



**ILLINOIS INSTITUTE OF TECHNOLOGY**

OMB Circular A133 Audit Report

Year ended May 31, 2014

(With Independent Auditors' Reports Thereon)

# ILLINOIS INSTITUTE OF TECHNOLOGY

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

## **Independent Auditors' Report**

The Board of Trustees  
Illinois Institute of Technology:

### **Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of Illinois Institute of Technology (the University), which comprise the consolidated statements of financial position as of May 31, 2014 and 2013, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

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

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

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



***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Illinois Institute of Technology as of May 31, 2014 and 2013, 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.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2014 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

**KPMG LLP**

Chicago, Illinois  
October 23, 2014

**ILLINOIS INSTITUTE OF TECHNOLOGY**

Consolidated Statements of Financial Position

May 31, 2014 and 2013

(In thousands of dollars)

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

See accompanying notes to consolidated financial statements.

**ILLINOIS INSTITUTE OF TECHNOLOGY**

Consolidated Statement of Activities

Year ended May 31, 2014

(In thousands of dollars)

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

See accompanying notes to consolidated financial statements.

**ILLINOIS INSTITUTE OF TECHNOLOGY**

Consolidated Statement of Activities

Year ended May 31, 2013

(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 \$81,845	\$ 140,454	—	—	140,454
Government grants and contracts	58,036	—	—	58,036
Private grants and contracts	7,086	—	—	7,086
Private gifts	11,095	—	—	11,095
Endowment spending distribution (note 13)	8,277	—	—	8,277
Endowment net assets released from restrictions (note 13)	2,423	—	—	2,423
Sales and services of auxiliary enterprises	12,315	—	—	12,315
Other sources	19,615	—	—	19,615
Net assets released from restrictions	3,259	(3,259)	—	—
<b>Total operating revenue</b>	<b>262,560</b>	<b>(3,259)</b>	<b>—</b>	<b>259,301</b>
Operating expenses:				
Faculty salaries	57,285	—	—	57,285
Administrative salaries	47,077	—	—	47,077
Part-time salaries	13,795	—	—	13,795
Employee benefits	24,892	—	—	24,892
Operations and maintenance	23,164	—	—	23,164
Supplies and services	47,042	—	—	47,042
Professional fees and advertising	15,046	—	—	15,046
IITRI research	11,760	—	—	11,760
Interest on indebtedness	10,881	—	—	10,881
Depreciation	14,681	—	—	14,681
<b>Total operating expenses</b>	<b>265,623</b>	<b>—</b>	<b>—</b>	<b>265,623</b>
Decrease in net assets from operating activities	(3,063)	(3,259)	—	(6,322)
Nonoperating revenue and expenses:				
Private gifts	—	18,855	4,792	23,647
Net asset reclassification	4,604	—	(4,604)	—
Net gain on investments (note 4)	18,484	7,454	1,349	27,287
Endowment spending distribution (note 13)	(8,277)	(2,423)	—	(10,700)
Net asset release from restriction	3,920	(3,920)	—	—
Investment income (note 4)	2,561	1,266	—	3,827
Net loss on disposal of assets	(13)	—	—	(13)
Change in asset retirement obligation	803	—	—	803
Other	(1,059)	—	—	(1,059)
<b>Increase in net assets from nonoperating activities</b>	<b>21,023</b>	<b>21,232</b>	<b>1,537</b>	<b>43,792</b>
<b>Increase in net assets</b>	<b>17,960</b>	<b>17,973</b>	<b>1,537</b>	<b>37,470</b>
Net assets at beginning of year	42,479	23,973	200,156	266,608
<b>Net assets at end of year</b>	<b>\$ 60,439</b>	<b>41,946</b>	<b>201,693</b>	<b>304,078</b>

See accompanying notes to consolidated financial statements.

**ILLINOIS INSTITUTE OF TECHNOLOGY**

Consolidated Statements of Cash Flows

Years ended May 31, 2014 and 2013

(In thousands of dollars)

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

See accompanying notes to consolidated financial statements.



# ILLINOIS INSTITUTE OF TECHNOLOGY

Notes to Consolidated Financial Statements

May 31, 2014 and 2013

(In thousands of dollars)

## (1) Summary of Significant Accounting Policies and Reporting Practices

### (a) *Basis of Presentation*

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

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

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

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

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

### (b) *Net Asset Categories*

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

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

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

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

# ILLINOIS INSTITUTE OF TECHNOLOGY

## Notes to Consolidated Financial Statements

May 31, 2014 and 2013

(In thousands of dollars)

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

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

**(c) Operations**

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

**(d) Revenue**

Revenue is reported as an increase in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or law. Expiration of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled, the stipulated time period has elapsed, and/or amounts have been appropriated by the governing board for expenditures) is reported as reclassifications between applicable classes of net assets.

Private gifts, including pledges, are recognized in the period received. Conditional pledges are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at estimated fair value. Contributions to be received after one year are discounted at an appropriate rate commensurate with the risks involved. Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible pledges receivable is provided based upon management's judgment, including such factors as prior collection history, type of contribution, and nature of fund-raising activity.

Contributions received with donor-imposed restrictions that are met in the same year as the gifts are received are reported as revenue of the unrestricted net asset class. Contributions of land, building, and equipment without donor-imposed restrictions concerning the use of such long-lived assets are reported as revenue of the unrestricted net asset class. Contributions of cash or other assets to be used to acquire land, building, and equipment with such donor restrictions are reported as revenue of the temporarily restricted net asset class; the restrictions are considered to be released at the time the long-lived assets are placed in service.

# ILLINOIS INSTITUTE OF TECHNOLOGY

## Notes to Consolidated Financial Statements

May 31, 2014 and 2013

(In thousands of dollars)

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

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

IITRI's research project revenue results from contract research and other services under a variety of contracts, some of which provide for reimbursement of cost plus fees and others, which are fixed-price or time-and-materials type contracts and are reported as grants and contracts revenue on the consolidated statements of activities. IITRI generally recognizes revenue when a contract has been executed, the contract price is fixed or determinable, delivery of the services or product has occurred, and collectibility of the contract price is considered probable. Revenue on cost-plus contracts is recognized as costs are incurred and includes a proportionate share of the fees earned. The percentage-of-completion method is used to recognize revenue on fixed contracts based on various performance measures. From time to time, facts develop that require IITRI to revise its estimated total costs or revenues expected. The cumulative effect of revised estimates is recorded in the period in which the facts requiring revisions become known. The full amount of anticipated losses on any type of contract is recognized in the period in which they become known. Under time-and-materials contracts, labor and related costs are reimbursed at negotiated, fixed hourly rates. Revenue on time-and-materials contracts is recognized at contractually billable rates as labor hours and direct expenses are incurred.

