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ILLINOIS INSTITUTE OF TECHNOLOGY

Single Audit Report

May 31, 2018

(With Independent Auditors’ Reports Thereon)

ILLINOIS INSTITUTE OF TECHNOLOGY

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

Independent Auditors' Report

The Board of Trustees
Illinois Institute of Technology:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Illinois Institute of Technology (the University), which comprise the consolidated statements of financial position as of May 31, 2018 and 2017, 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, 2018 and 2017, 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.

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2018, 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 25, 2018

ILLINOIS INSTITUTE OF TECHNOLOGY

Consolidated Statements of Financial Position

May 31, 2018 and 2017

(In thousands of dollars)

Assets		**2018**	**2017**
Cash	$	26,863	11,025
Notes and accounts receivable:			
Grants and contracts, less allowance of $252 in 2018 and $216 in 2017		8,943	8,822
Students:			
Tuition, less allowance of $916 in 2018 and $785 in 2017		5,141	3,692
Notes, less allowance of $620 in 2018 and $603 in 2017 (note 6)		9,514	9,231
Other, less allowance of $636 in 2018 and $641 in 2017		1,051	586
Pledges, net (note 5)		9,124	13,416
Inventories, prepaid expenses, and deferred charges		4,062	4,193
Investments (note 2)		257,422	249,647
Bond proceeds held by trustees		2,817	2,794
Physical properties, less accumulated depreciation (note 7)		300,226	269,878
Beneficial interest in perpetual trusts (note 8)		22,012	20,817
Total assets	$	647,175	594,101
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	13,988	13,863
Accrued salaries and wages		16,709	17,653
Deferred revenue		19,680	20,471
Deposits by students and others		2,336	2,416
Accrued postretirement benefit obligation (note 10)		2,199	2,408
Obligation under split-interest agreements		726	614
Notes and bonds payable (note 9)		185,945	192,560
Advances from the U.S. government for student loans		6,651	7,639
Asset retirement obligation		1,625	1,851
Total liabilities		249,859	259,475
Net assets (note 11):			
Unrestricted		122,894	67,652
Temporarily restricted		56,454	55,958
Permanently restricted		217,968	211,016
Total net assets		397,316	334,626
Total liabilities and net assets	$	647,175	594,101

See accompanying notes to consolidated financial statements.

ILLINOIS INSTITUTE OF TECHNOLOGY

Consolidated Statement of Activities

Year ended May 31, 2018

(In thousands of dollars)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating revenue:				
Tuition and fees, net of scholarships of $104,630	$ 139,693	—	—	139,693
Government grants and contracts	50,955	—	—	50,955
Private grants and contracts	12,423	—	—	12,423
Private gifts	11,144	3,363	—	14,507
Endowment spending distribution (note 4)	6,835	—	—	6,835
Endowment net assets released from restrictions	5,665	—	—	5,665
Sales and services of auxiliary enterprises	12,577	—	—	12,577
Other sources	18,170	—	—	18,170
Net assets released from restrictions	2,857	(2,857)	—	—
Total operating revenue	260,319	506	—	260,825
Operating expenses:				
Faculty salaries	62,753	—	—	62,753
Administrative salaries	47,284	—	—	47,284
Part-time salaries	13,891	—	—	13,891
Employee benefits	27,242	—	—	27,242
Operations and maintenance	23,977	—	—	23,977
Supplies and services	43,137	—	—	43,137
Professional fees and advertising	13,500	—	—	13,500
IITRI research	15,252	—	—	15,252
Interest on indebtedness	9,426	—	—	9,426
Depreciation	14,322	—	—	14,322
Total operating expenses	270,784	—	—	270,784
(Decrease) increase in net assets from operating activities	(10,465)	506	—	(9,959)
Nonoperating revenue and expenses:				
Private gifts	—	211	4,057	4,268
Change in donor designation	(793)	(582)	1,375	—
Net gain on investments (note 2)	4,890	4,489	70	9,449
Net gain on beneficial interest on perpetual trusts	—	—	1,195	1,195
Endowment spending distribution (note 4)	(6,835)	(5,665)	—	(12,500)
Net assets released from restrictions	756	(756)	—	—
Investment income (note 2)	3,425	2,335	—	5,760
Change in asset retirement obligation	388	—	—	388
Gain on cancellation of broadband license (note 15)	65,000	—	—	65,000
Change in value split interest agreements	(76)	(18)	(7)	(101)
Other	(1,048)	(24)	262	(810)
Increase (decrease) in net assets from nonoperating activities	65,707	(10)	6,952	72,649
Increase in net assets	55,242	496	6,952	62,690
Net assets at beginning of year	67,652	55,958	211,016	334,626
Net assets at end of year	$ 122,894	56,454	217,968	397,316

See accompanying notes to consolidated financial statements.

