) Basis of Presentation

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 (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.

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) Net Asset Categories

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.

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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 years ended May 31, 2014 and 2013, these governmental clients accounted for approximately 59% and 79%, respectively, of IITRI's operating revenue of $16,119 and $16,235, respectively. Included in IITRI's grants and contracts revenue for 2014 and 2013 and grants and contracts receivable at May 31, 2014 and 2013 are unbilled receivables in the amounts of approximately $1,566 and $1,713, 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.

(Continued)

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, 2014 and 2013, 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 revenue and expenses during the reporting period. Actual results could differ from these estimates.

(Continued)

(In thousands of dollars)

(n) Reclassifications

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

(2) Investments

Investments consist of the following at May 31:

		2014		2013	
		Cost	**Fair value**	**Cost**	**Fair value**
Cash equivalents	$	34,032	34,032	31,179	31,179
Stocks		292	463	299	402
Equity mutual funds		109,402	134,926	97,631	116,322
Bonds (IITRI)		4,535	4,492	5,388	5,383
Fixed income mutual funds		47,602	49,558	40,294	41,473
Hedge equity funds		12,172	13,133	12,171	12,553
Private equity and venture capital funds		936	5,798	1,802	5,950
Real estate		12,900	5,495	12,900	4,000
Total investments	$	221,871	247,897	201,664	217,262

For investment purposes, the University pools substantially all assets of its endowment accounts. Each account owns "units" of the consolidated investment pool. The pooled assets are valued on a monthly basis and a fair value per unit is determined, which is used to calculate the number of units purchased by accounts entering the pool and redeemed by accounts withdrawing from the pool. Income (interest, dividends, and rents) earned by the investment pool is distributed to the individual accounts on the basis of average units owned by each account in the pool during the year. The University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and interest and dividend income. The objective is to provide a stable source of funds to help and support the ongoing operation and activities of the University. The private equity and venture capital funds are longer-lived, and include an overall investment strategy designed to enhance return and diversify risk. The real estate asset is held for strategic purposes supporting the educational objectives of the University.

(In thousands of dollars)

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

		2014	2013
Return on investments:			
Interest and dividends	$	4,445	3,827
Net realized gain on sale of investments		10,558	8,488
Net unrealized gain on investments		10,426	18,799
Net return on investments	$	25,429	31,114

The return on investments reflects income from investments held by IITRI of $14 and $56 for 2014 and 2013, respectively. The net change on investments reported on the consolidated statements of activities includes the permanently restricted loss on the beneficial interest in perpetual trusts of $175 for 2014 and gain of $1,245 for 2013.

(3) Fair Value Measurement

FASB ASC Section 820, *Fair Value Measurement*, 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 2014 and 2013, 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, 2014 and 2013 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, 2014 and 2013, the University had no plans to sell investments at amounts different from NAV. Beneficial interests in perpetual trusts are held by various financial institutions. These values are based on the University's proportionate share of the investments. The fair values of the investments in these trusts are based on quoted market prices published by financial institutions.

The University has $18,931 and $18,503 for 2014 and 2013, respectively, 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 commitments of $562 relative to the Commonfund and Roundtable private equity and venture capital alternative investments.

(In thousands of dollars)

Assets Measured on a Recurring Basis

The following tables present information about the University's financial assets that are measured at fair value on a recurring basis as of May 31, 2014 and 2013, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value:

	2014				Redemption	Days'
	Level 1	**Level 2**	**Level 3**	**Total**	**or liquidation**	**notice**
Investments:						
Cash and cash equivalents	$ 34,032	—	—	34,032	Daily	One
Domestic equities:						
Fixed income	49,558	—	—	49,558	Daily	One
Large cap equity	52,571	—	—	52,571	Daily	One
Tactical opportunities	14,427	—	—	14,427	Daily	One
State street global	1,924	—	—	1,924	Daily	One
Small cap	5,488	—	—	5,488	Daily	One
Total	123,968	—	—	123,968		
Global (ex-U.S.) equities:						
Developed international equity	60,516	—	—	60,516	Daily	One
Hedged equity funds of funds:						
Multiple strategies – total return	—	—	9,404	9,404	Locked-up (1)	60
Multiple strategies – absolute return	—	—	3,729	3,729	Locked-up (1)	60
Total	—	—	13,133	13,133		