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

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

(e) ***Investments***

Investments are reported at fair value. The fair values of investments in stocks, equity mutual funds, bonds, and fixed-income mutual funds are generally determined based on quoted market prices. Direct investments in real estate included in the investment portfolio are recorded at fair value using the income-capitalization and sale-comparison methodology. Management's estimate of the fair value of private equity, venture capital, and hedged fund investments is determined based on net asset values (NAV) provided by the external investment managers. The valuations for these investments involve estimates, appraisals, assumptions, and methods, which are reviewed by the University.

# ILLINOIS INSTITUTE OF TECHNOLOGY

## Notes to Consolidated Financial Statements

May 31, 2014 and 2013

(In thousands of dollars)

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

**(f) Notes Receivable**

Student notes receivable consist of Perkins loans and University loans. The University establishes valuation allowances for notes receivable based on estimates of future collectibility.

**(g) Inventory**

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

**(h) Physical Properties**

The University's and IITRI's fixed assets are recorded at cost of construction or acquisition. The University and IITRI depreciate their land improvements, buildings, and equipment on the straight-line method over their estimated useful lives, which range from 3 to 50 years.

Upon sale or retirement of an asset, a gain or loss is recorded based on the net book value at the time of sale or retirement. Minor expenditures for renovations, construction, and replacement of equipment are charged to current operations and are not capitalized.

**(i) Impairment of Long-Lived Assets**

The University and IITRI account for long-lived assets in accordance with the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Section 360 Subtopic 10, *Impairment or Disposal of Long-Lived Assets*. FASB ASC Section 360 Subtopic 10 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

**(j) Beneficial Interest in Perpetual Trusts**

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

# ILLINOIS INSTITUTE OF TECHNOLOGY

## Notes to Consolidated Financial Statements

May 31, 2014 and 2013

(In thousands of dollars)

**(k) *Split-Interest Agreements***

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

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

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

**(l) *Income Taxes***

The University and IITRI have each received a determination letter from the Internal Revenue Service (IRS) stating that they are exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code except for tax on unrelated business income. It is management's belief that none of its activities have produced material unrelated business income, and that the University has operated in a manner that qualifies it for tax-exempt status.

U.S. generally accepted accounting principles require University management to evaluate tax positions taken by the University and IITRI and recognize a tax liability (or asset) if the University and IITRI have taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. Management has analyzed tax positions taken by the University and IITRI and has concluded that as of May 31, 2014 and 2013, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the consolidated financial statements. The University and IITRI are subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The University and IITRI management believes it is no longer subject to income tax examinations for years prior to 2008.

**(m) *Use of Estimates***

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

**ILLINOIS INSTITUTE OF TECHNOLOGY**

Notes to Consolidated Financial Statements

May 31, 2014 and 2013

(In thousands of dollars)

**(n) Reclassifications**

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

**(2) Investments**

Investments consist of the following at May 31:

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

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

# ILLINOIS INSTITUTE OF TECHNOLOGY

## Notes to Consolidated Financial Statements

May 31, 2014 and 2013

(In thousands of dollars)

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

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

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

### (3) Fair Value Measurement

FASB ASC Section 820, *Fair Value Measurement*, defines fair value as the price that could be received for an asset or paid to transfer a liability in the University's principal or most advantageous market in an orderly transaction between market participants on the measurement date.

FASB ASC Section 820 establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain private debt and equity instruments and alternative investments.

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In many cases, a valuation technique used to measure fair value includes inputs from multiple levels of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy. In 2014 and 2013, the University uses the following valuation techniques to measure the financial instruments fair value:

Level 1 consists of financial instruments, such as cash and cash equivalents, bond proceeds, mutual funds, stocks, and money market funds, whose value is based on quoted market prices published by a financial institution or exchange funds, exchange-traded instruments, and listed equities.

Level 3 consists of investments for which there are no active markets. The University has real estate investments, hedged equity mutual funds, private equity and venture capital funds, and beneficial interests in perpetual trusts as Level 3. The May 31, 2014 and 2013 real estate is valued utilizing the income-capitalization and sale-comparison methodology completed by an independent real estate appraiser. The University's interests in alternative investment funds, such as hedged equity mutual funds and private equity and venture capital funds, are generally reported at the NAV, which is used as a practical expedient to estimate fair value, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. As of May 31, 2014 and 2013, the University had no plans to sell investments at amounts different from NAV. Beneficial interests in perpetual trusts are held by various financial institutions. These values are based on the University's proportionate share of the investments. The fair values of the investments in these trusts are based on quoted market prices published by financial institutions.

The University has \$18,931 and \$18,503 for 2014 and 2013, respectively, of investments in alternative investment funds, which are reported at fair value. The University has concluded that the NAV reported by the underlying fund approximates the fair value for these investments. These investments are redeemable with the fund at NAV under the original terms of the partnership agreements and/or subscription agreements and operations of the underlying funds. However, it is possible that these redemption rights may be restricted or eliminated by the funds in the future in accordance with the underlying fund agreements. Due to the nature of the investments held by the funds, changes in market conditions and the economic environment may significantly impact the NAV of the funds and, consequently, the fair value of the University's interests in the funds. Furthermore, changes to the liquidity provisions of the funds may significantly impact the fair value of the University's interest in the funds.

Although a secondary market exists for these investments, it is not active and individual transactions are typically not observable. When transactions occur in this limited secondary market, they may occur at discounts to the reported NAV. Therefore, if the redemption rights in the funds were restricted or eliminated and the University were to sell these investments in the secondary market, it is reasonably possible that a buyer in the secondary market may require a discount to the reported NAV, and the discount could be significant. The University has unfunded commitments of \$562 relative to the Commonfund and Roundtable private equity and venture capital alternative investments.



