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ILLINOIS INSTITUTE OF TECHNOLOGY

OMB Circular A-133 Audit Report

Year ended May 31, 2012

(With Independent Auditors' Reports Thereon)

ILLINOIS INSTITUTE OF TECHNOLOGY

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Independent Auditors' Report

The Board of Trustees
Illinois Institute of Technology:

We have audited the accompanying consolidated statements of financial position of Illinois Institute of Technology (the University) as of May 31, 2012 and 2011, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University as of May 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2012 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

KPMG LLP

October 25, 2012

ILLINOIS INSTITUTE OF TECHNOLOGY

Consolidated Statements of Financial Position

May 31, 2012 and 2011

(In thousands of dollars)

Assets		**2012**	**2011**
Cash	$	18,373	16,400
Bond proceeds held by trustees		4,210	6,040
Notes and accounts receivable:			
Grants and contracts, less allowance of $308 in 2012 and $310 in 2011		8,762	10,494
Students:			
Tuition, less allowance of $1,521 in 2012 and $848 in 2011		2,287	7,968
Notes, less allowance of $764 in 2012 and $563 in 2011		11,135	11,166
Pledges, less allowance of $0 in 2012 and $175 in 2011 (note 5)		28,568	26,197
Other, less allowance of $297 in 2012 and $786 in 2011		1,925	2,473
Inventories, prepaid expenses, and deferred charges		4,299	3,955
Investments (note 4)		176,439	189,793
Physical properties, less accumulated depreciation (note 6)		274,147	277,900
Beneficial interest in perpetual trusts (note 7)		20,053	21,404
Total assets	$	550,198	573,790
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	20,149	24,006
Accrued salaries and wages		14,038	14,181
Deferred revenue		13,702	23,242
Deposits by students and others		2,519	3,170
Accrued postretirement benefit obligation (note 9)		2,466	2,301
Obligation under split-interest agreements		778	1,410
Notes and bonds payable (note 8)		217,660	218,505
Advances from the U.S. government for student loans		8,117	8,117
Asset retirement obligation		4,161	5,363
Total liabilities		283,590	300,295
Net assets (note 12):			
Unrestricted		42,479	50,539
Temporarily restricted		23,973	31,435
Permanently restricted		200,156	191,521
Total net assets		266,608	273,495
Total liabilities and net assets	$	550,198	573,790

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	62,839	—	—	62,839
Private grants and contracts	2,619	—	—	2,619
Private gifts	6,385	3,380	—	9,765
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	(521)	—	249,678
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 (decrease) in net assets from operating activities	1,696	(521)	—	1,175
Nonoperating revenue and expenses:				
Private gifts	—	—	10,130	10,130
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 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)
(Decrease) increase in net assets from nonoperating activities	(9,756)	(6,941)	8,635	(8,062)
(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 Statement of Activities

Year ended May 31, 2011

(In thousands of dollars)

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

See accompanying notes to consolidated financial statements.

ILLINOIS INSTITUTE OF TECHNOLOGY

Consolidated Statements of Cash Flows

Years ended May 31, 2012 and 2011

(In thousands of dollars)

		2012	2011
Cash flows from operating activities:			
(Decrease) increase in net assets	$	(6,887)	31,744
Adjustments to reconcile (decrease) increase in net assets to net cash (used in) provided by operating activities:			
Private gifts restricted for long-term investment		(7,206)	(10,767)
Depreciation		14,850	14,830
Loss (gain) on beneficial interest in perpetual trusts		1,351	(2,716)
Net loss on disposal of assets		46	102
Loss on impairment of asset		645	720
Net loss (gain) on investments		7,505	(26,144)
Accretion on asset retirement obligation		253	327
Changes in assets and liabilities:			
Receivables: tuition, grants, pledges, affiliate, and other		5,590	(7,862)
Inventories, prepaid expenses, and deferred charges		(344)	(133)
Accounts payable and accrued expenses		(3,857)	2,423
Accrued salaries and wages		(143)	(538)
Deferred revenue		(9,540)	5,310
Deposits by students and others		(651)	(213)
Accrued postretirement benefit obligation		165	233
Obligations under split-interest agreements		(632)	2
Asset retirement obligation		(1,455)	(1,742)
Net cash (used in) provided by operating activities		(310)	5,576
Cash flows from investing activities:			
Proceeds from sale of investments		34,469	53,524
Purchase of investments		(28,620)	(40,564)
Change in bond proceeds held by trustees		1,830	10,090
Purchase of physical properties		(11,788)	(22,655)
Issuance of notes receivable		(1,587)	(947)
Payments received on notes receivable		1,618	1,379
Net cash (used in) provided by investing activities		(4,078)	827
Cash flows from financing activities:			
Private gifts restricted for long-term investment		7,206	10,767
Payments on notes and bonds payable		(845)	(810)
Payments on borrowings under line of credit		—	(3,000)
Net cash provided by financing activities		6,361	6,957
Increase in cash		1,973	13,360
Cash at:			
Beginning of year		16,400	3,040
End of year	$	18,373	16,400
Supplemental disclosure of cash flow information:			
Cash paid for interest	$	10,134	9,167

See accompanying notes to consolidated financial statements.

(1) Nature of Organization

(a) Illinois Institute of Technology

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

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

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

(b) IIT Research Institute

IIT Research Institute (IITRI) is a not-for-profit corporation working for the advancement of knowledge and the beneficial application of science to meet the needs of society. IITRI's articles of incorporation provide that, in addition to its primary purpose, it will support and assist the University and, in event of dissolution, IITRI's assets would be distributed to the University. Members of the executive committee of the board of trustees of the University are members of the IITRI corporation. Four officers of the University serve ex officio as members of the IITRI Board of Governors. IITRI also prepares separate annual financial statements as of September 30, its fiscal year-end.

(2) Summary of Significant Accounting Policies and Reporting Practices

(a) Principles of Consolidation

The accompanying consolidated financial statements, which have been prepared on the accrual basis of accounting, include the accounts of Illinois Institute of Technology, IIT India, IIT France, and IITRI. All significant intercompany transactions between these entities have been eliminated from the accompanying consolidated financial statements.

(b) Basis of Presentation

The University maintains its accounts in accordance with the principles and practices of fund accounting. Fund accounting is the procedure by which resources for various purposes are classified for accounting purposes in accordance with activities or objectives specified by donors.

For financial statement reporting purposes, however, the University's consolidated financial statements have been prepared to focus on the organization as a whole and to present balances and transactions in accordance with donor-imposed restrictions.

(Continued)

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

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

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

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

(c) Operations

Operating results in the consolidated statements of activities reflect all transaction increasing or decreasing unrestricted net assets except those items associated with long-term investment, and other infrequent gains, losses, revenues, and expenses.

(d) Revenue

Revenue is reported as an increase in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. 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.

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 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, 2012 and 2011, these governmental clients accounted for approximately 84% and 74%, respectively, of IITRI's operating revenue of $15,880 and $18,796, respectively. Included in IITRI's grants and contracts revenue for 2012 and 2011 and grants and contracts receivable at May 31, 2012 and 2011 are unbilled receivables in the amounts of approximately $2,162 and $3,234, respectively.

