

ILLINOIS INSTITUTE OF TECHNOLOGY

OMB Circular A-133 Audit Report

Year ended May 31, 2007

(With Independent Auditors' Report Thereon)

ILLINOIS INSTITUTE OF TECHNOLOGY

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

Independent Auditors' Report

The Board of Trustees
Illinois Institute of Technology:

We have audited the accompanying consolidated statements of financial position of Illinois Institute of Technology (the University) as of May 31, 2007 and 2006 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 Illinois Institute of Technology as of May 31, 2007 and 2006, 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 September 21, 2007 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.



Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements of the University taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly presented in all material respects in relation to the consolidated financial statements taken as a whole.

KPMG LLP

September 21, 2007

ILLINOIS INSTITUTE OF TECHNOLOGY

Consolidated Statements of Financial Position

May 31, 2007 and 2006

(In thousands of dollars)

Assets	2007	2006
Cash	\$ 1,901	3,817
Bond proceeds held by trustees	23,758	51,681
Investments (note 4)	345,226	310,432
Notes and accounts receivable:		
Grants and contracts, less allowance of \$105 in 2007 and 2006	14,924	15,677
Students:		
Tuition receivable, less allowance of \$7,775 in 2007 and 2006	7,168	6,492
Notes receivable, less allowance of \$373 in 2007 and 2006	9,239	9,304
Pledges receivable, less allowance of \$283 in 2007 and 2006	17,926	9,376
Other	2,185	8,215
Inventories, prepaid expenses, and deferred charges	2,924	2,538
Physical properties, less accumulated depreciation (note 6)	246,919	217,107
Beneficial interest in perpetual trusts (note 7)	22,333	20,853
	<hr/>	<hr/>
Total assets	\$ 694,503	655,492
	<hr/> <hr/>	<hr/> <hr/>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 22,986	20,523
Accrued salaries and wages	14,148	14,408
Deferred revenue	24,255	25,332
Deposits by students and others	3,650	2,899
Accrued postretirement benefit obligation (note 9)	1,417	—
Obligation under split-interest agreements	1,174	1,295
Notes and bonds payable (note 8)	178,220	179,202
Advances from the U.S. Government for student loans	8,094	8,094
Other long-term liabilities (note 3)	9,344	9,930
	<hr/>	<hr/>
Total liabilities	263,288	261,683
Net assets (note 12):		
Unrestricted	246,522	222,669
Temporarily restricted	26,005	24,209
Permanently restricted	158,688	146,931
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Total net assets	431,215	393,809
	<hr/>	<hr/>
Total liabilities and net assets	\$ 694,503	655,492
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See accompanying notes to consolidated financial statements.

ILLINOIS INSTITUTE OF TECHNOLOGY

Consolidated Statement of Activities

Year ended May 31, 2007

(In thousands of dollars)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Operating revenue:				
Tuition and fees, net of scholarships of \$38,740	\$ 85,249	—	—	85,249
Government grants and contracts	44,474	—	—	44,474
Private grants and contracts	15,415	—	—	15,415
Private gifts	11,630	7,586	—	19,216
Endowment spending distribution (note 4)	14,723	—	—	14,723
Sales and services of auxiliary enterprises	12,760	—	—	12,760
Other sources	13,159	293	—	13,452
Net assets released from restrictions	5,484	(5,484)	—	—
Total operating revenue	202,894	2,395	—	205,289
Operating expenses:				
Faculty salaries	42,901	—	—	42,901
Administrative salaries	36,142	—	—	36,142
Part-time salaries	12,821	—	—	12,821
Employee benefits	15,598	—	—	15,598
Operations and maintenance	20,709	—	—	20,709
Supplies and services	38,133	—	—	38,133
Professional fees and advertising	10,077	—	—	10,077
IITRI research	20,406	—	—	20,406
Depreciation	12,640	—	—	12,640
Total operating expenses	209,427	—	—	209,427
Increase (decrease) in net assets from operating activities	(6,533)	2,395	—	(4,138)
Nonoperating revenue and expenses:				
Private gifts	—	—	9,029	9,029
Change in donor restriction	—	(845)	845	—
Interest on indebtedness	(9,025)	—	—	(9,025)
Net gain on investments (note 4)	31,928	140	1,469	33,537
Endowment income (note 4)	7,456	—	—	7,456
Net loss on disposal of assets	(291)	—	—	(291)
Faculty incentive retirement benefit	(1,417)	—	—	(1,417)
Asset retirement obligation accretion	(193)	—	—	(193)
Other	1,928	106	414	2,448
Increase (decrease) in net assets from nonoperating activities	30,386	(599)	11,757	41,544
Increase in net assets	23,853	1,796	11,757	37,406
Net assets at beginning of year	222,669	24,209	146,931	393,809
Net assets at end of year	\$ 246,522	26,005	158,688	431,215

See accompanying notes to consolidated financial statements.

ILLINOIS INSTITUTE OF TECHNOLOGY

Consolidated Statement of Activities

Year ended May 31, 2006

(In thousands of dollars)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Operating revenue:				
Tuition and fees, net of scholarships of \$35,038	\$ 77,035	—	—	77,035
Government grants and contracts	37,180	—	—	37,180
Private grants and contracts	18,140	—	—	18,140
Private gifts	11,453	6,601	—	18,054
Endowment spending distribution (note 4)	12,600	—	—	12,600
Sales and services of auxiliary enterprises	11,388	—	—	11,388
Other sources	12,066	664	—	12,730
Net assets released from restrictions	6,177	(6,177)	—	—
Total operating revenue	186,039	1,088	—	187,127
Operating expenses:				
Faculty salaries	40,458	—	—	40,458
Administrative salaries	33,998	—	—	33,998
Part-time salaries	10,919	—	—	10,919
Employee benefits	14,566	—	—	14,566
Operations and maintenance	19,475	—	—	19,475
Supplies and services	34,625	—	—	34,625
Professional fees and advertising	8,996	—	—	8,996
IITRI research	19,154	—	—	19,154
Depreciation	12,088	—	—	12,088
Total operating expenses	194,279	—	—	194,279
Increase (decrease) in net assets from operating activities	(8,240)	1,088	—	(7,152)
Nonoperating revenue and expenses:				
Private gifts	—	—	7,021	7,021
Change in donor restriction	—	(1,284)	1,284	—
Interest on indebtedness	(5,978)	—	—	(5,978)
Net gain on investments (note 4)	8,561	49	1,449	10,059
Endowment income (note 4)	7,309	—	—	7,309
Net loss on disposal of assets	(341)	—	—	(341)
Early retirements	—	—	—	—
Loss on refunding of bond issue (note 8)	(2,750)	—	—	(2,750)
Gain on call of Alion mezzanine warrants (note 4)	8,574	—	—	8,574
Other	(1,146)	1,462	357	673
Increase in net assets from nonoperating activities	14,229	227	10,111	24,567
Increase in net assets before cumulative effect of change in accounting principle	5,989	1,315	10,111	17,415
Cumulative effect of change in accounting principle (note 3)	(9,930)	—	—	(9,930)
Increase (decrease) in net assets	(3,941)	1,315	10,111	7,485
Net assets at beginning of year	226,610	22,894	136,820	386,324
Net assets at end of year	\$ 222,669	24,209	146,931	393,809

See accompanying notes to consolidated financial statements.

