ILLINOIS INSTITUTE OF TECHNOLOGY

Consolidated Financial Statements and Supplementary Information

May 31, 2011 and 2010

(With Independent Auditors' Report Thereon)

ILLINOIS INSTITUTE OF TECHNOLOGY

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

Independent Auditors' Report

The Board of Trustees
Illinois Institute of Technology:

We have audited the accompanying consolidated statements of financial position of Illinois Institute of Technology (the University) as of May 31, 2011 and 2010, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Illinois Institute of Technology as of May 31, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

Chicago, Illinois
October 27, 2011

ILLINOIS INSTITUTE OF TECHNOLOGY

Consolidated Statements of Financial Position

May 31, 2011 and 2010

(In thousands of dollars)

Assets		**2011**	**2010**
Cash	$	16,400	3,040
Bond proceeds held by trustees		6,040	16,130
Notes and accounts receivable:			
Grants and contracts, less allowance of $310 in 2011 and $297 in 2010		10,494	8,118
Students:			
Tuition, less allowance of $848 in 2011 and $3,302 in 2010		7,968	7,610
Notes, less allowance of $563 in 2011 and $532 in 2010		11,166	11,598
Pledges, less allowance of $175 in 2011 and $218 in 2010 (note 5)		26,197	20,047
Other, less allowance of $786 in 2011 and $0 in 2010		2,473	3,495
Inventories, prepaid expenses, and deferred charges		3,955	3,822
Investments (note 4)		189,793	176,609
Physical properties, less accumulated depreciation (note 6)		277,900	270,897
Beneficial interest in perpetual trusts (note 7)		21,404	18,688
Total assets	$	573,790	540,054
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	24,006	21,583
Accrued salaries and wages		14,181	14,719
Deferred revenue		23,242	17,932
Deposits by students and others		3,170	3,383
Accrued postretirement benefit obligation (note 9)		2,301	2,068
Obligation under split-interest agreements		1,410	1,408
Notes and bonds payable (note 8)		218,505	222,315
Advances from the U.S. government for student loans		8,117	8,117
Asset retirement obligation		5,363	6,778
Total liabilities		300,295	298,303
Net assets (note 12):			
Unrestricted		50,539	36,365
Temporarily restricted		31,435	33,539
Permanently restricted		191,521	171,847
Total net assets		273,495	241,751
Total liabilities and net assets	$	573,790	540,054

See accompanying notes to consolidated financial statements.

ILLINOIS INSTITUTE OF TECHNOLOGY

Consolidated Statement of Activities

Year ended May 31, 2011

(In thousands of dollars)

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

See accompanying notes to consolidated financial statements.

ILLINOIS INSTITUTE OF TECHNOLOGY

Consolidated Statement of Activities

Year ended May 31, 2010

(In thousands of dollars)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating revenue:				
Tuition and fees, net of scholarships of $56,807	$ 112,312	—	—	112,312
Government grants and contracts	49,621	—	—	49,621
Private grants and contracts	6,149	—	—	6,149
Private gifts	6,224	10,606	—	16,830
Endowment spending distribution (note 13)	17,046	—	—	17,046
Sales and services of auxiliary enterprises	12,556	—	—	12,556
Other sources	12,977	—	—	12,977
Net assets released from restrictions	2,934	(2,934)	—	—
Total operating revenue	219,819	7,672	—	227,491
Operating expenses:				
Faculty salaries	48,573	—	—	48,573
Administrative salaries	43,663	—	—	43,663
Part-time salaries	14,860	—	—	14,860
Employee benefits	21,744	—	—	21,744
Operations and maintenance	22,315	—	—	22,315
Supplies and services	43,067	—	—	43,067
Professional fees and advertising	13,124	—	—	13,124
IITRI research	12,467	—	—	12,467
Interest on indebtedness	10,137	—	—	10,137
Depreciation	14,823	—	—	14,823
Total operating expenses	244,773	—	—	244,773
Increase (decrease) in net assets from operating activities	(24,954)	7,672	—	(17,282)
Nonoperating revenue and expenses:				
Private gifts	—	—	4,428	4,428
Release of net assets restricted for capital	954	(954)	—	—
Net asset reclassification (note 13)	5,428	—	(5,428)	—
Net gain on investments (note 4)	22,117	—	1,454	23,571
Endowment spending distribution (note 13)	(17,046)	—	—	(17,046)
Endowment income (note 4)	3,954	—	—	3,954
Net loss on disposal of assets	(237)	—	—	(237)
Asset retirement obligation	2,343	—	—	2,343
Other	2,268	—	—	2,268
Increase (decrease) in net assets from nonoperating activities	19,781	(954)	454	19,281
Increase (decrease) in net assets before endowment net asset reclassification	(5,173)	6,718	454	1,999
Endowment net asset reclassification (note 13)	(7,966)	7,966	—	—
Increase (decrease) in net assets	(13,139)	14,684	454	1,999
Net assets at beginning of year	49,504	18,855	171,393	239,752
Net assets at end of year	$ 36,365	33,539	171,847	241,751

See accompanying notes to consolidated financial statements.