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

(e) Investments

Investments are reported at fair value. The fair values of investments in stocks, equity mutual funds, bonds, and fixed income mutual funds are generally determined based on quoted market prices. Direct investments in real estate included in the investment portfolio are recorded at fair value 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

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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.

Accounting principles generally accepted in the United States of America 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, 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 is 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.

(Continued)

(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. The University uses the following valuation techniques to measure the investments fair value:

Level 1 consists of financial instruments, such as cash and cash equivalents, bond proceeds, mutual funds, stocks, and money market funds, whose value is based on quoted market prices published by a financial institution 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, 2012 and 2011 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, 2012 and 2011, 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 $18,837 for 2012 and $19,868 for 2011 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 no unfunded commitments relative to these investments.

(In thousands of dollars)

Assets Measured on a Recurring Basis

The following tables present information about the University's financial assets that are measured at fair value on a recurring basis as of May 31, 2012 and 2011, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value.

	2012					
	Level 1	**Level 2**	**Level 3**	**Total**	**Redemption or liquidation**	**Days' notice**
Investments:						
Cash and cash equivalents	$ 14,177	—	—	14,177	Daily	One
Total	14,177	—	—	14,177		
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		

(In thousands of dollars)

	2012 Level 1	2012 Level 2	2012 Level 3	2012 Total	Redemption or liquidation	Days' notice
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

	2011 Level 1	2011 Level 2	2011 Level 3	2011 Total	Redemption or liquidation	Days' notice
Investments:						
Cash and cash equivalents	$ 20,530	—	—	20,530	Daily	One
Total	20,530	—	—	20,530		
Domestic equities:						
Fixed income	33,800	—	—	33,800	Daily	One
Large cap equity	46,029	—	—	46,029	Daily	One
Tactical opportunities	14,282	—	—	14,282	Daily	One
State Street Global	2,031	—	—	2,031	Daily	One
Small cap	4,087	—	—	4,087	Daily	One
Total	100,229	—	—	100,229		
Global (ex-U.S.) equities:						
Developed international equity	38,748	—	—	38,748	Daily	One
Hedged equity funds of funds:						
Multiple strategies – total return	—	—	8,323	8,323	Locked-up (1)	60
Multiple strategies – absolute return	—	—	3,317	3,317	Locked-up (1)	60
Total	—	—	11,640	11,640		
Private equity and venture capital funds:						
Commonfund Capital International	—	—	1,782	1,782	None	N/A
Commonfund Capital Venture	—	—	2,685	2,685	None	N/A
Commonfund Capital Private Equity	—	—	3,241	3,241	None	N/A
Roundtable	—	—	520	520	None	N/A
Total	—	—	8,228	8,228		
Real assets:						
IIT Tower	—	—	4,200	4,200	Illiquid (2)	N/A
Total	—	—	4,200	4,200		

(In thousands of dollars)

	2011					
	Level 1	Level 2	Level 3	Total	Redemption or liquidation	Days' notice
Other securities:						
Fixed income (IITRI)	$ 5,885	—	—	5,885	Daily	One
Domestic equities	333	—	—	333	Daily	One
Total	6,218	—	—	6,218		
Total Investments	165,725	—	24,068	189,793		
Other assets:						
Bond proceeds	6,040	—	—	6,040	Daily	One
Perpetual trusts	—	—	21,404	21,404	None	N/A
Total other assets	6,040	—	21,404	27,444		
Total	$ 171,765	—	45,472	217,237		

(1) one year from the initial investment

(2) Real Estate property owned by endowment

Aggregate investment liquidity as of May 31, 2012 and 2011 is presented below based on redemption or sale period:

	2012	2011
Investment redemption or sale period:		
Daily	$ 153,602	165,725
Subject to rolling lock-ups	11,408	11,640
Illiquid	4,000	4,200
Redemptions not permitted	7,429	8,228
Totals	$ 176,439	189,793

(In thousands of dollars)

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, 2012 and 2011:

		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 (gain)		(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)

		Real estate	**Equity mutual funds**	**Private equity funds**	**Beneficial interest in perpetual trusts**	**Total**
Beginning balance, June 1, 2010	$	4,227	11,223	7,747	18,688	41,885
Net realized and unrealized gains (losses)		(27)	417	481	2,716	3,587
Purchases, issuances, and settlements		—	—	—	—	—
Ending balance, May 31, 2011	$	4,200	11,640	8,228	21,404	45,472
The amount of total gains or losses for the period included in net return on investments attributable to the change in unrealized gains or (losses) relating to assets still held at May 31, 2011	$	(27)	417	481	2,716	3,587

(In thousands of dollars)

(4) Investments

Investments consist of the following at May 31:

	2012		2011	
	Cost	**Fair value**	**Cost**	**Fair value**
Cash equivalents	$ 14,177	14,177	20,530	20,530
Stocks	258	299	254	333
Equity mutual funds	100,737	98,993	89,496	103,634
Bonds (IITRI)	4,133	4,136	6,391	5,885
Fixed income mutual funds	31,545	35,997	33,540	35,343
Hedge equity funds	12,171	11,408	12,171	11,640
Private equity funds	3,719	7,429	5,194	8,228
Real estate	13,803	4,000	13,803	4,200
Total investments	$ 180,543	176,439	181,379	189,793

For investment purposes, the University pools substantially all assets of its endowment accounts. Each account owns “units” of the consolidated investment pool. The pooled assets are valued on a monthly basis and a fair value per unit is determined, which is used to calculate the number of units purchased by accounts entering the pool and redeemed by accounts withdrawing from the pool. Income (interest, dividends, and rents) earned by the investment pool is distributed to the individual accounts on the basis of average units owned by each account in the pool during the year.

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

	2012	2011
Return on investments:		
Interest and dividends	$ 2,232	1,297
Net realized gain on sale of investments	5,013	1,379
Net unrealized (loss) gain on investments	(12,518)	24,995
Net return on investments	$ (5,273)	27,671

The return on investments reflects income from investments held by IITRI of $57 and $33 for 2012 and 2011, respectively. The net loss on investments reported on the statement of activities includes the permanently restricted loss on the beneficial interest in perpetual trusts of $1,351 for 2012 and a gain of $2,716 for 2011.

(In thousands of dollars)

(5) Pledges Receivable

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

Pledges receivable	$	28,737	28,807
Allowance for uncollectible pledges		—	(175)
Discount to present value future cash flows		(169)	(2,435)
Net pledges receivable	$	28,568	26,197

The following is a summary showing the expected timing of collection of total gross unconditional pledges receivable outstanding as of May 31, 2012:

Fiscal year(s)		Amount
Less than one year	$	7,851
1 to 5 years		20,832
More than 5 years		54
	$	28,737

(6) Physical Properties

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

		2012	2011
Land and land improvements	$	28,729	29,319
Building and building improvements		381,132	366,761
Equipment and library collection		86,881	85,587
Construction in progress		2,857	8,875
Total physical properties		499,599	490,542
Less accumulated depreciation		225,452	212,642
Physical properties, net	$	274,147	277,900

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 and $720 during 2012 and 2011 respectively, and a loss in the consolidated statement of activities in nonoperating revenue and expenses. At May 31, 2012 and 2011, the land parcel was valued at $4,535 and $5,180, respectively.

