



**ILLINOIS INSTITUTE OF TECHNOLOGY**

Single Audit Report

May 31, 2017

(With Independent Auditors' Reports Thereon)

# ILLINOIS INSTITUTE OF TECHNOLOGY

## Table of Contents

	<b>Page</b>
Independent Auditors' Report	1
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities	4
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7
Schedule of Expenditures of Federal Awards	34
Notes to Schedule of Expenditures of Federal Awards	41
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 <i>Government Auditing Standards</i>	43
Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance	45
Schedule of Findings and Questioned Costs	48



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## 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, 2017 and 2016, 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 statement 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, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2017, 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 solely 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 effectiveness of the University's 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 26, 2017

**ILLINOIS INSTITUTE OF TECHNOLOGY**

Consolidated Statements of Financial Position

May 31, 2017 and 2016

(In thousands of dollars)

<b>Assets</b>	<b>2017</b>	<b>2016</b>
Cash	\$ 11,025	8,246
Notes and accounts receivable:		
Grants and contracts, less allowance of \$216 in 2017 and \$222 in 2016	8,822	7,891
Students:		
Tuition, less allowance of \$785 in 2017 and \$1,022 in 2016	3,692	5,186
Notes, less allowance of \$603 in 2017 and \$619 in 2016	9,231	9,674
Other, less allowance of \$641 in 2017 and \$672 in 2016	586	1,084
Pledges, net (note 5)	13,416	18,899
Inventories, prepaid expenses, and deferred charges	4,193	4,496
Investments (note 2)	249,647	232,807
Bond proceeds held by trustees	2,794	2,778
Physical properties, less accumulated depreciation (note 7)	269,878	269,122
Beneficial interest in perpetual trusts (note 8)	20,817	19,540
	<hr/>	<hr/>
Total assets	\$ 594,101	579,723
	<hr/>	<hr/>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 13,863	14,583
Accrued salaries and wages	17,653	15,906
Deferred revenue	20,471	16,013
Deposits by students and others	2,416	2,236
Accrued postretirement benefit obligation (note 10)	2,408	2,625
Obligation under split-interest agreements	614	476
Notes and bonds payable (note 9)	192,560	198,900
Advances from the U.S. government for student loans	7,639	7,954
Asset retirement obligation	1,851	2,034
	<hr/>	<hr/>
Total liabilities	259,475	260,727
	<hr/>	<hr/>
Net assets (note 11):		
Unrestricted	67,652	57,579
Temporarily restricted	55,958	54,630
Permanently restricted	211,016	206,787
	<hr/>	<hr/>
Total net assets	334,626	318,996
	<hr/>	<hr/>
Total liabilities and net assets	\$ 594,101	579,723
	<hr/>	<hr/>

See accompanying notes to consolidated financial statements.

**ILLINOIS INSTITUTE OF TECHNOLOGY**

Consolidated Statement of Activities

Year ended May 31, 2017

(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 \$101,577	\$ 151,014	—	—	151,014
Government grants and contracts	52,553	—	—	52,553
Private grants and contracts	12,599	—	—	12,599
Private gifts	9,245	1,946	—	11,191
Endowment spending distribution (note 4)	7,842	—	—	7,842
Endowment net assets released from restrictions	4,758	—	—	4,758
Sales and services of auxiliary enterprises	13,776	—	—	13,776
Other sources	17,856	—	—	17,856
Net assets released from restrictions	1,892	(1,892)	—	—
Total operating revenue	<u>271,535</u>	<u>54</u>	<u>—</u>	<u>271,589</u>
Operating expenses:				
Faculty salaries	63,039	—	—	63,039
Administrative salaries	48,015	—	—	48,015
Part-time salaries	14,129	—	—	14,129
Employee benefits	26,077	—	—	26,077
Operations and maintenance	25,673	—	—	25,673
Supplies and services	41,421	—	—	41,421
Professional fees and advertising	13,490	—	—	13,490
IITRI research	15,978	—	—	15,978
Interest on indebtedness	9,737	—	—	9,737
Depreciation	14,089	—	—	14,089
Total operating expenses	<u>271,648</u>	<u>—</u>	<u>—</u>	<u>271,648</u>
(Decrease) increase in net assets from operating activities	<u>(113)</u>	<u>54</u>	<u>—</u>	<u>(59)</u>
Nonoperating revenue and expenses:				
Private gifts	—	—	2,446	2,446
Change in donor designation	(60)	(410)	470	—
Net gain on investments (note 2)	14,331	9,484	36	23,851
Net gain on beneficial interest on perpetual trusts	—	—	1,277	1,277
Endowment spending distribution (note 4)	(7,842)	(4,758)	—	(12,600)
Net assets released from restrictions	4,480	(4,480)	—	—
Investment income (note 2)	2,477	1,438	—	3,915
Net loss on disposal of assets	(3,174)	—	—	(3,174)
Change in asset retirement obligation	574	—	—	574
Other	(600)	—	—	(600)
Increase in net assets from nonoperating activities	<u>10,186</u>	<u>1,274</u>	<u>4,229</u>	<u>15,689</u>
Increase in net assets	10,073	1,328	4,229	15,630
Net assets at beginning of year	<u>57,579</u>	<u>54,630</u>	<u>206,787</u>	<u>318,996</u>
Net assets at end of year	\$ <u>67,652</u>	<u>55,958</u>	<u>211,016</u>	<u>334,626</u>

See accompanying notes to consolidated financial statements.

**ILLINOIS INSTITUTE OF TECHNOLOGY**

Consolidated Statement of Activities

Year ended May 31, 2016

(In thousands of dollars)

	<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>
<b>Operating revenue:</b>				
Tuition and fees, net of scholarships of \$97,588	\$ 152,099	—	—	152,099
Government grants and contracts	52,673	—	—	52,673
Private grants and contracts	14,685	—	—	14,685
Private gifts	9,790	2,699	—	12,489
Endowment spending distribution (note 4)	8,841	—	—	8,841
Endowment net assets released from restrictions	3,759	—	—	3,759
Sales and services of auxiliary enterprises	14,509	—	—	14,509
Other sources	17,745	—	—	17,745
Net assets released from restrictions	354	(354)	—	—
<b>Total operating revenue</b>	<b>274,455</b>	<b>2,345</b>	<b>—</b>	<b>276,800</b>
<b>Operating expenses:</b>				
Faculty salaries	65,043	—	—	65,043
Administrative salaries	53,645	—	—	53,645
Part-time salaries	14,430	—	—	14,430
Employee benefits	26,851	—	—	26,851
Operations and maintenance	25,906	—	—	25,906
Supplies and services	41,240	—	—	41,240
Professional fees and advertising	13,635	—	—	13,635
IITRI research	16,602	—	—	16,602
Interest on indebtedness	9,993	—	—	9,993
Depreciation	13,977	—	—	13,977
<b>Total operating expenses</b>	<b>281,322</b>	<b>—</b>	<b>—</b>	<b>281,322</b>
(Decrease) increase in net assets from operating activities	(6,867)	2,345	—	(4,522)
<b>Nonoperating revenue and expenses:</b>				
Private gifts	—	11,153	777	11,930
Net loss on investments (note 2)	(5,381)	(3,102)	(64)	(8,547)
Net loss on beneficial interest on perpetual trusts	—	—	(1,672)	(1,672)
Endowment spending distribution (note 4)	(8,709)	(3,891)	—	(12,600)
Investment income (note 2)	3,375	1,107	—	4,482
Change in asset retirement obligation	715	—	—	715
Other	(175)	21	—	(154)
<b>Increase (decrease) in net assets from nonoperating activities</b>	<b>(10,175)</b>	<b>5,288</b>	<b>(959)</b>	<b>(5,846)</b>
<b>Increase (decrease) in net assets</b>	<b>(17,042)</b>	<b>7,633</b>	<b>(959)</b>	<b>(10,368)</b>
Net assets at beginning of year	74,621	46,997	207,746	329,364
Net assets at end of year	\$ 57,579	54,630	206,787	318,996

See accompanying notes to consolidated financial statements.

**ILLINOIS INSTITUTE OF TECHNOLOGY**

Consolidated Statements of Cash Flows

Years ended May 31, 2017 and 2016

(In thousands of dollars)

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
(Decrease) increase in net assets	\$ 15,630	(10,368)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Private gifts restricted for long-term investment	(3,196)	(7,347)
Depreciation	14,089	13,977
Loss (gain) on beneficial interest in perpetual trusts	(1,277)	1,672
Net loss (gain) on investments	(23,851)	8,547
Net loss on disposal of asset	3,174	—
Accretion on asset retirement obligation	574	715
Changes in assets and liabilities:		
Receivables: tuition, grants, pledges, and other	6,544	9,360
Inventories, prepaid expenses, and deferred charges	303	241
Accounts payable and accrued expenses	(720)	(4,867)
Accrued salaries and wages	1,747	978
Deferred revenue	(3,742)	(3,913)
Deposits by students and others	180	456
Accrued postretirement benefit obligation	(217)	(863)
Obligations under split-interest agreements	138	(111)
Advances from the U.S. government for student loans	(315)	(163)
Asset retirement obligation	(757)	(1,154)
Net cash provided by operating activities	<u>8,304</u>	<u>7,160</u>
Cash flows from investing activities:		
Proceeds from sale of investments	49,126	37,584
Purchase of investments	(42,115)	(35,354)
Change in bond proceeds held by trustees, net	(16)	(56)
Purchase of physical properties	(18,601)	(16,500)
Sale of physical properties	582	—
Issuance of notes receivable	(1,708)	(1,691)
Payments received on notes receivable	2,151	1,900
Net cash used in investing activities	<u>(10,581)</u>	<u>(14,117)</u>
Cash flows from financing activities:		
Private gifts restricted for long-term investment	3,196	7,347
Receipt of conditional gifts for capital projects	8,200	—
Payments on notes and bonds payable	(6,340)	(6,075)
Net cash provided by financing activities	<u>5,056</u>	<u>1,272</u>
Change in cash	2,779	(5,685)
Cash at:		
Beginning of year	<u>8,246</u>	<u>13,931</u>
End of year	\$ <u>11,025</u>	\$ <u>8,246</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 9,453	9,706
Construction payable	2,488	230

See accompanying notes to consolidated financial statements.