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***Assets Measured on a Recurring Basis***

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

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

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

(1) One year from the initial investment

(2) Real estate property owned by endowment

	2013				Redemption or liquidation	Days' notice
	Level 1	Level 2	Level 3	Total		
Investments:						
Cash and cash equivalents	\$ 31,179	—	—	31,179	Daily	One
Domestic equities:						
Fixed income	41,473	—	—	41,473	Daily	One
Large cap equity	51,230	—	—	51,230	Daily	One
Tactical opportunities	8,453	—	—	8,453	Daily	One
State street global	1,765	—	—	1,765	Daily	One
Small cap	4,961	—	—	4,961	Daily	One
Total	107,882	—	—	107,882		
Global (ex-U.S.) equities:						
Developed international equity	49,913	—	—	49,913	Daily	One

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

(1) One year from the initial investment

(2) Real estate property owned by endowment

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

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

The tables below present a reconciliation and income statement classification of gains and losses for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended May 31, 2014 and 2013:

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

The amount of total gain for the period included in net return on investments attributable to the change in unrealized gain relating to assets still held at May 31, 2014

	\$ 1,495	581	(153)	(175)	1,748
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	<u>Real estate</u>	<u>Equity mutual funds</u>	<u>Private equity funds</u>	<u>Beneficial interest in perpetual trusts</u>	<u>Total</u>
Beginning balance, June 1, 2012	\$ 4,000	11,408	7,429	20,053	42,890
Net realized and unrealized gains	—	1,145	386	1,245	2,776
Purchases	—	—	92	—	92
Distributions	—	—	(1,957)	—	(1,957)
Ending balance, May 31, 2013	\$ <u>4,000</u>	<u>12,553</u>	<u>5,950</u>	<u>21,298</u>	<u>43,801</u>
The amount of total gain for the period included in net return on investments attributable to the change in unrealized gain relating to assets still held at May 31, 2013	\$ —	1,145	386	1,245	2,776

**(4) Endowments**

The University endowments include both donor-restricted endowment funds and funds designated by the board of trustees to function as endowments. As required by applicable standards, net assets associated with endowment funds, including funds designated by the board of trustees to function as endowment, are classified and reported based on the existence or absence of donor-imposed restrictions.

The board of trustees of the University has interpreted the State of Illinois Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gifts as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. Notwithstanding the foregoing, this determination is not intended to, and shall not, affect the University's authority under UPMIFA to spend any amounts from an endowment fund on a short-term basis even if the market value of the endowment fund is below the original value of the gifts by the donor. As the result of this interpretation, the University classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment; (b) the original value of the subsequent gifts to the permanent endowments; and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time of accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets as there are specific purpose restrictions that have not been met by the University.

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

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

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

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

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

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

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

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Net assets, beginning of year	\$ 18,532	5,923	173,958	198,413
Endowment-related investment return:				
Endowment-related investment income, net	2,561	1,266	—	3,827
Endowment-related net realized and unrealized gain	<u>18,161</u>	<u>7,454</u>	<u>—</u>	<u>25,615</u>
Total endowment-related investment return	20,722	8,720	—	29,442
Contributions	33	—	4,721	4,754
Change in donor restriction	4,380	—	(4,380)	—
Appropriation	<u>(8,277)</u>	<u>(2,423)</u>	<u>—</u>	<u>(10,700)</u>
Net assets, end of year	<u>\$ 35,390</u>	<u>12,220</u>	<u>174,299</u>	<u>221,909</u>

**(a) Funds with Deficiencies**

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor gave to the University to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were \$11,331 and \$15,993 as of May 31, 2014 and 2013, respectively. These deficiencies are the result of unfavorable investments returns in prior fiscal years, as well as appropriations deemed prudent, for certain programs, by the board of trustees. Subsequent gains that restore the fair value of such funds to the required level are classified as increases in unrestricted net assets.

**(b) Correction of Immaterial Error**

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

**(c) Spending Policy and Strategies Employed for Achieving Objectives**

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

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The purpose of the endowment funds is to facilitate donors' desires to make substantial long-term gifts to the community and to develop a new and significant source of revenue for the University. In doing so, the endowment fund will provide a secure, long-term source of funds to: (a) fund special programs; (b) ensure long-term growth; (c) enhance the University's ability to meet changing community needs; and (d) support the administrative expenses of the University as deemed appropriate.

To achieve these goals, the University's spending policy utilizes the total return concept of endowment spending. Under the method adopted by the University, interest, dividends, and rents as well as appreciation on investments held by the investment pool are made available for spending. The University's total endowment fund spending is based upon a target percentage of a subset of investments. The target percentage set by the board of trustees is 5% of the average quarterly endowment balance for the prior 12 quarters. The board of trustees set endowment distribution is \$11,100 for fiscal year 2014 and \$10,700 for fiscal year 2013. The board of trustees budgeted endowment distribution is \$11,700 for fiscal year 2015.

**(5) Pledges Receivable**

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

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

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

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

**(6) Financing Receivables**

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



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

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

Balances of financing receivables as of May 31, 2014 consist of the following:

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

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

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

For each class of financing receivables, the following table presents the credit quality indicator as determined by the delinquency status of the loan as of May 31, 2014. The delinquency status is updated monthly by the University's loan servicer.

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

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

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

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

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

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

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

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

Changes in allowance for estimated losses on financing receivables as of May 31, 2014 are presented as follows:

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

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

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

**(7) Physical Properties**

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

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

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

**(8) Beneficial Interest in Perpetual Trusts**

The University is an income beneficiary of certain irrevocable trusts that are held and controlled by independent trustees. The University has no equity interest in the principal of these trusts. At May 31, 2014 and 2013, the share of these trusts from which the University derives income had a combined fair value of \$21,123 and \$21,298, respectively. These trusts provided unrestricted income of \$1,770 and \$751 in fiscal 2014 and 2013, recorded in investment income on the consolidated statements of activities.

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**(9) Notes and Bonds Payable**

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

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

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

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

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.

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Notes to Consolidated Financial Statements

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(In thousands of dollars)

In July 2009, the University issued \$30,000 in fixed rate revenue bonds through the Illinois Finance Authority (IFA Series 2009). Proceeds from the bonds were used to finance a portion of the costs of the renovation of the educational facilities of the University, establish a debt service reserve fund, and pay certain costs incurred in connection with the bond issue. The fixed rates on the Series 2009 Bonds are 4.75% and 5.25% serial bonds maturing in February 2014 and 6.25%, 6.50%, and 7.125% term bonds maturing in February 1, 2019, 2023, and 2034.

In August 2004, IITRI issued an \$18,820 bond issue of adjustable rate demand debt under the tax-exempt authority of the Illinois Finance Authority (IFA Series 2004). The proceeds from the sale were used to renovate and construct lab and office space; establish a debt service reserve fund and pay certain costs incurred in connection with the bond issue. In February 2014, IITRI entered into a bond and loan agreement with the Illinois Finance Authority and North Shore Community Bank. IITRI issued a \$10,400 Revenue Refunding Bond (IFA Series 2014) that was sold to North Shore Community Bank and Trust. IITRI used the proceeds and certain other funds to refund and redeem the Series 2004 Bond. Principal payments on the Bond will commence February 1, 2015 in the amount of \$520 per year and continue until the bond matures in 2034. The interest rate is variable and reset by North Shore Community Bank on a monthly basis.