(In thousands of dollars)

	2014					
	Level 1	**Level 2**	**Level 3**	**Total**	**Redemption or liquidation**	**Days' notice**
Private equity and venture capital funds:						
Commonfund capital international	$ —	—	1,076	1,076	None	N/A
Commonfund capital venture	—	—	1,871	1,871	None	N/A
Commonfund capital private equity	—	—	2,214	2,214	None	N/A
Roundtable	—	—	637	637	None	N/A
Total	—	—	5,798	5,798		
Real assets:						
IIT Tower	—	—	5,495	5,495	Illiquid (2)	N/A
Total	—	—	5,495	5,495		
Other securities:						
Fixed income (IITRI)	4,492	—	—	4,492	Daily	One
Domestic equities	463	—	—	463	Daily	One
Total	4,955	—	—	4,955		
Total investments	$ 223,471	—	24,426	247,897		
Other assets:						
Cash	$ 17,542	—	—	17,542		
Bond proceeds	2,713	—	—	2,713	Daily	One
Perpetual trusts	—	—	21,123	21,123	None	N/A
Total other assets	20,255	—	21,123	41,378		
Total	$ 243,726	—	45,549	289,275		

(1) One year from the initial investment
(2) Real estate property owned by endowment

	2013					
	Level 1	**Level 2**	**Level 3**	**Total**	**Redemption or liquidation**	**Days' 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		
Global (ex-U.S.) equities:						
Developed international equity	49,913	—	—	49,913	Daily	One

(In thousands of dollars)

	2013					
	Level 1	**Level 2**	**Level 3**	**Total**	**Redemption or liquidation**	**Days' notice**
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)

Aggregate investment liquidity as of May 31, 2014 and 2013 is presented below based on redemption or sale period:

		2014	2013
Investment redemption or sale period:			
Daily	$	223,471	194,759
Subject to rolling lock-ups		13,133	12,553
Illiquid		5,495	4,000
Redemptions not permitted		5,798	5,950
Totals	$	247,897	217,262

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, 2014 and 2013:

		Real estate	Equity mutual funds	Private equity funds	Beneficial interest in perpetual trusts	Total
Beginning balance, June 1, 2013	$	4,000	12,553	5,950	21,298	43,801
Net realized and unrealized gains		1,495	580	1,237	(175)	3,137
Purchases		—	—	35	—	35
Distributions		—	—	(1,424)	—	(1,424)
Ending balance, May 31, 2014	$	5,495	13,133	5,798	21,123	45,549
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, 2014	$	1,495	581	(153)	(175)	1,748

(In thousands of dollars)

		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

(4) 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.

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 as there are specific purpose restrictions that have not been met by the University.

(In thousands of dollars)

Endowment net assets consist of the following as of May 31, 2014:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	(11,331)	17,078	179,896	185,643
Board-designated funds		54,340	—	—	54,340
Total	$	43,009	17,078	179,896	239,983

Endowment net assets consist of the following as of May 31, 2013:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	(15,993)	12,220	174,299	170,526
Board-designated funds		51,383	—	—	51,383
Total	$	35,390	12,220	174,299	221,909

Changes in endowment net assets for the year ended May 31, 2014 are as follows:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Net assets, beginning of year	$	35,390	12,220	174,299	221,909
Endowment-related investment return:					
Endowment-related investment income, net		2,336	1,829	—	4,165
Endowment-related net realized and unrealized gain		12,713	6,676	—	19,389
Total endowment-related investment return		15,049	8,505	—	23,554
Contributions		23	—	5,597	5,620
Appropriation		(7,453)	(3,647)	—	(11,100)
Net assets, end of year	$	43,009	17,078	179,896	239,983