**ILLINOIS INSTITUTE OF TECHNOLOGY**  
Notes to Consolidated Financial Statements  
May 31, 2017 and 2016  
(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 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 are as of May 31, which have been prepared on the accrual basis of accounting, include the accounts of Illinois Institute of Technology, IIT India, and IITRI as of May 31. All significant intercompany transactions between these entities have been eliminated from the accompanying consolidated financial statements.

**(b) Net Asset Categories**

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

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

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

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

*Temporarily Restricted* – Net assets that are subject to donor-imposed restrictions that will be met either by actions of the University or the passage of time. Items that affect this net asset category include 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.

## ILLINOIS INSTITUTE OF TECHNOLOGY

### Notes to Consolidated Financial Statements

May 31, 2017 and 2016

(In thousands of dollars)

*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 gifts and income relating to long-term investment, endowment spending and other infrequent gains, losses, revenues, and expenses.

#### **(d) Revenue**

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

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

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

Revenue from 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.

## ILLINOIS INSTITUTE OF TECHNOLOGY

### Notes to Consolidated Financial Statements

May 31, 2017 and 2016

(In thousands of dollars)

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 collectability 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, 2017 and 2016, these governmental clients accounted for approximately 62% and 52%, respectively, of IITRI's operating revenue of \$20,511 and \$21,005, respectively. Included in IITRI's grants and contracts revenue for 2017 and 2016 and grants and contracts receivable at May 31, 2017 and 2016 are unbilled receivables in the amounts of approximately \$2,207 and \$2,441, 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, as a practical expedient in measuring fair value. The valuations for these investments involve estimates, appraisals, assumptions, and methods, which are reviewed by the University.

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

**ILLINOIS INSTITUTE OF TECHNOLOGY**  
Notes to Consolidated Financial Statements  
May 31, 2017 and 2016  
(In thousands of dollars)

**(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 collectability.

**(g) Inventory**

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

**(h) Physical Properties**

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

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

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

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

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

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

**(k) Split-Interest Agreements**

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

**ILLINOIS INSTITUTE OF TECHNOLOGY**  
Notes to Consolidated Financial Statements  
May 31, 2017 and 2016  
(In thousands of dollars)

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, 2017 and 2016, 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 2014.

**(m) Use of Estimates**

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles (GAAP) 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.

**(n) Reclassifications**

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

**ILLINOIS INSTITUTE OF TECHNOLOGY**  
Notes to Consolidated Financial Statements  
May 31, 2017 and 2016  
(In thousands of dollars)

**(o) Recent Accounting Pronouncements**

In May 2014, the FASB issued Accounting Standards Update (ASU) No 2014-09, *Revenue from Contracts with Customers*. The new guidance establishes a framework that ensures entities appropriately reflect the consideration to which they expect to be entitled in exchange for goods and services, by allocating transaction price to identified performance obligations, and recognizing that revenue as performance obligations are satisfied. This approach requires qualitative and quantitative disclosures as to the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The standard is effective in fiscal year 2019 and its impact on policies, procedures and the consolidated financial statements is under evaluation.

In February 2016, the FASB issued ASU. No. 2016-02, *Leases* which provides accounting guidance to establish increased transparency and comparability of lease reporting by recognizing lease assets and liabilities on the statement of financial position and disclosing key information about leasing activities. The significant change from previous GAAP and the new guidance is the recognition of lease assets and liabilities that arise from operating leases with terms greater than one year are to be recognized in the statement of financial position. The standard is effective in fiscal year 2020 and its impact on policies, procedures and the consolidated financial statements is under evaluation.

In August 2016, the FASB issued ASU. No 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* to improve the information presented on the financial statements and footnotes about a not-for-profit entity's liquidity, financial performance and cash flows. The guidance modifies the presentation of net asset classifications on the financial statements from three types to two types based on presence or absence of donor restrictions. Qualitative and quantitative disclosures related to the liquidity and availability of the entity's financial assets, amounts and purposes of board designated net assets, and underwater endowment funds are now required per the new guidance. The standard is effective in fiscal year 2019 and its impact on policies, procedures and the consolidated financial statements is under evaluation.

**(2) Investments**

Investments consist of the following at May 31:

	2017		2016	
	Cost	Fair value	Cost	Fair value
Cash equivalents	\$ 26,289	26,287	24,605	24,645
Stocks	345	650	312	540
Equity mutual funds	133,787	145,597	138,196	133,584
Bonds (IITRI)	5,720	5,720	5,087	5,087
Fixed income mutual funds	43,099	42,950	41,705	41,225
Hedge equity funds	12,171	13,925	12,171	12,938
Private equity and venture capital funds	1,998	2,553	3,912	2,988
Real estate	12,900	11,965	12,900	11,800
Total investments	\$ <u>236,309</u>	<u>249,647</u>	<u>238,888</u>	<u>232,807</u>

**ILLINOIS INSTITUTE OF TECHNOLOGY**  
Notes to Consolidated Financial Statements  
May 31, 2017 and 2016  
(In thousands of dollars)

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 hedge equity, 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.

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

	2017	2016
Return on investments:		
Interest and dividends	\$ 3,915	4,482
Net realized and unrealized gain (loss) on investments	23,851	(8,547)
Net return on investments	\$ 27,766	(4,065)

The return on investments reflects income from investments held by IITRI of \$57 and \$82 for 2017 and 2016, respectively.

**(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.

## ILLINOIS INSTITUTE OF TECHNOLOGY

### Notes to Consolidated Financial Statements

May 31, 2017 and 2016

(In thousands of dollars)

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.

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 2017 and 2016, 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 and beneficial interests in perpetual trusts as Level 3. The May 31, 2017 and 2016 real estate is valued utilizing the income-capitalization and sale-comparison methodology completed by an independent real estate appraiser. 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's interests in alternative investment funds, such as hedged equity mutual funds and private equity and venture capital funds, are 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, 2017 and 2016, the University had no plans to sell investments at amounts different from NAV. The University has \$16,478 and \$15,926 for 2017 and 2016, 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 \$5,878 in unfunded commitments relative to HC Private Equity XI and no

**ILLINOIS INSTITUTE OF TECHNOLOGY**  
Notes to Consolidated Financial Statements  
May 31, 2017 and 2016  
(In thousands of dollars)

unfunded commitments relative to the Commonfund and Roundtable private equity, venture capital and hedged equity alternative investments.

*Assets Measured on a Recurring Basis*

The following tables present information about the University's financial assets that are measured at fair value on a recurring basis as of May 31, 2017 and 2016, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value:

	2017			Total	Redemption or liquidation	Days' notice
	Level 1	Level 2	Level 3			
<b>Investments:</b>						
Cash and cash equivalents	\$ 26,287	—	—	26,287	Daily	One
<b>Domestic equities:</b>						
Fixed income	42,950	—	—	42,950	Daily	One
Large cap equity	54,495	—	—	54,495	Daily	One
Tactical opportunities	3,142	—	—	3,142	Daily	One
State Street Global	1,935	—	—	1,935	Daily	One
Small cap	4,786	—	—	4,786	Daily	One
Total	107,308	—	—	107,308		
<b>Global (ex-U.S.) equities:</b>						
Developed international	62,190	—	—	62,190	Daily	One
Emerging markets international	19,049	—	—	19,049	Daily	One
Total	81,239	—	—	81,239		
<b>Hedged equity funds of funds:</b>						
<b>Multiple strategies:</b>						
Total return	—	—	—	10,152	Locked-up (1, 3)	60
Absolute return	—	—	—	3,773	Locked-up (1, 3)	60
Total	—	—	—	13,925		
<b>Private equity and venture capital funds:</b>						
<b>Common fund:</b>						
Capital international	—	—	—	352	None (3)	N/A
Capital venture	—	—	—	922	None (3)	N/A
Capital private equity	—	—	—	1,030	None (3)	N/A
HC Private Equity XI	—	—	—	122	None (3)	N/A
Roundtable	—	—	—	127	None (3)	N/A
Total	—	—	—	2,553		
<b>Real assets:</b>						
IIT Tower	—	—	11,965	11,965	Illiquid (2)	N/A
Total	—	—	11,965	11,965		

**ILLINOIS INSTITUTE OF TECHNOLOGY**  
Notes to Consolidated Financial Statements  
May 31, 2017 and 2016  
(In thousands of dollars)

	2017				Redemption or liquidation	Days' notice
	Level 1	Level 2	Level 3	Total		
Other securities:	\$					
Fixed income (I/TR)	5,720	—	—	5,720	Daily	One
Domestic equities	650	—	—	650	Daily	One
Total	6,370	—	—	6,370		
Total investments	221,204	—	11,965	249,647		
Other assets:						
Cash	11,025	—	—	11,025		
Bond proceeds	2,794	—	—	2,794	Daily	One
Perpetual trusts	—	—	20,817	20,817	None	N/A
Total other assets	13,819	—	20,817	34,636		
Total	\$ style="text-align: right;">235,023	—	32,782	284,283		

- (1) One year from the initial investment  
(2) Real estate property owned by endowment  
(3) In accordance with Subtopic 820-10, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statement of financial position.