ILLINOIS INSTITUTE OF TECHNOLOGY

Consolidated Statements of Cash Flows

Years ended May 31, 2011 and 2010

(In thousands of dollars)

		2011	2010
Cash flows from operating activities:			
Increase in net assets	$	31,744	1,999
Adjustments to reconcile increase in net assets to net cash used in operating activities:			
Private gifts restricted for long-term investment		(10,767)	(4,428)
Depreciation		14,830	14,823
Gain on beneficial interest in perpetual trusts		(2,716)	(1,475)
Contribution of fixed assets		—	(1,000)
Net loss on disposal of assets		102	237
Loss on impairment of asset		720	—
Net gain on investments		(26,144)	(22,096)
Accretion on asset retirement obligation		327	341
Changes in assets and liabilities:			
Receivables: tuition, grants, pledges, affiliate, and other		(7,862)	(3,960)
Inventories, prepaid expenses, and deferred charges		(133)	(1,502)
Accounts payable and accrued expenses		—	1,488
Accrued salaries and wages		2,423	(2,446)
Deferred revenue		(538)	2,401
Deposits by students and others		5,310	1,155
Accrued postretirement benefit obligation		(213)	407
Obligations under split-interest agreements		233	100
Advances from U.S. government for student loans		2	23
Asset retirement obligation		(1,742)	(2,806)
Net cash used in operating activities		5,576	(16,739)
Cash flows from investing activities:			
Proceeds from sale of investments		53,524	169,683
Purchase of investments		(40,564)	(146,772)
Change in bond proceeds held by trustees		10,090	(13,956)
Purchase of physical properties		(22,655)	(9,772)
Issuance of notes receivable		(947)	(1,253)
Payments received on notes receivable		1,379	1,007
Net cash provided by (used in) investing activities		827	(1,063)
Cash flows from financing activities:			
Private gifts restricted for long-term investment		10,767	4,428
Payments on notes and bonds payable		(810)	(925)
Payments on borrowings under line of credit		(3,000)	(15,500)
Proceeds from issuance of bonds payable		—	30,000
Net cash provided by financing activities		6,957	18,003
Increase in cash		13,360	201
Cash at:			
Beginning of year		3,040	2,839
End of year	$	16,400	3,040
Supplemental disclosure of cash flow information:			
Cash paid for interest	$	9,167	8,246

See accompanying notes to consolidated financial statements.

(1) Nature of Organization

(a) Illinois Institute of Technology

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

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

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

(b) IIT Research Institute

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

(2) Summary of Significant Accounting Policies and Reporting Practices

(a) Principles of Consolidation

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

(b) Basis of Presentation

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

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

(Continued)

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

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

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

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

(c) Operations

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

(d) Revenue

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

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

Tuition and other revenue received prior to the end of one fiscal year, which relates to future periods, are recorded as deferred revenue and are reported as grants and contracts revenue on the statements of activities.

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

Historically, governmental clients have been a major source of revenue for IITRI. For the fiscal years ended May 31, 2011 and 2010, these governmental clients accounted for approximately 74% and 84%, respectively, of IITRI's operating revenue of $18,796 and $12,380, respectively. In addition, IITRI had one significant industrial customer, comprising approximately 20%, respectively, of their contract revenue in 2009. During 2010, IITRI discontinued the research programs conducted for the significant customer. Included in IITRI's grants and contracts revenue for 2011 and 2010 and grants and contracts receivable at May 31, 2011 and 2010 are unbilled receivables in the amounts of approximately $3,234 and $1,464, respectively.

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

(e) Investments

Investments are reported at fair value. The fair values of investments in stocks, equity mutual funds, bonds, and fixed income mutual funds are generally determined based on quoted market prices.

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Direct investments in real estate included in the investment portfolio are recorded at fair value determined based on the discounted value of the future cash flows. Management's estimate of the fair value of private equity fund investments is determined based on net asset values provided by the external investment managers. The valuations for these investments necessarily involve estimates, appraisals, assumptions, and methods, which are reviewed by the University.

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

(f) Notes Receivable

Student notes receivable consist primarily of Perkins loans, the Illinois Student Assistance Commission Federal Family Educational Loan program, and University loans. The University establishes valuation allowances for notes receivable based on estimates of future collectibility.

(g) Inventory

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

(h) Physical Properties

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

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

(i) Impairment of Long-Lived Assets

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

(j) Beneficial Interest in Perpetual Trusts

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

(k) Split-Interest Agreements

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

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

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

(l) Income Taxes

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

Management has included a provision for income taxes on unrelated business income related to the University's interest in certain partnership investments. The unrelated business income liability at May 31, 2011 of $16 is reported in accounts payable and accrued expenses.

(m) Use of Estimates

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

(3) Fair Value Measurement

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

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

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

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

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

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

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

Level 3 consists of investments for which there are no active markets. The University has real estate investments, equity mutual funds, private equity funds, and beneficial interests in perpetual trusts as Level 3. The May 31, 2011 real estate is valued utilizing the income capitalization and sale comparison methodology completed by an independent real estate appraiser. The May 31, 2010 real estate is valued at the net present value of the projected cash flows completed by the University. The University's interests in alternative investment funds such as equity mutual funds and private equity funds, are generally reported at the net asset value (NAV), which is used as a practical expedient to estimate fair value, unless it is probably that all or a portion of the investment will be sold for an amount different from NAV. As of May 31, 2011 and 2010, the University had no plans to sell investments at amounts different from NAV. Beneficial interests in perpetual trusts are held by various financial institutions. These values are based on the University's proportionate share of the investments. The fair values of the investments in these trusts are based on quoted market prices published by financial institutions.