(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		2,561	1,266	—	3,827
Endowment-related net realized and unrealized gain		18,161	7,454	—	25,615
Total endowment-related investment return		20,722	8,720	—	29,442
Contributions		33	—	4,721	4,754
Change in donor restriction		4,380	—	(4,380)	—
Appropriation		(8,277)	(2,423)	—	(10,700)
Net assets, end of year	$	35,390	12,220	174,299	221,909

(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 $11,331 and $15,993 as of May 31, 2014 and 2013, respectively. These deficiencies are the result of unfavorable investments returns in prior fiscal years, 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) Correction of Immaterial Error

During the year ended May 31, 2014, it was determined that gains on certain endowments were reported as temporarily restricted when they should have been reported as unrestricted in the 2013 financial statements. Accordingly, the 2013 financial statements have been adjusted to reclassify the gains, investment income, and the spending distribution related to certain endowments between temporarily restricted and unrestricted net asset classes. Unrestricted net assets were increased and temporarily restricted net assets were decreased by $9,709.

(c) 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.

(Continued)

(In thousands of dollars)

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 $11,100 for fiscal year 2014 and $10,700 for fiscal year 2013. The board of trustees budgeted endowment distribution is $11,700 for fiscal year 2015.

(5) Pledges Receivable

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

		2014	2013
Pledges receivable	$	20,644	27,440
Discount to present value future cash flows		(237)	(110)
Net pledges receivable	$	20,407	27,330

The following is a summary showing the expected timing of collection of total gross unconditional pledges receivable outstanding as of May 31, 2014:

Fiscal year(s)		Amount
Less than one year	$	8,207
1 to 5 years		12,437
	$	20,644

(6) 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)

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, 2014 consist of the following:

		Perkins loans	Institutional loans	Total
Gross balance	$	7,526	3,270	10,796
Allowances		(41)	(675)	(716)
Balance at May 31, 2014	$	7,485	2,595	10,080

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

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, 2014. The delinquency status is updated monthly by the University's loan servicer.

		Perkins	Institutional	Total
Performing	$	6,873	2,074	8,947
Nonperforming (defaulted)		653	1,196	1,849
Balance at May 31, 2014	$	7,526	3,270	10,796

(In thousands of dollars)

The delinquency status as of May 31, 2013 is as follows:

		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

The aging of financing receivables as of May 31, 2014 is presented as follows:

Aging		31–60	61–90	91+	Total past due	Total current	Total
Perkins	$	132	245	665	1,042	6,484	7,526
Institutional		85	50	1,354	1,489	1,781	3,270
Total	$	217	295	2,019	2,531	8,265	10,796

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

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, 2014 are presented as follows:

Balance at June 1, 2013	$	360
Write-off		(25)
Increase reserve		381
Balance at May 31, 2014	$	716

(In thousands of dollars)

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

(7) Physical Properties

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

		2014	2013
Land and land improvements	$	24,194	28,729
Building and building improvements		393,224	385,352
Equipment and library collection		90,359	88,755
Construction in progress		4,603	5,846
Total physical properties		512,380	508,682
Less accumulated depreciation		253,022	239,675
Physical properties, net	$	259,358	269,007

On August 15, 2013, the University sold a land parcel for $5,985. The University recorded a $1,449 gain in 2014.

(8) 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, 2014 and 2013, the share of these trusts from which the University derives income had a combined fair value of $21,123 and $21,298, respectively. These trusts provided unrestricted income of $1,770 and $751 in fiscal 2014 and 2013, recorded in investment income on the consolidated statements of activities.