	2016				Redemption or liquidation	Days' notice
	Level 1	Level 2	Level 3	Total		
Investments:						
Cash and cash equivalents	\$ style="text-align: right;">24,645	—	—	24,645	Daily	One
Domestic equities:						
Fixed income	41,225	—	—	41,225	Daily	One
Large cap equity	53,910	—	—	53,910	Daily	One
Tactical opportunities	2,989	—	—	2,989	Daily	One
State Street Global	1,661	—	—	1,661	Daily	One
Small cap	5,764	—	—	5,764	Daily	One
Total	105,549	—	—	105,549		
Global (ex-U.S.) equities:						
Developed international	52,388	—	—	52,388	Daily	One
Emerging markets international	16,872	—	—	16,872	Daily	One
Total	69,260	—	—	69,260		
Hedged equity funds of funds:						
Multiple strategies:						
Total return	—	—	—	9,377	Locked-up (1, 3)	60
Absolute return	—	—	—	3,561	Locked-up (1, 3)	60
Total	—	—	—	12,938		

**ILLINOIS INSTITUTE OF TECHNOLOGY**  
Notes to Consolidated Financial Statements  
May 31, 2017 and 2016  
(In thousands of dollars)

	2016			Total	Redemption or liquidation	Days' notice
	Level 1	Level 2	Level 3			
Private equity and venture capital funds:						
Common fund:						
Capital international	\$ —	—	—	522	None (3)	N/A
Capital venture	—	—	—	1,111	None (3)	N/A
Capital private equity	—	—	—	1,221	None (3)	N/A
HC Private Equity XI	—	—	—	—	None (3)	N/A
Roundtable	—	—	—	134	None (3)	N/A
Total	—	—	—	2,988		
Real assets:						
IIT Tower	—	—	11,800	11,800	Illiquid (2)	N/A
Total	—	—	11,800	11,800		
Other securities:						
Fixed income (IITRI)	5,087	—	—	5,087	Daily	One
Domestic equities	540	—	—	540	Daily	One
Total	5,627	—	—	5,627		
Total investments	188,209	—	11,800	215,935		
Other assets:						
Cash	8,246	—	—	8,246		
Bond proceeds	2,778	—	—	2,778	Daily	One
Perpetual trusts	—	—	19,540	19,540	None	N/A
Total other assets	11,024	—	19,540	30,564		
Total	\$ 199,233	—	31,340	246,499		

(1) One year from the initial investment

(2) Real estate property owned by endowment

(3) In accordance with Subtopic 820-10, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statement of financial position.

**ILLINOIS INSTITUTE OF TECHNOLOGY**  
Notes to Consolidated Financial Statements  
May 31, 2017 and 2016  
(In thousands of dollars)

Aggregate investment liquidity as of May 31, 2017 and 2016 is presented below based on redemption or sale period:

	<u>2017</u>	<u>2016</u>
Investment redemption or sale period:		
Daily	\$ 221,204	205,081
Subject to rolling lock-ups	13,925	12,938
Illiquid	11,965	11,800
Redemptions not permitted	<u>2,553</u>	<u>2,988</u>
Total	<u>\$ 249,647</u>	<u>232,807</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, 2017 and 2016:

	<u>Real estate</u>	<u>Beneficial interest in perpetual trusts</u>	<u>Total</u>
Beginning balance, June 1, 2016	\$ 11,800	19,540	31,340
Net realized and unrealized gains (losses)	165	1,277	1,442
Purchases	—	—	—
Distributions	<u>—</u>	<u>—</u>	<u>—</u>
Ending balance, May 31, 2017	<u>\$ 11,965</u>	<u>20,817</u>	<u>32,782</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, 2017

\$	165	1,277	1,442
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**ILLINOIS INSTITUTE OF TECHNOLOGY**  
Notes to Consolidated Financial Statements  
May 31, 2017 and 2016  
(In thousands of dollars)

	<u>Real estate</u>	<u>Beneficial interest in perpetual trusts</u>	<u>Total</u>
Beginning balance, June 1, 2015	\$ 8,025	21,212	29,237
Net realized and unrealized gains (losses)	3,775	(1,672)	2,103
Purchases	—	—	—
Distributions	—	—	—
Ending balance, May 31, 2016	<u>\$ 11,800</u>	<u>19,540</u>	<u>31,340</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, 2016			
	\$ 3,775	(1,672)	2,103

**(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.

**ILLINOIS INSTITUTE OF TECHNOLOGY**  
Notes to Consolidated Financial Statements  
May 31, 2017 and 2016  
(In thousands of dollars)

Endowment net assets consist of the following as of May 31, 2017:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment corpus	\$ (11,723)	15,014	183,925	187,216
Donor-restricted endowment pledges	—	—	1,865	1,865
Board-designated funds	54,666	—	—	54,666
Total	<u>\$ 42,943</u>	<u>15,014</u>	<u>185,790</u>	<u>243,747</u>

Endowment net assets consist of the following as of May 31, 2016:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment corpus	\$ (17,545)	10,028	180,355	172,838
Donor-restricted endowment pledges	—	—	2,615	2,615
Board-designated funds	51,395	—	—	51,395
Total	<u>\$ 33,850</u>	<u>10,028</u>	<u>182,970</u>	<u>226,848</u>

**ILLINOIS INSTITUTE OF TECHNOLOGY**  
Notes to Consolidated Financial Statements  
May 31, 2017 and 2016  
(In thousands of dollars)

Changes in endowment net assets for the year ended May 31, 2017 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Net assets, beginning of year	\$ 33,850	10,028	182,970	226,848
Endowment-related investment return:				
Endowment-related investment income, net	2,150	1,438	—	3,588
Endowment-related net realized and unrealized gain	14,181	9,484	—	23,665
Total endowment-related investment return	16,331	10,922	—	27,253
Contributions:				
Additions to endowment	283	—	2,713	2,996
Endowment loan repayment	(857)	—	857	—
Change in permanently restricted pledges	—	—	(750)	(750)
Appropriation	(7,842)	(4,758)	—	(12,600)
Reclassification	1,178	(1,178)	—	—
Net assets, end of year	\$ <u>42,943</u>	<u>15,014</u>	<u>185,790</u>	<u>243,747</u>

Changes in endowment net assets for the year ended May 31, 2016 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Net assets, beginning of year	\$ 43,572	15,544	181,637	240,753
Endowment-related investment return:				
Endowment-related investment income, net	2,351	1,107	—	3,458
Endowment-related net realized and unrealized gain	(6,590)	(3,102)	—	(9,692)
Total endowment-related investment return	(4,239)	(1,995)	—	(6,234)
Contributions:				
Additions to endowment	3,596	—	4,013	7,609
Change in permanently restricted pledges	—	—	(2,680)	(2,680)
Appropriation	(8,709)	(3,891)	—	(12,600)
Reclassification	(370)	370	—	—
Net assets, end of year	\$ <u>33,850</u>	<u>10,028</u>	<u>182,970</u>	<u>226,848</u>

**ILLINOIS INSTITUTE OF TECHNOLOGY**  
Notes to Consolidated Financial Statements  
May 31, 2017 and 2016  
(In thousands of dollars)

**(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 \$11,723 and \$17,545 as of May 31, 2017 and 2016, 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) Spending Policy and Strategies Employed for Achieving Objectives**

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

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

To achieve these goals, the University's spending policy utilizes the total return concept of endowment spending. Under the method adopted by the University, interest, dividends, and rents as well as appreciation on investments held by the investment pool are made available for spending. The University's total endowment fund spending is based upon a target percentage of a subset of investments. The target percentage set by the board of trustees is 5% of the average quarterly endowment balance for the prior 12 quarters. The board of trustees set endowment distribution is \$12,600 for fiscal year 2017 and \$12,600 for fiscal year 2016. The board of trustees budgeted endowment distribution is \$12,500 for fiscal year 2018.

**(5) Pledges Receivable**

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

	<u>2017</u>	<u>2016</u>
Pledges receivable	\$ 13,588	19,101
Discount to present value future cash flows	<u>(172)</u>	<u>(202)</u>
Net pledges receivable	<u>\$ 13,416</u>	<u>18,899</u>

**ILLINOIS INSTITUTE OF TECHNOLOGY**  
Notes to Consolidated Financial Statements  
May 31, 2017 and 2016  
(In thousands of dollars)

The following is a summary showing the expected timing of collection of total gross unconditional pledges receivable outstanding as of May 31, 2017:

Fiscal year(s)	Amount
Less than one year	\$ 3,938
1 to 5 years	9,650
	\$ 13,588

**(6) Financing Receivables**

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

The availability of funds for loans under the Federal Perkins Loan program is dependent on reimbursements to the pool from repayments on outstanding loans. Funds held in the federal loan programs of \$7,639 and \$7,954 are ultimately refundable to the government and are classified as a liability in the consolidated statements of financial position as of May 31, 2017 and 2016, respectively.

Balances of financing receivables as of May 31, 2017 consist of the following:

	Perkins loans	Institutional loans	Total
Gross balance	\$ 6,941	2,893	9,834
Allowances	—	(603)	(603)
Balance at May 31, 2017	\$ 6,941	2,290	9,231

Balances of financing receivables as of May 31, 2016 consist of the following:

	Perkins loans	Institutional loans	Total
Gross balance	\$ 7,195	3,098	10,293
Allowances	—	(619)	(619)
Balance at May 31, 2016	\$ 7,195	2,479	9,674

**ILLINOIS INSTITUTE OF TECHNOLOGY**  
Notes to Consolidated Financial Statements  
May 31, 2017 and 2016  
(In thousands of dollars)

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, 2017. The delinquency status is updated monthly by the University's loan servicer.