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The University has $19,868 of investments in alternative investment funds, which are reported at fair value. For $19,868 of those investments, the University has concluded that the NAV reported by the underlying fund approximates the fair value of the investment. These investments are redeemable with the fund at NAV under the original terms of the partnership agreements and/or subscription agreements and operations of the underlying funds. However, it is possible that these redemption rights may be restricted or eliminated by the funds in the future in accordance with the underlying fund agreements. Due to the nature of the investments held by the funds, changes in market conditions and the economic environment may significantly impact the NAV of the funds and, consequently, the fair value of the University's interests in the funds. Furthermore, changes to the liquidity provisions of the funds may significantly impact the fair value of the University's interest in the funds.

Although a secondary market exists for these investments, it is not active and individual transactions are typically not observable. When transactions occur in this limited secondary market, they may occur at discounts to the reported NAV. Therefore, if the redemption rights in the funds were restricted or eliminated and the University were to sell these investments in the secondary market, it is reasonably possible that a buyer in the secondary market may require a discount to the reported NAV, and the discount could be significant. The University has no unfunded commitments relative to these investments.

(Continued)

(In thousands of dollars)

Assets Measured on a Recurring Basis

The following tables present information about the University's financial assets that are measured at the fair value of the recurring basis as of May 31, 2011 and 2010, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value.

	2011				Redemption	Days'
	Level 1	**Level 2**	**Level 3**	**Total**	**or liquidation**	**notice**
Investments:						
Cash and cash equivalents	$ 20,530	—	—	20,530	Daily	One
Total	20,530	—	—	20,530		
Domestic equities:						
Fixed income	33,800	—	—	33,800	Daily	One
Large Cap Equity	46,029	—	—	46,029	Daily	One
Tactical opportunities	14,282	—	—	14,282	Daily	One
State Street Global	2,031	—	—	2,031	Daily	One
Small Cap	4,087	—	—	4,087	Daily	One
Total	100,229	—	—	100,229		
Global (ex-U.S.) equities:						
Developed international equity	38,748	—	—	38,748	Daily	One
Hedged equity funds of funds:						
Multiple strategies total return	—	—	8,323	8,323	Locked-up (1)	60
Multiple strategies – absolute return	—	—	3,317	3,317	Locked-up (1)	60
Total	—	—	11,640	11,640		
Private equity and venture capital funds:						
Commonfund Capital International	—	—	1,782	1,782	None	N/A
Commonfund Capital Venture	—	—	2,685	2,685	None	N/A
Commonfund Capital Private Equity	—	—	3,241	3,241	None	N/A
Roundtable	—	—	520	520	None	N/A
Total	—	—	8,228	8,228		
Real assets:						
IITRI Tower	—	—	4,200	4,200	Illiquid (2)	N/A
Total	—	—	4,200	4,200		
Other securities:						
Fixed income (IITRI)	5,885	—	—	5,885	Daily	One
Domestic equities	333	—	—	333	Daily	One
Total	6,218	—	—	6,218		
Other assets:						
Bond proceeds	6,040	—	—	6,040	Daily	One
Perpetual trusts	—	—	21,404	21,404	None	N/A
Total	6,040	—	21,404	27,444		
Total	$ 171,765	—	45,472	217,237		

(1) 1 year from the initial investment.
(2) Real Estate property owned by endowment

(In thousands of dollars)

	2010					
	Level 1	Level 2	Level 3	Total	Redemption or liquidation	Days' notice
Investments:						
Cash and cash equivalents	$ 21,843	—	—	21,843	Daily	One
Total	21,843	—	—	21,843		
Domestic equities:						
Fixed income	33,097	—	—	33,097	Daily	One
Large Cap Equity	36,217	—	—	36,217	Daily	One
Tactical opportunities	16,573	—	—	16,573	Daily	One
State Street Global	1,764	—	—	1,764	Daily	One
Small Cap	3,207	—	—	3,207	Daily	One
Total	90,858	—	—	90,858		
Global (ex-U.S.) equities:						
Developed international equity	32,688	—	—	32,688	Daily	One
Hedged equity funds of funds:						
Multiple strategies total return	—	—	8,117	8,117	Locked-up (1)	60
Multiple strategies – absolute return	—	—	3,106	3,106	Locked-up (1)	60
Total	—	—	11,223	11,223		
Private equity and venture capital funds:						
Commonfund Capital International	—	—	1,643	1,643	None	N/A
Commonfund Capital Venture	—	—	2,068	2,068	None	N/A
Commonfund Capital Private Equity	—	—	3,406	3,406	None	N/A
Roundtable	—	—	630	630	None	N/A
Total	—	—	7,747	7,747		
Real assets:						
IITRI Tower	—	—	4,227	4,227	Illiquid (2)	N/A
Total	—	—	4,227	4,227		
Other securities:						
Fixed income (IITRI)	7,774	—	—	7,774	Daily	One
Domestic equities	249	—	—	249	Daily	One
Total	8,023	—	—	8,023		
Other assets:						
Bond proceeds	16,130	—	—	16,130	Daily	One
Perpetual trusts	—	—	18,688	18,688	None	N/A
Total	16,130	—	18,688	34,818		
Total	$ 169,542	—	41,885	211,427		

(1) 1 year from the initial investment.
(2) Real Estate property owned by endowment

The fiscal year 2010 fair value Level 1 cash and cash equivalents and domestic equities were reclassified between each category. The reclassification did not change the fiscal year 2010 totals.