ILLINOIS INSTITUTE OF TECHNOLOGY

Consolidated Statements of Cash Flows

Years ended May 31, 2007 and 2006

(In thousands of dollars)

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Increase in net assets	\$ 37,406	7,485
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Cumulative effect of change in accounting principle	—	9,930
Private gifts restricted for long-term investment	(9,029)	(8,305)
Depreciation	12,640	12,088
Gain on beneficial interest in perpetual trusts	(1,480)	(1,300)
Contribution of fixed assets	—	(169)
Net loss on disposal of assets	291	341
Net gain on Alion notes and warrants	—	(8,574)
Gain on investments	(46,780)	(21,358)
Accretion on asset retirement obligator	(586)	—
Changes in assets and liabilities:		
Receivables: tuition, grants, pledges, affiliate, and other	(2,352)	(5,932)
Inventories, prepaid expenses, and deferred charge:	(386)	1,361
Accounts payable and accrued expenses	2,463	3,094
Accrued salaries and wages	(260)	1,680
Deferred revenue	(1,077)	1,171
Deposits by students and others	751	190
Accrued postretirement benefit obligator	1,417	—
Obligations under split-interest agreement:	(121)	23
Net cash used in operating activities	<u>(7,103)</u>	<u>(8,275)</u>
Cash flows from investing activities:		
Proceeds from sale of investments	589,525	50,215
Purchase of investments	(577,539)	(47,545)
Bond proceeds held by trustees	27,923	(39,584)
Purchase of physical properties	(42,743)	(28,437)
Proceeds from sale leaseback of physical properties	—	2,600
Issuance of notes receivable	(1,922)	(1,306)
Payments received on notes receivable	1,896	1,951
Net cash used in investing activities	<u>(2,860)</u>	<u>(62,106)</u>
Cash flows from financing activities:		
Private gifts restricted for endowments	9,029	8,305
Payments on notes and bonds payable	(982)	(109,995)
Proceeds from borrowings under notes and bonds payable	—	160,153
Advances of refundable grants	—	—
Net cash provided by financing activities	<u>8,047</u>	<u>58,463</u>
Decrease in cash	(1,916)	(11,918)
Cash at:		
Beginning of year	<u>3,817</u>	<u>15,735</u>
End of year	\$ <u>1,901</u>	\$ <u>3,817</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 8,895	4,081

See accompanying notes to consolidated financial statements.

ILLINOIS INSTITUTE OF TECHNOLOGY

Notes to Consolidated Financial Statements

May 31, 2007 and 2006

(In thousands of dollars)

(1) Nature of Organization

Illinois Institute of Technology

Illinois Institute of Technology (the University) is a private not-for-profit coeducational technical engineering 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 coeducational technical engineering institution that is dedicated to superior teaching and excellent scholarship. Located in Bangalore, India, the institution services students from across India.

IIT France is a private not-for-profit entity located in Paris, France. The entity has been created to promote to French and European students the programs of the University and to welcome visiting students from the University as they discover and study European architecture while they carry out their architectural studies.

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 elect IITRI's 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 financial statements have been prepared to focus on the organization as a whole and to present balances and transactions in accordance with donor-imposed restrictions.

ILLINOIS INSTITUTE OF TECHNOLOGY

Notes to Consolidated Financial Statements

May 31, 2007 and 2006

(In thousands of dollars)

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

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

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

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

(c) ***Operations***

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

(d) ***Revenue***

Revenue is reported as an increase in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or law. Expiration of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are 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 fundraising activity.

ILLINOIS INSTITUTE OF TECHNOLOGY

Notes to Consolidated Financial Statements

May 31, 2007 and 2006

(In thousands of dollars)

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 of acquisition of such long-lived assets.

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

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

IITRI's research project revenue results from contract research and other services under a variety of contracts, some of which provide for reimbursement of cost plus fees and others which are fixed-price or time and materials type contracts. IITRI generally recognizes revenue when a contract has been executed, the contract price is fixed or determinable, delivery of the services or product has occurred, and collectibility of the contract price is considered probable. Revenue on cost-plus contracts is recognized as costs are incurred and include a proportionate share of the fees earned. The percentage of completion method is used to recognize revenue on fixed contracts based on various performance measures. From time to time, facts develop that require IITRI to revise its estimated total costs or revenues expected. The cumulative effect of revised estimates is recorded in the period in which the facts requiring revisions become known. The full amount of anticipated losses on any type of contract are 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, 2007 and 2006, these governmental clients accounted for approximately 48% and 35%, respectively, of IITRI's operating revenue of \$25,110 and \$24,538 respectively. In addition, IITRI has one significant industrial customer, which comprised approximately 36% and 51%, respectively, of their contract revenue in 2007 and 2006. Included in IITRI's revenue for 2007 and 2006 and accounts receivable at May 31, 2007 and 2006 are unbilled receivables in the amounts of approximately \$3,923 and \$3,567, respectively.

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

ILLINOIS INSTITUTE OF TECHNOLOGY

Notes to Consolidated Financial Statements

May 31, 2007 and 2006

(In thousands of dollars)

(e) Investments

Investments are reported at fair value. The fair values of investments are generally determined based on quoted market prices or estimated fair values provided by external investment managers or other sources. Direct investments in real estate included in the investment portfolio are recorded at fair value determined based on the discounted value of the future cash flows. Management's estimate of the fair value of private equity and hedge fund investments is determined based on valuations provided by the external investment managers. The valuations for these investments necessarily involve estimates, appraisals, assumptions, and methods which are reviewed by the University.

Cash equivalents, consisting primarily of fixed income securities and money market accounts with original maturities of three months or less, related to endowment funds, are classified as investments. Investment transactions are recorded on the trade date. Realized gains and losses on the sale of investments are calculated on the basis of specific identification of the securities sold. Investment management fees and service charges are netted against investment income for financial reporting purposes.

(f) Investments from the Sale of IITRI Net Assets

Investments from the sale of IITRI net assets consist of cash equivalents and Alion notes receivable with detachable stock warrants received, which are reported at fair value. The fair value of the Alion notes receivable are determined based on the discounted value of the interim interest payments and the face amount of each note over their respective lives, plus the discounted projected value of the attached warrants, based on their respective required rates of return as estimated by management.

(g) Notes Receivable

Student notes receivable consist primarily of Perkins loans, the Illinois Student Assistance Commission Federal Family Educational Loan program, and University loans. Perkins loans are comprised of 89% U.S. Government funds and 11% University funds. The University establishes valuation allowances for notes receivable based on estimates of future collectibility.

(h) Inventory

Inventories are stated at cost, which is determined by the first-in, first-out method for both the University and IITRI.

(i) Physical Properties

The University's and IITRI's fixed assets are recorded at cost of construction or acquisition. The University and IITRI depreciate their land improvements, buildings, and equipment on the straight-line method over their estimated useful lives which range from three to 50 years.