(In thousands of dollars)

(9) Notes and Bonds Payable

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

	Interest rate		2014	2013
University:				
IFA Bonds, Series 2006, payable in varying installments through 2036	5.00% and 6.10%	$	156,925	160,000
IFA Bonds, Series 2009, payable in varying installments through 2034	4.750% to 7.125%		28,645	29,340
IITRI – IFA Series 2004, payable in varying installments through 2034	Variable		—	12,775
IITRI – IFA Series 2014, payable in varying installments through 2034	Variable		10,400	—
Short-term line of credit	Various		14,000	14,000
Total notes and bonds payable		$	209,970	216,115

The following is a summary of required principal payments on outstanding secured obligations as of May 31, 2014:

Fiscal year ending:		
2015	$	18,515
2016		5,595
2017		5,860
2018		6,135
2019		6,430
2020 and beyond		167,435
Total notes and bonds payable	$	209,970

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 thousands of dollars)

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 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 renovate and construct lab and office space; establish a debt service reserve fund and pay certain costs incurred in connection with the bond issue. In February 2014, IITRI entered into a bond and loan agreement with the Illinois Finance Authority and North Shore Community Bank. IITRI issued a $10,400 Revenue Refunding Bond (IFA Series 2014) that was sold to North Shore Community Bank and Trust. IITRI used the proceeds and certain other funds to refund and redeem the Series 2004 Bond. Principal payments on the Bond will commence February 1, 2015 in the amount of $520 per year and continue until the bond matures in 2034. The interest rate is variable and reset by North Shore Community Bank on a monthly basis.

The University maintains a line-of-credit agreement that allow borrowings up to $20,000 in 2014 and in 2013. 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, 2014 and 2013.

The University and IITRI are subject to certain debt covenants. As of May 31, 2014, management believes those covenants have been met.

The fair value of long-term debt as of May 31, 2014 and 2013 was:

2014		2013	
Fair value	**Carrying value**	**Fair value**	**Carrying value**
$ 193,562	195,970	$ 200,617	202,115

The fair value of long-term debt is determined by quoted prices for comparable borrowings as of May 31, 2014 and 2013, 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.

(10) 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

(In thousands of dollars)

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:

		2014	2013
Change in accumulated postretirement benefit obligation at beginning of the period	$	2,623	2,466
Service cost			—
Interest cost		106	96
Actuarial gain		372	198
Actuarial benefit payments net contributions		(122)	(137)
Accumulated postretirement benefit obligation at end of the period	$	2,979	2,623

		2014	2013
Change in fair value of plan assets:			
Fair value of plan assets at beginning of period	$	—	—
Employer contribution		122	137
Participant contributions		82	50
Total benefit payments		(204)	(187)
Fair value of plan assets at end of the period	$	—	—
Funded status	$	2,979	2,623
Composition of amounts reported in the consolidated statements of financial position consist of:			
Current liabilities	$	160	149
Noncurrent liabilities		2,819	2,474
Accrued postretirement benefit obligation	$	2,979	2,623

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:

		2014	2013
Unrecognized actuarial loss	$	792	432
Unrecognized prior service costs		14	26

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 $37, respectively.

(Continued)

(In thousands of dollars)

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

		2014	2013
Service cost	$		—
Interest cost		106	96
Amortization of prior service cost		12	12
Net periodic postretirement benefit cost	$	118	108

(a) Actuarial Assumptions

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

	2014	2013
Discount rate (expense)	4.15%	4.01%
Discount rate (obligation)	4.00	4.15
Healthcare cost trend rates:		
Healthcare cost trend rate assumed for next year	7.75	8.00
Ultimate rate	5.00	5.00
Year that the ultimate rate is reached	2025	2025

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:

		2014	2013
Effect on total service cost and interest cost:			
One-percentage point increase	$	12	11
One-percentage point decrease		(10)	(9)
Effect on year-end postretirement benefit obligation:			
One-percentage point increase	$	315	283
One-percentage point decrease		(273)	(244)

(Continued)

(In thousands of dollars)

(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:		
2015	$	160
2016		174
2017		174
2018		183
2019		191
2020–2023		1,028

(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.