(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, 2012 and 2011, the share of these trusts from which the University derives income had a combined fair value of

(In thousands of dollars)

$20,053 and $21,404, respectively. These trusts provided unrestricted income of $626 and $404 in fiscal 2012 and 2011, recorded in investment income on the statement of activities.

(8) Notes and Bonds Payable

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

	Interest rate		2012	2011
University:				
IFA Bonds, Series 2006, payable in varying installments through 2036	5.00% and 6.10%	$	160,000	160,000
IFA Bonds, Series 2009, payable in varying installments through 2034	4.750% to 7.125%		30,000	30,000
IITRI – IFA Series 2004, payable in varying installments through 2034	Variable		13,660	14,505
Short-term line of credit	Various		14,000	14,000
Total notes and bonds payable		$	217,660	218,505

The following is a summary of required principal payments on outstanding secured obligations as of May 31, 2012:

Fiscal year ending:		
2013	$	15,545
2014		4,695
2015		4,960
2016		6,085
2017		6,395
2018 and beyond		179,980
Total notes and bonds payable	$	217,660

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 5.52% serial bonds maturing in February 2013 and 2014 and 6.25%, 6.50%, and 7.125% term bonds maturing in February 1, 2019, 2023, and 2034.

In August 2004, IITRI 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.

The University maintains line-of-credit agreements that allow borrowings up to $20,150. Borrowings under the line of credit will bear interest at the prime commercial rate or adjusted LIBOR with interest being payable on a quarterly basis. The borrowing under the line of credit will be payable on demand, but if no demand is made, borrowing shall automatically mature on the interest payable date next following the date the loan is made. The amount outstanding under the agreement was $14,000 as of May 31, 2012 and 2011.

The University and IITRI are subject to certain debt covenants. As of May 31, 2012, management believes those covenants have been met.

The carrying value of long-term debt does not differ materially from its estimated fair value as of May 31, 2012 and 2011 based on quoted market prices for the same or similar issues.

(In thousands of dollars)

(9) Accrued Postretirement Benefit Obligation

The University created a retirement incentive program for tenured faculty in November 2006. As part of the incentive program, certain medical benefits are offered to participants. A reconciliation of the plan's funded status with the accrued benefit cost reported on the 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.

		2012	2011
Change in accumulated postretirement benefit obligation at beginning of the period	$	2,301	2,068
Service cost		5	12
Interest cost		111	113
Actuarial gain		136	160
Actuarial benefit payments net contributions		(87)	(52)
Accumulated postretirement benefit obligation at end of the period	$	2,466	2,301

		2012	2011
Change in fair value of plan assets:			
Fair value of plan assets at beginning of period	$	—	—
Employer contribution		87	52
Participant contributions		51	53
Total benefit payments		(138)	(105)
Fair value of plan assets at end of the period		—	—
Funded status	$	2,466	2,301
Amounts recognized in the statement of financial position consist of:			
Current liabilities	$	137	102
Noncurrent liabilities		2,329	2,199
Accrued postretirement benefit obligation	$	2,466	2,301

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 are:

		2012	2011
Unrecognized actuarial loss	$	235	99
Unrecognized prior service costs		38	49

(Continued)

(In thousands of dollars)

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 $0, respectively.

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

		2012	2011
Service cost	$	5	12
Interest cost		111	113
Amortization of prior service cost		12	12
Net periodic postretirement benefit cost	$	128	137

(a) Actuarial Assumptions

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

	2012	2011
Discount rate (expense)	4.94%	5.52%
Discount rate (obligation)	4.01	4.94
Healthcare cost trend rates:		
Healthcare cost trend rate assumed for next year	9.50	10.00
Ultimate rate	5.00	5.00
Year that the ultimate rate is reached	2021	2016

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

		2012	2011
Effect on total service cost and interest cost:			
One-percentage point increase	$	13	15
One-percentage point decrease		(11)	(13)
Effect on year-end postretirement benefit obligation:			
One-percentage point increase	$	272	258
One-percentage point decrease		(233)	(222)

(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:		
2013	$	137
2014		150
2015		146
2016		156
2017		149
2018 – 2022		801

(c) Plan Amendment

Effective August 1, 2007, the plan was amended to eliminate post-65 benefits for all retirees, both current and future. There was also a group of faculty participants who were offered a special option under which the University would reimburse their premiums for post-65 retiree coverage. This special benefit option was only available through May 31, 2008. Participants had to sign up by this date in order to participate.

(10) Employee Benefit Plans

(a) Pension Plan

Substantially all full-time employees of the University and IITRI are participants in defined contribution retirement plans that are funded by contributions from the University, IITRI, and participating employees. Total contributions made under the plans for the years ended May 31, 2012 and 2011 were $6,099 and $6,006 by the University and $342 and $348 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 the Aetna Life Insurance Company. Under this Plan, premium contributions are shared by both IITRI and plan participants.

(11) Functional Classification of Expenses

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

(Continued)

(In thousands of dollars)

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:

		2012	2011
Instruction	$	84,249	86,839
Research and other grant activities		64,813	74,758
Academic support		25,199	24,929
Student services		17,632	16,153
Institutional support		43,606	38,014
Auxiliary enterprises		13,004	12,659
Total	$	248,503	253,352

(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:

		2012	2011
Funds designated by the board of trustees for endowment and other purpose	$	69,202	69,904
Undesignated		(26,723)	(19,365)
Total	$	42,479	50,539

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

		2012	2011
Scholarships	$	2,703	4,430
Instruction and academic departments		2,298	5,779
General operations		18,040	20,294
Split-interest annuity agreements		932	932
Total	$	23,973	31,435

(In thousands of dollars)

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

		2012	2011
Endowment investments	$	155,776	148,571
Endowment pledges		18,182	15,257
Donor-restricted revolving loans funds		4,051	4,051
Split-interest annuity agreements		2,094	2,238
Beneficial interest in perpetual trusts		20,053	21,404
Total	$	200,156	191,521

The amount of outstanding loans from quasi-endowments to unrestricted funds is $11,177 and $11,671 at May 31, 2012 and 2011, 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.

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.

(In thousands of dollars)

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

Endowment net assets consist of the following as of May 31, 2011:

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

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

	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	—	—	7,206	7,206
Pledges	—	—	2,924	2,924
Appropriation	(11,876)	(1,124)	—	(13,000)
Net assets, end of year	$ 18,532	5,923	173,958	198,413

(Continued)

(In thousands of dollars)

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

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

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

(a) Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the University to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were $4,481 and $1,682 as of May 31, 2012 and 2011, respectively. These deficiencies are the result of unfavorable investment results experienced over the past two fiscal years, which overwhelmed the earnings accumulations on recent permanently restricted contributions, as well as some instances of continued spending appropriations for certain programs that were deemed prudent by the board of trustees. Subsequent gains that restore the fair value of such funds to the required level will be classified as increases in unrestricted net assets.

(b) Spending Policy and Strategies Employed for Achieving Objectives

The University has adopted investment policy to provide a stable source of funds to help and support the ongoing operations and activities of the University. Pursuant to this objective, the University seeks to earn a long-term total rate of return sufficient to produce growth of endowment assets, net of spending requirements of 5%, inflation, and investment expenses.