ILLINOIS INSTITUTE OF TECHNOLOGY

Notes to Consolidated Financial Statements

May 31, 2007 and 2006

(In thousands of dollars)

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

(j) *Impairment of Long-Lived Assets*

The University and IITRI account for long-lived assets in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-lived Assets*. This Statement 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.

(k) *Beneficial Interest in Perpetual Trusts*

The University has a beneficial interest in certain perpetual trusts which are held by third parties. The University recognizes contribution revenue equal to its proportionate share of the fair value of the trust assets upon notification and determination that its right to receive benefits under the agreement is unconditional. Changes in the fair value of the University's interest in the trust assets are reflected as gains or losses in the period they occur.

(l) *Split-Interest Agreements*

The University's split-interest agreements with donors consist of irrevocable charitable remainder trusts, annuity trusts, and charitable gift annuities for which the University is either the remainder beneficiary or both the trustee and the remainder beneficiary.

Assets held in trust for which the University serves as trustee are included in investments. In addition, the present value of the estimated future payments to be made to the donors and/or other beneficiaries is included as liabilities. The liabilities are adjusted during the term of the agreements for changes in the value of the assets, accretion of the discount, and other changes in the estimates of future benefits.

Assets held in trust for which the University does not serve as trustee are not reported as investments in the consolidated financial statements. However, contribution revenue and a receivable are recognized at the date the trusts are established at the fair value of the trust assets, which represents the estimated present value of the expected future cash flows to be received.

ILLINOIS INSTITUTE OF TECHNOLOGY

Notes to Consolidated Financial Statements

May 31, 2007 and 2006

(In thousands of dollars)

(m) *Income Taxes*

The University and IITRI have each received a determination letter from the Internal Revenue Service indicating that they are tax-exempt organizations as provided in Section 501(c)(3) of the Internal Revenue Code of 1986 and, except for taxes related to unrelated business income, are exempt from Federal and state income taxes.

Accordingly, no provision for income tax has been made in the accompanying consolidated financial statements as the University and IITRI have no significant unrelated business income.

(n) *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

(o) *Reclassifications*

Certain amounts in the 2006 financial statements have been reclassified to conform with the 2007 presentation.

(3) Change in Accounting Principle

In fiscal year 2006 the University adopted Financial Accounting Standards Board Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* (FIN 47). FIN 47 requires that a liability be recognized for the fair value of a legal obligation to perform asset retirement activities that are conditional on a future event if the amount can be reasonably estimated. Upon recognition of a liability, the asset retirement cost is recorded as an increase in the carrying value of the related long-lived asset and then depreciated over the life of the asset. The University's asset retirement obligations arise primarily from regulations that specify how to dispose of asbestos if facilities are demolished or undergo major renovations or repairs. The University's obligations to remove asbestos were estimated using a per square foot estimate.

As a result of an evaluation of available asbestos remediation estimates, the University recorded a liability of \$9,344 for the asset retirement obligations. Accumulated depreciation was measured from fiscal year 1973, the date the liability and capitalized asset would have been recognized if FIN 47 were in effect when the University incurred the liability. Accordingly, the capitalized asset associated with the asset retirement obligation is considered to be fully depreciated. As a result, the cumulative effect of this change in accounting principle was recorded as a cumulative effect of a change in accounting principle in unrestricted net assets in fiscal year 2006.

ILLINOIS INSTITUTE OF TECHNOLOGY

Notes to Consolidated Financial Statements

May 31, 2007 and 2006

(In thousands of dollars)

(4) Investments and Investments from the Sale of IITRI Net Assets

Investments consist of the following at May 31:

	2007		2006	
	Cost	Fair Value	Cost	Fair Value
Cash equivalents	\$ 22,522	22,606	28,664	28,664
Real estate	13,803	14,417	13,931	14,483
Stocks	215	240	114,818	127,706
Equity mutual funds	133,459	146,550	—	—
Bonds	14,563	14,521	41,048	40,236
Fixed income mutual funds	25,911	25,666	—	—
Hedge funds	8,427	19,574	8,427	17,270
Private equity funds	18,992	27,315	17,936	23,141
Alion notes and warrants	32,202	74,337	25,020	58,932
Total investments	\$ 270,094	345,226	249,844	310,432

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.

On March 27, 2006, the University redeemed all outstanding mezzanine warrants from Alion. The mezzanine warrants represented warrants to purchase 504,901.9 shares of Alion’s common stock. The cash transmitted to the University was \$13,072.

The University changed its investment managers during March 2007 and, as a result, liquidated substantially all of the marketable securities in its investment portfolio. The University recorded a realized gain of approximately \$22,000 relative to the sale of its marketable investment portfolio.

The University 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. Endowment payouts for operations of \$14,723 for fiscal year 2007 and \$12,600 for fiscal year 2006 were set by the University’s board of trustees.

ILLINOIS INSTITUTE OF TECHNOLOGY

Notes to Consolidated Financial Statements

May 31, 2007 and 2006

(In thousands of dollars)

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

	<u>2007</u>	<u>2006</u>
Return on investments:		
Interest and dividends	\$ 8,255	7,309
Net realized gain on sale of investments	32,236	9,341
Net unrealized gain on investments	14,544	12,018
Gain on sale of Alion mezzanine warrants	—	8,574
Net return on investments	<u>\$ 55,035</u>	<u>37,242</u>

The return on investments reflect interest income of \$799 and unrealized loss on investments of \$42 from investments held by IITRI.

(5) Pledges Receivable

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

	<u>2007</u>	<u>2006</u>
Pledges receivable	\$ 21,263	12,184
Allowance for uncollectible pledges	(283)	(283)
Discount to present value future cash flows	(3,054)	(2,525)
Net pledges receivable	<u>\$ 17,926</u>	<u>9,376</u>

The following is a summary showing the expected timing of collection of total unconditional pledges receivable outstanding as of May 31, 2007:

<u>Fiscal year(s)</u>	<u>Amount</u>
2008	\$ 9,751
2009 through 2013	7,483
2014 and thereafter	4,029
	<u>\$ 21,263</u>

ILLINOIS INSTITUTE OF TECHNOLOGY

Notes to Consolidated Financial Statements

May 31, 2007 and 2006

(In thousands of dollars)

(6) Physical Properties

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

	<u>2007</u>	<u>2006</u>
Land and land improvements	\$ 27,610	23,813
Building and building improvements	253,164	229,916
Equipment and library collection	80,995	88,674
Construction in progress	55,456	42,198
Total physical properties	417,225	384,601
Less accumulated depreciation	170,306	167,494
Physical properties, net	<u>\$ 246,919</u>	<u>217,107</u>

The University executed an agreement to purchase two parcels of land for \$7,800 in December 2006. Phase I (\$3,500) of the purchase of a surface parking lot at the corner of Jefferson and Jackson Streets, Chicago Illinois, which is in close proximity to the University's downtown campus occurred. Phase II is expected to be executed January 2008 to complete the purchase of the parcels of land. The purchase agreement includes a put-option which allows the University the option to reconvey the first land parcel back to the seller by October 15, 2007 with a refund of the initial purchase payment of \$3,500. Final decisions on the ultimate use of this property are expected during the 2008 calendar year.