	<u>Perkins</u>	<u>Institutional</u>	<u>Total</u>
Performing	\$ 6,251	1,601	7,852
Nonperforming (defaulted)	690	1,292	1,982
Balance at May 31, 2017	<u>\$ 6,941</u>	<u>2,893</u>	<u>9,834</u>

The delinquency status as of May 31, 2016 is as follows:

	<u>Perkins</u>	<u>Institutional</u>	<u>Total</u>
Performing	\$ 6,479	1,771	8,250
Nonperforming (defaulted)	716	1,327	2,043
Balance at May 31, 2016	<u>\$ 7,195</u>	<u>3,098</u>	<u>10,293</u>

The aging of financing receivables as of May 31, 2017 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	\$ 87	234	811	1,132	5,809	6,941
Institutional	74	28	1,408	1,510	1,383	2,893
Total	<u>\$ 161</u>	<u>262</u>	<u>2,219</u>	<u>2,642</u>	<u>7,192</u>	<u>9,834</u>

The aging of financing receivables as of May 31, 2016 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	\$ 350	44	609	1,003	6,192	7,195
Institutional	84	82	1,369	1,535	1,563	3,098
Total	<u>\$ 434</u>	<u>126</u>	<u>1,978</u>	<u>2,538</u>	<u>7,755</u>	<u>10,293</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.

**ILLINOIS INSTITUTE OF TECHNOLOGY**  
Notes to Consolidated Financial Statements  
May 31, 2017 and 2016  
(In thousands of dollars)

Changes in allowance for estimated losses on financing receivables as of May 31, 2017 are presented as follows:

Balance at June 1, 2016	\$	619
Write-off		(96)
Increase (decrease) reserve		<u>80</u>
Balance at May 31, 2017	\$	<u><u>603</u></u>

Changes in allowance for estimated losses on financing receivables as of May 31, 2016 are presented as follows:

Balance at June 1, 2015	\$	712
Write-off		(6)
Increase (decrease) reserve		<u>(87)</u>
Balance at May 31, 2016	\$	<u><u>619</u></u>

**(7) Physical Properties**

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

	<u>2017</u>	<u>2016</u>
Land and land improvements	\$ 24,165	24,165
Building and building improvements	420,783	417,705
Equipment	98,938	95,905
Construction in progress	<u>18,264</u>	<u>11,915</u>
Total physical properties	562,150	549,690
Less accumulated depreciation	<u>292,272</u>	<u>280,568</u>
Physical properties, net	\$ <u><u>269,878</u></u>	<u><u>269,122</u></u>

**(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, 2017 and 2016, the share of these trusts from which the University derives income had a combined fair value of \$20,817 and \$19,540, respectively. These trusts provided unrestricted investment income of \$616 and \$679 in fiscal years 2017 and 2016, respectively.

**ILLINOIS INSTITUTE OF TECHNOLOGY**  
Notes to Consolidated Financial Statements  
May 31, 2017 and 2016  
(In thousands of dollars)

**(9) Notes and Bonds Payable**

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

	<u>Interest rate</u>	<u>2017</u>	<u>2016</u>
University:			
IFA Bonds, Series 2006, payable in varying installments through 2036	5.00% and 6.10%	\$ 144,845	149,360
IFA Bonds, Series 2009, payable in varying installments through 2034	4.750% to 7.125%	26,315	27,140
IITRI – IFA Series 2014, payable in varying installments through 2034	Variable	7,400	8,400
Short-term line of credit	Various	14,000	14,000
Total notes and bonds payable		<u>\$ 192,560</u>	<u>198,900</u>

The following is a summary of required principal payments on outstanding secured obligations as of May 31, 2017:

Fiscal year ending:	
2018	\$ 20,135
2019	6,430
2020	6,735
2021	7,065
2022	7,405
2023 and beyond	<u>144,790</u>
Total notes and bonds payable	<u>\$ 192,560</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 that matured on April 1, 2015.

In July 2009, the University issued \$30,000 in fixed rate revenue bonds through the Illinois Finance Authority (IFA Series 2009). Proceeds from the bonds were used to finance a portion of the costs of the renovation of the educational facilities of the University, establish a debt service reserve fund, and pay certain costs incurred in connection with the bond issue. The fixed rates on the Series 2009 Bonds are

**ILLINOIS INSTITUTE OF TECHNOLOGY**  
Notes to Consolidated Financial Statements  
May 31, 2017 and 2016  
(In thousands of dollars)

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 commenced on 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 2017 and in 2016. 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 next interest payable date following the date the loan is made. The amount outstanding under the agreement was \$14,000 as of May 31, 2017 and 2016.

The University and IITRI are subject to certain debt covenants. As of May 31, 2017, management believes those covenants have been met.

**(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 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>2017</u>	<u>2016</u>
Change in accumulated postretirement benefit obligation at beginning of the period	\$ 2,625	3,488
Service cost	1	—
Interest cost	89	137
Actuarial gain (loss)	(148)	(826)
Actuarial benefit payments net contributions	<u>(159)</u>	<u>(174)</u>
Accumulated postretirement benefit obligation at end of the period	<u>\$ 2,408</u>	<u>2,625</u>

**ILLINOIS INSTITUTE OF TECHNOLOGY**  
Notes to Consolidated Financial Statements  
May 31, 2017 and 2016  
(In thousands of dollars)

	<u>2017</u>	<u>2016</u>
Change in fair value of plan assets:		
Fair value of plan assets at beginning of period	\$ —	—
Employer contribution	159	173
Participant contributions	45	39
Total benefit payments	<u>(204)</u>	<u>(212)</u>
Fair value of plan assets at end of the period	\$ <u>—</u>	<u>—</u>
Funded status	\$ (2,408)	(2,625)
Composition of amounts reported in the consolidated statements of financial position consist of:		
Current liabilities	\$ 198	173
Noncurrent liabilities	<u>2,210</u>	<u>2,452</u>
Accrued postretirement benefit obligation	\$ <u>2,408</u>	<u>2,625</u>

The University follows 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>2017</u>	<u>2016</u>
Unrecognized actuarial loss	\$ 154	306
Unrecognized prior service costs	1	1

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, \$1, and \$4, respectively.

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

	<u>2017</u>	<u>2016</u>
Service cost	\$ 1	—
Interest cost	89	137
Amortization of prior service cost	<u>4</u>	<u>1</u>
Net periodic postretirement benefit cost	\$ <u>94</u>	<u>138</u>

**ILLINOIS INSTITUTE OF TECHNOLOGY**  
Notes to Consolidated Financial Statements  
May 31, 2017 and 2016  
(In thousands of dollars)

**(a) Actuarial Assumptions**

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

	<u>2017</u>	<u>2016</u>
Discount rate (expense)	4.00 %	4.00 %
Discount rate (obligation)	3.92	3.49
Healthcare cost trend rates:		
Healthcare cost trend rate assumed for next year	6.50	11.00
Ultimate rate	4.50	4.50
Year that the ultimate rate is reached	2026	2023

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>2017</u>	<u>2016</u>
Effect on total service cost and interest cost:		
One-percentage point increase	\$ 9	9
One-percentage point decrease	(8)	(18)
Effect on year-end postretirement benefit obligation:		
One-percentage point increase	198	243
One-percentage point decrease	(175)	(214)

**(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:	
2018	\$ 198
2019	198
2020	198
2021	199
2022	194
2023–2026	914

**ILLINOIS INSTITUTE OF TECHNOLOGY**  
Notes to Consolidated Financial Statements  
May 31, 2017 and 2016  
(In thousands of dollars)

**(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>2017</u>	<u>2016</u>
Endowments		
Board designated	\$ 54,666	51,395
Donor restricted	(11,723)	(17,545)
Endowments total	<u>42,943</u>	<u>33,850</u>
Undesignated		
Unrestricted for university operations	(31,125)	(38,617)
Loan fund	5,833	5,834
Net investment in plant	50,001	56,512
Undesignated total	<u>24,709</u>	<u>23,729</u>
Total	<u>\$ 67,652</u>	<u>57,579</u>

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

	<u>2017</u>	<u>2016</u>
General operations	\$ 14,831	18,761
Endowment	15,014	10,028
Donor-designated for plant	24,195	23,305
Scholarships	1,027	1,575
Split-interest annuity agreements	891	961
Total	<u>\$ 55,958</u>	<u>54,630</u>

**ILLINOIS INSTITUTE OF TECHNOLOGY**  
Notes to Consolidated Financial Statements  
May 31, 2017 and 2016  
(In thousands of dollars)

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

	<u>2017</u>	<u>2016</u>
Endowment	\$ 183,925	180,355
Endowment pledges	1,865	2,615
Donor-restricted revolving loan funds	3,827	3,827
Split-interest annuity agreements	582	450
Beneficial interest in perpetual trusts	<u>20,817</u>	<u>19,540</u>
Total	<u>\$ 211,016</u>	<u>206,787</u>

The amount of outstanding loans from quasi-endowments to unrestricted funds is \$1,943 and \$2,800 at May 31, 2017 and 2016, 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, 2017 and 2016 were \$7,402 and \$7,607 by the University and \$366 and \$371 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.

**(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.

**ILLINOIS INSTITUTE OF TECHNOLOGY**  
Notes to Consolidated Financial Statements  
May 31, 2017 and 2016  
(In thousands of dollars)

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

	<u>2017</u>	<u>2016</u>
Instruction	\$ 81,017	86,898
Research and other grant activities	75,809	76,854
Academic support	17,861	19,447
Student services	18,220	19,965
Institutional support	58,530	57,225
Auxiliary enterprises	<u>20,211</u>	<u>20,933</u>
Total	<u>\$ 271,648</u>	<u>281,322</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, 2017 and 2016, it was not necessary for the University to lease unoccupied beds due to State Street Corp achieving a 1.0 debt service ratio.

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

In 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. On August 28, 2015, the University elected its one-time right to terminate the lease effective as of August 31, 2016.