The purpose of the endowment funds is to facilitate donors' desires to make substantial long-term gifts to the community and to develop a new and significant source of revenue 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 endowment balance over the prior 12 quarters. The board of trustees set endowment distribution is $13,000 for fiscal year 2012 and $15,574 for fiscal year 2011. The board of trustees budgeted endowment distribution is $10,800 for fiscal year 2013.

(14) Leases

In December 1999, the University leased its undeveloped property, located at 32nd Street between Michigan Avenue and Indiana Avenue, to Michigan Place LLC for a term of 100 years. The agreement requires Michigan Place LLC to pay the University $815 in total lease payments. The University has received these payments.

In May 2002, the University entered into a 40-year ground lease agreement with IIT State Street, NFP to lease property on the University's campus for the purpose of building housing to lease to students, faculty, and staff of the University or employees of other not-for-profit educational institutions in the area. Under this agreement, the University will receive annual lease payments of $5 over the term of the lease.

IIT State Street, NFP is a 501(c)(3) corporation that is affiliated with, but not controlled by, the University and accordingly, is not included in the University's consolidated financial statements. IIT State Street, NFP has borrowed $28,800 from IEFA to construct the dorms and $1,000 from the University for a supplemental reserve fund. The University has no obligation for the corporation's liabilities or debts. However, the University has provided $1,000 loan to IIT State Street, NFP to establish the supplemental reserve fund, which was subsequently used to fund construction costs of the housing complex.

In August 2003, the University entered into a five-year operating lease with IIT State Street, NFP. If there are vacancies in the IIT State Street, NFP housing complex, the lease obligates the University to lease unoccupied beds from IIT State Street, NFP to the extent necessary to permit IIT State Street, NFP to pay its annual debt service.

In January 2006, the University entered into a 55-year ground lease agreement with Townsend Chicago, LLC (Townsend). The ground lease agreement requires Townsend to pay the University an initial rent payment of $1.9 million for the first 10 years and $11 million through 2061. Townsend purchased from IIT the building known as the Technology Business Center for $2,600 resulting in a gain of approximately $2,400, which is being amortized over the life of the building lease. IIT is leasing approximately 21% of the building back from Townsend for an initial term of 18 years. The University is required to pay $828, $849, $870, $892, and $914, respectively, over each of the next five years and $8,467 in years thereafter.

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.

In May 2011, the University entered into an agreement with Chicagoland Entrepreneurial Center for space on the twelfth floor of the Merchandise Mart. 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.

(15) Recently Adopted Accounting Standards

The University adopted Accounting Standards Updates 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.

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 statement of financial position.

(In thousands of dollars)

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)	(527)	(764)
Balance at May 31, 2012	$	7,130	3,355	10,485

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, 2012. The delinquency status is updated monthly by the University's loan servicer.

		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, 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, 2012 are presented as follows:

Balance at June 1, 2011	$	563
Write-off		(10)
Recovery		211
Balance at May 31, 2012	$	764

(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 3, 2012, the University received a letter from the United States Department of Education (USDE) stating that the University meet the financial responsibility standards in 34 CFR 668.171. The University will continue to participate in the USDE's Student Financial Assistance programs under the Provisional Certification Alternative (Zone Alternative) for the next two award years. The University is no longer required to obtain an irrevocable letter of credit, which is payable to the USDE. Therefore, the University was released from the irrevocable letter of credit, which was renewed on June 15, 2011 in the amount of $6,362.

(18) Subsequent Events

In connection with the preparation of the consolidated financial statements and in accordance with recently issued FASB ASC Section 855 – *Subsequent Events*, management evaluated subsequent events after the balance sheet date of May 31, 2012 through October 25, 2012, which was the date the consolidated financial statements were issued.

ILLINOIS INSTITUTE OF TECHNOLOGY

Schedule of Expenditures of Federal Awards

Year ended May 31, 2012

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	$	155,736
Agriculture and Foot Research Initiative (AFRI)	USDA 2011-67017-30016	10.310		123,558
Agriculture and Foot Research Initiative (AFRI)	USDA 2010-65201-20593	10.310		124,445
Food Safety Cooperative Agreements	USDA FSIS-C-11-2008	10.479		271,467
				675,206
Department of Commerce:				
ARRA Special Economic Development and Adjustment Assistance	06-79-73018	11.307		413,419
Measurement and Engineering Research and Standards	NIST 70NANB8H8166	11.609		2,725
				416,144
Department of Defense:				
Basic and Applied Scientific Research	ONR N00014-10-1-0752	12.300		116,445
Basic and Applied Scientific Research	ONR N00014-10-1-0769	12.300		120,160
Basic and Applied Scientific Research	AFRL FA8750-11-1-0109	12.300		25,624
Basic Scientific Research	DOD W911NF-08-2-0058	12.431		(23,728)
Basic Scientific Research	ARO W911NF-09-1-0378	12.431		123,279
Basic Scientific Research	ARO W911NF-09-2-0051	12.431		12
Basic Scientific Research	ARO W911NF-09-2-0071	12.431		503,154
Basic Scientific Research	ARO W911NF-10-1-0152	12.431		128,087
Basic Scientific Research	ARO W911NF-11-1-0197	12.431		7,550
Basic Scientific Research	ARO W911NF-11-2-0018	12.431		20,648
Air Force Defense Research Sciences Program	AFOSR FA9550-09-1-0189	12.800		277,638
Air Force Defense Research Sciences Program	AFOSR FA9550-09-1-0630	12.800		192,329
Air Force Defense Research Sciences Program	AFOSR FA9550-11-1-0056	12.800		104,285
Air Force Defense Research Sciences Program	AFOSR FA9550-11-1-0240	12.800		14,693
Mathematical Sciences Grants Program	NSA H98230-08-1-0043	12.901		2,774
Information Security Grant Program	NSA H98230-11-1-0429	12.902		50,803
Research and Technology Development	AFRL FA8850-11-1-1007	12.910		112,200
Department of Defense Programs	DOD W911NF-12-C-0021	Contract		91,677
				1,867,630
Department of Transportation:				
Aviation Research Grants	GNSS FAA 07-G-012	20.108		226,772
Department of Transportation Programs	FHWA DTFH61-10-C-00009	Contract		113,624
				340,396
National Aeronautics and Space Administration:				
Space Operations	NNX09AK65G	43.007		84,386
Cross Agency Support	NNX11AN31H	43.009		36,020
				120,406
National Science Foundation:				
Engineering Grants	CBET-0731201	47.041		33,768
Engineering Grants	CBET-0756473	47.041		5,378
Engineering Grants	CBET-0853528	47.041		56,049
Engineering Grants	CBET-0966764	47.041		133,280
Engineering Grants	CBET-0967906	47.041		82,298
Engineering Grants	CMMI-0728212	47.041		(11,796)
Engineering Grants	CMMI-0800912	47.041		188,036
Engineering Grants	CMMI-0826184	47.041		11,610
Engineering Grants	CMMI-0847030	47.041		73,050
Engineering Grants	CMMI-0970079	47.041		48,074
Engineering Grants	CMMI-0900597	47.041		61,940
Engineering Grants	CMMI-1030903	47.041		61,845
Engineering Grants	CMMI-1055805	47.041		53,528
Engineering Grants	CMMI-1100376	47.041		35,392
Engineering Grants	CMMI-1151018	47.041		606
Engineering Grants	CMMI-1100514	47.041		74,106
Engineering Grants	CMMI-1144949	47.041		54,931
Engineering Grants	DMI-0529165	47.041		(4,080)
Engineering Grants	ECCS-0801853	47.041		82,023
Engineering Grants	ECCS-0801860	47.041		1,158
Engineering Grants	EEC-0852013	47.041		72,574
Engineering Grants	EEC-0852048	47.041		104,385
Engineering Grants	EEC-1157041	47.041		733
Mathematical and Physical Sciences	DMR-0706582	47.049		35,646
Mathematical and Physical Sciences	DMR-0806935	47.049		57,187
Mathematical and Physical Sciences	DMR-0934354	47.049		18,890
Mathematical and Physical Sciences	DMR-0964812	47.049		112,685
Mathematical and Physical Sciences	DMR-1006953	47.049		122,018
Mathematical and Physical Sciences	DMS-0908099	47.049		100,942
Mathematical and Physical Sciences	DMS-1025422	47.049		92,729