(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, 2007 and 2006, the share of these trusts from which the University derives income had a combined fair value of \$22,333 and \$20,853, respectively. These trusts provided unrestricted income of \$465 and \$383 in fiscal years 2007 and 2006, respectively.

ILLINOIS INSTITUTE OF TECHNOLOGY

Notes to Consolidated Financial Statements

May 31, 2007 and 2006

(In thousands of dollars)

(8) Notes and Bonds Payable

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

	Interest rate	2007	2006
University:			
IFA Bonds, Series 2006, payable in varying installments through 2036	Variable	\$ 160,000	\$ 160,000
Note payable to ISAC for student lender program	Various	230	382
City of Chicago Energy Loan	Interest free	450	600
IITRI - IFA Series 2004, payable in varying installments through 2034	Variable	17,540	18,220
Total notes and bonds payable		\$ 178,220	\$ 179,202

The following is a summary of required principal payments, excluding amounts due under the note payable to ISAC, on outstanding secured obligations as of May 31, 2007:

Fiscal year ending:	
2007	\$ 860
2008	890
2009	925
2010	810
2011	885
2012 and beyond	173,620
Total notes and bonds payable	\$ 177,990

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

The University has also been designated a lender by the U.S. Department of Education for the Federal Stafford Loan program. As a lender, the University participates in the Federal Family Education Loan Program and

ILLINOIS INSTITUTE OF TECHNOLOGY

Notes to Consolidated Financial Statements

May 31, 2007 and 2006

(In thousands of dollars)

offers loans to University graduate students. In order to provide funding to support the lender program, the University has contracted with the Illinois Student Assistance Commission (ISAC). The arrangement with ISAC provides that once the University approves a loan to a student, ISAC will loan the funds to the University to forward to the student. After the student separates from the University, ISAC, or one of its designated agencies, will purchase the loan from the University, at which time the University will liquidate its debt to ISAC, and ISAC will then service the loan through the repayment process.

In August 2004, IITRI sold an \$18,820 bond issue of adjustable rate demand debt under the tax-exempt authority of the Illinois Finance Authority (IFA). The proceeds from the sale were used to (i) renovate and construct lab and office space; (ii) establish a debt service reserve fund; and (iii) pay certain costs incurred in connection with the bond issue.

The University maintains a line of credit agreement that allows borrowings of up to \$5,000. Borrowings under this line will bear interest at the prime commercial rate with interest being payable monthly. The borrowings under this line of credit will be payable on demand, but if no demand is made, borrowings shall automatically mature on the interest payment date next following the date the loan is made. The line of credit agreement expired on November 30, 2003. Management has received written communication from the bank indicating that the line of credit continues to be in effect and available. No amounts were outstanding under this agreement as of May 31, 2007 and 2006.

IITRI maintains a line of credit agreement that allows borrowings of up to \$350. Borrowings under this line will bear interest at the prime commercial rate with interest payable monthly. IITRI may make principal payments at any time and in any amount, or on demand of the lender. The line of credit does not have a termination date. No amounts were outstanding under this agreement as of May 31, 2007 and 2006.

The University and IITRI are subject to certain debt covenants. As of May 31, 2007, 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, 2007 and 2006, based on quoted market prices for the same or similar issues.

(9) Accrued Postretirement Benefit Obligation

The University created a retirement incentive program for tenured faculty in November 2006. As part of the incentive program, certain medical benefits are offered to participants. A reconciliation of the plan's funded status with the accrued benefit cost reported on the statement of financial position at May 31, 2007 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 of May 31, 2007. The University plans to curtail the faculty retirement incentive program effective May 31, 2008.

ILLINOIS INSTITUTE OF TECHNOLOGY

Notes to Consolidated Financial Statements

May 31, 2007 and 2006

(In thousands of dollars)

Reconciliation of Benefit Obligation

Obligation at November 1, 2006	\$	10,945
Service cost		285
Interest cost		371
Plan amendments		
Actuarial (gain) loss		(492)
Actual benefit payments net contributions		(50)
Accumulated postretirement benefit obligation	\$	<u>11,059</u>

Reconciliation of Fair Value of Plan Assets

Fair value of plan assets at November 1, 2006	\$	—
Employer contribution		50
Participant contributions		—
Total benefit payments		<u>(50)</u>
Fair value of plan assets at end of year		<u>—</u>

Reconciliation of Funded Status

Accumulated Postretirement Benefit Obligation		
Retirees	\$	198
Fully eligible active plan participants		6649
Other active plan participants		<u>4213</u>
		11060
Unrecognized net actuarial loss		492
Unrecognized prior service costs		<u>(10135)</u>
Accrued postretirement benefit obligation recognized on the statement of financial position	\$	<u>1417</u>

ILLINOIS INSTITUTE OF TECHNOLOGY

Notes to Consolidated Financial Statements

May 31, 2007 and 2006

(In thousands of dollars)

The components of net periodic postretirement benefit cost for the year ended May 31, 2007 are as follows:

Service cost	\$	285
Interest cost		371
Amortization of prior service cost		811
Net periodic postretirement benefit cost	\$	<u>1,467</u>

Actuarial Assumptions

The weighted average assumptions used in the accounting for the postretirement plan for the year ended May 31, 2007 are shown below:

Discount rate (expense)	5.75%
Discount rate (obligation)	8.0
Health care cost trend rates:	
Next two fiscal years	11.0–12.0
Next seven fiscal years	5.0–10.0
Thereafter	5.00

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 year ended May 31, 2007:

Effect on total service cost and interest cost:	
One-percentage point increase	\$ 155
One-percentage point decrease	(120)
Effect on year-end postretirement benefit obligation:	
One-percentage point increase	2,109
One-percentage point decrease	(1,689)

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Notes to Consolidated Financial Statements

May 31, 2007 and 2006

(In thousands of dollars)

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	
2008	\$ 92
2009	155
2010	222
2011	274
2012	334
2013-2017	2,709

The University is amortizing the unrecognized prior service costs over the remaining average service life.

Statement of Financial Accounting Standards No. 158

Statement of Financial Accounting Standards (SFAS) No. 158 requires that the entire unfunded or over-funded obligation of each postretirement plan be recorded on the statement of financial position. Employers must recognize an additional net liability or asset to properly report the funded status of its postretirement benefit plans on its balance sheets. The resulting additional net liability or asset requires an adjustment to changes in net assets for each plan equal to the balance of unrecognized gains or losses and prior service costs or credits. Subsequent amortizations of gains or losses and prior service costs or credits into net periodic cost will be recorded against net assets, and new amounts will be recorded as a component of changes in net assets in the year that such amounts are first measured.

The University plans to adopt the provisions of SFAS No. 158 as of the fiscal year ending May 31, 2008. For the fiscal year ending May 31, 2007, the adoption of this standard would result in an increase in the accrued postretirement benefit obligation of \$9,643 with a corresponding decrease in unrestricted net assets.

(10) Employee Benefit Plans

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, 2007 and 2006 were \$4,818 and \$4,582 by the University and \$404 and \$313 by IITRI, respectively.