(11) 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:

		2014	2013
Endowments			
Board designated	$	54,340	51,383
Donor restricted		(11,331)	(15,993)
Endowments total		43,009	35,390
Undesignated			
Unrestricted for university operations		(47,845)	(55,977)
Loan Fund		6,102	5,835
Net investment in plant		65,139	75,191
Undesignated total		23,396	25,049
Total	$	66,405	60,439

(In thousands of dollars)

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

		2014	2013
General operations	$	10,638	13,830
Endowments		17,078	12,220
Net investment in plant		17,625	13,948
Scholarships		1,727	1,016
Split-interest annuity agreements		932	932
Total	$	48,000	41,946

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

		2014	2013
Endowment	$	171,536	162,263
Endowment pledges		8,360	12,036
Donor-restricted revolving loan funds		3,827	3,827
Split-interest annuity agreements		2,338	2,269
Beneficial interest in perpetual trusts		21,123	21,298
Total	$	207,184	201,693

The amount of outstanding loans from quasi-endowments to unrestricted funds is $4,296 and $10,653 at May 31, 2014 and 2013, respectively.

(12) 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, 2014 and 2013 were $6,650 and $6,374 by the University and $350 and $349 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.

(Continued)

(In thousands of dollars)

(13) 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:

		2014	2013
Instruction	$	93,680	89,972
Research and other grant activities		60,185	67,971
Academic support		26,142	27,115
Student services		19,758	18,754
Institutional support		58,671	51,318
Auxiliary enterprises		9,391	10,493
Total	$	267,827	265,623

(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, 2014 and 2013, it was not necessary for the University to lease unoccupied beds due to State Street Corp achieving a 1.0 debt service ratio.

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 thousands of dollars)

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 began 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, 2015.

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:		
2014	$	2,080
2015		2,146
2016		2,104
2017		937
2018		961
2019		985
Thereafter		5,585
	$	14,798

(15) Contingencies

The University is a defendant in legal proceedings arising in the ordinary course of its business. Although the outcome of these proceedings cannot presently be determined, in the opinion of management, disposition of these proceedings will not have a material adverse effect on the financial position of the University.

(16) Participation in Federal Financial Assistance Program

On May 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.

On March 18, 2014, the University received a letter from the United States Department of Education (USDE) stating that the University met the financial responsibility standards in 34 CFR 668.172. The University is no longer required to participate in the USDE's Student Financial Assistance programs under the Provisional Certification Alternative (Zone Alternative) for the next award year.

(17) Subsequent Events

In connection with the preparation of the consolidated financial statements and in accordance with FASB ASC Section 855, *Subsequent Events,* management evaluated subsequent events after the statement of financial position date of May 31, 2014 through October 23, 2014, which was the date the consolidated financial statements were issued.

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

Independent Auditors' Report on Supplementary Information

The Board of Trustees
Illinois Institute of Technology:

We have audited the consolidated financial statements of Illinois Institute of Technology as of and for the year ended May 31, 2014, and have issued our report thereon dated October 23, 2014, which contained an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information included in Schedules 1 through 3 is presented for the purposes of additional analysis, 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 information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

Chicago, Illinois
October 23, 2014

Schedule 1

ILLINOIS INSTITUTE OF TECHNOLOGY

Consolidating Statement of Financial Position

May 31, 2014

(In thousands of dollars)