The University maintains a line-of-credit agreement that allow borrowings up to \$20,000 in 2014 and in 2013. Borrowings under the line of credit will bear interest at the prime commercial rate or adjusted LIBOR with interest being payable on a monthly basis. The borrowing under the line of credit will be payable on demand, but if no demand is made, borrowing shall automatically mature on the interest payable date next following the date the loan is made. The amount outstanding under the agreement was \$14,000 as of May 31, 2014 and 2013.

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

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

<u>2014</u>		<u>2013</u>	
<u>Fair value</u>	<u>Carrying value</u>	<u>Fair value</u>	<u>Carrying value</u>
\$ 193,562	195,970	\$ 200,617	202,115

The fair value of long-term debt is determined by quoted prices for comparable borrowings as of May 31, 2014 and 2013, which is considered to be Level 2 in the fair value hierarchy. The quoted prices are available but the assets are traded less frequently and thus valuation is accomplished using similar securities, the parameters of which can be directly observed.

**(10) Accrued Postretirement Benefit Obligation**

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

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(In thousands of dollars)

May 31 is presented below. The accumulated postretirement benefit obligation disclosed below is the actuarial value of future benefits used on employees' service rendered through the measurement date:

	<u>2014</u>	<u>2013</u>
Change in accumulated postretirement benefit obligation at beginning of the period	\$ 2,623	2,466
Service cost		—
Interest cost	106	96
Actuarial gain	372	198
Actuarial benefit payments net contributions	<u>(122)</u>	<u>(137)</u>
Accumulated postretirement benefit obligation at end of the period	<u>\$ 2,979</u>	<u>2,623</u>
	<u>2014</u>	<u>2013</u>
Change in fair value of plan assets:		
Fair value of plan assets at beginning of period	\$ —	—
Employer contribution	122	137
Participant contributions	82	50
Total benefit payments	<u>(204)</u>	<u>(187)</u>
Fair value of plan assets at end of the period	<u>\$ —</u>	<u>—</u>
Funded status	\$ 2,979	2,623
Composition of amounts reported in the consolidated statements of financial position consist of:		
Current liabilities	\$ 160	149
Noncurrent liabilities	<u>2,819</u>	<u>2,474</u>
Accrued postretirement benefit obligation	<u>\$ 2,979</u>	<u>2,623</u>

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

	<u>2014</u>	<u>2013</u>
Unrecognized actuarial loss	\$ 792	432
Unrecognized prior service costs	14	26

These amounts will be subsequently recognized in future years as components of net periodic pension cost. The estimated amortization of transition obligation, prior service cost, and net losses in the next fiscal year is \$0, \$12, and \$37, respectively.

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May 31, 2014 and 2013

(In thousands of dollars)

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

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

**(a) Actuarial Assumptions**

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

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

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

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

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May 31, 2014 and 2013

(In thousands of dollars)

**(b) Estimated Future Benefits Payments**

The following benefit payments, which reflect expected future service, are expected to be paid for each of the fiscal years ending May 31:

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

**(c) Plan Amendment**

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

**(11) Net Assets**

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

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



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Notes to Consolidated Financial Statements

May 31, 2014 and 2013

(In thousands of dollars)

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

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

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

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

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

**(12) Employee Benefit Plans**

**(a) Pension Plan**

Substantially all full-time employees of the University and IITRI are participants in defined contribution retirement plans that are funded by contributions from the University, IITRI, and participating employees. Total contributions made under the plans for the years ended May 31, 2014 and 2013 were \$6,650 and \$6,374 by the University and \$350 and \$349 by IITRI, respectively.

**(b) Healthcare Benefits Plans**

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

IITRI offers a healthcare benefits plan (the Plan) that provides for certain medical and dental expense coverage, including certain vision discounts for all eligible employees and dependents. The Plan is fully insured and underwritten by Blue Cross Blue Shield of Illinois and Dearborn National. Under this Plan, premium contributions are shared by both IITRI and plan participants.

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## Notes to Consolidated Financial Statements

May 31, 2014 and 2013

(In thousands of dollars)

### (13) Functional Classification of Expenses

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

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

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

### (14) Leases

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

In May 2002, the University entered into a 40-year ground lease agreement with IIT State Street, NFP (State Street Corp) to lease property on the University's campus for the purpose of building housing to lease to students, faculty, and staff of the University or employees of other not-for-profit educational institutions in the area. IIT State Street, NFP is a 501(c)(3) corporation that is affiliated with, but not controlled by, the University and, accordingly, is not included in the University's consolidated financial statements.

In December 2003, the University entered into a five-year operating lease with State Street Corp whereby the University committed to lease unoccupied beds at the leased property sufficient to allow State Street Corp to achieve a debt service ratio of 1.0. On August 30, 2006, the operating lease was amended to extend the expiration date to September 30, 2013; thereafter, the operating lease will automatically renew for successive one-year periods. For years ended May 31, 2014 and 2013, it was not necessary for the University to lease unoccupied beds due to State Street Corp achieving a 1.0 debt service ratio.

In January 2006, the University entered into a 55-year ground lease agreement with Townsend Chicago, LLC (Townsend). Townsend purchased from IIT the building known as the Technology Business Center for \$2,600 resulting in a gain of approximately \$2,400, which is being amortized over the life of the building lease. IIT is leasing approximately 21% of the building back from Townsend for an initial term of 18 years.

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## Notes to Consolidated Financial Statements

May 31, 2014 and 2013

(In thousands of dollars)

In January 2007, the University entered into a five-year space rental lease with 350 LLC, which expired on August 31, 2012. In May 2011, the University extended the lease for an additional five years, so the new expiration date is now August 31, 2017. The lease involves occupying space in the building located at 350 North LaSalle.

In March 2010, the University entered into a seven-year agreement to lease additional space of the Technology Business Center, which was effective June 2010. Related to this University's agreement, Townsend and the University agreed to establish a charitable donation to offset the University's expenses attributed to the agreement until May 2013. In June 2013, the University began funding the lease payments with University funds.

In May 2012, the University entered into an agreement with Chicagoland Entrepreneurial Center for space on the twelfth floor of the Merchandise Mart through April 30, 2013. Prior to its expiration, the University elected to exercise its option to extend the agreement an additional year through April 30, 2015.