ILLINOIS INSTITUTE OF TECHNOLOGY

Consolidated Statement of Activities

Year ended May 31, 2017

(In thousands of dollars)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
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	271,535	54	—	271,589
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	271,648	—	—	271,648
(Decrease) increase in net assets from operating activities	(113)	54	—	(59)
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	10,186	1,274	4,229	15,689
Increase in net assets	10,073	1,328	4,229	15,630
Net assets at beginning of year	57,579	54,630	206,787	318,996
Net assets at end of year	$ 67,652	55,958	211,016	334,626

See accompanying notes to consolidated financial statements.

ILLINOIS INSTITUTE OF TECHNOLOGY

Consolidated Statements of Cash Flows

Years ended May 31, 2018 and 2017

(In thousands of dollars)

		2018	2017
Cash flows from operating activities:			
Increase in net assets	$	62,690	15,630
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:			
Private gifts restricted for long-term investment		(6,631)	(3,196)
Depreciation		14,322	14,089
Net gain on beneficial interest in perpetual trusts		(1,195)	(1,277)
Proceeds from cancellation of broadband channel		(65,000)	—
Net gain on investments		(9,449)	(23,851)
Net loss on disposal of asset		—	3,174
Accretion on asset retirement obligation		388	574
Changes in assets and liabilities:			
Receivables: tuition, grants, pledges, and other		2,257	6,544
Inventories, prepaid expenses, and deferred charges		131	303
Accounts payable and accrued expenses		125	(720)
Accrued salaries and wages		(944)	1,747
Deferred revenue		(791)	(3,742)
Deposits by students and others		(80)	180
Accrued postretirement benefit obligation		(209)	(217)
Obligations under split-interest agreements		112	138
Advances from the U.S. government for student loans		(988)	(315)
Asset retirement obligation		(614)	(757)
Net cash (used in) provided by operating activities		(5,876)	8,304
Cash flows from investing activities:			
Proceeds from sale of investments		54,283	49,126
Purchase of investments		(52,609)	(42,115)
Change in bond proceeds held by trustees, net		(23)	(16)
Purchase of physical properties		(44,670)	(18,601)
Sale of physical properties		—	582
Proceeds from cancellation of broadband channel		65,000	—
Issuance of notes receivable		(2,205)	(1,708)
Payments received on notes receivable		1,922	2,151
Net cash provided by (used in) investing activities		21,698	(10,581)
Cash flows from financing activities:			
Private gifts restricted for long-term investment		6,631	3,196
Receipt of conditional gifts for capital projects		—	8,200
Payments on notes and bonds payable		(6,615)	(6,340)
Net cash provided by financing activities		16	5,056
Change in cash		15,838	2,779
Cash at:			
Beginning of year		11,025	8,246
End of year	$	26,863	11,025
Supplemental disclosure of cash flow information:			
Cash paid for interest	$	9,201	9,453
Construction payable		2,521	2,488

See accompanying notes to consolidated financial statements.

(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.

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.

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, 2018 and 2017, these governmental clients accounted for approximately 52% and 62%, respectively, of IITRI's operating revenue of $19,100 and $20,511, respectively. Included in IITRI's grants and contracts revenue for 2018 and 2017 and grants and contracts receivable at May 31, 2018 and 2017 are unbilled receivables in the amounts of approximately $1,718 and $2,207, 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.

(Continued)

(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 lower of cost, which is determined by the first-in, first-out method, or net realizable value 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.

(Continued)

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, 2018 and 2017, 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 2015.

On December 22, 2017, the President signed into law H.R.1, originally known as the Tax Cuts and Job Act. The new law (Public law No. 115-97) includes substantial changes to the taxation of individuals, businesses, multinational enterprises and others. In addition to many generally applicable provisions, the law contains several specific provisions that results into changes to the tax treatment of tax-exempt organizations and their donors. The University has reviewed these provisions and the potential impact and concluded the enactment of H.R. 1 will not have a material effect on the operations of the organization.