Assets		**University**	**IITRI**	**Eliminations**		**Total**
Cash	$	10,166	7,376	—		17,542
Notes and accounts receivable:						
Grants and contracts, less allowance of $251		4,752	2,824	—		7,576
Students:						
Tuition, less allowance of $894		3,589	—	—		3,589
Notes, less allowance of $716		10,080	—	—		10,080
Other, less allowance of $838		682	—	—		682
Pledges, net		20,407	—	—		20,407
Affiliated organizations, net		1,201	—	(1,201)	(a)	—
Inventories, prepaid expenses, and deferred charges		4,892	143	—		5,035
Equity interest in IITRI		14,798	—	(14,798)	(b)	—
Investments		243,405	4,492	—		247,897
Bond proceeds held by trustees		2,713	—	—		2,713
Physical properties, less accumulated depreciation		243,788	15,570	—		259,358
Beneficial interest in perpetual trusts		21,123	—	—		21,123
Total assets	$	581,596	30,405	(15,999)		596,002
Liabilities and Net Assets						
Liabilities:						
Accounts payable and accrued expenses	$	16,048	1,601	(1,201)	(a)	16,448
Accrued salaries and wages		13,860	635	—		14,495
Deferred revenue		13,113	2,971	—		16,084
Deposits by students and others		2,234	—	—		2,234
Accrued postretirement benefit obligation		2,979	—	—		2,979
Obligation under split-interest agreements		864	—	—		864
Notes and bonds payable		199,570	10,400	—		209,970
Advances from U.S. government for student loans		8,117	—	—		8,117
Asset retirement obligation		3,222	—	—		3,222
Total liabilities		260,007	15,607	(1,201)		274,413
Net assets:						
Unrestricted		66,405	14,798	(14,798)	(b)	66,405
Temporarily restricted		48,000	—	—		48,000
Permanently restricted		207,184	—	—		207,184
Total net assets		321,589	14,798	(14,798)		321,589
Total liabilities and net assets	$	581,596	30,405	(15,999)		596,002

(a) Elimination of inter-entity accounts payable/receivable

(b) Elimination of equity interest in IITRI

See accompanying independent auditors' report.

Schedule 2

ILLINOIS INSTITUTE OF TECHNOLOGY

Consolidating Statement of Activities

Year ended May 31, 2014

(In thousands of dollars)

	Unrestricted				Temporarily restricted –	Permanently restricted –	
	University	IITRI	Inter-entity eliminations	Total	University	University	Total
Operating revenue:							
Tuition and fees, net of scholarships of $85,970	$ 145,353	—	—	145,353	—	—	145,353
Government grants and contracts	40,049	9,586	—	49,635	—	—	49,635
Private grants and contracts	3,526	6,533	—	10,059	—	—	10,059
Private gifts	10,844	—	—	10,844	779	—	11,623
Endowment spending distribution	7,453	—	—	7,453	—	—	7,453
Endowment net assets released from restrictions	3,647	—	—	3,647	—	—	3,647
Sales and services of auxiliary enterprises	13,392	—	—	13,392	—	—	13,392
Other sources	23,631	—	(2,809) (a)	20,822	—	—	20,822
Net assets released from restrictions	—	—	—	—	—	—	—
Total operating revenue	247,895	16,119	(2,809)	261,205	779	—	261,984
Operating expenses:							
Faculty salaries	59,236	—	—	59,236	—	—	59,236
Administrative salaries	48,492	—	—	48,492	—	—	48,492
Part-time salaries	13,544	—	—	13,544	—	—	13,544
Employee benefits	25,234	—	—	25,234	—	—	25,234
Operations and maintenance	23,604	—	—	23,604	—	—	23,604
Supplies and services	47,617	—	—	47,617	—	—	47,617
Professional fees and advertising	13,586	—	—	13,586	—	—	13,586
IITRI research	—	14,447	(2,809) (a)	11,638	—	—	11,638
Interest on indebtedness	10,446	231	—	10,677	—	—	10,677
Depreciation	13,300	899	—	14,199	—	—	14,199
Total operating expenses	255,059	15,577	(2,809)	267,827	—	—	267,827
(Decrease) increase in net assets from operating activities	(7,164)	542	—	(6,622)	779	—	(5,843)
Nonoperating revenue and expenses:							
Private gifts	1,001	—	—	1,001	417	5,607	7,025
Net gain on investments	14,424	—	—	14,424	6,676	(116)	20,984
Endowment spending distribution	(7,453)	—	—	(7,453)	(3,647)	—	(11,100)
Investment income	2,602	14	—	2,616	1,829	—	4,445
Net gain on disposal of assets	1,435	—	—	1,435	—	—	1,435
Change in asset retirement obligation	822	—	—	822	—	—	822
Other	(257)	—	—	(257)	—	—	(257)
Equity income from IITRI	556	—	(556) (b)	—	—	—	—
Increase (decrease) in net assets from nonoperating activities	13,130	14	(556)	12,588	5,275	5,491	23,354
Increase (decrease) in net assets	5,966	556	(556)	5,966	6,054	5,491	17,511
Net assets at beginning of year	60,439	14,242	(14,242)	60,439	41,946	201,693	304,078
Net assets end of year	$ 66,405	14,798	(14,798)	66,405	48,000	207,184	321,589