**ILLINOIS INSTITUTE OF TECHNOLOGY**  
Notes to Consolidated Financial Statements  
May 31, 2017 and 2016  
(In thousands of dollars)

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. The agreement ended May 2017 and was not renewed.

In May 2012, the University entered into an agreement with Chicagoland Entrepreneurial Center (d/b/a 1871) 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 through June 30, 2020.

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:	
2017	\$ 973
2018	1,000
2019	1,027
2020	1,054
2021	1,034
2022	—
Thereafter	<u>4,525</u>
	<u>\$ 9,613</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) Subsequent Events**

In connection with the preparation of the consolidated financial statements and in accordance with FASB ASC Topic 855, *Subsequent Events*, management evaluated subsequent events after the statement of financial position date of May 31, 2017 through October 26, 2017, which was the date the consolidated financial statements were issued.

**ILLINOIS INSTITUTE OF TECHNOLOGY**

Schedule of Expenditures of Federal Awards

Year ended May 31, 2017

	<b>Award number/ Additional award identification</b>	<b>CFDA number</b>	<b>Federal expenditures direct awards</b>	<b>Federal expenditures indirect awards</b>	<b>Total federal expenditures</b>	<b>Passed through to subrecipients</b>
Research and Development Cluster :						
Department of Agriculture:						
Agriculture and Food Research Initiative (AFRI)	2014-67017-21707	10.310	\$ 160,610	—	160,610	100,252
Agriculture and Food Research Initiative (AFRI)	2015-68003-23310	10.310	4,905	—	4,905	4,905
Agriculture and Food Research Initiative (AFRI)	2016-67017-24432	10.310	145,506	—	145,506	25,372
Agriculture and Food Research Initiative (AFRI)	58-8050-5-007	10.310	16,784	—	16,784	—
Agriculture and Food Research Initiative (AFRI) – passed through:						
Michigan State University	RC104967IIT	10.310	—	22,057	22,057	—
North Carolina State University	2011-0494-11	10.310	—	338,268	338,268	—
Capacity Building for Non-Land Grant Colleges of Agriculture (NLGCA) – passed through:						
Wayne State University	WSU16041	10.326	—	36,659	36,659	—
			<u>327,805</u>	<u>396,984</u>	<u>724,789</u>	<u>130,529</u>
Department of Commerce:						
Science, Technology, Business and/or Education Outreach	70NANB16H044	11.620	5,655	—	5,655	—
Science, Technology, Business and/or Education Outreach	70NANB17H079	11.620	5,319	—	5,319	—
Department of Commerce Contracts – passed through:						
TruNav LLC	WC-133R-15-CN-0092	11.xxx	—	16,910	16,910	—
			<u>10,974</u>	<u>16,910</u>	<u>27,884</u>	<u>—</u>
Department of Defense:						
Basic and Applied Scientific Research	N00014-14-1-0705	12.300	29,279	—	29,279	—
Basic and Applied Scientific Research	N00014-15-1-2921	12.300	102,539	—	102,539	—
Basic and Applied Scientific Research	N00014-16-1-2622	12.300	99,339	—	99,339	—
Basic and Applied Scientific Research – passed through:						
Board of Education of the City of Chicago	14-0514-CPOR-1620	12.300	—	14,441	14,441	—
Dartmouth College	R249	12.300	—	62,001	62,001	—
Basic Scientific Research	W911NF-11-2-0018	12.431	(37,400)	—	(37,400)	—
Basic Scientific Research	W911NF-14-1-0680	12.431	51,452	—	51,452	—
Basic Scientific Research	W911NF-17-1-0032	12.431	50,825	—	50,825	10,106
Air Force Defense Research Sciences Program	FA9550-14-1-0141	12.800	543,462	—	543,462	222,063
Air Force Defense Research Sciences Program	FA9550-15-1-0190	12.800	85,165	—	85,165	—
Air Force Defense Research Sciences Program	FA9550-16-1-0098	12.800	48,185	—	48,185	—
Air Force Defense Research Sciences Program – passed through:						
University of California Los Angeles	0205 G SA599	12.800	—	84,329	84,329	—
University of Notre Dame	202706IIT	12.800	—	72,451	72,451	—
Mathematical Sciences Grants Program	H98230-16-1-0056	12.901	17,122	—	17,122	—
Research and Technology Development – passed through:						
Florida State University	R01786	12.910	—	847	847	—
Department of Defense Contracts – passed through:						
Corvid Technologies	16-020/W81XWH-16-C-0095	12.xxx	—	79,048	79,048	—
QuNav LLC	N68335-14-C-0329	12.xxx	—	(10,184)	(10,184)	—
Radiation Monitoring Devices Inc	C15-29/W909MY-15-C-0002	12.xxx	—	87,095	87,095	—
University of Illinois	2014-03127-05/H98230-14-C-0141	12.xxx	—	51,632	51,632	—
University of Notre Dame	202092IIT/MARCO 2013-MA-2383	12.xxx	—	353,276	353,276	—
			<u>989,968</u>	<u>794,936</u>	<u>1,784,904</u>	<u>232,169</u>
Department of Housing and Urban Development:						
Healthy Homes Technical Studies Grants	ILHHU0031-16	14.906	108,391	—	108,391	50,902
			<u>108,391</u>	<u>—</u>	<u>108,391</u>	<u>50,902</u>

**ILLINOIS INSTITUTE OF TECHNOLOGY**  
Schedule of Expenditures of Federal Awards  
Year ended May 31, 2017

	Award number/ Additional award identification	CFDA number	Federal expenditures direct awards	Federal expenditures indirect awards	Total federal expenditures	Passed through to subrecipients
Department of Justice:						
Department of Justice Research Grant Programs – passed through:						
City of Chicago Police Department	2011-JJ-CX-K014	16.xxx	\$ —	977	977	—
City of Chicago Police Department	2015-WY-BX-0001	16.xxx	—	202,700	202,700	—
National Institute of Justice Research, Evaluation, and Development Project Grants – passed through:						
City of Chicago Police Department	2014-R2-CX-K002	16.560	—	277,937	277,937	—
			—	481,614	481,614	—
Department of Transportation:						
Aviation Research Grants	12-G-013	20.108	(1,904)	—	(1,904)	—
Aviation Research Grants	12-G-014	20.108	10	—	10	—
Aviation Research Grants	14-G-018	20.108	23,924	—	23,924	—
Aviation Research Grants	DTFAC-16-C-00012	20.108	197,343	—	197,343	—
Aviation Research Grants	DTFAWA-16-A-00004	20.108	127,840	—	127,840	—
Highway Planning and Construction – passed through:						
University of Illinois	2011-05776-48-00	20.205	—	73,552	73,552	—
Public Transportation Research, Technical Assistance, and Training – passed through:						
University of Chicago	FP062899-A	20.514	—	157,420	157,420	—
Department of Transportation and Highway Administration Grants – passed through:						
National Academy of Sciences	NCHRP-157(A)/DTFH61-08-H-000035	20.xxx	—	68,432	68,432	—
			347,213	299,404	646,617	—
National Aeronautics and Space Administration:						
Science	NNX15A116G	43.001	92,596	—	92,596	—
Science	NNX15AT07H	43.001	30,091	—	30,091	—
Science	NNX15AV01G	43.001	106,370	—	106,370	—
Science – passed through:						
International Space Station National Laboratory	GA-2015-207	43.001	—	91,788	91,788	—
University of Illinois	2010-04000-02	43.001	—	52,177	52,177	—
Education – passed through:						
University of Illinois	078131-15651	43.008	—	53,237	53,237	—
Space Technology	NNX16AF05G	43.012	144,329	—	144,329	—
National Aeronautics and Space Administration Contracts – passed through:						
California Institute of Technology	1558291/NNN12AA01C	43.xxx	—	25,041	25,041	—
Somatis Sensor Solutions LLC	NNX16CP19C	43.xxx	—	119,971	119,971	—
			373,386	342,214	715,600	—
National Science Foundation:						
Engineering Grants	CBET-1236576	47.041	45,774	—	45,774	—
Engineering Grants	CBET-1252924	47.041	1,456	—	1,456	—
Engineering Grants	CBET-1263994	47.041	64,837	—	64,837	—
Engineering Grants	CBET-1336442	47.041	68,047	—	68,047	—
Engineering Grants	CBET-1438700	47.041	111,423	—	111,423	—
Engineering Grants	CBET-1511925	47.041	71,726	—	71,726	—
Engineering Grants	CBET-1545560	47.041	64,422	—	64,422	—
Engineering Grants	CBET-1653627	47.041	1,040	—	1,040	—
Engineering Grants	CMMI-1261782	47.041	20,096	—	20,096	—
Engineering Grants	CMMI-1331735	47.041	2,404	—	2,404	—
Engineering Grants	CMMI-1334694	47.041	10,845	—	10,845	—