(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.

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(n) Reclassifications

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

(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 consolidated 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.

(Continued)

(In thousands of dollars)

(2) Investments

Investments consist of the following at May 31:

		2018		2017	
		Cost	**Fair value**	**Cost**	**Fair value**
Cash equivalents	$	23,752	23,752	25,804	25,803
Stocks		339	720	345	650
Equity mutual funds		130,458	147,176	133,787	145,597
Fixed income (IITRI)		5,850	5,728	5,720	5,720
Fixed income mutual funds		52,348	51,154	43,099	42,950
Hedge equity funds		12,171	14,514	12,171	13,925
Private equity and venture capital funds		2,439	2,478	2,483	3,037
Real estate		12,900	11,900	12,900	11,965
Total investments	$	240,257	257,422	236,309	249,647

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:

		2018	2017
Return on investments:			
Interest and dividends	$	5,760	3,915
Net realized and unrealized gain on investments		9,449	23,851
Net return on investments	$	15,209	27,766

The return on investments reflects income from investments held by IITRI of $54 and $57 for 2018 and 2017, 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.

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 2018 and 2017, 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, 2018 and 2017 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 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, 2018 and 2017, the University had no plans to sell investments at amounts different from NAV. The University has $16,992 and $16,962 for 2018 and 2017, 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.

(In thousands of dollars)

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 $5,497 in unfunded commitments relative to HC Private Equity XI and no unfunded commitments relative to the Commonfund private equity and Total Return 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, 2018 and 2017, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value:

	2018				Redemption	Days'
	Level 1	**Level 2**	**Level 3**	**Total**	**or liquidation**	**notice**
Investments:						
Cash and cash equivalents	$ 23,752	—	—	23,752	Daily	One
Domestic equities:						
Fixed income	51,154	—	—	51,154	Daily	One
Large cap equity	57,614	—	—	57,614	Daily	One
Tactical opportunities	3,167	—	—	3,167	Daily	One
State Street Global	1,936	—	—	1,936	Daily	One
Small cap	5,176	—	—	5,176	Daily	One
Total	119,047	—	—	119,047		
Global (ex-U.S.) equities:						
Developed international	61,581	—	—	61,581	Daily	One
Emerging markets international	17,702	—	—	17,702	Daily	One
Total	79,283	—	—	79,283		
Hedged equity funds of funds:						
Multiple strategies:						
Total return	—	—	—	14,514	Locked-up (1, 3)	60
Total	—	—	—	14,514		

(Continued)

(In thousands of dollars)

	2018					
	Level 1	Level 2	Level 3	Total	Redemption or liquidation	Days' notice
Private equity and venture capital funds:						
Common fund:						
Capital international	$ —	—	—	300	None (3)	N/A
Capital venture	—	—	—	719	None (3)	N/A
Capital private equity	—	—	—	545	None (3)	N/A
IIA				316	None (3)	N/A
HC Private Equity XI	—	—	—	598	None (3)	N/A
Total	—	—	—	2,478		
Real assets:						
IIT Tower	—	—	11,900	11,900	Illiquid (2)	N/A
Total	—	—	11,900	11,900		
Other securities:						
Fixed income (IITRI)	5,728	—	—	5,728	Daily	One
Domestic equities	720	—	—	720	Daily	One
Total	6,448	—	—	6,448		
Total investments	228,530	—	11,900	257,422		
Other assets:						
Cash	26,863	—	—	26,863		
Bond proceeds	2,817	—	—	2,817	Daily	One
Perpetual trusts	—	—	22,012	22,012	None	N/A
Total other assets	29,680	—	22,012	51,692		
Total	$ 258,210	—	33,912	309,114		

(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, 2018 and 2017

(In thousands of dollars)