(In thousands of dollars)

Aggregate investment liquidity as of May 31, 2011 and 2010, is presented below based on redemption or sale period:

		2011	2010
Investment redemption or sale period:			
Daily	$	165,725	153,412
Subject to rolling lock-ups		11,640	11,223
Illiquid		4,200	4,227
Redemptions not permitted		8,228	7,747
Totals	$	189,793	176,609

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, 2011 and 2010:

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

(Continued)

(In thousands of dollars)

		Alion notes and warrants	Real estate	Equity mutual funds	Private equity funds	Beneficial interest in perpetual trusts	Total
Beginning balance, June 1, 2009	$	12,003	8,348	16,520	6,652	17,213	60,736
Net realized and unrealized gains (losses)		12,997	(4,121)	(5,297)	1,095	1,475	6,149
Purchases, issuances, and settlements		(25,000)	—	—	—	—	(25,000)
Transfers in (out) of Level 3		—	—	—	—	—	—
Ending balance, May 31, 2010	$	—	4,227	11,223	7,747	18,688	41,885
The amount of total gains or losses for the period included in net return on investments attributable to the change in unrealized gains or (losses) relating to assets still held at May 31, 2010	$	12,997	(4,121)	(5,297)	1,095	1,475	6,149

(4) Investments

Investments consist of the following at May 31:

		2011		2010	
		Cost	Fair value	Cost	Fair value
Cash equivalents	$	20,530	20,530	21,842	21,843
Stocks		254	333	219	249
Equity mutual funds		89,496	103,634	95,808	87,863
Bonds (IITRI)		6,391	5,885	7,498	7,774
Fixed income mutual funds		33,540	35,343	35,430	35,683
Private equity funds		17,365	19,868	18,590	18,970
Real estate		13,803	4,200	13,803	4,227
Total investments	$	181,379	189,793	193,190	176,609

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 fiscal year 2010 cash equivalents, equity mutual funds, and private equity funds cost and fair value amounts were reclassified between each category. The reclassification did not change the fiscal year 2010 total investments.

(In thousands of dollars)

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

		2011	2010
Return on investments:			
Interest and dividends	$	1,297	3,954
Net realized gain on sale of investments		1,379	72,621
Net unrealized gain (loss) on investments		24,995	(50,525)
Net return on investments	$	27,671	26,050

The return on investments reflects income from investments held by IITRI of $33 and $475 for 2011 and 2010, respectively. The net gain on investments reported on the statement of activities includes the permanently restricted gain on the beneficial interest in perpetual trusts of $2,716 and $1,475 for 2011 and 2010, respectively.

(5) Pledges Receivable

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

		2011	2010
Pledges receivable	$	28,807	23,077
Allowance for uncollectible pledges		(175)	(218)
Discount to present value future cash flows		(2,435)	(2,812)
Net pledges receivable	$	26,197	20,047

The following is a summary showing the expected timing of collection of total gross unconditional pledges receivable outstanding as of May 31, 2011:

Fiscal year(s)		Amount
2012	$	10,537
2013 through 2017		18,092
2018 and thereafter		178
	$	28,807

(In thousands of dollars)

(6) Physical Properties

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

		2011	2010
Land and land improvements	$	29,319	30,039
Building and building improvements		366,761	349,047
Equipment and library collection		85,587	89,801
Construction in progress		8,875	10,406
Total physical properties		490,542	479,293
Less accumulated depreciation		212,642	208,396
Physical properties, net	$	277,900	270,897

During 2011, in accordance with FASB ASC Section 360 Subtopic 10, *Impairment or Disposal of Long-Lived Assets*, the University recorded an impairment of the land parcel for $720 and a loss in the consolidated statement of activities in nonoperating revenue and expenses. At May 31, 2011, the land parcel was valued at $5,180.

(7) Beneficial Interest in Perpetual Trusts

The University is an income beneficiary of certain irrevocable trusts that are held and controlled by independent trustees. The University has no equity interest in the principal of these trusts. At May 31, 2011 and 2010, the share of these trusts from which the University derives income had a combined fair value of $21,404 and $18,688, respectively. These trusts provided unrestricted income of $404 and $400 in fiscal 2011 and 2010, respectively.