**ILLINOIS INSTITUTE OF TECHNOLOGY**  
Schedule of Expenditures of Federal Awards  
Year ended May 31, 2017

	Award number/ Additional award identification	CFDA number	Federal expenditures direct awards	Federal expenditures indirect awards	Total federal expenditures	Passed through to subrecipients
National Science Foundation, continued:						
Engineering Grants	CMMI-1334998	47.041	\$ 68,911	—	68,911	—
Engineering Grants	CMMI-1435902	47.041	37,772	—	37,772	—
Engineering Grants	CMMI-1436786	47.041	32,967	—	32,967	—
Engineering Grants	CMMI-1537468	47.041	103,268	—	103,268	—
Engineering Grants	CMMI-1553823	47.041	200,317	—	200,317	—
Engineering Grants	CMMI-1554033	47.041	88,442	—	88,442	—
Engineering Grants	CMMI-1637899	47.041	58,616	—	58,616	10,206
Engineering Grants	ECCS-1247944	47.041	166,329	—	166,329	—
Engineering Grants	ECCS-1307625	47.041	27,458	—	27,458	—
Engineering Grants	ECCS-1407540	47.041	194,143	—	194,143	—
Engineering Grants	ECCS-1549937	47.041	186,474	—	186,474	—
Engineering Grants	ECCS-1554576	47.041	38,557	—	38,557	—
Engineering Grants	ECCS-1610874	47.041	18,571	—	18,571	—
Engineering Grants	EEC-1446008	47.041	79,789	—	79,789	—
Engineering Grants	EEC-1461215	47.041	86,292	—	86,292	—
Engineering Grants	IIP-1414021	47.041	57,994	—	57,994	—
Engineering Grants	IIS-1550833	47.041	78,033	—	78,033	—
Engineering Grants – passed through:						
Orochem Technologies Inc		47.041	—	12,495	12,495	—
Software Motor Corporation		47.041	—	74,603	74,603	—
Mathematical and Physical Sciences	AST-1343306	47.049	2,814	—	2,814	—
Mathematical and Physical Sciences	DMR-1307631	47.049	10,034	—	10,034	—
Mathematical and Physical Sciences	DMR-1607943	47.049	95,532	—	95,532	—
Mathematical and Physical Sciences	DMR-1610115	47.049	17,239	—	17,239	—
Mathematical and Physical Sciences	DMS-1522662	47.049	13,980	—	13,980	—
Mathematical and Physical Sciences	DMS-1522687	47.049	104,688	—	104,688	—
Mathematical and Physical Sciences	DMS-1559606	47.049	25,548	—	25,548	—
Mathematical and Physical Sciences	DMS-1620449	47.049	25,520	—	25,520	—
Mathematical and Physical Sciences	DMS-1642545	47.049	6,292	—	6,292	—
Mathematical and Physical Sciences	PHY-1205811	47.049	13,918	—	13,918	—
Mathematical and Physical Sciences	PHY-1535676	47.049	98,219	—	98,219	—
Geosciences	AGS-1352602	47.050	95,685	—	95,685	—
Geosciences	EAR-1424968	47.050	43,028	—	43,028	—
Computer and Information Science and Engineering	CCF-1422009	47.070	55,565	—	55,565	—
Computer and Information Science and Engineering	CCF-1451574	47.070	14,071	—	14,071	—
Computer and Information Science and Engineering	CCF-1526962	47.070	75,026	—	75,026	—
Computer and Information Science and Engineering	CCF-1536079	47.070	64,898	—	64,898	—
Computer and Information Science and Engineering	CCF-1618776	47.070	1,530	—	1,530	—
Computer and Information Science and Engineering	CNS-1053777	47.070	87,699	—	87,699	—
Computer and Information Science and Engineering	CNS-1162540	47.070	12,112	—	12,112	—
Computer and Information Science and Engineering	CNS-1219109	47.070	55,051	—	55,051	—
Computer and Information Science and Engineering	CNS-1320125	47.070	167,378	—	167,378	—
Computer and Information Science and Engineering	CNS-1320736	47.070	67,434	—	67,434	—
Computer and Information Science and Engineering	CNS-1454770	47.070	84,737	—	84,737	—
Computer and Information Science and Engineering	CNS-1461260	47.070	69,720	—	69,720	—
Computer and Information Science and Engineering	CNS-1526887	47.070	93,935	—	93,935	—
Computer and Information Science and Engineering	CNS-1545008	47.070	130,606	—	130,606	—

**ILLINOIS INSTITUTE OF TECHNOLOGY**  
Schedule of Expenditures of Federal Awards  
Year ended May 31, 2017

	Award number/ Additional award identification	CFDA number	Federal expenditures direct awards	Federal expenditures indirect awards	Total federal expenditures	Passed through to subrecipients
National Science Foundation, continued:						
Computer and Information Science and Engineering	CNS-1551935	47.070	\$ 8,242	—	8,242	—
Computer and Information Science and Engineering	CNS-1643335	47.070	24,005	—	24,005	—
Computer and Information Science and Engineering	IIS-1125412	47.070	203,087	—	203,087	—
Computer and Information Science and Engineering	IIS-1350337	47.070	74,004	—	74,004	—
Computer and Information Science and Engineering	IIS-1525662	47.070	119,588	—	119,588	—
Computer and Information Science and Engineering	IIS-1526674	47.070	80,854	—	80,854	—
Computer and Information Science and Engineering	IIS-1618244	47.070	50,943	—	50,943	—
Computer and Information Science and Engineering – passed through:						
State University of New York at Buffalo (SUNY)	R1045974	47.070	—	46,950	46,950	—
Texas Tech University	21P326-01	47.070	—	34,261	34,261	—
Biological Sciences	MCB-1552743	47.074	150,667	—	150,667	—
Social, Behavioral, and Economic Sciences	SES-1635661	47.075	48,616	—	48,616	—
Social, Behavioral, and Economic Sciences – passed through:						
National Academy of Sciences	2000005678	47.075	—	27,538	27,538	—
Education and Human Resources	DUE-1439865	47.076	19,123	—	19,123	—
Education and Human Resources – passed through:						
Chicago State University	53953	47.076	—	7,689	7,689	—
Office of Cyberinfrastructure	OCI-1054974	47.080	58,690	—	58,690	—
			4,356,081	203,536	4,559,617	10,206
Environmental Protection Agency:						
Great Lakes Program – passed through:						
Indiana University	BL-4339905-IIT	66.469	—	8,026	8,026	—
Environmental Protection Agency, continued:						
Science To Achieve Results (STAR) Research Program	83575001	66.509	114,491	—	114,491	—
			114,491	8,026	122,517	—
Department of Energy:						
State Energy Program – passed through:						
Illinois Department of Commerce and Economic Opportunity	13-432008	81.041	—	116,032	116,032	—
Office of Science Financial Assistance Program	DE-SC0008150	81.049	91,869	—	91,869	—
Office of Science Financial Assistance Program	DE-SC0008347	81.049	543,656	—	543,656	—
Office of Science Financial Assistance Program	DE-SC0015479	81.049	69,527	—	69,527	—
Office of Science Financial Assistance Program – passed through:						
Yale University	C17E12580(E00169)	81.049	—	18,370	18,370	—
Conservation Research and Development	DE-EE0007798	81.086	76,411	—	76,411	17,063
Conservation Research and Development – passed through:						
University of Wisconsin	576K402	81.086	—	29,714	29,714	—
Renewable Energy Research and Development	DE-EE0007272	81.087	213,175	—	213,175	127,651
Renewable Energy Research and Development – passed through:						
Commonwealth Edison Company	27040764	81.087	—	6,958	6,958	—
Fuel Cell Energy Inc	57209	81.087	—	922	922	—
Fossil Energy Research and Development – passed through:						
University of North Dakota	UND10540	81.089	—	35,741	35,741	—
State Energy Program Special Projects – passed through:						
Illinois Department of Commerce and Economic Opportunity	15-571001	81.119	—	27,804	27,804	18,561
Nuclear Energy Research, Development and Demonstration (B)	DE-NE0000105	81.121	39,842	—	39,842	—

**ILLINOIS INSTITUTE OF TECHNOLOGY**  
Schedule of Expenditures of Federal Awards  
Year ended May 31, 2017

	Award number/ Additional award identification	CFDA number	Federal expenditures direct awards	Federal expenditures indirect awards	Total federal expenditures	Passed through to subrecipients
Department of Energy, continued:						
Electricity Delivery and Energy Reliability, Research, Development, and Analysis (B)	DE-OE0000624	81.122	\$ 212,471	—	212,471	45,581
Electricity Delivery and Energy Reliability, Research, Development and Analysis – passed through:						
Commonwealth Edison Company	01160875	81.122	—	74,759	74,759	—
Advanced Research Projects Agency – Energy	DE-AR0000497	81.135	95,717	—	95,717	—
Advanced Research Projects Agency – Energy – passed through:						
Electric Power Research Institute (EPRI)	10007452	81.135	—	22,623	22,623	—
Department of Energy Contracts – passed through:						
Argonne National Laboratory	3J-30001/DE-AC02-06CH11357	81.xxx	—	1,231,266	1,231,266	—
Argonne National Laboratory	5J-30021/DE-AC02-06CH11357	81.xxx	—	418,963	418,963	—
Argonne National Laboratory	DE-AC02-06CH11357	81.xxx	—	69,643	69,643	—
Fermi National Laboratory	598243/DE-AC02-07CH11359	81.xxx	—	35,272	35,272	—
Fermi National Laboratory	610196/DE-AC02-07CH11359	81.xxx	—	482,443	482,443	—
Fermi National Laboratory	619277/DE-AC02-07CH11359	81.xxx	—	78,674	78,674	—
Fermi National Laboratory	624276/DE-AC02-07CH11359	81.xxx	—	39,491	39,491	—
Fermi National Laboratory	627611/DE-AC02-07CH11359	81.xxx	—	22,360	22,360	—
Idaho National Laboratory	167925/DE-AC07-05ID14517	81.xxx	—	15,783	15,783	—
Idaho National Laboratory	172044/DE-AC07-05ID14517	81.xxx	—	65,783	65,783	—
Idaho National Laboratory	182899/DE-AC07-05ID14517	81.xxx	—	251,071	251,071	—
Oak Ridge National Laboratory	4000140588/DE-AC05-00OR22725	81.xxx	—	98,362	98,362	—
Pacific Northwest National Laboratory	214804/DE-AC05-76RL01830	81.xxx	—	(207)	(207)	—
			1,342,668	3,141,827	4,484,495	208,856
Department of Health and Human Services:						
Birth Defects and Developmental Disabilities – Prevention and Surveillance – passed through:						
University of California – San Diego	81857257	93.073	—	7,807	7,807	—
Food and Drug Administration – Research	5U19FD005322-03	93.103	4,009,340	—	4,009,340	—
Food and Drug Administration – Research – Program Income	5U19FD005322-03	93.103	1,146	—	1,146	—
Food and Drug Administration – Research	5U01FD005661-02	93.103	1,905,368	—	1,905,368	858,942
Mental Health Research Grants – passed through:						
Yale University	M15A11973(A10040)	93.242	—	(910)	(910)	—
Occupational Safety and Health Program	5R03OH010699-02	93.262	37,038	—	37,038	—
Substance Abuse and Mental Health Services:						
Drug Abuse and Addiction Research Programs – passed through:						
University of Chicago	FP039839-A	93.279	—	8,330	8,330	—
Discovery and Applied Research for Technological Innovations to Improve Human Health	5R25EB013121-05	93.286	8,407	—	8,407	—