(Continued)

ILLINOIS INSTITUTE OF TECHNOLOGY

Schedule of Expenditures of Federal Awards

Year ended May 31, 2012

Program title	Award number	CFDA number	Federal expenditures
Mathematical and Physical Sciences	DMS-1115392	47.049	$ 62,831
Mathematical and Physical Sciences	PHY-0758173	47.049	(3,598)
Mathematical and Physical Sciences	PHY-0842798	47.049	360
Mathematical and Physical Sciences	PHY-0969953	47.049	99,536
Mathematical and Physical Sciences	PHY-0969989	47.049	122,341
Computer and Information Science and Engineering	CCF-0937877	47.070	160,882
Computer and Information Science and Engineering	CCF-1114379	47.070	9,789
Computer and Information Science and Engineering	CNS-0746643	47.070	36,375
Computer and Information Science and Engineering	CNS-0751200	47.070	53,508
Computer and Information Science and Engineering	CNS-0831831	47.070	129,946
Computer and Information Science and Engineering	CNS-0831963	47.070	129,252
Computer and Information Science and Engineering	CNS-0832093	47.070	71,219
Computer and Information Science and Engineering	CNS-0832120	47.070	64,370
Computer and Information Science and Engineering	CNS-0834514	47.070	124,020
Computer and Information Science and Engineering	CNS-0837495	47.070	4,250
Computer and Information Science and Engineering	CNS-0916666	47.070	51,762
Computer and Information Science and Engineering	CNS-1018731	47.070	37,715
Computer and Information Science and Engineering	CNS-1018786	47.070	136,374
Computer and Information Science and Engineering	CNS-1035844	47.070	10,731
Computer and Information Science and Engineering	CNS 1035894	47.070	223,660
Computer and Information Science and Engineering	CNS-1053777	47.070	31,179
Computer and Information Science and Engineering	CNS 1057879	47.070	39,566
Computer and Information Science and Engineering	CNS-1116939	47.070	4,772
Computer and Information Science and Engineering	CNS-1117687	47.070	1,604
Computer and Information Science and Engineering	IIS-1125412	47.070	12,932
Computer and Information Science and Engineering	IIS-1139735	47.070	100,296
Biological Sciences	IOS-1022058	47.074	71,244
Biological Sciences	MCB-0644015	47.074	132,066
Social, Behavioral, and Economic Sciences	BCS-0953967	47.075	51,212
Social, Behavioral, and Economic Sciences	SES-0933810	47.075	79,054
Education and Human Resources	DRL 1020207	47.076	21,476
Education and Human Resources	DRL-1157678	47.076	126,805
Education and Human Resources	DUE-0817531	47.076	43,330
Education and Human Resources	DUE-0942179	47.076	46,185
Education and Human Resources	DUE-1123323	47.076	27,172
Office of Cyberinfrastructure	OCI-1047963	47.080	36,044
Office of Cyberinfrastructure	OCI-1054974	47.080	132,817
ARRA Trans-NSF Recovery Act Research Support	CNS-0916743	47.082	144,272
ARRA Trans-NSF Recovery Act Research Support	DMS-0914923	47.082	94,314
ARRA Trans-NSF Recovery Act Research Support	OCI-0904670	47.082	73,182
			4,553,830
Department of Veterans Affairs:			
Veterans Benefits Administration	518-D05033	64.xxx	(912)
Veterans Benefits Administration	598-D15032	64.xxx	7,658
			6,746
Department of Energy:			
Department of Energy Programs	DE-FC02-06ER41442	81.049	1,443
Office of Science Financial Assistance Program	DE-FG02-01ER41159	81.049	186,601
Office of Science Financial Assistance Program	DE-FG02-94ER40840	81.049	403,951
ARRA Office of Science Financial Assistance Program	DE-FG02-94ER40840	81.049	7,332
Office of Science Financial Assistance Program	DE-SC0002100	81.049	55,831
University Coal Research	DE-FE0003997	81.057	44,643
Renewable Energy Research and Development	DE-EE0000461	81.087	383,296
ARRA Renewable Energy Research and Development	DE-EE0002979	81.087	2,327,539
Renewable Energy Research and Development	DE-FC26-08NT02875	81.087	287,726
ARRA Renewable Energy Research and Development	DE-FC26-08NT02875	81.087	717,548
ARRA Renewable Energy Research and Development	DE-EE0001380	81.087	187,241
Defense Nuclear Nonproliferation Research (B)	DE-NA0000422	81.113	221,228
Nuclear Energy Research, Development and Demonstration (B)	DE-NE0000343	81.121	125,402
ARRA Electricity Delivery and Energy Reliability, Research, Development, and Analysis (B)	DE-OE0000449	81.122	1,320,243
			6,270,024
Department of Health and Human Services:			
Food and Drug Administration – Research	5U01FD003801	93.103	3,213,851
Food and Drug Administration – Research	HHSF223201000003C	93.103	278,368
Research Related to Deafness and Communication Disorders	1R15DC011650-01	93.173	179,813
Mental Health Research Grants	5P20MH085981	93.242	931,492
Discovery and Applied Research for Technological Innovations to Improve Human Health	5R21EB006525-02	93.286	22,268
Discovery and Applied Research for Technological Innovations to Improve Human Health	5R01EB009905-03	93.286	368,246
Discovery and Applied Research for Technological Innovations to Improve Human Health	1R01EB010049-01A1	93.286	(1,361)