(a) Elimination of inter-entity utility income and expense

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

See accompanying independent auditors’ report.

Schedule 3

ILLINOIS INSTITUTE OF TECHNOLOGY

Consolidating Statement of Cash Flows

Year ended May 31, 2014

(In thousands of dollars)

		University	IITRI	Eliminations		Total
Cash flows from operating activities:						
Increase in net assets	$	17,511	556	(556)	(a)	17,511
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:						
Private gifts restricted for long-term investment		(13,958)	—	—		(13,958)
Depreciation		13,300	899	—		14,199
Gain on beneficial interest in perpetual trusts		175	—	—		175
Net gain on disposal of assets		(1,435)	—	—		(1,435)
Loss on impairment of asset		—	—	—		—
Net gain on investments		(21,159)	—	—		(21,159)
Accretion on asset retirement obligation		822	—	—		822
Changes in assets and liabilities:						
Receivables: tuition, grants, pledges, affiliate, and other		8,726	548	997	(b)	10,271
Inventories, prepaid expenses, and deferred charges		(776)	(14)	—		(790)
Equity interest in IITRI		(556)	—	556	(a)	—
Accounts payable and accrued expenses		(568)	512	(997)	(b)	(1,053)
Accrued salaries and wages		1,334	50	—		1,384
Deferred revenue		2,685	1,059	—		3,744
Deposits by students and others		294	—	—		294
Accrued postretirement benefit obligation		356	—	—		356
Obligations under split-interest agreements		27	—	—		27
Asset retirement obligation		(1,271)	—	—		(1,271)
Net cash provided by operating activities		5,507	3,610	—		9,117
Cash flows from investing activities:						
Proceeds from sale of investments		49,423	891	—		50,314
Purchase of investments		(59,790)	—	—		(59,790)
Change in bond proceeds held by trustees		(1)	35	—		34
Sale of bond proceeds held by trustees		—	1,450	—		1,450
Purchase of physical properties		(8,502)	(497)	—		(8,999)
Sale of physical properties		5,884	—	—		5,884
Issuance of notes receivable		(4,576)	—	—		(4,576)
Payments received on notes receivable		5,114	—	—		5,114
Net cash (used in) provided by investing activities		(12,448)	1,879	—		(10,569)
Cash flows from financing activities:						
Private gifts restricted for long-term investment		13,958	—	—		13,958
Payments on notes and bonds payable		(3,770)	(12,775)	—		(16,545)
Proceeds from issuance of bonds payable		—	10,400	—		10,400
Net cash provided by (used in) financing activities		10,188	(2,375)	—		7,813
Change in cash		3,247	3,114	—		6,361
Cash at:						
Beginning of year		6,919	4,262	—		11,181
End of year	$	10,166	7,376	—		17,542
Supplemental disclosure of cash flow information:						
Cash paid for interest	$	10,082	37	—		10,119

(a) Elimination of change in equity interest in IITRI

(b) Elimination of change in inter-entity accounts payable/receivable

See accompanying independent auditors' report.