**ILLINOIS INSTITUTE OF TECHNOLOGY**  
Schedule of Expenditures of Federal Awards  
Year ended May 31, 2017

	Award number/ Additional award identification	CFDA number	Federal expenditures direct awards	Federal expenditures indirect awards	Total federal expenditures	Passed through to subrecipients
Department of Health and Human Services, continued:						
Discovery and Applied Research for Technological Innovations to Improve Human Health – passed through:						
University of Colorado – Denver						
	2-5-23047	93.286	\$ —	343,012	343,012	—
Washington University						
	WU-17-183	93.286	—	66,972	66,972	—
Minority Health and Health Disparities Research						
	5R24MD007925-03	93.307	155,583	—	155,583	6,267
Minority Health and Health Disparities Research						
	1U01MD010541-01	93.307	194,078	—	194,078	64,629
Cancer Detection and Diagnosis Research – passed through:						
Dartmouth College						
	1438	93.394	—	67,985	67,985	—
Cancer Treatment Research						
	5R01CA112503-07	93.395	273,414	—	273,414	65,780
Cancer Biology Research						
	1R15CA195526-01A1	93.396	78,545	—	78,545	—
ACL National Institute on Disability, Independent Living, and Rehabilitation Research – passed through:						
Rehabilitation Institute of Chicago						
	3752	93.433	—	16,051	16,051	—
Cardiovascular Diseases Research						
	5R01HL122484-03	93.837	759,641	—	759,641	416,443
Cardiovascular Diseases Research – passed through:						
Florida State University						
	R01825	93.837	—	15,032	15,032	—
Respiratory Health Association						
	006	93.837	—	9,669	9,669	—
University of Miami						
	665288	93.837	—	(10,304)	(10,304)	—
Blood Diseases and Resources Research – passed through:						
University of Illinois						
	16044/083651-00001	93.839	—	24,700	24,700	—
Arthritis, Musculoskeletal and Skin Diseases Research:						
University of Arizona						
	65113	93.846	—	6,532	6,532	—
Diabetes, Digestive, and Kidney Diseases Extramural Research						
	1DP3DK101075-01	93.847	413,834	—	413,834	226,991
Diabetes, Digestive, and Kidney Diseases Extramural Research						
	1DP3DK101077-01	93.847	414,553	—	414,553	218,794
Diabetes, Digestive, and Kidney Diseases Extramural Research						
	7R00DK095984-04	93.847	154,514	—	154,514	—
Diabetes, Digestive, and Kidney Diseases Extramural Research passed through:						
University of Chicago						
	FP000279	93.847	—	18,919	18,919	—
University of Virginia						
	GB10167 149673	93.847	—	88,581	88,581	—
Extramural Research Programs in the Neurosciences and Neurological Disorders						
	1R01NS092760-01A1	93.853	233,071	—	233,071	21,074
Extramural Research Programs in the Neurosciences and Neurological Disorders						
	1UG3NS095557-01A1	93.853	739,618	—	739,618	682,338
Extramural Research Programs in the Neurosciences and Neurological Disorders passed through:						
Northwestern University						
	60041563 IIT	93.853	—	(2,660)	(2,660)	—
Rush University Medical Center						
	16050403-Sub01	93.853	—	61,122	61,122	—
Allergy and Infectious Diseases Research						
	1R15AI128627-01	93.855	12,449	—	12,449	—
Allergy and Infectious Diseases Research						
	1R21AI124037-01	93.855	147,934	—	147,934	42,751
Allergy and Infectious Diseases Research						
	5K22AI104799-02	93.855	12,728	—	12,728	—
Biomedical Research and Research Training						
	1R15GM110632-01	93.859	113,195	—	113,195	—
Biomedical Research and Research Training						
	1R15GM114758-01	93.859	100,070	—	100,070	—
Biomedical Research and Research Training						
	1R15GM114781-01A1	93.859	195,716	—	195,716	—
Biomedical Research and Research Training						
	1R35GM119647-01	93.859	98,286	—	98,286	—
Biomedical Research and Research Training						
	5P41GM103622-19	93.859	(11,417)	—	(11,417)	—
Biomedical Research and Research Training						
	2P41GM103622-20A1	93.859	1,409,099	—	1,409,099	—
Aging Research						
	1R01AG052200-01A1	93.866	211,300	—	211,300	37,198
Aging Research – passed through:						
University of Chicago						
	FP056994-A	93.866	—	57,828	57,828	—
Vision Research						
	1R15EY025434-01A1	93.867	126,126	—	126,126	—
Medical Library Assistance – passed through:						
Northwestern University						
	60039607 IIT	93.879	—	76,082	76,082	—
			<u>11,793,636</u>	<u>854,748</u>	<u>12,648,384</u>	<u>2,641,207</u>
Total Research and Development Cluster			<u>19,764,613</u>	<u>6,540,199</u>	<u>26,304,812</u>	<u>3,273,869</u>

**ILLINOIS INSTITUTE OF TECHNOLOGY**  
Schedule of Expenditures of Federal Awards  
Year ended May 31, 2017

	Award number/ Additional award identification	CFDA number	Federal expenditures direct awards	Federal expenditures indirect awards	Total federal expenditures	Passed through to subrecipients
Student Financial Assistance Cluster:						
Department of Education:						
Federal Supplemental Educational Opportunity Grants	P007A161173	84.007	\$ 511,488	—	511,488	—
Federal Work-Study Program	P033A151173	84.033	98,959	—	98,959	—
Federal Work-Study Program	P033A161173	84.033	508,729	—	508,729	—
Federal Perkins Loan Program		84.038	8,503,687	—	8,503,687	—
Federal Pell Grant Program	P063P151349	84.063	31,054	—	31,054	—
Federal Pell Grant Program	P063P161349	84.063	3,909,210	—	3,909,210	—
Federal Direct Student Loans	P268K161349	84.268	762,509	—	762,509	—
Federal Direct Student Loans	P268K171349	84.268	22,340,108	—	22,340,108	—
Federal Direct Student Loans	P268K166726	84.268	141,022	—	141,022	—
Federal Direct Student Loans	P268K176726	84.268	16,488,350	—	16,488,350	—
Total Student Financial Assistance Cluster			<u>53,295,116</u>	<u>—</u>	<u>53,295,116</u>	<u>—</u>
Other Awards:						
National Endowment for the Humanities:						
Promotion of the Humanities_Public Programs – passed through: American Library Association	LA105909	45.164	—	46	46	—
Total National Endowment for the Humanities			<u>—</u>	<u>46</u>	<u>46</u>	<u>—</u>
Small Business Administration:						
Small Business Administration Grants	SBAHQ-12-C-0017	59.xxx	301,180	—	301,180	187,298
Total Small Business Administration			<u>301,180</u>	<u>—</u>	<u>301,180</u>	<u>187,298</u>
Department of Education:						
Rehabilitation Long-Term Training	H129B140071	84.129	182,026	—	182,026	—
Teacher Quality Partnership Grants – passed through: National Lewis University		84.336	—	25,999	25,999	—
Total Department of Education			<u>182,026</u>	<u>25,999</u>	<u>208,025</u>	<u>—</u>
Other Awards			<u>483,206</u>	<u>26,045</u>	<u>509,251</u>	<u>187,298</u>
Total Federal Awards			<u>\$ 73,542,935</u>	<u>6,566,244</u>	<u>80,109,179</u>	<u>3,461,167</u>

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

## ILLINOIS INSTITUTE OF TECHNOLOGY

### Notes to Schedule of Expenditures of Federal Awards

May 31, 2017

#### (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, 2017. 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 audited in accordance with Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) separately.

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 University's federal programs include:

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 (Perkins) and the Federal Direct Student Loan Program (FDL).

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

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

Total expenditures in the Schedule do not directly agree to the revenue line items on the University's May 31, 2017 consolidated statement of activities. The federal expenditures are classified in the accompanying consolidated statement of activities as government grants and contracts revenue, totaling approximately \$52,553,000. The government grants and contracts consist of approximately \$7,953,000 of awards received from states and other sources, with the balance of approximately \$12,726,000 related to IIT Research Institute, a consolidated separate legal entity.

##### (b) Expenditure Recognition

Expenditures are recognized in the period they are 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

May 31, 2017

**(2) Indirect Costs**

The University has four-year predetermined fixed indirect cost rates, effective June 1, 2015 through May 31, 2019, 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 2014. The base rates for on and off campus and US Food and Drug Administration research were 53%, 24%, and 11% of modified total direct costs, respectively. Approximately \$4,943,784 of indirect costs were reimbursed to the University during the year ended May 31, 2017. The University does not use the de minimus indirect cost rate permitted under the Uniform Guidance.