ILLINOIS INSTITUTE OF TECHNOLOGY

Schedule of Expenditures of Federal Awards

Year ended May 31, 2012

Program title	Award number	CFDA number	Federal expenditures
Discovery and Applied Research for Technological Innovations to Improve Human Health	1R25EB013121-01A1	93.286	$ 275
National Center for Research Resources	1S10RR027601-01	93.389	395,000
National Center for Research Resources	5P41RR008630-16	93.389	906,300
ARRA National Center for Research Resources	3P41RR008630-14S1	93.389	99,092
Cancer Detection and Diagnosis Research	5R21CA139386-02	93.394	16,746
Cancer Treatment Research	5R01CA112503-03	93.395	(4,997)
Cancer Biology Research	5R01CA128114-05	93.396	310,902
Cancer Research Manpower	5F32CA136102-03	93.398	46,788
ARRA Trans-NIH Recovery Act Research Support	1R15EY020807-01	93.701	192,132
ARRA Trans-NIH Recovery Act Research Support	5R21HL094916-2	93.701	41,233
Cardiovascular Diseases Research	5R01HL091017-05	93.837	361,939
ARRA Cardiovascular Diseases Research	3R01HL091017-02S1	93.837	107,396
Cardiovascular Diseases Research	1R21HL108272-01	93.837	58,433
Diabetes, Digestive, and Kidney Diseases Extramural Research	5R01DK085611-2	93.847	148,315
Extramural Research Programs in the Neurosciences and Neurological Disorders	1R21NS076827-01A1	93.853	23,538
Allergy Immunology and Transplantation Research	5R01AI073892-04	93.855	189,085
Biomedical Research and Research Training	9P41GM103622-17	93.859	411,201
			8,296,055
Department of Homeland Security:			
Department of Homeland Security Programs	HSHQDC-10-C-00173	Contract	263,604
			263,604
Research and Development Cluster – Direct Awards			22,810,041
Research and Development Cluster – Indirect Awards:			
Department of Agriculture:			
Integrated Programs:			
Passed through:			
Michigan Research Institute		10.200	(4,705)
University of Georgia		10.303	87,695
Texas Woman's University		10.310	67,817
North Carolina State University		10.310	36,776
			187,583
Department of Defense Contracts – passed through:			
Jacobs Technology Inc		12.xxx	18,577
Transition45 Technologies Inc		12.xxx	139,387
EPIR Technologies		12.xxx	71,652
Catepillar Inc		12.xxx	24,300
L-3 Communications, Inc		12.xxx	387,980
Alion Science and Technology Corporation		12.xxx	53,215
Basic Scientific Research – passed through:			
DGNSS Solutions LLC		12.431	12,475
Massachusetts Institute of Technology		12.431	11,244
University of Maryland Eastern Shore		12.431	10,237
Air Force Defense Research Sciences Program passed through:			
Lickenbroack Technologies LLC		12.800	11,847
Princeton University		12.800	6,206
			747,120
Department of Justice:			
Department of Justice Research Grant Programs passed through:			
Chicago Police Department		16.xxx	52,978
			52,978
Department of Transportation:			
University Transportation Centers Program – passed through:			
Purdue University		20.701	3,634
			3,634
National Aeronautics and Space Administration:			
Science Program – passed through:			
University of Illinois		43.001	79,162
			79,162
National Science Foundation:			
National Science Foundation Contracts – passed through:			
Duke University		47.xxx	10,000
Harvard University		47.xxx	(105)
University of Chicago		47.xxx	24,621
Engineering Grants – passed through:			
Washington University		47.041	67,980

(Continued)

ILLINOIS INSTITUTE OF TECHNOLOGY

Schedule of Expenditures of Federal Awards

Year ended May 31, 2012

Program title	Award number	CFDA number	Federal expenditures
Mathematical and Physical Sciences – passed through:			
Adler Planetarium		47.049	$ 3,978
University of California		47.049	131,552
Computer and Information Science and Engineering – passed through			
The College Board		47.070	10,957
Education and Human Resources – passed through:			
National Academy of Engineering		47.076	694
New York University		47.076	17,815
Office of Cyberinfrastructure – passed through			
Cornell University		47.080	11,475
Trans-NSF Recovery Act Research Support – passed through:			
ARRA University of Illinois		47.082	44,391
			323,358
Department of Veteran Affairs:			
Department of Veteran Affairs – passed through:			
Hines VA Hospital		64.xxx	119,634
			119,634
Environmental Protection Agency			
Environmental Protection Agency Programs – passed through			
WERF		66.xxx	95,229
Great Lakes Program – passed through:			
Indiana University		66.469	6,841
University of Illinois		66.469	69,887
Office of Research and Development Consolidated Research/Training/			
Fellowships – passed through:			
HDR Engineering Inc		66.511	13,912
			185,869
Department of Energy Contracts – passed through:			
Argonne National Laboratory		81.xxx	1,023,502
ARRA Argonne National Laboratory		81.xxx	80,473
Fermi National Laboratory		81.xxx	367,781
Lawrence Berkely Lab		81.xxx	(16,767)
Proton Energy Systems, Inc		81.xxx	33
Sandia National Labs		81.xxx	31,199
University of Puerto Rico		81.xxx	5,992
URS Energy and Construction Inc		81.xxx	97,995
UTRC		81.xxx	18,151
Office of Scientific and Technical Information – passed through			
Argonne National Laboratory		81.064	179,122
Renewable Energy Research and Development – passed through:			
ARKEMA, Inc		81.087	238,664
E. I. du Pont de Nemours and Company		81.087	2,533
Nuclear Energy Research, Development and Demonstration (B) – passed through			
Battelle Energy Alliance		81.121	130,530
Energy Efficiency and Conservation Block Grant Program (EECBG) – passed through			
ARRA Cook County Department of Environmental Control		81.128	155,631
			2,314,839
Department of Health and Human Services			
Food and Drug Administration Programs – passed through			
John Snow, Incorporated		93.xxx	2,100
Michigan Research Institute		93.xxx	178,286
Purdue University		93.xxx	4,161
NIPTE		93.xxx	9,720
Food and Drug Administration Research – passed through			
National Institute for Pharmaceutical Technology and Education		93.103	16,816
Occupational Safety and Health Program			
Colorado State University		93.262	(209)
Discovery and Applied Research for Technological Innovations			
to Improve Human Health – passed through			
University of Colorado		93.286	71,694
Washington University		93.286	86,763
Substance Abuse and Mental Health Services			
Projects of Regional and National Significance (B) – passed through			
Lake County Health Department		93.243	102,842
Cancer Detection and Diagnosis Research – passed through:			
Washington University		93.394	113,478
Trans-NIH Recovery Act Research Support – passed through:			
ARRA Northwestern University		93.701	66
ARRA University of Chicago		93.701	15,204
Cardiovascular Diseases Research – passed through:			
Loyola University – Chicago		93.837	68,019
University of Arizona		93.837	53,613
University of California – San Diego		93.837	91

(Continued)