ILLINOIS INSTITUTE OF TECHNOLOGY

Notes to Consolidated Financial Statements

May 31, 2007 and 2006

(In thousands of dollars)

Healthcare Benefit Plans

The University maintains a healthcare benefits plan (the Plan) that provides for certain major medical, surgical, and other benefits for all eligible employees and dependents. The Plan is partially self-funded by the University, subject to stop-loss arrangements. Under this Plan, the University makes contributions to cover benefits not funded by employees, limited by stop-loss amounts.

IITRI offers a healthcare benefits plan (the Plan) that provides for certain medical and dental expense coverage including certain vision discounts for all eligible employees and dependents. The Plan is fully insured and underwritten by the Aetna Life Insurance Company. Under this Plan, premium contributions are shared by both IITRI and plan participants.

(11) Functional Classification of Expenses

Expenses are reported in the statements of activities by natural business category. The University's primary program services are instruction and research. Expenses reported as academic support, student services, institutional support, and auxiliary enterprises are incurred in support of these primary program services.

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

	<u>2007</u>	<u>2006</u>
Instruction	\$ 72,428	65,925
Research and other grant activities	57,668	50,619
Academic support	26,758	24,040
Student services	15,044	15,027
Institutional support	36,139	33,429
Auxiliary enterprises	12,025	11,217
Total	\$ <u>220,062</u>	<u>200,257</u>

(12) Net Assets

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

	<u>2007</u>	<u>2006</u>
Net investment in land, buildings, and equipment	\$ 76,046	72,843
Funds designated by the board of trustees for endowment	20,201	17,933
Undesignated	150,275	131,893
Total	\$ <u>246,522</u>	<u>222,669</u>

Included in the net investment in land, buildings, and equipment amount above are \$5,731 and \$6,380 of IITRI net assets at May 31, 2007 and 2006, respectively.

ILLINOIS INSTITUTE OF TECHNOLOGY

Notes to Consolidated Financial Statements

May 31, 2007 and 2006

(In thousands of dollars)

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

	<u>2007</u>	<u>2006</u>
Net investment in land, buildings, and equipment	\$ 6,743	7,227
Scholarships	1,851	2,779
Instruction and academic departments	6,328	7,276
Library	518	521
General operations	9,492	4,825
Split-interest annuity agreements	1,073	1,581
Total	<u>\$ 26,005</u>	<u>24,209</u>

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

	<u>2007</u>	<u>2006</u>
Endowment investments	\$ 117,763	107,219
Endowments restricted for plant	9,898	9,898
Donor-restricted revolving loans funds	6,665	6,844
Split-interest annuity agreements	2,029	2,117
Beneficial interest in perpetual trusts	22,333	20,853
Total	<u>\$ 158,688</u>	<u>146,931</u>

The amount of outstanding loans from quasi-endowments to unrestricted funds is \$6,900 and \$7,700 at May 31, 2007 and 2006, respectively.

(13) 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 financial statements. IIT State Street, NFP, has borrowed \$28,800 from IEFA to construct the dorms and \$1,000 from the University for a supplemental reserve fund. The University has no obligation for the corporation's liabilities or debts. However, the University has provided \$1,000 loan to State Street to establish the supplemental reserve fund, which was subsequently used to fund construction costs of the housing complex.

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Notes to Consolidated Financial Statements

May 31, 2007 and 2006

(In thousands of dollars)

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

In January 2006, the University entered into a fifty-five year ground lease agreement with Townsend Chicago, LLC. The ground lease agreement requires Townsend Chicago, LLC to pay the University an initial rent payment of \$1.9 million for the first 10 years and \$11 million through 2031. Townsend purchased from IIT the building known as the Technology Business Center for \$2,600 resulting in a gain of approximately \$2,400, which is being amortized over the life of the building lease. IIT is leasing approximately 21% of the building back from Townsend for an initial term of eighteen years. The University is required to pay \$755, \$774, \$793, \$813, \$833, respectively over each of the next five years and \$11,798 in years thereafter.

(14) 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.

ILLINOIS INSTITUTE OF TECHNOLOGY

Schedule of Expenditures of Federal Awards

Year ended May 31, 2007

Program title	Award number	CFDA number	Federal expenditures
Major Programs:			
Research and Development Cluster – Direct awards:			
Department of Agriculture:			
Grants for Agricultural Research – Competitive Research Grants		10.206	\$ (3,118)
Integrated Programs		10.303	1,897
Cochran Fellowship Program – International Training – Foreign Participant		10.962	14,437
			<u>13,216</u>
Department of Commerce:			
Measurement and Engineering Research and Standards		11.609	7,750
Development of Mathematical Morphology Software	SB134106W0652	11.xxx	16,643
			<u>24,393</u>
Department of Defense:			
Procurement Technical Assistance For Business Firms		12.002	37,256
Basic and Applied Scientific Research		12.300	848,774
Military Medical Research and Development		12.420	97,858
Basic Scientific Research		12.431	42,884
Air Force Defense Research Sciences Program		12.800	(48)
Research and Technology Development		12.910	5,162
			<u>1,031,886</u>
Department of Justice:			
Law Enforcement Assistance – FBI Field Police Training		16.302	613,317
Legal Assistance for Victims		16.524	26,441
			<u>639,758</u>
Department of State:			
Professional Development International Educators/Administrators		19.404	49,162
Department of Transportation:			
Highway Research and Development Program		20.200	38,482
Department of Treasury:			
Low-Income Taxpayer Clinics		21.008	81,951
National Aeronautics and Space Administration:			
Contract	NNC04AA68A	43.xxx	12,974
MicroHeat Pipe Driver	NNC05GA64G	43.xxx	59,057
Preliminary Numerical Confirmation	NNC05GM96G	43.xxx	1,885
Graduate Fellowship		43.xxx	30,500
			<u>104,416</u>
National Science Foundation:			
Engineering Grants		47.041	1,042,453
Mathematical and Physical Sciences		47.049	844,856
Geosciences		47.050	17,049
Computer and Information Science and Engineering		47.070	692,142
Social, Behavioral, and Economic Sciences		47.075	83,706
Education and Human Resources		47.076	111,052
			<u>2,791,258</u>
Small Business Administration:			
Internet-Based Technical Assistance		59.005	605,709