(8) Notes and Bonds Payable

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

	Interest rate		2011	2010
University:				
IFA Bonds, Series 2006, payable in varying installments through 2036	5.00% and 6.10%	$	160,000	160,000
IFA Bonds, Series 2009, payable in varying installments through 2034	4.750% to 7.125%		30,000	30,000
IITRI – IFA Series 2004, payable in varying installments through 2034	Variable		14,505	15,315
Short-term line of credit	Various		14,000	17,000
Total notes and bonds payable		$	218,505	222,315

(Continued)

(In thousands of dollars)

The following is a summary of required principal payments on outstanding secured obligations as of May 31, 2011:

Fiscal year ending:		
2012	$	14,845
2013		1,545
2014		4,695
2015		4,960
2016		6,085
2017 and beyond		186,375
Total notes and bonds payable	$	218,505

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

In July 2009, The University issued $30,000 in fixed rate revenue bonds through the Illinois Finance Authority consisting of $30,000 (IFA Series 2009). Proceeds from the bonds were used to finance a portion of the costs of the renovation of the educational facilities of the University, establish a debt service reserve fund, and pay certain costs incurred in connection with the bond issue. The fixed rates on the Series 2009 Bonds are 4.75% and 5.52% serial bonds maturing in February 2013 and 2014 and 6.25%, 6.50%, and 7.125% term bonds maturing in February 1, 2019, 2023, and 2034.

In August 2004, IITRI sold an $18,820 bond issue of adjustable rate demand debt under the tax-exempt authority of the Illinois Finance Authority (IFA). The proceeds from the sale were used to (i) renovate and construct lab and office space; (ii) establish a debt service reserve fund; and (iii) pay certain costs incurred in connection with the bond issue. Additionally, IITRI has obtained an irrevocable letter of credit issued by JPMorgan Chase Bank through March 31, 2014, which is renewable annually upon mutual consent of the parties. In the event that the agent is unable to remarket the bonds, the bonds become a demand note under the irrevocable letter of credit issued by JPMorgan Chase Bank. If the letter of credit is not renewed and an alternate credit facility is not in place, IITRI's bonds are subject to mandatory redemption. Although the loan agreement between IITRI and IFA is for a 30-year period, the terms of the letter of credit between IITRI and JPMorgan Chase Bank require the bonds to be amortized over a 13-year life carrying interest rate of base rate plus 1%; accordingly, the current amortization schedule results in final payment in year 2023, which does not violate the terms of IITRI's loan agreement.

(In thousands of dollars)

The University maintains line-of-credit agreements that allow borrowings up to $20,150. Borrowings under the line will bear interest at the prime commercial rate or adjusted LIBOR with interest being payable on a quarterly basis. The borrowing under the line of credit will be payable on demand, but if no demand is made, borrowing shall automatically mature on the interest payable date next following the date the loan is made. The amount outstanding under the agreement was $14,000 as of May 31, 2011 and $17,000 as of May 31, 2010.

IITRI maintains a line-of-credit agreement that allows borrowings of up to $250. Borrowings under this line will bear interest at the prime commercial rate with interest payable on a monthly basis. IITRI may make principal payments at any time and in any amount, or on demand of the lender. The line of credit does not have a termination date. No amounts were outstanding under this agreement as of May 31, 2011 and 2010.

The University and IITRI are subject to certain debt covenants. As of May 31, 2011, those covenants have been met.

The carrying value of long-term debt does not differ materially from its estimated fair value as of May 31, 2011 and 2010 based on quoted market prices for the same or similar issues.

(9) Accrued Postretirement Benefit Obligation

The University created a retirement incentive program for tenured faculty in November 2006. As part of the incentive program, certain medical benefits are offered to participants. A reconciliation of the plan's funded status with the accrued benefit cost reported on the consolidated statements of financial position at May 31, 2011 and 2010 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.

		2011	2010
Change in accumulated postretirement benefit obligation at beginning of the period	$	2,068	1,662
Service cost		12	10
Interest cost		113	103
Plan amendments		—	—
Actuarial gain		160	315
Actuarial benefit payments net contributions		(52)	(22)
Accumulated postretirement benefit obligation at end of the period		2,301	2,068

(In thousands of dollars)

		2011	2010
Change in fair value of plan assets:			
Fair value of plan assets at beginning of period	$	—	—
Employer contribution		52	29
Participant contributions		53	34
Total benefit payments		(105)	(63)
Fair value of plan assets at end of the period		—	—
Funded status	$	(2,301)	(2,068)
Amounts recognized in the statement of financial position consist of:			
Current liabilities	$	102	82
Non-current liabilities		2,199	1,986
Accrued postretirement benefit obligation	$	2,301	2,068

In fiscal year 2008, the University adopted FASB ASC Section 715 Subtopic 60, *Defined Benefit Plans – Other Postretirement*. In fiscal year 2011, the accumulated charge to unrestricted net assets consists of amounts that have not yet been recognized in net periodic benefit cost as follows: unrecognized actuarial loss of $99 and unrecognized prior service costs of $49. In fiscal year 2010, the accumulated charge to unrestricted net assets consists of amounts that have not yet been recognized in net periodic benefit cost as follows: unrecognized actuarial gain of $61 and unrecognized prior service costs of $62. 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 are $0, $12, and $0, respectively.

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

		2011	2010
Service cost	$	12	10
Interest cost		113	103
Amortization of net gain		—	(16)
Amortization of prior service cost		12	11
Net periodic postretirement benefit cost	$	137	108

(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:

	2011	2010
Discount rate (expense)	4.94%	5.52%
Discount rate (obligation)	5.52	5.52
Healthcare cost trend rates:		
Healthcare cost trend rate assumed for next year	10.00	11.00
Ultimate rate	5.00	5.00
Year that the ultimate rate is reached	2016	2016

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

	2011	2010
Effect on total service cost and interest cost:		
One-percentage point increase	$ 15	13
One-percentage point decrease	(13)	(12)
Effect on year-end postretirement benefit obligation:		
One-percentage point increase	258	231
One-percentage point decrease	(222)	(200)

(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:	
2012	$ 102
2013	114
2014	131
2015	138
2016	152
2017 – 2019	834

(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.