	2017					
	Level 1	Level 2	Level 3	Total	Redemption or liquidation	Days' notice
Investments:						
Cash and cash equivalents	$ 25,803	—	—	25,803	Daily	One
Domestic equities:						
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		
Global (ex-U.S.) equities:						
Developed international	62,190	—	—	62,190	Daily	One
Emerging markets international	19,049	—	—	19,049	Daily	One
Total	81,239	—	—	81,239		
Hedged equity funds of funds:						
Multiple strategies:						
Total return	—	—	—	10,152	Locked-up (1, 3)	60
Absolute return	—	—	—	3,773	Locked-up (1, 3)	60
Total	—	—	—	13,925		
Private equity and venture capital funds:						
Common fund:						
Capital international	—	—	—	352	None (3)	N/A
Capital venture	—	—	—	922	None (3)	N/A
Capital private equity	—	—	—	1,030	None (3)	N/A
IIA	—	—	—	484	None (3)	N/A
HC Private Equity XI	—	—	—	122	None (3)	N/A
Roundtable	—	—	—	127	None (3)	N/A
Total	—	—	—	3,037		
Real assets:						
IIT Tower	—	—	11,965	11,965	Illiquid (2)	N/A
Total	—	—	11,965	11,965		
Other securities:						
Fixed income (IITRI)	5,720	—	—	5,720	Daily	One
Domestic equities	650	—	—	650	Daily	One
Total	6,370	—	—	6,370		
Total investments	220,720	—	11,965	249,647		

(In thousands of dollars)

	2017					Redemption	Days'
		Level 1	Level 2	Level 3	Total	or liquidation	notice
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	$	234,539	—	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.

Aggregate investment liquidity as of May 31, 2018 and 2017 is presented below based on redemption or sale period:

		2018	2017
Investment redemption or sale period:			
Daily	$	228,530	220,720
Subject to rolling lock-ups		14,514	13,925
Illiquid		11,900	11,965
Redemptions not permitted		2,478	3,037
Total	$	257,422	249,647

(In thousands of dollars)

The tables below present a reconciliation and income statement classification of gains and losses for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended May 31, 2018 and 2017:

		Real estate	Beneficial interest in perpetual trusts	Total
Beginning balance, June 1, 2017	$	11,965	20,817	32,782
Net realized and unrealized gains (losses)		(65)	1,195	1,130
Purchases		—	—	—
Distributions		—	—	—
Ending balance, May 31, 2018	$	11,900	22,012	33,912
The amount of total gain (loss) for the period included in net return on investments attributable to the change in unrealized gain relating to assets still held at May 31, 2018	$	(65)	1,195	1,130

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

(Continued)

(In thousands of dollars)

(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.

Endowment net assets consist of the following as of May 31, 2018:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment corpus	$	(10,952)	16,033	188,595	193,676
Donor-restricted endowment pledges		—	—	3,242	3,242
Board-designated funds		54,881	—	—	54,881
Total	$	43,929	16,033	191,837	251,799

(In thousands of dollars)

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

		Unrestricted	Temporarily restricted	Permanently restricted	Total
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	$	42,943	15,014	185,790	243,747

Changes in endowment net assets for the year ended May 31, 2018 are as follows:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Net assets, beginning of year	$	42,943	15,014	185,790	243,747
Endowment-related investment return:					
Endowment-related investment income, net		2,725	2,335	—	5,060
Endowment-related net realized and unrealized gain		5,205	4,462	—	9,667
Total endowment-related investment return		7,930	6,797	—	14,727
Contributions:					
Additions to endowment		80	—	4,368	4,448
Change in permanently restricted pledges		—	—	1,377	1,377
Appropriation		(6,835)	(5,665)	—	(12,500)
Reclassification		(189)	(113)	302	—
Net assets, end of year	$	43,929	16,033	191,837	251,799

(In thousands of dollars)

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

		Unrestricted	Temporarily restricted	Permanently restricted	Total
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	$	42,943	15,014	185,790	243,747

(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 $10,952 and $11,723 as of May 31, 2018 and 2017, 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.

(In thousands of dollars)

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 $12,500 for fiscal year 2018 and $12,600 for fiscal year 2017. The board of trustees budgeted endowment distribution is $12,315 for fiscal year 2019.

(5) Pledges Receivable

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

		2018	2017
Pledges receivable	$	9,434	13,588
Discount to present value future cash flows		(310)	(172)
Net pledges receivable	$	9,124	13,416

The following is a summary showing the expected timing of collection of total gross unconditional pledges receivable outstanding as of May 31, 2018:

Fiscal year(s)		Amount
Less than one year	$	1,644
1 to 5 years		7,790
	$	9,434

(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.

(In thousands of dollars)

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 $6,651 and $7,639 are ultimately refundable to the government and are classified as a liability in the consolidated statements of financial position as of May 31, 2018 and 2017, respectively.