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

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

Year ending May 31:	
2014	\$ 2,080
2015	2,146
2016	2,104
2017	937
2018	961
2019	985
Thereafter	5,585
	<u>\$ 14,798</u>

### (15) Contingencies

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

### (16) Participation in Federal Financial Assistance Program

On May 11, 2013, the University received a letter from the United States Department of Education (USDE) stating that the University failed to meet the financial responsibility standards in 34 CFR 668.172.

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### Notes to Consolidated Financial Statements

May 31, 2014 and 2013

(In thousands of dollars)

The University elected to participate in the USDE's Student Financial Assistance programs under the Provisional Certification Alternative (Zone Alternative) for the next award year.

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

#### **(17) Subsequent Events**

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

**ILLINOIS INSTITUTE OF TECHNOLOGY**

Schedule of Expenditures of Federal Awards

Year ended May 31, 2014

Program title	Award number	CFDA number	Federal expenditures
Major Programs:			
Research and Development Cluster – Direct awards:			
Department of Agriculture:			
Food and Drug Administration:			
Agriculture and Food Research Initiative (AFRI)	2011-67017-30016	10.310	\$ 69,699
Agriculture and Food Research Initiative (AFRI)	2013-67012-20417	10.310	80,702
Agriculture and Food Research Initiative (AFRI)	2014-67017-21707	10.310	28,505
			<u>178,906</u>
Department of Defense:			
Basic and Applied Scientific Research	N00014-10-1-0752	12.300	120,579
Basic and Applied Scientific Research	N00014-10-1-0769	12.300	77,652
Basic and Applied Scientific Research	N00014-12-1-0733	12.300	121,033
Basic and Applied Scientific Research	N00014-14-1-0266	12.300	2,062
Military Medical Research and Development	W81XWH-12-1-0394	12.420	353,357
Basic Scientific Research	W911NF-09-1-0378	12.431	417,701
Basic Scientific Research	W911NF-09-2-0071	12.431	262,064
Basic Scientific Research	W911NF-10-1-0152	12.431	56,221
Basic Scientific Research	W911NF-11-2-0018	12.431	238,362
Air Force Defense Research Sciences Program	FA9550-09-1-0189	12.800	155,717
Air Force Defense Research Sciences Program	FA9550-11-1-0056	12.800	168,522
Air Force Defense Research Sciences Program	FA9550-12-1-0206	12.800	63,999
Department of Defense Programs	W911NF-12-C-0021	12.xxx	864,325
			<u>2,901,594</u>
Central Intelligence Agency:			
Central Intelligence Agency Programs			
Fiscal Year 2013 Intelligence Community (IC) Postdoctoral Research Fellowship Program	2013-13070300007	13.xxx	42,889
			<u>42,889</u>
Department of Transportation:			
Aviation Research Grants	FAA 12-G-013	20.108	196,623
Aviation Research Grants	FAA 12-G-014	20.108	182,420
			<u>379,043</u>
National Aeronautics and Space Administration:			
Cross Agency Support	NNX11AN31H	43.009	80,613
			<u>80,613</u>
National Science Foundation:			
Engineering Grants	CBET-0853528	47.041	13,983
Engineering Grants	CBET-0967906	47.041	1,817
Engineering Grants	CBET-1236576	47.041	72,019
Engineering Grants	CBET-1252924	47.041	140,565
Engineering Grants	CBET-1263994	47.041	47,231
Engineering Grants	CBET-1312289	47.041	18,374
Engineering Grants	CBET-1336442	47.041	55,794
Engineering Grants	CMMI-0847030	47.041	97,206
Engineering Grants	CMMI-0900170	47.041	(17,822)
Engineering Grants	CMMI-0970079	47.041	28,817
Engineering Grants	CMMI-0900597	47.041	58,727
Engineering Grants	CMMI-1030903	47.041	9,335
Engineering Grants	CMMI-1055805	47.041	48,983
Engineering Grants	CMMI-1100514	47.041	80,590
Engineering Grants	CMMI-1144949	47.041	1,419
Engineering Grants	CMMI-1261782	47.041	120,877
Engineering Grants	CMMI-1266284	47.041	22,656
Engineering Grants	CMMI-1331735	47.041	25,832
Engineering Grants	CMMI-1334694	47.041	36,863
Engineering Grants	CMMI-1334998	47.041	26,965
Engineering Grants	ECCS-1247944	47.041	2,159
Engineering Grants	ECCS-1439967	47.041	7,799
Engineering Grants	EEC-1157041	47.041	146,546
Mathematical and Physical Sciences	AGS-1261369	47.049	25,079
Mathematical and Physical Sciences	AST-1248000	47.049	206,977
Mathematical and Physical Sciences	AST-1343306	47.049	20,214
Mathematical and Physical Sciences	DMR-0806935	47.049	102,351
Mathematical and Physical Sciences	DMR-0964812	47.049	(8,681)
Mathematical and Physical Sciences	DMR-1006953	47.049	9,983
Mathematical and Physical Sciences	DMR-1307631	47.049	80,032
Mathematical and Physical Sciences	DMS-1025422	47.049	17,015
Mathematical and Physical Sciences	DMS-1115392	47.049	116,561

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Schedule of Expenditures of Federal Awards