ILLINOIS INSTITUTE OF TECHNOLOGY

Schedule of Expenditures of Federal Awards

Year ended May 31, 2012

Program title	Award number	CFDA number	Federal expenditures
University of Miami		93.837	$ 9,834
Arthritis, Musculoskeletal and Skin Diseases Research			
University of Maryland		93.846	10,439
Diabetes, Digestive, and Kidney Diseases Extramural Research passed through			
CARES		93.847	45,296
University of Chicago		93.847	157,655
Wake Forest University		93.847	50,291
Kidney Diseases Urology and Hematology Research passed through			
CARES		93.849	6,720
Extramural Research Programs in the Neurosciences and Neurological Disorders passed through:			
Rehabilitation Institute Corporation		93.853	42,355
Biomedical Research and Research Training - passed through:			
University of Utah		93.859	166,469
Medical Library Assistance			
Parity Computing, Inc		93.879	867
			1,212,570
Department of Homeland Security:			
Centers for Homeland Security			
University of Minnesota		97.061	(5,145)
Agency for International Development			
USAID Development Partnerships for			
University Cooperation and Development - passed through			
HED		98.012	133,957
Research and Development Cluster – Indirect Awards			5,355,559
Total Research and Development Cluster			28,165,600
Student Financial Aid Cluster:			
Department of Education:			
Federal Supplemental Educational Opportunity Grants		84.007	514,718
Federal Work-Study Program		84.033	583,287
Federal Perkins Loan Program		84.038	944,415
Federal Pell Grant Program		84.063	3,740,554
Federal Direct Loans		84.268	56,110,704
Total Student Financial Aid Cluster			61,893,678
Total Major Programs			90,059,278
Nonmajor Programs:			
Direct Awards:			
Department of Treasury:			
Low-Income Taxpayer Clinics	IRS 11LITC0055	21.008	53,773
Institute of Museum and Library Services			
Institute of Museum and Library Services Grants		45.xxx	3,000
Small Business Administration			
Small Business Administration Grants	SBAHQ-10-C-0020	59.xxx	654,562
Small Business Administration Grants	SBAHQ-08-I-0133	59.xxx	(2,979)
Small Business Administration Grants	SBAHQ-09-I-0026	59.xxx	25,090
Small Business Administration Grants	SBAHQ-10-I-0078	59.xxx	228,695
			905,368
Department of Education:			
Rehabilitation Long-Term Training		84.129	567,343
Graduate Assistance in Areas of National Need		84.200	146,485
Other – Direct Awards			1,675,969
Indirect Awards:			
Fund for the Improvement of Postsecondary Education – passed through			
Chicago Public Schools		84.xxx	235,171
Illinois State Board of Education		84.366	50,076
Other – Indirect Awards			285,247
Total Nonmajor Programs			1,961,216
Total Federal Awards			$ 92,020,494

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, 2012. The Schedule excludes expenditures of federal awards of IIT Research Institute, a subsidiary of the University. Expenditures of federal awards for IIT Research Institute will be separately audited in accordance with Office of Management and Budget (OMB) Circular A-133, *Audits of Institutions of States, Local Governments, and Non-Profit Organizations*.

For purposes of the Schedule, federal awards include all grants, contracts, and similar agreements entered into directly between the University and agencies and departments of the federal government and all subawards to the University by nonfederal organizations pursuant to federal grants, contracts, and similar agreements. The awards are classified into major program and nonmajor program categories in accordance with the provisions of OMB Circular A-133. Such categories are as follows:

Major Programs

Research and Development Cluster – Includes awards for research and development activities at the University sponsored by various agencies of the federal government.

Student Financial Assistance Cluster – Includes certain awards to provide financial assistance to students, primarily under the Federal Pell Grant (Pell), Federal Work-Study (FWS), 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, 2012 consolidated statement of activities. The federal expenditures are classified in the accompanying consolidated statement of activities as government grants and contracts revenue, totaling approximately $41,947,000. The remaining government grants and contracts consist of approximately $8,853,322 of awards received from states and other sources, with the balance of approximately $15,281,000 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.

(Continued)

(2) Indirect Costs

The University has four-year predetermined fixed indirect cost rates, effective June 1, 2009 through May 31, 2012, which have been negotiated with its cognizant agency, the U.S. Department of Health and Human Services. The predetermined fixed rates were based on the University's financial information for fiscal year 2008. The base rates for on- and off-campus and FDA research were 51%, 24%, and 8% of modified total direct costs, respectively. Approximately $6,027,574 of indirect costs were reimbursed to the University for the year ended May 31, 2012.

(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, 2012 are summarized as follows:

Direct loan programs – Perkins	$	944,415
Federal Direct Loans (FDL)		56,110,704
Total federal student loan programs	$	57,055,119

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 $7,367,038 at May 31, 2012. The University received an administrative cost allowance of $103,512 under the Perkins program during the fiscal year ended May 31, 2012.

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, 2012.

ILLINOIS INSTITUTE OF TECHNOLOGY

Notes to Schedule of Expenditures of Federal Awards

Year ended May 31, 2012

(4) Summary of Subrecipient Payments

Expenditures made to subrecipients under federal awards for the year ended May 31, 2012 were as follows:

Research and Development Cluster:		
Department of Health and Human Services	$	1,023,517
Department of Defense		193,866
Department of Energy		1,801,231
Department of Transportation		21,609
National Science Foundation		199,817
Department of Agriculture		155,523
Agency of International Development		10,268
Other:		
Department of Education		17,500
Small Business Administration		341,948
Total	$	3,765,279

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Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Board of Trustees
Illinois Institute of Technology:

We have audited the consolidated financial statements of Illinois Institute of Technology (the University) as of and for the year ended May 31, 2012, and have issued our report thereon dated October 25, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of the University is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the University in a separate letter dated October 25, 2012.

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

KPMG LLP

October 25, 2012

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Independent Auditors' Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

The Board of Trustees
Illinois Institute of Technology:

Compliance

We have audited Illinois Institute of Technology's (the University) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget *(OMB) Circular A-133 Compliance Supplement* (Compliance Supplement) that could have a direct and material effect on each of the University's major federal programs for the year ended May 31, 2012 except the requirements discussed in the third paragraph of this report. The University's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

The University's consolidated financial statements include the operations of IIT Research Institute, which 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, 2012. Our audit, described below, did not include the operations of IIT Research Institute because those awards are audited separately.

We did not audit the University's compliance with the requirements governing the billing, collection, and due diligence functions in accordance with the requirements of the Student Financial Assistance Cluster: Federal Perkins Loan Program as described in the Compliance Supplement. Those requirements govern functions performed by Educational Computer Systems, Inc (ESCI). Since we did not apply auditing procedures to satisfy ourselves as to compliance with those requirements, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on compliance with those requirements. ESCI's compliance with the requirements governing the functions that it performs for the University for the year ended May 31, 2012 was examined by other accountants in accordance with the U.S. Department of Education's Audit Guide, *Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers*. Our report does not include the results of the other accountants' examination of ESCI's compliance with such requirements.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements 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. Our audit does not provide a legal determination of the University's compliance with those requirements.

In our opinion, the University complied, in all material respects, with the compliance requirements referred to in the first paragraph above that could have a direct and material effect on each of its major federal programs for the year ended May 31, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133, and which are described in the accompanying schedule of findings and questioned costs as items 12-01, 12-02, 12-03, and 12-04.