Balances of financing receivables as of May 31, 2018 consist of the following:

		Perkins loans	Institutional loans	Total
Gross balance	$	7,396	2,738	10,134
Allowances		—	(620)	(620)
Balance at May 31, 2018	$	7,396	2,118	9,514

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

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, 2018. The delinquency status is updated monthly by the University's loan servicer.

		Perkins	Institutional	Total
Performing	$	6,690	1,390	8,080
Nonperforming (defaulted)		706	1,348	2,054
Balance at May 31, 2018	$	7,396	2,738	10,134

The delinquency status as of May 31, 2017 is as follows:

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

(Continued)

(In thousands of dollars)

The aging of financing receivables as of May 31, 2018 is presented as follows:

Aging		31–60	61–90	91+	Total past due	Total current	Total
Perkins	$	189	126	822	1,137	6,259	7,396
Institutional		14	30	1,426	1,470	1,268	2,738
Total	$	203	156	2,248	2,607	7,527	10,134

The aging of financing receivables as of May 31, 2017 is presented as follows:

Aging		31–60	61–90	91+	Total past due	Total current	Total
Perkins	$	87	234	811	1,132	5,809	6,941
Institutional		74	28	1,408	1,510	1,383	2,893
Total	$	161	262	2,219	2,642	7,192	9,834

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

Changes in allowance for estimated losses on financing receivables as of May 31, 2018 are presented as follows:

Balance at June 1, 2017	$	603
Write-off		(4)
Increase (decrease) reserve		21
Balance at May 31, 2018	$	620

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		80
Balance at May 31, 2017	$	603

(In thousands of dollars)

(7) Physical Properties

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

		2018	2017
Land and land improvements	$	24,165	24,165
Building and building improvements		447,822	420,783
Equipment		101,143	98,938
Construction in progress		33,406	18,264
Total physical properties		606,536	562,150
Less accumulated depreciation		306,310	292,272
Physical properties, net	$	300,226	269,878

In May 2018, the University purchased the three five-story buildings commonly referred to as State Street Village for $17,900.

(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, 2018 and 2017, the share of these trusts from which the University derives income had a combined fair value of $22,012 and $20,817, respectively. These trusts provided unrestricted investment income of $660 and $616 in fiscal years 2018 and 2017, respectively.

(9) Notes and Bonds Payable

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

	Interest rate		2018	2017
University:				
IFA Bonds, Series 2006, payable in varying installments through 2036	5.00% and 6.10%	$	140,105	144,845
IFA Bonds, Series 2009, payable in varying installments through 2034	4.750% to 7.125%		25,440	26,315
IITRI – IFA Series 2014, payable in varying installments through 2034	Variable		6,400	7,400
Short-term line of credit	Various		14,000	14,000
Total notes and bonds payable		$	185,945	192,560

(In thousands of dollars)

The following is a summary of required principal payments on outstanding secured obligations as of May 31, 2018:

Fiscal year ending:		
2019	$	20,430
2020		6,735
2021		7,065
2022		7,405
2023		7,760
2024 and beyond		136,550
Total notes and bonds payable	$	185,945

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 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 2018 and in 2017. 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, 2018 and 2017.

(In thousands of dollars)

The University and IITRI are subject to certain debt covenants. As of May 31, 2018, 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:

		2018	2017
Change in accumulated postretirement benefit obligation at beginning of the period	$	2,408	2,625
Service cost		13	1
Interest cost		90	89
Actuarial gain (loss)		(109)	(148)
Actuarial benefit payments net contributions		(203)	(159)
Accumulated postretirement benefit obligation at end of the period	$	2,199	2,408

		2018	2017
Change in fair value of plan assets:			
Fair value of plan assets at beginning of period	$	—	—
Employer contribution		203	159
Participant contributions		13	45
Total benefit payments		(216)	(204)
Fair value of plan assets at end of the period	$	—	—
Funded status	$	(2,199)	(2,408)
Composition of amounts reported in the consolidated statements of financial position consist of:			
Current liabilities	$	176	198
Noncurrent liabilities		2,023	2,210
Accrued postretirement benefit obligation	$	2,199	2,408

(Continued)

(In thousands of dollars)

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:

	2018	2017
Unrecognized actuarial loss	$ 46	154
Unrecognized prior service costs	—	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 $0, respectively.