Year ended May 31, 2014

Program title	Award number	CFDA number	Federal expenditures
Mathematical and Physical Sciences	DMS-1211256	47.049	\$ 122,562
Mathematical and Physical Sciences	DMS-1217277	47.049	71,183
Mathematical and Physical Sciences	PHY-0969953	47.049	(651)
Mathematical and Physical Sciences	PHY-0969989	47.049	78,058
Mathematical and Physical Sciences	PHY-1205811	47.049	52,428
Mathematical and Physical Sciences	PHY-1314008	47.049	38,014
Mathematical and Physical Sciences	PHY-1346588	47.049	4,964
Geosciences	AGS-1329383	47.050	74,532
Computer and Information Science and Engineering	CCF-0937877	47.070	208,362
Computer and Information Science and Engineering	CNS-0746643	47.070	34,739
Computer and Information Science and Engineering	CNS-0832120	47.070	4,995
Computer and Information Science and Engineering	CNS-0834514	47.070	(3,511)
Computer and Information Science and Engineering	CNS-0916666	47.070	21,820
Computer and Information Science and Engineering	CNS-1018731	47.070	42,294
Computer and Information Science and Engineering	CNS-1018786	47.070	52,485
Computer and Information Science and Engineering	CNS-1035844	47.070	70,449
Computer and Information Science and Engineering	CNS-1035894	47.070	185,992
Computer and Information Science and Engineering	CNS-1053777	47.070	42,095
Computer and Information Science and Engineering	CNS-1116939	47.070	15,942
Computer and Information Science and Engineering	CNS-1117687	47.070	147,140
Computer and Information Science and Engineering	CNS-1219109	47.070	62,555
Computer and Information Science and Engineering	CNS-1265351	47.070	49,209
Computer and Information Science and Engineering	CNS-1320125	47.070	25,609
Computer and Information Science and Engineering	IIS-1125412	47.070	226,347
Biological Sciences	IOS-1022058	47.074	24,987
Social, Behavioral, and Economic Sciences	BCS-0953967	47.075	16,263
Social, Behavioral, and Economic Sciences	SES-0933810	47.075	30,998
Education and Human Resources	DRL-1157678	47.076	238,033
Education and Human Resources	DUE-1123323	47.076	65,362
Education and Human Resources	DUE-1140772	47.076	69,316
Office of International and Integrative Activities	OISE-1266075	47.079	(2,774)
Office of Cyberinfrastructure	OCI-1047963	47.080	4,472
Office of Cyberinfrastructure	OCI-1054974	47.080	117,333
ARRA Trans-NSF Recovery Act Research Support	CNS-0916743	47.082	7,944
ARRA Trans-NSF Recovery Act Research Support	DMS-0914923	47.082	8,812
ARRA Trans-NSF Recovery Act Research Support	OCI-0904670	47.082	81,883
			<u>3,906,507</u>
Environmental Protection Agency:			
Greater Research Opportunities (GRO) Fellowships For Undergraduate Environmental Study	MA-91754601-0	66.513	9,965
			<u>9,965</u>
Department of Energy:			
Office of Science Financial Assistance Program	DE-SC0002100	81.049	4,371
Office of Science Financial Assistance Program	DE-SC0007952	81.049	107,012
Office of Science Financial Assistance Program	DE-SC0008150	81.049	147,140
Office of Science Financial Assistance Program	DE-SC0008347	81.049	269,618
University Coal Research	DE-FE0003997	81.057	100,373
Renewable Energy Research and Development	DE-EE0000461	81.087	385,337
ARRA Renewable Energy Research and Development	DE-FC26-08NT02875	81.087	1,041,785
Defense Nuclear Nonproliferation Research (B)	DE-NA0000422	81.113	54,113
Nuclear Energy Research, Development and Demonstration (B)	DE-NE0000516	81.121	172,697
ARRA Electricity Delivery and Energy Reliability, Research, Development, and Analysis (B)	DE-OE0000449	81.122	1,175,687
Electricity Delivery and Energy Reliability, Research, Development, and Analysis (B)	DE-OE0000624	81.122	329,941
Electricity Delivery and Energy Reliability, Research, Development, and Analysis (B)	DE-OE0000656	81.122	26,295
Advanced Research Projects Agency – Energy	DE-AR0000387	81.135	235,104
			<u>4,049,473</u>
Department of Education:			
Graduate Assistance in Areas of National Need	P200A090137	84.200	18,524
			<u>18,524</u>
Department of Health and Human Services:			
Food and Drug Administration – Research	5U01FD003801	93.103	4,338,263
Research Related to Deafness and Communication Disorders	1R15DC011650-01	93.173	87,837
Mental Health Research Grants	5P20MH085981-05	93.242	966,827

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Schedule of Expenditures of Federal Awards

Year ended May 31, 2014

Program title	Award number	CFDA number	Federal expenditures
Discovery and Applied Research for Technological Innovations to Improve Human Health	5R01EB009905-04	93.286	\$ 87,019
Discovery and Applied Research for Technological Innovations to Improve Human Health	5R25EB013121-03	93.286	23,363
Minority Health and Health Disparities Research	5R24MD007925-02	93.307	317,144
Cancer Treatment Research	5R01CA112503-05	93.395	356,714
Cancer Biology Research	5R01CA128114-05	93.396	124,060
ARRA Trans-NIH Recovery Act Research Support	1R15EY020807-01	93.701	(5,773)
Cardiovascular Diseases Research	5R01HL091017-05	93.837	337,856
Cardiovascular Diseases Research	5R21HL108272-02	93.837	14,230
Cardiovascular Diseases Research	1R01HL122484-01	93.837	8,414
Diabetes, Digestive, and Kidney Diseases Extramural Research	5R01DK085611-02	93.847	10,836
Diabetes, Digestive, and Kidney Diseases Extramural Research	1DP3DK101075-01	93.847	83,968
Diabetes, Digestive, and Kidney Diseases Extramural Research	1DP3DK101077-01	93.847	65,483
Extramural Research Programs in the Neurosciences and Neurological Disorders	5R21NS076827-02	93.853	149,826
Allergy Immunology and Transplantation Research	5R01AI073892-04	93.855	193,736
Allergy Immunology and Transplantation Research	5K22AI104799-02	93.855	88,594
Biomedical Research and Research Training	5P41GM103622-19	93.859	1,209,478
Biomedical Research and Research Training	1R15GM110632-01	93.859	3,918
			<u>8,461,793</u>
Department of Homeland Security:			
Department of Homeland Security Programs	HSHQDC-10-C-00173	97.xxx	89,224
			<u>89,224</u>
Research and Development Cluster – Direct Awards			<u>20,118,531</u>
Research and Development Cluster – Indirect Awards:			
Department of Agriculture:			
Integrated Programs:			
Passed through:			
North Carolina State University	2011-0494-11	10.310	67,387
University of Idaho	BKK290-SB-001	10.310	11,921
			<u>79,308</u>
Department of Defense:			
Department of Defense Contracts – passed through:			
Alion Science and Technology Corporation	SFP1119715	12.xxx	(1,052)
Engility Corporation	12-C-0048-06	12.xxx	450,587
Radiation Monitoring Devices, Inc	C14-11	12.xxx	61,617
Transition 45 Technologies Inc	IIT101311	12.xxx	40,493
Basic Scientific Research – passed through:			
University of Maryland Eastern Shore	2011-20783-001	12.431	13,453
Air Force Defense Research Sciences Program – passed through:			
Princeton University	00002029	12.800	53,562
Research and Technology Development – passed through:			
MicroProbes for Life Sciences, Inc		12.910	33,653
Northern Illinois University	G2A62487	12.910	43,344
Pennsylvania State University	4902-11TRI-AFOSR	12.910	21,287
University of California – San Diego	45003180	12.910	20,219
			<u>737,163</u>
Department of Justice:			
Department of Justice Research Grant Programs passed through:			
City of Chicago Police Department	2011-IJ-CX-K014	16.xxx	386,330
			<u>386,330</u>
Department of Transportation:			
University Transportation Centers Program – passed through:			
Purdue University	4108-38658	20.701	14,238
Purdue University	4108-47670	20.701	89,452
			<u>103,690</u>
National Aeronautics and Space Administration:			
Science Program – passed through:			
University of Illinois	2010-04000-02	43.001	52,862
National Aeronautics and Space Administration Contracts			
California Institute of Technology	1503336	43.xxx	6,688
			<u>59,550</u>
National Science Foundation:			
Engineering Grants – passed through:			
University of Connecticut	KFS 5254400	47.041	2,296
Mathematical and Physical Sciences – passed through:			
Adler Planetarium	ASW-1210-001	47.049	28,243
University of California – Los Angeles	0757 G PA071	47.049	69,129
Education and Human Resources – passed through:			
Chicago Pre-College Science & Engineering Program, Inc	0929544	47.076	2,483
University of California	12-MESA-631188-47-56	47.076	2,375