(In thousands of dollars)

(10) Employee Benefit Plans

(a) Pension Plan

Substantially all full-time employees of the University and IITRI are participants in defined contribution retirement plans that are funded by contributions from the University, IITRI, and participating employees. Total contributions made under the plans for the years ended May 31, 2011 and 2010 were $6,006 and $5,806 by the University and $348 and $351 by IITRI, respectively.

(b) Healthcare Benefit Plans

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

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

(11) Functional Classification of Expenses

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

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

	2011	2010
Instruction	$ 86,839	83,187
Research and other grant activities	74,758	58,668
Academic support	24,929	24,382
Student services	16,153	15,135
Institutional support	38,014	50,358
Auxiliary enterprises	12,659	13,043
Total	$ 253,352	244,773

(In thousands of dollars)

(12) Net Assets

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

		2011	2010
Funds designated by the board of trustees for endowment	$	69,904	69,866
Undesignated		(19,365)	(33,501)
Total	$	50,539	36,365

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

		2011	2010
Scholarships	$	4,430	3,484
Instruction and academic departments		5,779	7,124
General operations		20,294	21,999
Split-interest annuity agreements		932	932
Total	$	31,435	33,539

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

		2011	2010
Endowment investments	$	148,571	140,514
Endowment pledges		15,257	6,452
Donor-restricted revolving loans funds		4,051	4,051
Split-interest annuity agreements		2,238	2,142
Beneficial interest in perpetual trusts		21,404	18,688
Total	$	191,521	171,847

Beginning in fiscal year 2011, the University is presenting its permanently restricted endowment net assets as endowment investments and endowment pledges. The fiscal year 2010 amounts were reclassified for comparative purposes.

The amount of outstanding loans from quasi-endowments to unrestricted funds is $11,671 and $11,790 at May 31, 2011 and 2010, respectively.

(13) Endowments

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

(In thousands of dollars)

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 endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time of accumulation is added to the fund.

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

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

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

Endowment net assets consist of the following as of May 31, 2010:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	(2,291)	7,966	146,966	152,641
Board-designated funds		27,398	—	—	27,398
Total	$	25,107	7,966	146,966	180,039

(In thousands of dollars)

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

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

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

Changes in endowment net assets for year ended May 31, 2010:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Net assets, beginning of year	$	28,386	—	146,525	174,911
Endowment-related investment return:					
Endowment-related investment income, net		4,127	—	—	4,127
Endowment-related net realized and unrealized gains		22,338	—	—	22,338
Total endowment-related investment return		26,465	—	—	26,465
Contributions and pledges		3,521	—	4,493	8,014
Appropriation		(25,300)	—	—	(25,300)
Reclassifications		(7,965)	7,966	(4,052)	(4,051)
Net assets, end of year	$	25,107	7,966	146,966	180,039

(a) Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the University to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were $1,682 and $2,291 as of May 31, 2011 and 2010. These deficiencies are the result of unfavorable investments results experienced over the past two fiscal years, which overwhelmed the earnings accumulations on recent permanently restricted contributions, as well as some instances of continued spending appropriations for certain programs that were deemed prudent by the board of trustees. Subsequent gains that restore the fair value of such funds to the required level will be classified as increases in unrestricted net assets.

(b) Spending Policy and Strategies Employed for Achieving Objectives

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

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

To achieve these goals, the University's spending policy utilizes the total return concept of endowment spending. Under the method adopted by the University, interest, dividends, and rents as well as appreciation on investments held by the investment pool are made available for spending. The University's total endowment fund spending is based upon a target percentage of a subset of investments. The target percentage set by the board of trustees is 5% of the average endowment balance over the prior 12 quarters. The board of trustees set endowment distribution is $15,574 for fiscal year 2011 and $17,046 for fiscal year 2010. The board of trustees budgeted endowment distribution is $13,000 for fiscal year 2012.

(14) Leases

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

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

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

However, the University has provided $1,000 loan to IIT State Street to establish the supplemental reserve fund, which was subsequently used to fund construction costs of the housing complex.

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

In January 2006, the University entered into a 55-year ground lease agreement with Townsend Chicago, LLC (Townsend). The ground lease agreement requires Townsend to pay the University an initial rent payment of $1.9 million for the first 10 years and $11 million through 2031. Townsend purchased from IIT the building known as the Technology Business Center for $2,600 resulting in a gain of approximately $2,400, which is being amortized over the life of the building lease. IIT is leasing approximately 21% of the building back from Townsend for an initial term of 18 years. The University is required to pay $808, $828, $849, $870, 892, respectively, over each of the next five years and $9,381 in years thereafter.

In January 2007, the University entered into a five-year space rental lease with 350 LLC. The lease agreement requires the University to pay $1,027 and $1,060 over the next two years for rent. The lease expires on August 31, 2012. The lease involves occupying space in the building located at 350 North LaSalle.