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

	2018	2017
Service cost	$ 13	1
Interest cost	90	89
Amortization of prior service cost	—	4
Net periodic postretirement benefit cost	$ 103	94

(a) Actuarial Assumptions

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

	2018	2017
Discount rate (expense)	4.00 %	4.00 %
Discount rate (obligation)	4.02	3.92
Healthcare cost trend rates:		
Healthcare cost trend rate assumed for next year	6.17	6.50
Ultimate rate	4.50	4.50
Year that the ultimate rate is reached	2027	2026

(In thousands of dollars)

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:

		2018	2017
Effect on total service cost and interest cost:			
One-percentage point increase	$	9	9
One-percentage point decrease		(9)	(8)
Effect on year-end postretirement benefit obligation:			
One-percentage point increase	$	188	198
One-percentage point decrease		(165)	(175)

(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:		
2019	$	176
2020		175
2021		175
2022		173
2023		170
2024–2027		841

(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)

(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:

		2018	2017
Endowments			
Board designated	$	54,881	54,666
Donor restricted		(10,952)	(11,723)
Endowments total		43,929	42,943
Undesignated			
Unrestricted for university operations		2,102	(31,125)
Loan fund		5,859	5,833
Net investment in plant		71,004	50,001
Undesignated total		78,965	24,709
Total	$	122,894	67,652

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

		2018	2017
General operations	$	12,325	14,831
Endowment		16,033	15,014
Donor-designated for plant		24,512	24,195
Scholarships		2,843	1,027
Split-interest annuity agreements		741	891
Total	$	56,454	55,958

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

		2018	2017
Endowment	$	188,595	183,925
Endowment pledges		3,242	1,865
Donor-restricted revolving loan funds		3,827	3,827
Split-interest annuity agreements		292	582
Beneficial interest in perpetual trusts		22,012	20,817
Total	$	217,968	211,016

(In thousands of dollars)

The amount of outstanding loans from quasi-endowments to unrestricted funds is $0 and $1,943 at May 31, 2018 and 2017, 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, 2018 and 2017 were $7,391 and $7,402 by the University and $388 and $366 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.

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

		2018	2017
Instruction	$	82,660	81,017
Research and other grant activities		75,664	75,809
Academic support		18,494	17,861
Student services		19,241	18,220
Institutional support		54,522	58,530
Auxiliary enterprises		20,203	20,211
Total	$	270,784	271,648

(Continued)

(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, 2018 and 2017, it was not necessary for the University to lease unoccupied beds due to State Street Corp achieving a 1.0 debt service ratio.

In May 2018, the University purchased the three five-story buildings commonly referred to as State Street Village. A release and termination for the original operating and ground leases was signed by both parties. The State Street Corporation was dissolved in May 2018.

In January 2006, the University entered into a 55-year ground lease agreement with Townsend Chicago, LLC (Townsend). Townsend purchased from the University 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. The University is leasing approximately 21% of the building back from Townsend for an initial term of 18 years.

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 Impact Networking, LLC and Delage Landen for the use of a copier system and laser jet printer. The terms of the agreement extend to August 31, 2023.

(Continued)

(In thousands of dollars)

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

Year ending May 31:		
2019	$	1,031
2020		1,059
2021		1,039
2022		1,065
2023		1,088
Thereafter		2,310
	$	7,592

(15) Broadband License and Excess Capacity Leases

The University has held two licenses with the Federal Communications Commission (FCC) since 1976. The license period for each channel is 10 years in duration and requires the payment of a nominal licensing fee with each renewal. The University last renewed each license in 2017. In 2005, the FCC split the channels into two categories Educational Broadband Services (EBS) and Broadband Radio Services (BRS). The FCC allows commercial entities to own the licensing to BRS channels but only educational institutions can own the licensing to EBS channels.

The University has leased the excess capacity on its two licensed channels to Clearwire Spectrum Holdings III, LLC (Clearwire). In December 2017, the University entered into an agreement with Clearwire to cancel its existing license with the FCC on the BRS channel and terminate the related lease agreement with Clearwire for that channel’s excess capacity to permit Clearwire to obtain the channel from the FCC. The termination agreement stated that the University would receive consideration of $65 million for: (1) cancelling the BRS license, (2) terminating the existing lease for the BRS channel’s excess capacity, and (3) discontinuing its use of the BRS channel. The University cancelled its license with the FCC on December 26, 2017. The remaining requirements of the agreement were met in February 2018 at which time the University received a payment of $65 million from Clearwire. The University has reported a $65 million gain on the cancellation of the license in the non-operating section of its consolidated statement of activities.