**ILLINOIS INSTITUTE OF TECHNOLOGY**

Schedule of Expenditures of Federal Awards

Year ended May 31, 2014

Program title	Award number	CFDA number	Federal expenditures
Trans-NSF Recovery Act Research Support – passed through: ARRA University of Illinois	2009-04708-03-01DT	47.082	\$ 87,843
			<u>192,369</u>
Department of Veteran Affairs: Department of Veteran Affairs – passed through: Hines VA Hospital		64.xxx	<u>63,356</u>
			<u>63,356</u>
Environmental Protection Agency: Great Lakes Program – passed through: Chicago Park District		66.469	71,017
Indiana University	BL-4040190-IIT	66.469	2,045
Indiana University	IUB-4340133-IIT	66.469	6,388
Office of Research and Development Consolidated Research/Training/ Fellowships – passed through: HDR Engineering Inc	63238	66.511	<u>29,421</u>
			<u>108,871</u>
Department of Energy: Department of Energy Contracts – passed through:			
Argonne National Laboratory	3J-30001	81.xxx	537,794
Argonne National Laboratory	8J-00021	81.xxx	445,884
Argonne National Laboratory	9J-30241	81.xxx	520,747
Argonne National Laboratory		81.xxx	67,529
Fermi National Laboratory	590089	81.xxx	22,320
Fermi National Laboratory	598243	81.xxx	46,585
Fermi National Laboratory	599995	81.xxx	24,185
Fermi National Laboratory	601208	81.xxx	27,723
Fermi National Laboratory	610196	81.xxx	406,538
Fermi National Laboratory	612289	81.xxx	30,889
Fermi National Laboratory	613063	81.xxx	23,044
Fermi National Laboratory	614267	81.xxx	22,893
Lawrence Livermore National Laboratory	B601889	81.xxx	3,027
Lawrence Livermore National Laboratory	B604352	81.xxx	28,769
Los Alamos National Laboratory	273627	81.xxx	65,735
Muons, Inc		81.xxx	500
Pacific Northwest National Laboratory	201957	81.xxx	46,476
Pacific Northwest National Laboratory	214804	81.xxx	125,929
Proton Energy Systems, Inc	EC-012253	81.xxx	13,491
Renewable Energy Research and Development – passed through: ARKEMA, Inc		81.087	(37,223)
E. I. du Pont de Nemours and Company		81.087	(24,805)
Nuclear Energy Research, Development and Demonstration (B) – passed through:			
Idaho National Laboratory	00135441	81.121	201,617
Idaho National Laboratory	00137567	81.121	171,737
Idaho National Laboratory	00141663	81.121	15,715
Idaho National Laboratory		81.121	53,365
Electricity Delivery and Energy Reliability, Research, Development and Analysis – passed through:			
National Association of Regulatory Utility Commissioners (NARUC)	NARUC-2012-204-DE0316	81.122	25,000
National Association of Regulatory Utility Commissioners (NARUC)	NARUC-2013-247-DE0316	81.122	22,800
			<u>2,888,264</u>
Department of Education: National Institute on Disability and Rehabilitation Research – passed through:			
Rehabilitation Institute of Chicago	81764	84.133	14,392
Rehabilitation Institute of Chicago	81017	84.133	<u>9,732</u>
			24,124
Department of Health and Human Services: Food and Drug Administration Programs – passed through:			
Michigan Research Institute		93.xxx	23,800
Purdue University	IIT0003	93.xxx	18,701
Food and Drug Administration Research – passed through: National Institute for Pharmaceutical Technology and Education	NIPTE-UO1-IIT-001-2012	93.103	15,087
Substance Abuse and Mental Health Services: Projects of Regional and National Significance (B) – passed through: Lake County Health Department	001-060118	93.243	83,212
Discovery and Applied Research for Technological Innovations to Improve Human Health – passed through:			
University of Colorado	2-5-23047	93.286	78,381
University of Houston	R-12-0106	93.286	20,098
Washington University	WU-HT-11-35	93.286	39,743
Cancer Detection and Diagnosis Research – passed through: Washington University	WU-10-72	93.394	(12,517)