In March 2010, the University entered into a seven-year agreement to lease additional space of the Technology Business Center, which would not be effective until June 1, 2010. Related to this agreement, Townsend and the University agreed to establish a charitable donation to offset the universities expenses attributed to the agreement.

(15) Contingencies

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

(16) Participation in Federal Financial Assistance Program

On May 20, 2010, the University received a letter from the United States Department of Education (USDE) stating that the University had failed to meet the financial responsibility standards in 34 CFR 668.171. As a result, the University is participating in the USDE's Student Financial Assistance programs under the Provisional Certification Alternative (Zone Alternative) for the next three award years. As a condition of participating under the Zone Alternative, the University was required to obtain an irrevocable letter of credit in the amount of $5,270 payable to the USDE. The letter of credit was issued on August 6, 2010 and expired on June 30, 2011 with provisions to renew annually. The University renewed the irrevocable letter of credit on June 15, 2011 in the amount of $6,362 and expires on June 30, 2012 with provisions to renew annually.

(17) Subsequent Events

In connection with the preparation of the consolidated financial statements and in accordance with recently issued FASB ASC Section 855 – *Subsequent Events*, management evaluated subsequent events after the balance sheet date of May 31, 2011 through October 27, 2011 which was the date the consolidated financial statements were issued.

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

Independent Auditors' Report on Supplementary Information

The Board of Trustees
Illinois Institute of Technology:

We have audited and reported separately herein on the consolidated financial statements of Illinois Institute of Technology (the University) as of and for the year ended May 31, 2011.

Our audit was made for the purpose of forming an opinion on the consolidated financial statements of the University taken as a whole. The supplementary information included in schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements of the University. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

KPMG LLP

Chicago, Illinois
October 27, 2011

Schedule 1

ILLINOIS INSTITUTE OF TECHNOLOGY

Consolidating Statement of Financial Position

May 31, 2011

(In thousands of dollars)

Assets		**University**	**IITRI**	**Eliminations**		**Total**
Cash	$	13,129	3,271	—		16,400
Bond proceeds held by trustees		4,543	1,497	—		6,040
Notes and accounts receivable:						
Grants and contracts, less allowance of $310		5,900	4,594	—		10,494
Students:						
Tuition, less allowance of $848		7,968	—	—		7,968
Notes, less allowance of $563		11,166	—	—		11,166
Pledges, less allowance of $175		26,197	—	—		26,197
Other, less allowance of $786		2,473	—	—		2,473
Affiliated organizations, net		422	—	(422)	(a)	—
Inventories, prepaid expenses, and deferred charges		3,701	254	—		3,955
Equity interest in IITRI		13,402	—	(13,402)	(b)	—
Investments		183,908	5,885	—		189,793
Physical properties, less accumulated depreciation		260,673	17,227	—		277,900
Beneficial interest in perpetual trusts		21,404	—	—		21,404
Total assets	$	554,886	32,728	(13,824)		573,790
Liabilities and Net Assets						
Liabilities:						
Accounts payable and accrued expenses	$	21,948	2,480	(422)	(a)	24,006
Accrued salaries and wages		13,544	637	—		14,181
Deferred revenue		21,538	1,704	—		23,242
Deposits by students and others		3,170	—	—		3,170
Accrued postretirement benefit obligation		2,301	—	—		2,301
Obligation under split-interest agreements		1,410	—	—		1,410
Notes and bonds payable		204,000	14,505	—		218,505
Advances from U.S. government for student loans		8,117	—	—		8,117
Asset retirement obligation		5,363	—	—		5,363
Total liabilities		281,391	19,326	(422)		300,295
Net assets:						
Unrestricted		50,539	13,402	(13,402)	(b)	50,539
Temporarily restricted		31,435	—	—		31,435
Permanently restricted		191,521	—	—		191,521
Total net assets		273,495	13,402	(13,402)		273,495
Total liabilities and net assets	$	554,886	32,728	(13,824)		573,790

(a) Elimination of interentity accounts payable/receivable.

(b) Elimination of equity interest in IITRI.

See accompanying independent auditors' report on supplementary information.

Schedule 2

ILLINOIS INSTITUTE OF TECHNOLOGY

Consolidating Statement of Activities

Year ended May 31, 2011

(In thousands of dollars)