(In thousands of dollars)

The license and operating lease for the excess capacity on the EBS channel continue through 2040. The University expects to receive future minimum lease payments for the second channel as follows:

Year ending May 31:		
2019	$	2,063
2020		2,125
2021		2,189
2022		2,254
2023		2,322
Thereafter		52,049
	$	63,002

(16) Contingencies

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

(17) 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, 2018 through October 25, 2018, which was the date the consolidated financial statements were issued.

In June 2018, the University issued $40,250 in revenue bonds through the Illinois Finance Authority (IFA). Of the total proceeds, $17,900 were used to replenish cash reserves that were used in the acquisition of the three five story student residence buildings on campus commonly referred to as State Street Village. The remaining proceeds will be drawn and used for the refunding of the 2009 bonds when they become callable in fiscal year 2019. The University also used the proceeds for certain costs incurred in connection with the issuance of the bond and the refunding of the Series 2009 bonds.

ILLINOIS INSTITUTE OF TECHNOLOGY

Schedule of Expenditures of Federal Awards

Year ended May 31, 2018

	Award number/ Additional award identification	CFDA number	Federal expenditures direct awards	Federal expenditures indirect awards	Total federal expenditures	Passed through to subrecipients
Research and Development Cluster :						
Department of Agriculture:						
Agriculture and Food Research Initiative (AFRI)	2014-67017-21707	10.310	$ (76)	—	(76)	(76)
Agriculture and Food Research Initiative (AFRI)	2015-68003-23310	10.310	4,667	—	4,667	4,667
Agriculture and Food Research Initiative (AFRI)	2016-67017-24432	10.310	147,452	—	147,452	27,573
Agriculture and Food Research Initiative (AFRI)	2017-67018-26230	10.310	92,051	—	92,051	—
Agriculture and Food Research Initiative (AFRI) – passed through:						
Michigan State University	RC104967IIT	10.310	—	118,514	118,514	—
North Carolina State University	2011-0494-11	10.310	—	(8,030)	(8,030)	—
Capacity Building for Non-Land Grant Colleges of Agriculture (NLGCA) – passed through:						
Wayne State University	WSU16041	10.326	—	18,323	18,323	—
Crop Protection and Pest Management Competitive Grants Program – passed through:						
North Carolina State University	2017-1449-01	10.329	—	7,109	7,109	—
			244,094	135,916	380,010	32,164
Department of Commerce:						
Science, Technology, Business and/or Education Outreach	70NANB17H079	11.620	4,317	—	4,317	—
Department of Commerce Contracts – passed through:						
TruNav LLC	WC-133R-15-CN-0092	11.xxx	—	3,090	3,090	—
			4,317	3,090	7,407	—
Department of Defense:						
Basic and Applied Scientific Research	N00014-15-1-2921	12.300	1,430	—	1,430	—
Basic and Applied Scientific Research	N00014-16-1-2622	12.300	101,383	—	101,383	—
Military Medical Research and Development – passed through:						
Michigan State University	RC107586-IIT	12.420	—	3,714	3,714	
Basic Scientific Research	W911NF-17-1-0032	12.431	273,096	—	273,096	149,721
Air Force Defense Research Sciences Program	FA9550-14-1-0141	12.800	4,807	—	4,807	4,807
Air Force Defense Research Sciences Program	FA9550-14-1-0141	12.800	(676)	—	(676)	—
Air Force Defense Research Sciences Program	FA9550-15-1-0190	12.800	(594)	—	(594)	—
Air Force Defense Research Sciences Program	FA9550-16-1-0098	12.800	66,583	—	66,583	—
Air Force Defense Research Sciences Program	FA9550-17-1-0240	12.800	40,980	—	40,980	—
Air Force Defense Research Sciences Program – passed through:						
University of California Los Angeles	0205 G SA599	12.800	—	69,072	69,072	—
University of Notre Dame	202706IIT	12.800	—	46,103	46,103	—
Information Security Grants	H98230-17-1-0324	12.902	203,592	—	203,592	—
Department of Defense Contracts – passed through:						
Corvid Technologies	16-020/W81XWH-16-C-0095	12.xxx	—	19,659	19,659	—
Corvid Technologies	17-030/W81XWH-17-C-0207	12.xxx	—	113,108	113,108	—
Dartmouth College	R937/N68335-16-C-011326	12.xxx	—	50,000	50,000	—
Radiation Monitoring Devices Inc	C15-29/W909MY-15-C-0002	12.xxx	—	47,250	47,250	—
University of Illinois	2014-03127-05/H98230-14-C-0141	12.xxx	—	26,100	26,100	—
University of Notre Dame	202092IIT/MARCO 2013-MA-2383	12.xxx	—	99,116	99,116	—
			690,601	474,122	1,164,723	154,528
Department of Housing and Urban Development:						
Healthy Homes Technical Studies Grants	ILHHU0031-16	14.906	178,930	—	178,930	84,222
			178,930	—	178,930	84,222