**ILLINOIS INSTITUTE OF TECHNOLOGY**

Schedule of Expenditures of Federal Awards

Year ended May 31, 2014

Program title	Award number	CFDA number	Federal expenditures
Cardiovascular Diseases Research – passed through:			
Loyola University – Chicago	201336	93.837	\$ 49,965
University of California – San Diego	10318197	93.837	28,550
Arthritis, Musculoskeletal and Skin Diseases Research:			
Duke University	2032516	93.846	(667)
University of Arizona	65113	93.846	22,481
University of Maryland	Z036001	93.846	77,098
Diabetes, Digestive, and Kidney Diseases Extramural Research passed through:			
Chicago Association for Research Education in Sciences	Griffin-VA 0011	93.847	32,354
University of Chicago	FP000279	93.847	254,189
University of Chicago	FP035726	93.847	14,988
Extramural Research Programs in the Neurosciences and Neurological Disorders passed through:			
EIC Laboratories, Inc	212027-01	93.853	20,245
Biomedical Research and Research Training – passed through:			
University of Chicago	FP000231	93.859	2,268
University of Utah	10010847	93.859	40,248
Child Health and Human Development Extramural Research – passed through:			
Rehabilitation Institute of Chicago	81854	93.865	2,646
			<u>834,994</u>
Department of Homeland Security:			
Centers for Homeland Security:			
University of Minnesota	P001955413	97.061	95,130
Research and Development Cluster – Indirect Awards			5,549,025
Total Research and Development Cluster			<u>25,667,556</u>
Student Financial Assistance Cluster:			
Department of Education:			
Federal Supplemental Educational Opportunity Grants		84.007	560,966
Federal Work-Study Program		84.033	441,636
Federal Perkins Loan Program		84.038	1,362,753
Federal Pell Grant Program		84.063	3,948,555
Federal Direct Loans		84.268	49,549,480
Total Student Financial Assistance Cluster			<u>55,863,390</u>
Total Major Programs			<u>81,530,946</u>
Nonmajor Programs:			
Direct Awards:			
Small Business Administration:			
Small Business Administration Grants	SBAHQ-10-C-0020	59.xxx	151
Small Business Administration Grants	SBAHQ-12-C-0017	59.xxx	429,308
			<u>429,459</u>
Department of Education:			
Rehabilitation Long-Term Training	H129E080004	84.129	43,046
Rehabilitation Long-Term Training	H129H080004	84.129	8,132
Rehabilitation Long-Term Training	H129B090074	84.129	134,641
Rehabilitation Long-Term Training	H129B100034	84.129	190,157
			<u>375,976</u>
Other – Direct Awards			<u>805,435</u>
Indirect Awards:			
Department of State:			
Environmental and Scientific Partnerships and Programs – passed through:			
American Council on Education	HED084-97SD-LAC-12-01	19.017	260,820
Small Business Administration:			
Small Business Administration Grants – passed through:			
O-H Community Partners		59.007	4,501
Other – Indirect Awards			265,321
Total Nonmajor Programs			<u>1,070,756</u>
Total Federal Awards			\$ <u><u>82,601,702</u></u>

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

## ILLINOIS INSTITUTE OF TECHNOLOGY

### Notes to Schedule of Expenditures of Federal Awards

Year ended May 31, 2014

#### (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, 2014. 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 A133. Such categories are as follows:

##### **Major Programs**

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

*Student Financial Assistance Cluster* – Includes certain awards to provide financial assistance to students, primarily under the Federal Pell Grant (Pell), Federal 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).

##### **Non-major 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, 2014 consolidated statement of activities. The federal expenditures are classified in the accompanying consolidated statement of activities as government grants and contracts revenue, totaling approximately \$40,048,854. The remaining government grants and contracts consist of approximately \$3,526,341 of awards received from states and other sources, with the balance of approximately \$16,119,000 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 recorded in the University's prior fiscal reporting period.

**ILLINOIS INSTITUTE OF TECHNOLOGY**

Notes to Schedule of Expenditures of Federal Awards

Year ended May 31, 2014

**(2) Indirect Costs**

The University has four-year predetermined fixed indirect cost rates, effective June 1, 2012 through May 31, 2015, which have been negotiated with its cognizant agency, U.S. Department of Health and Human Services. The predetermined fixed rates were based on the University's financial information for fiscal year 2010. The base rates for on and off campus and FDA research were 52%, 24%, and 9.5% of modified total direct costs, respectively. Approximately, \$6,145,046 of indirect costs were reimbursed to the University for the year ended May 31, 2014.

**(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, 2014 are summarized as follows:

Direct loan programs – Perkins	\$	1,362,753
Federal Direct Loans (FDL)		<u>49,549,480</u>
Total federal student loan programs	\$	<u><u>50,912,233</u></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 \$7,526,379 and \$7,533,378 at May 31, 2014 and May 31, 2013. The University received an administrative cost allowance of \$124,982 under the Perkins program during the fiscal year ended May 31, 2014.

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, 2014.

**ILLINOIS INSTITUTE OF TECHNOLOGY**

Notes to Schedule of Expenditures of Federal Awards

Year ended May 31, 2014

**(4) Summary of Subrecipient Payments**

Expenditures made to subrecipients under federal awards for the year ended May 31, 2014 were as follows:

Research and Development Cluster:	
Department of Health and Human Services	\$ 883,525
Department of Defense	691,476
Department of Energy	894,557
Department of Homeland Security	47,288
National Science Foundation	205,592
Department of Agriculture	44,024
Other:	
Department of Education	5,000
Department of State	160,558
Small Business Administration	265,229
Total	\$ <u><u>3,197,249</u></u>



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

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

The Board of Trustees  
Illinois Institute of Technology:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Illinois Institute of Technology (the University), which comprise the consolidated statement of financial position as of May 31, 2014, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 23, 2014.

**Internal Control Over Financial Reporting**

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the University's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an



opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

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

KPMG LLP

Chicago, Illinois  
October 23, 2014



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

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

The Board of Trustees  
Illinois Institute of Technology:

**Report on Compliance for Each Major Federal Program**

We have audited Illinois Institute of Technology's (the University) compliance with the types of compliance requirements described in the *OMB Circular A-133 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, 2014. The University's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

The University's consolidated financial statements include the operations of IIT Research Institute (IITRI), which expended \$9,586,000 in federal awards, which is not included in the University's schedule of expenditures of federal awards for the year ended May 31, 2014. Our audit, described below, did not include the operations of IITRI because those awards are audited separately at IITRI's fiscal year end.

***Management's Responsibility***

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

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of the University's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the University's compliance.



### ***Opinion on Each Major Federal Program***

In our opinion, Illinois Institute of Technology complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended May 31, 2014.

### **Report on Internal Control over Compliance**

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

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

### **Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

We have audited the consolidated financial statements of the University as of and for the year ended May 31, 2014, and have issued our report thereon dated October 23, 2014, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures,





including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

KPMG LLP

Chicago, Illinois  
October 23, 2014

**ILLINOIS INSTITUTE OF TECHNOLOGY**

Schedule of Findings and Questioned Costs

Year ended May 31, 2014

**(1) Summary of Auditors' Results**

- (a) The type of opinion issued on the consolidated financial statements: **Unmodified opinion**
- (b) Significant deficiencies in internal control disclosed by the audit of the consolidated financial statements: **None reported**

Material weaknesses: **No**

- (c) Noncompliance, which is material to the consolidated financial statements: **No**
- (d) Significant deficiencies in internal control over major programs: **None reported**

Material weaknesses: **No**

- (e) The type of report issued on compliance for major programs: **Unmodified opinion**
- (f) Any audit findings, which are required to be reported under Section 510(a) of OMB Circular A-133: **No**
- (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: **\$2,707,802**
- (i) Auditee qualified as a low risk auditee under Section 530 of OMB Circular A133: **Yes**

**(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*: None**

**(3) Findings and Questioned Costs Relating to Federal Awards: None**