	Unrestricted – University	Unrestricted – IITRI	Unrestricted – Interentity eliminations	Unrestricted – Total	Temporarily restricted – University	Permanently restricted – University	Total
Operating revenue:							
Tuition and fees, net of scholarships of $64,363	$ 121,691	—	—	121,691	—	—	121,691
Government grants and contracts	52,046	13,911	—	65,957	—	—	65,957
Private grants and contracts	2,969	4,885	—	7,854	—	—	7,854
Private gifts	7,612	—	—	7,612	1,160	—	8,772
Endowment spending distribution	13,552	—	—	13,552	—	—	13,552
Endowment net assets released from restrictions	2,022	—	—	2,022	(2,022)	—	—
Sales and services of auxiliary enterprises	12,297	—	—	12,297	—	—	12,297
Other sources	19,750	—	(2,744) (a)	17,006	—	—	17,006
Net assets released from restrictions	3,023	—	—	3,023	(3,023)	—	—
Total operating revenue	234,962	18,796	(2,744)	251,014	(3,885)	—	247,129
Operating expenses:							
Faculty salaries	51,201	—	—	51,201	—	—	51,201
Administrative salaries	44,648	—	—	44,648	—	—	44,648
Part-time salaries	13,819	—	—	13,819	—	—	13,819
Employee benefits	22,607	—	—	22,607	—	—	22,607
Operations and maintenance	22,149	—	—	22,149	—	—	22,149
Supplies and services	45,946	—	—	45,946	—	—	45,946
Professional fees and advertising	11,749	—	—	11,749	—	—	11,749
IITRI research	—	17,180	(2,744) (a)	14,436	—	—	14,436
Interest on indebtedness	11,499	468	—	11,967	—	—	11,967
Depreciation	13,576	1,254	—	14,830	—	—	14,830
Total operating expenses	237,194	18,902	(2,744)	253,352	—	—	253,352
Decrease in net assets from operating activities	(2,232)	(106)	—	(2,338)	(3,885)	—	(6,223)
Nonoperating revenue and expenses:							
Private gifts	—	—	—	—	—	16,917	16,917
Release of net assets restricted for capital	—	—	—	—	—	—	—
Net asset reclassification	146	—	—	146	(146)	—	—
Net gain on investments	24,900	—	—	24,900	1,433	2,757	29,090
Net loss on impairment of asset	(720)	—	—	(720)	—	—	(720)
Endowment spending distribution	(13,552)	—	—	(13,552)	—	—	(13,552)
Endowment income	770	33	—	803	494	—	1,297
Net loss on disposal of assets	(102)	—	—	(102)	—	—	(102)
Asset retirement obligation	1,414	—	—	1,414	—	—	1,414
Other	3,302	321	—	3,623	—	—	3,623
Equity income from IITRI	248	—	(248) (b)	—	—	—	—
Increase (decrease) in net assets from nonoperating activities	16,406	354	(248)	16,512	1,781	19,674	37,967
Increase (decrease) in net assets	14,174	248	(248)	14,174	(2,104)	19,674	31,744
Net assets at beginning of year	36,365	13,154	(13,154)	36,365	33,539	171,847	241,751
Net assets end of year	$ 50,539	13,402	(13,402)	50,539	31,435	191,521	273,495

(a) Elimination of interentity utility income and expense.

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

See accompanying independent auditors' report on supplementary information.

Schedule 3

ILLINOIS INSTITUTE OF TECHNOLOGY

Consolidating Statement of Cash Flows

Year ended May 31, 2011

(In thousands of dollars)

		University	IITRI	Eliminations		Total
Cash flows from operating activities:						
Increase (decrease) in net assets	$	31,744	248	(248)	(a)	31,744
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:						
Private gifts restricted for long-term investment		(10,767)	—	—		(10,767)
Depreciation		13,576	1,254	—		14,830
Gain on beneficial interest in perpetual trusts		(2,716)	—	—		(2,716)
Net loss on disposal of assets		102	—	—		102
Loss on impairment of asset		720	—	—		720
Net gain on investments		(26,374)	230	—		(26,144)
Accretion on asset retirement obligation		327	—	—		327
Changes in assets and liabilities:						
Receivables: tuition, grants, pledges, affiliate, and other		(6,306)	(1,719)	163	(b)	(7,862)
Inventories, prepaid expenses, and deferred charges		(86)	(47)	—		(133)
Equity interest in IITRI		(248)	—	248	(a)	—
Accounts payable and accrued expenses		1,701	885	(163)	(b)	2,423
Accrued salaries and wages		(460)	(78)	—		(538)
Deferred revenue		5,153	157	—		5,310
Deposits by students and others		(213)	—	—		(213)
Accrued postretirement benefit obligation		233	—	—		233
Obligations under split-interest agreements		2	—	—		2
Asset retirement obligation		(1,742)	—	—		(1,742)
Net cash provided by (used in) operating activities		4,646	930	—		5,576
Cash flows from investing activities:						
Proceeds from sale of investments		51,865	1,659	—		53,524
Purchase of investments		(40,564)	—	—		(40,564)
Change in bond proceeds held by trustees		9,833	257	—		10,090
Purchase of physical properties		(22,434)	(221)	—		(22,655)
Issuance of notes receivable		(947)	—	—		(947)
Payments received on notes receivable		1,288	91	—		1,379
Net cash provided by (used in) investing activities		(959)	1,786	—		827
Cash flows from financing activities:						
Private gifts restricted for long-term investment		10,767	—	—		10,767
Payments on notes and bonds payable		—	(810)	—		(810)
Payments on borrowings under line of credit		(3,000)	—	—		(3,000)
Net cash provided by (used in) financing activities		7,767	(810)	—		6,957
Increase in cash		11,454	1,906	—		13,360
Cash at:						
Beginning of year		1,675	1,365	—		3,040
End of year	$	13,129	3,271	—		16,400
Supplemental disclosure of cash flow information:						
Cash paid for interest	$	9,092	75	—		9,167

(a) Elimination of change in equity interest in IITRI.

(b) Elimination of change in interentity accounts payable/receivable.

See accompanying independent auditors’ report on supplemental information.