ILLINOIS INSTITUTE OF TECHNOLOGY

Schedule of Expenditures of Federal Awards

Year ended May 31, 2007

Program title	Award number	CFDA number	Federal expenditures
Department of Veterans Affairs:			
Veterans Medical Care Benefits		64.009	\$ 43
Sharing Specialized Medical Resources		64.018	9,058
Vocational and Educational Counseling for Service members and Veterans		64.125	3,010
			<u>12,111</u>
Environmental Protection Agency:			
P3 Award: National Student Design Competition for Sustainability		66.516	4,246
Environmental Information Exchange Network Grant Program and Related Assistance		66.608	45
Surveys- Studies Investigation and Special Purpose Grants	X3-83220401-0	66.xxx	64,199
Contract	HQ-477-02-03N	66.xxx	192
Solid Waste Management Assistance Program	R827125-1-0	66.xxx	4
			<u>68,686</u>
Department of Energy:			
Office of Science Financial Assistance Program		81.049	495,449
University Coal Research		81.057	(429)
Nuclear Energy Research, Development and Demonstration		81.121	257,745
Office of Science Financial Assistance Program	DE-FC02-06ER41442	81.xxx	12,206
Office of Science Financial Assistance Program	DE-FG02-06ER64276	81.xxx	169,337
			<u>934,308</u>
Department of Health and Human Resources:			
Food and Drug Administration – Research		93.103	6,843,516
Research Related to Deafness and Communication Disorders		93.173	42,181
Alcohol Research Programs		93.273	415,497
Discovery and Applied Research for Technological Innovations to Improve Human Health		93.286	450,819
National Center for Research Resources		93.389	158,163
Cancer Treatment Research		93.395	725,336
Cancer Research Manpower		93.398	1,120,509
Heart and Vascular Diseases Research		93.837	339,537
Arthritis, Musculoskeletal and Skin Diseases Research		93.846	29,801
Biomedical Research and Research Training		93.859	13,877
			<u>10,139,236</u>
			<u>16,534,572</u>
Research and Development Cluster – Direct awards			
Research and Development Cluster – Indirect awards:			
Department of Agriculture:			
Grants for Agricultural Research, Special Research Grants			
Passed through:		10.200	
Medical Research Institute			<u>97,976</u>
Department of Commerce:			
Sea Grant Support – passed through:		11.417	
University of Illinois at Urbana-Champaign			<u>6,977</u>
Advanced Technology Program – passed through:		11.612	
UOP LLC			<u>219</u>
Department of Defense:			
Basic and Applied Scientific Research – passed through:		12.300	
Applied Mathematics, Inc.			1,112
Bit Systems, Inc.			93,569
Honeywell International			102
Illinois Institute of Technology Research Institute			2,406
Innovative Technology Applications Corporation			(6,023)

ILLINOIS INSTITUTE OF TECHNOLOGY

Schedule of Expenditures of Federal Awards

Year ended May 31, 2007

Program title	Award number	CFDA number	Federal expenditures
Lockheed Martin			\$ 5,230
Stanford Univ			13,668
Univ of Minnesota			224,170
University of Tulsa			10,127
			<hr/> 344,361
Basic Scientific Research – passed through: Transducer Technology, Inc		12.431	1,226
Basic Applied and Advanced Research in Science and Engineering – Passed through: California Institute of Technology		12.630	98,640
Air Force Defense Research Sciences Program – passed through: Boeing		12.800	(13,973)
Research and Technology Development – passed through: Rush University Medical Center		12.910	(114)
Department of Defense Contracts – passed through: Advanced Information Engineering Services, Inc.	F3316-01-D-3105	12.xxx	14,093
ARINC	DAAB07-03-D-B006/0087	12.xxx	(95)
Arizona State University	FA9550-06-C-0006	12.xxx	49,278
Aspen Systems	W911NF-05-C-0084	12.xxx	(1,125)
Aspen Systems	W911NF-07-C-0004	12.xxx	68,025
Greenless Filters		12.xxx	34,809
High Performance Technologies, Inc.	GS04T01BFC0061	12.xxx	92,127
SAIC	N66001-05-C-8001	12.xxx	10,828
Stanford University	DAAB07-98-D-H502/0185	12.xxx	47
			<hr/> 267,987
Public Safety Partnership and Community Policing Grants passed through: Iowa State University		16.710	44,447
Human Service Center – passed through: WIA Youth Activities		17.259	28,052
Department of Transportation: Aviation Research Grants – passed through: Stanford University		20.108	60,645
Transportation Planning, Research and Education – passed through: University of Illinois at Urbana-Champaign		20.931	1,966
Department of Transportation – Passed through: University of Wisconsin	DTRS99-G-0005	20.xxx	25,751
National Aeronautics and Space Administration: Aeronautics Education Services Program – passed through: University of Illinois at Chicago		43.001	106,541
Technology Transfer – passed through: Logistics Management Institute		43.002	633
National Aeronautics and Space Administration Contracts passed through: ARSC – Aerospace Corporation	NNC04CB08C	43.xxx	12,704

ILLINOIS INSTITUTE OF TECHNOLOGY

Schedule of Expenditures of Federal Awards

Year ended May 31, 2007

Program title	Award number	CFDA number	Federal expenditures
Institute of Museum and Library Services:			
Grants to States – passed through:		45.310	
Iowa State University			\$ 18,973
National Science Foundation:			
Engineering Grants – passed through:		47.041	
Arizona State University			998
New Jersey Institute of Technology			(8,672)
Ohio State University			20
Polytechnic			1,101
			<u>(6,553)</u>
Mathematical and Physical Sciences – passed through:		47.049	
Cornell University			(12,656)
Northeastern Illinois University			(264)
Northwestern University			35,882
			<u>22,962</u>
Computer and Information Science and Engineering – passed through:		47.070	
Florida International University			59,506
University of Illinois Springfield			55,588
University of North Carolina			6,401
			<u>121,495</u>
Education and Human Resources – passed through:		47.076	
Chicago State University			19,529
Western Michigan University			256,624
			<u>276,153</u>
International Science and Engineering – passed through:		47.079	
CRDF			3,000
National Science Foundation Contracts – passed through:			
Young Peoples Project	0515589	47.xxx	54,498
Environmental Protection Agency:			
Great Lakes Program – passed through:		66.469	
Indiana University			4,221
Environmental Protection Agency Contracts – passed through:			
University of Arizona	M399004	66.xxx	532
Department of Energy:			
Office of Science Financial Assistance Program – passed through:		81.049	
Argonne National Laboratory			299,170
Fermilab			69,141
Honeywell Federal Manufacturing and Technologies, LLC			10,004
Honeywell Federal Manufacturing and Technologies, LLC			18
Sandia National Laboratories			4
United Technologies Company			(581)
University of Missouri – Columbia			27,278
			<u>405,034</u>
Office of Scientific and Technical Information – passed through		81.064	
Argonne National Laboratory			<u>109,898</u>