Internal Control Over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the University's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

Requirements governing billing, collection, and due diligence functions in the Student Financial Assistance Cluster: Federal Perkins Loan Program as described in the Compliance Supplement are performed by ESCI. Internal control over compliance relating to such functions for the year ended May 31, 2012 was reported on by other accountants in accordance with the U.S. Department of Education's Audit Guide, *Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers*. Our report does not include the results of the other accountants' testing of ESCI's internal control over compliance related to such functions.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 12-01, 12-02, 12-03, and 12-04. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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Schedule of Expenditures of Federal Awards

We have audited the financial statements of the University as of and for the year ended May 31, 2012, and have issued our report thereon dated October 25, 2012, which contained an unqualified 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. We have not performed any procedures with respect to the audited financial statements subsequent to October 25, 2012. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

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

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

KPMG LLP

October 25, 2012

(1) Summary of Auditors' Results:

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

(b) Significant deficiencies in internal control disclosed by the audit of the consolidated financial statements: **None reported**
Material weaknesses: **No**

(c) Noncompliance, which is material to the consolidated financial statements: **No**

(d) Significant deficiencies in internal control over major programs: **Yes**
Material weaknesses: **No**

(e) The type of report issued on compliance for major programs: **Unqualified opinions**

(f) Any audit findings, which are required to be reported under Section 510(a) of OMB Circular A-133: **Yes**

(g) Major programs:

Student Financial Assistance Cluster:

Federal Supplemental Educational Opportunity Grant Program – 84.007
Federal Work Study Program – 84.033
Federal 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: $2,995,751

(i) Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133: **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 12-01 Verification – Special Test and Provision

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

Program Name: Student Financial Assistance Cluster

CFDA # and Program Expenditures: 84.007/84.033/84.038/84.063/84.268 ($61,893,678)

Award Numbers: H129B090074/H129B100034/H129E080004/H129H080004/H129L070014/ P007A111173/P033A111173/P063P101349/P063P111349/P200A090137

Questioned Costs: Cannot be determined

Requirement

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

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

Condition Found

During our testwork over a sample of 40 students who were selected for verification by the USDE Central Processor, we noted untaxed benefits reported on the Institutional Student Information Record (ISIR) for two of the students were not consistent with information reported on the student's verification worksheet. Upon further investigation and discussion with management, we noted the verified information was not properly reported to the USDE for correction on the ISIR due to human error; as a result, one student was underawarded in the amount of $1,250. The second student's award was not affected by the change.

Effect

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

Recommendation

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

(Continued)

Views of Responsible Officials

Management agrees with the finding that ISIR was not properly verified. The University will review the current verification procedures to ensure all data reported on ISIR is properly entered by the University. In addition, the University will develop a data validation process requiring multiple reviews of the ISIR information.

Finding 12-02 Reporting – Fiscal Operations Report and Application to Participate (FISAP)

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

Program Name: Student Financial Aid Cluster

CFDA # and Program Expenditures: 84.007/84.033/84.038/84.063/84.268 ($61,893,678)

Award Numbers: H129B090074/H129B100034/H129E080004/H129H080004/H129L070014/ P007A111173/P033A111173/P063P101349/P063P111349/P200A090137

Questioned Costs: None

Requirement

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

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

Condition Found

During our testwork over the FISAP for the program year ended June 30, 2011 (submitted in 2012), we noted the University did not accurately report information in *Part III Federal Perkins Loan Program*. Specifically we noted that the following amounts were reported in error:

FISAP Line Item and Description	Amount Reported	Actual Amount	Difference
Interest Income on Loans (*Part III, Section A, Item 31*)	$5,809,369	$5,261,358	$548,011

Total principal and interest repaid by borrowers from all sources (Part III, Section B, Item 9)	$961,479	$1,562,076	$(600,597)
Total principal repaid by borrowers from all sources for loans in default for more than 2 years but not more than 5 years (Part III, Section B, Item 10)	$1,199	$67,102	$(65,903)
Total principal repaid by borrowers from all sources for more than 5 years (Part III, Section B, Item 11)	$735	$41,172	$(40,437)
Number of borrowers who entered repayment in 2009-10 (Part III, Section D, Item 1.1)	368	225	143
Number of borrowers who entered repayment in 2009-10 with loans default by June 30, 2010 (Part III, Section D, Item 1.2)	28	19	9
Cohort default rate (Part III, Section D, Item 1.3)	7.61	8.44	(0.83)

In discussing these errors with management, they stated that the amounts reported were preliminary numbers that were not updated to reflect the final adjustments recorded in the University's records.

Effect

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

Recommendation

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

Views of Responsible Officials

Management agrees with the finding on the incorrect amounts reported on the FISAP report. The University has begun developing reconciliation procedures between the Controller's Office and Financial Aid to ensure the FISAP submission reconciles with internal records. The FISAP will not be submitted to USDE until the reconciliation process is approved internally.

(Continued)

Finding 12-03 Subrecipient Monitoring – ARRA Special Test and Provision

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

Program Name: Research and Development Cluster

CFDA # and Program Expenditures: Various ($28,165,600)

Award Numbers: Various

Questioned Costs: None

Requirement

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

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

Condition Found

During our testwork over the subrecipient monitoring ARRA special test and provision for the Research and Development Cluster, we noted the University did not have a process in place to identify the federal award number and catalog of federal domestic assistance number at the time of each disbursement, until March 1, 2012. As a result, required communications were not made for ARRA disbursements totaling $1,426,818, which were made between June 1, 2011 and March 1, 2012. The University passed through approximately $1,743,392 of ARRA funds under the Research and Development Cluster for the year ended May 31, 2012. Total subrecipient expenditures were $3,405,831 for the Research and Development Cluster for the fiscal year ended May 31, 2012.

(Continued)

In discussing these conditions with University management, they stated that they implemented procedures to communicate this information after 2011 single audit identified this exception.

Effect

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

Recommendation

We recommend the University follow up its new procedures to communicate ARRA information to its subrecipients at the time of each disbursement.

Views of Responsible Officials

Management agrees with the finding that subrecipients were not properly notified about ARRA information at the time of disbursement. The University implemented new procedures on March 1, 2012, which include an ARRA communication for each disbursement to the subrecipients.

(Continued)

Finding 12-04 Reporting – ARRA Section 1512 Reporting

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

Program Name: Research and Development Cluster

CFDA # and Program Expenditures: Various ($28,165,600)

Award Numbers: CNS-0916743

Questioned Costs: None

Requirement

Section 1512 of the ARRA requires that recipients submit quarterly reports to the federal government. Information required to be submitted includes (1) the amount of ARRA funds received; (2) the amount of ARRA funds received that were expended; (3) a detailed list of projects or activities for which ARRA funds were expended; (4) an estimate of the number of jobs created or retained; and (5) detailed information on any subcontracts or subgrants awarded by the recipient, including data elements required with the Federal Funding Accountability and Transparency Act of 2006 (Public Law 109-282) (ARRA Section 1512(c)).

Condition Found

During our testwork over 18 ARRA Section 1512 reports submitted during the year ended May 31, 2012, we noted the amounts reported in one report filed for the quarter dated September 30, 2011 (award # CNS-0916743) only reported current period receipts, rather than cumulative receipts. Specifically, we noted the following differences were reported:

Report line item	Amount Reported	Actual Amount	Difference
Total Federal Amount ARRA Funds Received/Invoiced	$134,760	$258,565	$123,805

In discussing these conditions with management, they stated this error was the result of human error.

Effect

Failure to accurately report ARRA information decreases the reliability of the information intended for the federal government and general public.

Recommendation

We recommend the University implement procedures to ensure the information reported in the ARRA Section 1512 report is accurate and adequately supported.

Views of Responsible Officials

Management agrees with the finding of failing to accurately report ARRA information on the ARRA Section 1512 report. The University will implement new reconciliation procedures for ARRA reporting that will ensure all ARRA funds are accurately reported on ARRA Section 1512 report.