**(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 during the fiscal year ended May 31, 2017 are summarized as follows:

Perkins	\$ 1,194,476
FDL	<u>39,731,989</u>
Total federal student loan programs	<u>\$ 40,926,465</u>

The Perkins program is administered directly by the University and balances and transactions relating to this program are included in the University's consolidated financial statements. The balance of loans outstanding under the Perkins program was \$6,940,601 and \$7,194,609 at May 31, 2017 and 2016, respectively. The University received an administrative cost allowance of \$114,602 under the Perkins program during the fiscal year ended May 31, 2017. The balance of loans outstanding at May 31, 2017 consist of the following amounts:

Outstanding balance as of May 31, 2016	\$ 7,194,609
Loans disbursed	1,194,476
Repayments	(1,314,038)
Cancellations	<u>(134,446)</u>
Outstanding balance as of May 31, 2017	<u>\$ 6,940,601</u>

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, 2017.



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

The Board of Trustees  
Illinois Institute of Technology:

We have audited, 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, 2017, 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 26, 2017.

### **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 26, 2017



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**Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

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 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, 2017. 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 \$12,726,000 in federal awards, which is not included in the University's schedule of expenditures of federal awards for the year ended May 31, 2017. Our audit, described below, did not include the operations of IITRI because IITRI's awards are audited separately as of IITRI's fiscal year end.

*Management's Responsibility*

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended May 31, 2017.



### *Other Matters*

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2017-001. Our opinion on the University's major federal program is not modified with respect to these matters.

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

### **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 the Uniform Guidance, 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2017-001 and 2017-002, that we consider to be a significant deficiencies.

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

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



### **Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the consolidated financial statements of the University as of and for the year ended May 31, 2017, and have issued our report thereon dated October 26, 2017, which contained an unmodified opinion on those 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 the Uniform Guidance 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 26, 2017

**ILLINOIS INSTITUTE OF TECHNOLOGY**  
Schedule of Findings and Questioned Costs  
May 31, 2017

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

- a. Type of report issued on whether the consolidated financial statements were prepared in accordance with generally accepted accounting principles: Unmodified
- b. Internal control deficiencies over financial reporting disclosed by the audit of the consolidated financial statements:
  - Material weaknesses: No
  - Significant deficiencies: None reported
- c. Noncompliance material to the consolidated financial statements: No
- d. Internal control deficiencies over major programs disclosed by the audit:
  - Material weaknesses: No
  - Significant deficiencies: Yes
- e. Type of report issued on compliance for major programs: Unmodified
- f. Audit findings that are required to be reported in accordance with 2 CFR 200.516(a): Yes
- g. Major programs:

**Student Financial Assistance Cluster**

Federal Supplemental Educational Opportunity Grant Program – 84.007

Federal Work Study Program – 84.033

Federal Perkins Loan Program – 84.038

Federal Pell Grant Program – 84.063

Federal Direct Student Loan Program – 84.268

- h. Dollar threshold used to distinguish between Type A and Type B programs: \$2,403,275
- i. Auditee qualified as a low risk auditee: Yes

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

**ILLINOIS INSTITUTE OF TECHNOLOGY**  
Schedule of Findings and Questioned Costs  
May 31, 2017

**(3) Findings and Questioned Costs Relating to Federal Awards**

**Finding 2017 001 – Federal Direct Loan Reconciliations**

**Program Information:**

<b>Federal Agency:</b>	U.S. Department of Education (USDE)
<b>Program Name:</b>	Student Financial Assistance Cluster
<b>CFDA # and Program Expenditures:</b>	84.268 (\$39,731,989)
<b>2017 Award Numbers:</b>	P268K161349; P268K171349; P268K166726; P268K176726
<b>Federal Award Year:</b>	July 1, 2015 to June 30, 2016 July 1, 2016 to June 30, 2017
<b>Questioned Costs:</b>	None

*Requirement*

According to 34 CFR Section 685.300(b)(5) and the Federal Student Aid Handbook, Volume 4, Chapter 6, reconciliation is a mandatory monthly process requiring the comparison of both internal and external records to be completed by a University participating in the Federal Direct Student Loan Program (Direct Loan). Reconciliation is conducted to identify and resolve differences between net draws and disbursements reported to USDE's Common Origination and Disbursement (COD) system for a specific award year. A University must document the reasons and resolve the discrepancies identified during the reconciliation process.

In addition, 2 CFR 200.303, requires nonfederal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. Effective internal controls should include procedures to ensure Direct Loan reconciliations are completed in accordance with program regulations.

*Condition Found*

The University did not properly document the resolution of reconciling items identified on monthly Direct Loan reconciliations.

On a monthly basis, the University is required to reconcile Direct Loan program disbursements and cash requests to the COD system. Program regulations require any differences identified in the reconciliation process to be resolved and documented.

During our testwork over four monthly Direct Loan reconciliations completed for the Direct Loan program operated at the University's Main campus, we noted unreconciled differences between the University's disbursement records and the COD system. Specifically, we noted the differences ranged from \$10,655 to \$170,705 for the months tested. Subsequent to our testing, the University stated the differences were the result of timing differences; however, the University did not document the reasons for or the resolution of the differences within the reconciliation at the time it was prepared.

**ILLINOIS INSTITUTE OF TECHNOLOGY**  
Schedule of Findings and Questioned Costs  
May 31, 2017

Upon further review, we noted the University did not document reconciling items or the resolution of the differences for seven additional reconciliations completed during the fiscal year. Unresolved differences identified on the monthly Direct Loan reconciliations were as follows:

<u>Month</u>	<u>Disbursements per University records</u>	<u>Disbursements per COD system</u>	<u>Unreconciled Difference</u>
June 2016	\$ 23,232,249	23,174,279	57,970
July 2016	23,282,728	23,271,849	10,879
August 2016	7,129,613	6,521,678	607,935
September 2016	9,663,247	9,578,151	85,096
October 2016	10,163,514	10,167,273	3,759
November 2016	10,774,484	10,684,459	90,025
January 2017	20,993,006	20,822,301	170,705
February 2017	21,804,883	21,764,811	40,072
March 2017	21,992,024	21,981,369	10,655
April 2017	22,211,306	22,194,548	16,758
May 2017	22,340,108	22,314,852	25,256

Disbursements under the Federal Direct Loan program during the year ended May 31, 2017 totaled \$39,731,989. Total expenditures under the Student Financial Assistance Cluster totaled \$53,295,116.

*Repeat Finding*

A similar finding was not reported in the prior year audit.

*Cause*

In discussing these conditions with management, they stated the lack of documentation on the reconciliation differences is an oversight due to poor internal controls over the process.

*Possible Asserted Effect*

Failure to document and resolve reconciling differences on monthly Direct Loan reconciliations may result in undetected errors relative to borrower data for the Direct Loan program.

*Statistical Sampling*

The sample was not intended to be, and was not, a statistically valid sample.

*Recommendation*

We recommend the University review its current process for preparing Direct Loan reconciliations and implement procedures to ensure reconciling differences are investigated, resolved, and documented.

**ILLINOIS INSTITUTE OF TECHNOLOGY**  
Schedule of Findings and Questioned Costs  
May 31, 2017

*View of Responsible Officials*

The University will review the current Direct Loan reconciliation process and implement procedures between Financial Aid and Accounting to ensure differences are not only reviewed and resolved but also documented.

**ILLINOIS INSTITUTE OF TECHNOLOGY**  
Schedule of Findings and Questioned Costs  
May 31, 2017

**Finding 2017 002 – Reconciliation of Pell Payment Data**

**Program Information:**

<b>Federal Agency:</b>	U.S. Department of Education (USDE)
<b>Program Name:</b>	Student Financial Assistance Cluster
<b>CFDA # and Program Expenditures:</b>	84.063 (\$3,940,264)
<b>2017 Award Numbers:</b>	P063P151349; P063P161349
<b>Federal Award Year:</b>	July 1, 2015 to June 30, 2016 July 1, 2016 to June 30, 2017
<b>Questioned Costs:</b>	None

*Requirement*

2 CFR 200.303 requires nonfederal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. Effective internal controls should include procedures to ensure reconciliations over Federal Pell Grant program (Pell) disbursements are prepared on a monthly basis and reconciling items are properly identified, resolved, and documented.

*Condition Found*

The University did not properly document the resolution of reconciling items identified on monthly Pell reconciliations.

On a monthly basis, the University reconciles Pell disbursements and cash requests to the USDE's Common Origination and Disbursement (COD) system. During our testwork over the September 2016 and March 2017 reconciliations, we noted the reconciliations contained unreconciled differences between the University's disbursement records and the COD system totaling \$274,379 and \$38,726, respectively.

Subsequent to our testing, the University stated the differences were the result of timing differences; however, the University did not document the reasons for or the resolution of the differences within the reconciliation at the time it was prepared.

Disbursements under the Federal Pell Grant program during the year ended May 31, 2017 totaled \$3,940,264. Total expenditures under the Student Financial Assistance Cluster totaled \$53,295,116.

**ILLINOIS INSTITUTE OF TECHNOLOGY**  
Schedule of Findings and Questioned Costs  
May 31, 2017

*Repeat Finding*

A similar finding was not reported in the prior year audit.

*Cause*

In discussing these conditions with management, they stated they stated the lack of documentation on the reconciliation differences is an oversight.

*Possible Asserted Effect*

Failure to document and resolve unreconciled differences on monthly Pell reconciliations may result in undetected errors relative to Pell program data.

*Statistical Sampling*

The sample was not intended to be, and was not, a statistically valid sample.

*Recommendation*

We recommend the University review its current process for preparing Pell reconciliations and implement procedures to ensure reconciling differences are investigated, resolved, and documented.

*View of Responsible Officials*

The University will review the current Pell reconciliation process and implement procedures between Financial Aid and Accounting to ensure differences are not only reviewed and resolved but also documented.