ILLINOIS INSTITUTE OF TECHNOLOGY

Schedule of Expenditures of Federal Awards

Year ended May 31, 2007

Program title	Award number	CFDA number	Federal expenditures
Department of Energy Contracts – passed through:			
Battelle	DE-AC05-76RL01830	81.xxx	\$ (16,983)
Brookhaven National Lab	DE-AC02-98CH	81.xxx	83,347
Ernest Orlando Lawrence Berkely Lab	DE-AC02-05CH11231	81.xxx	30,119
Fermilab	570056	81.xxx	67,082
Fermilab	57882	81.xxx	35,834
Los Alamos National Lab	DE-AC52-06NA25396	81.xxx	39,158
Muons Inc	DE-FG02-06ER86281	81.xxx	30,000
National Renewable Energy Lab	DE-AC36-99GO10337	81.xxx	29,976
			<u>298,533</u>
Department of Health and Human Services:			
Food and Drug Administration Research – passed through:		93.103	
University of Maryland			(251)
Oral Diseases and Disorders Research – passed through		93.121	
University of Illinois at Chicago			<u>57,522</u>
Research Related to Deafness and Communications Disorders			
passed through:		93.173	
University of Chicago			<u>37,855</u>
Mental Health Research Grants – passed through:		93.242	
Children’s Memorial Hospital			<u>14,578</u>
Discovery and Applied Research for Technological Innovations			
passed through:		93.286	
Northwestern University			<u>337,676</u>
Nursing Research – passed through:		93.361	
Rush University Medical Center			<u>27,411</u>
Biomedical Technology – passed through:		93.371	
AJ Medical			(2,277)
Quercus X-Ray Technologies			<u>(14,371)</u>
			<u>(16,648)</u>
National Center for Research Resources – passed through:		93.389	
University of Florence			<u>17,674</u>
Cancer Detection and Diagnosis Research – passed through:		93.394	
University of Georgia			<u>(332)</u>
Cell Biology and Biophysics Research – passed through:		93.821	
University of Maryland Biotechnology Institute			<u>67,830</u>
Heart and Vascular Diseases Research – passed through:		93.837	
University of Illinois at Chicago			74,589
University of Wisconsin			37,789
Washington State University			<u>421</u>
			<u>112,799</u>
Arthritis, Musculoskeletal and Skin Disease Research – passed through:		93.846	
Duke University			10,500
Rush University Medical Center			<u>195,834</u>
			<u>206,334</u>
Kidney Diseases, Urology and Hematology Research – passed through:		93.849	
Loyola University			<u>2,282</u>
Extramural Research Programs in the Neurosciences and Neurological			

ILLINOIS INSTITUTE OF TECHNOLOGY

Schedule of Expenditures of Federal Awards

Year ended May 31, 2007

Program title	Award number	CFDA number	Federal expenditures
Disorders – passed through: Argonne National Laboratory		93.853	\$ 83,031
Aging Research – passed through: Rush University Medical Center University of Rhode Island		93.866	30,000 20,984 <u>50,984</u>
Vision Research – passed through: University of Illinois at Urbana-Champaign		93.867	<u>35,471</u>
Department of Health and Human Services Contracts – passed through: University of Chicago University of Georgia	R01GM61101 R166565	93.xxx 93.xxx	1,505 129,019 <u>130,524</u>
US Agency for International Development: US Agency for International Development Contract – passed through: Association for Liaison Office for University Cooperation in Development	A-00-97-59-0		<u>92,994</u>
Research and Development Cluster – indirect awards			<u>3,650,518</u>
Total Research and Development Cluster			<u>20,185,090</u>
Student Financial Aid Cluster: Department of Education: Federal Supplemental Educational Opportunity Grants Federal Family Education Loans Federal Work-Study Program Federal Perkins Loan Program Federal Pell Grant Program Academic Competitiveness Grants National Science and Mathematics Access to Retain Talent (SMART) Grants		84.007 84.032 84.033 84.038 84.063 84.375 84.376	511,000 42,951,691 805,379 1,751,796 1,350,629 59,775 <u>206,000</u>
Total Student Financial Aid Cluster			<u>47,636,270</u>
Total Major Programs			<u>67,821,360</u>
Nonmajor Programs: Direct awards: Department of Agriculture: Grants for Agricultural Research Competitive Research Grants		10.206	<u>90,083</u>
National Aeronautics and Space Administration: Aerospace Education Services Program		43.001	<u>(31,559)</u>
National Science Foundation: Engineering Grants Education and Human Resources		47.041 47.076	1,534 48,848 <u>50,382</u>
Department of Energy: Nuclear Energy Research, Development, and Demonstration		81.121	<u>95,633</u>
Department of Education: Rehabilitation Long-Term Training Byrd Honors Scholarships		84.129 84.185	319,277 (272) <u>319,005</u>

ILLINOIS INSTITUTE OF TECHNOLOGY

Schedule of Expenditures of Federal Awards

Year ended May 31, 2007

<u>Program title</u>	<u>Award number</u>	<u>CFDA number</u>	<u>Federal expenditures</u>
Corporation for National and Community Service: Volunteers in Service to America		94.013	\$ (120)
Other – Direct awards			<u>523,424</u>
Indirect Awards:			
US Agency for International Development: Program for Study of Eastern Europe and the Independent States of the Former Soviet Union – passed through: Chemonics International, Inc.		19.300	<u>31,887</u>
National Science Foundation: Education and Human Resources – passed through: Chicago State University		47.076	<u>(5,613)</u>
Department of Energy: Office of Science Financial Assistance – passed through: Argonne National Laboratory Fermilab University of Pittsburgh		81.049	<u>1,024</u> <u>(623)</u> <u>2,175</u> <u>2,576</u>
Department of Energy Contracts – passed through: Argonne National Laboratory	W-31-109-ENG-38		<u>(1,550)</u>
Department of Education: Fund for the Improvement of Postsecondary Education – passed through: Biotechnology Institute		84.116	<u>1,149</u>
Rehabilitation Long-Term Training – passed through: Argonne National Laboratory		84.129	<u>59,153</u>
Other – Indirect awards			<u>87,602</u>
Total Nonmajor Programs			<u>611,026</u>
Total Federal Awards			<u><u>68,432,386</u></u>

See accompanying independent auditors' report.

ILLINOIS INSTITUTE OF TECHNOLOGY

Notes to Schedule of Expenditures of Federal Awards

Year ended May 31, 2007

(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, 2007. 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 Work Study (FWS), Federal Pell Grant (Pell), and 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 federally guaranteed loans are issued to students by the University under the Federal Family Education Loan Program (FFEL).

Nonmajor Programs:

Other Federal Awards – Includes awards for program activities at the University sponsored by various agencies of the federal government.

Total expenditures per the Schedule do not directly agree to the revenue line items on the University's May 31, 2007 consolidated statement of activities. The federal expenditures are classified in the accompanying consolidated statement of activities as government grants and contracts revenue, totaling approximately \$44,474,000. The remaining government grants and contracts consist of approximately \$2,387,000 of awards received from states and other sources, with the balance of approximately \$13,028,000 related to IIT Research Institute, a consolidated separate legal entity.

(b) Expenditure and Revenue Recognition

Expenditures are recognized as incurred and related revenue is recognized up to award amounts for financial statement and program reporting. Award reporting periods do not necessarily coincide with the fiscal reporting period of the University. The existence of certain credit balances on the Schedule

ILLINOIS INSTITUTE OF TECHNOLOGY

Notes to Schedule of Expenditures of Federal Awards

Year ended May 31, 2007

is primarily due to the reclassification of expenditures incurred and related revenue recorded in the University's prior fiscal reporting period.

(c) Subrecipients

Certain funds are passed through to subrecipient organizations by the University. Expenditures reimbursed by the University are presented in the Schedule. See note 4 for a summary of payments made to subrecipients during the year ended May 31, 2007.

(d) Pass-through Funds

The University is the subrecipient of federal funds from nonfederal organizations which are reported on the Schedule as pass-through funds.

(2) Indirect Costs

The University has four-year predetermined fixed indirect cost rates, effective June 1, 2003 through May 31, 2007, 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 2003. The base rates for on- and off-campus research were 50% and 24% of modified total direct costs, respectively. Approximately \$3.4 million of indirect costs were reimbursed to the University for the year ended May 31, 2007.

(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, 2007, are summarized as follows:

Direct loan programs – Perkins	\$ 1,751,796
Guaranteed loan programs – Stafford and other	<u>42,951,691</u>
Total federal student loan programs	<u>\$ 44,703,487</u>

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 \$6,875,000 at May 31, 2007. The University received an administrative cost allowance of \$155,413 under the Perkins program during the fiscal year ended May 31, 2007.

The University is responsible only for the performance of certain administrative duties with respect to the FFEL 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, 2007.

ILLINOIS INSTITUTE OF TECHNOLOGY

Notes to Schedule of Expenditures of Federal Awards

Year ended May 31, 2007

(4) Summary of Subrecipient Payments

Expenditures made to subrecipients under federal awards for the year ended May 31, 2007, were as follows:

Research and Development Cluster:		
Department of Defense	\$	98,500
Department of Justice		181,821
National Science Foundation		391,053
Environmental Protection Agency		1,430
U.S. Agency for International Development		38,268
Department of Energy		(1,690)
Department of Health and Human Services		555,958
Total major program		<u>1,265,340</u>



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

**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, 2007, and have issued our report thereon dated September 21, 2007. 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

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 an 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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 audits 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 University management in a separate letter dated September 21, 2007.

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

KPMG LLP

September 21, 2007



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

**Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control over
Compliance in Accordance with OMB Circular A-133**

The Board of Trustees
Illinois Institute of Technology:

Compliance

We have audited the compliance of Illinois Institute of Technology (the University) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* (Compliance Supplement) that are applicable to each of its major federal programs for the year ended May 31, 2007, except those requirements discussed in the third and fourth paragraphs of this report. The University's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

The University's consolidated financial statements include the operations of IIT Research Institute, which received \$13,028,000 in federal awards that are not included in the University's schedule of expenditures of federal awards for the year ended May 31, 2007. Our audit, described below, did not include the operations of IIT Research Institute because those awards will be 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 Affiliated Computer Services, Inc. Education Services (ACS). 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. ACS' compliance with the requirements governing the functions that it performs for the University for the year ended June 30, 2007 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 ACS' compliance with such requirements.

We did not audit the University's compliance with the requirements governing Reporting and Special Tests and Provisions 1 through 10 in accordance with the requirements of the Federal Family Education Loan program as described in section 84.032L of the Compliance Supplement (school as lender). Those requirements govern functions performed by Illinois Designated Account Purchase Program (IDAPP). Since we did not apply auditing procedures to satisfy ourselves as to compliance with those requirements, the scope of work was not sufficient to enable us to express, and we do not express, an opinion on compliance with those requirements. IDAPP's compliance with the requirements governing the functions that it performs for the University was examined by other accountants in accordance with the



U.S. Department of Education's Audit Guide, *Compliance Audits (Attestation Engagements) for Lenders and Lender Servicers Participating in the Federal Family Education Loan Program* for the year ended June 30, 2007. Our report does not include the results of the other accountants' examination of IDAPP'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 statement audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements described in the Compliance Supplement that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the University's compliance with those requirements.

In our opinion, the University complied, in all material respects, with the requirements referred to in the first paragraph of this section that are applicable to each of its major federal programs for the year ended May 31, 2007, other than those requirements discussed in the third and fourth paragraphs of this section. 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 finding 07-01.

Internal Control over Compliance

The management of the University is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the University's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 ACS. Internal control over compliance relating to such functions for the year ended May 31, 2007 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 ACS' internal control over compliance related to such functions.

Requirements governing Reporting and Special Tests and Provisions 1 through 10 in the Federal Family Education Loan program as described in section 84.032L of the Compliance Supplement (school as lender) are performed by IDAPP. Internal control over compliance related to such functions was reported on by other accountants in accordance with the U.S. Department of Education's Audit Guide, *Compliance Audits (Attestation Engagements) for Lenders and Lender Servicers Participating in the Federal Family Education Loan Program* for the year ended June 30, 2007. Therefore, the scope of our work did not extend to internal control maintained at IDAPP. Our report does not include the results of the other accountants' examination of IDAPP's internal control over compliance related to such functions.



Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the university's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 07-01 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider the deficiency described in the accompanying schedule of findings and questioned cost to be a material weakness.

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

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

KPMG LLP

February 27, 2008

ILLINOIS INSTITUTE OF TECHNOLOGY

Schedule of Findings and Questioned Costs

Year ended May 31, 2007

(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 opinion**

(f) Any audit findings which are required to be reported under Section. 510(a) of OMB Circular A-33:
Yes

(g) Major programs:

Student Financial Assistance Cluster (including the Federal Family Education Loan Lender Program) – various CFDA numbers
Research & Development Cluster – various CFDA numbers

(h) Dollar threshold used to distinguish between Type A and Type B programs: **\$711,867**

(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

ILLINOIS INSTITUTE OF TECHNOLOGY

Schedule of Findings and Questioned Costs

Year ended May 31, 2007

(3) Findings and questioned costs relating to federal awards:

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

Program Name: Student Financial Assistance Cluster – Federal Family Education Loan Program (FFEL)

CFDA # and Program Expenditures: 84.032 (\$42,951,691)

Award Numbers: None

Questioned Costs: None

Finding 07-01 *Student Status Changes*

Requirement

In accordance with 34 CFR Section 682.10, the University is required to notify National Student Loan Data System (NSLDS) of changes in a student's status within 30 days of discovering the change, unless the University expects to complete its next Roster File within 60 days.

Additionally, OMB Circular A-110 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 establishing a reporting schedule to ensure student status change submissions comply with federally prescribed timeframes.

Condition Found

During our testwork over 50 FFEL borrowers that graduated, withdrew, or dropped out during the fiscal year, we noted the following:

- Five (5) status changes were not submitted to the NSLDS within the required timeframe. The delay in reporting for all five of these instances was 72 days.
- Two (2) status changes for graduated students submitted were inaccurately reported to the NSLDS as withdrawn status (W) rather than as graduated status (G).
- One (1) status change for a graduated student submitted was inaccurately reported to the NSLDS as half time status (H) rather than as graduated status (G).
- Two (2) status changes for withdrawn students submitted were inaccurately reported to the NSLDS as full time status (F) rather than as withdrawn status (W).

ILLINOIS INSTITUTE OF TECHNOLOGY

Schedule of Findings and Questioned Costs

Year ended May 31, 2007

Effect

Failure to accurately report student status changes to NSLDS in a timely manner may result in FFEL borrowers not entering repayment status at the appropriate time.

Recommendation

We recommend the University revise its schedule for reporting student status changes to ensure status changes are submitted within the required timeframes. In addition, the University should implement procedures to ensure the status of graduated students is accurately reported.

Views of Responsible Officials

We concur with the recommendation to revise the reporting schedule and will transmit the latest enrollment and graduation information to the National Student Clearinghouse on the last day of each month. Procedures to ensure the timeliness and accuracy of the reported student status are intended with the implementation of a new student system, which includes a new degree audit program. Review of the processes and procedures related to enrollment changes are planned as part of the implementation and steps are being taken immediately to improve accuracy.