	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	2015-WY-BX-0001	16.xxx	$ —	55,555	55,555	—
National Institute of Justice Research, Evaluation, and Development Project Grants – passed through:						
City of Chicago Police Department	2014-R2-CX-K002	16.560	—	149,928	149,928	—
			—	205,483	205,483	—
Department of Transportation:						
Aviation Research Grants	DTFACT-16-C-00012	20.108	244,719	—	244,719	—
Aviation Research Grants	DTFAWA-16-A-00004	20.108	325,466	—	325,466	63,813
Highway Planning and Construction – passed through:						
University of Illinois	2011-05776-48-00	20.205	—	25,804	25,804	—
University of Illinois	087795-16652	20.205	—	54,984	54,984	—
Public Transportation Research, Technical Assistance, and Training – passed through:						
University of Chicago	FP062899-A	20.514	—	209,143	209,143	—
			570,185	289,931	860,116	63,813
National Aeronautics and Space Administration:						
Science	NNX15AI16G	43.001	(13,775)	—	(13,775)	—
Science	NNX15AT07H	43.001	33,295	—	33,295	—
Science	NNX15AV01G	43.001	143,312	—	143,312	—
Science – passed through:						
International Space Station National Laboratory	GA-2015-207	43.001	—	44,371	44,371	—
Education – passed through:						
University of Illinois	078131-15651	43.008	—	67,479	67,479	—
Space Technology	NNX16AF05G	43.012	62,279	—	62,279	—
National Aeronautics and Space Administration Contracts – passed through:						
Jet Propulsion Laboratory	1558291/NNN12AA01C	43.xxx	—	54,322	54,322	—
Somatis Sensor Solutions LLC	NNX16CP19C	43.xxx	—	211,149	211,149	—
			225,111	377,321	602,432	—
National Science Foundation:						
Engineering Grants	CBET-1263994	47.041	46,947	—	46,947	—
Engineering Grants	CBET-1336442	47.041	24,998	—	24,998	—
Engineering Grants	CBET-1438700	47.041	53,493	—	53,493	—
Engineering Grants	CBET-1511925	47.041	73,012	—	73,012	—
Engineering Grants	CBET-1545560	47.041	55,917	—	55,917	—
Engineering Grants	CBET-1653627	47.041	97,038	—	97,038	—
Engineering Grants	CMMI-1334998	47.041	17,706	—	17,706	—
Engineering Grants	CMMI-1435902	47.041	20,430	—	20,430	—
Engineering Grants	CMMI-1436786	47.041	18,018	—	18,018	—
Engineering Grants	CMMI-1537468	47.041	48,255	—	48,255	—
Engineering Grants	CMMI-1553823	47.041	100,920	—	100,920	—
Engineering Grants	CMMI-1554033	47.041	119,445	—	119,445	—
Engineering Grants	CMMI-1554559	47.041	44,374	—	44,374	—
Engineering Grants	CMMI-1637899	47.041	187,586	—	187,586	64,194

(Continued)

	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-1660572	47.041	$ 51,035	—	51,035	—
Engineering Grants	CMMI-1663068	47.041	50,848	—	50,848	—
Engineering Grants	ECCS-1247944	47.041	66,310	—	66,310	—
Engineering Grants	ECCS-1307625	47.041	8,938	—	8,938	—
Engineering Grants	ECCS-1407540	47.041	11,248	—	11,248	—
Engineering Grants	ECCS-1549937	47.041	117,972	—	117,972	—
Engineering Grants	ECCS-1554576	47.041	70,924	—	70,924	—
Engineering Grants	ECCS-1610874	47.041	86,780	—	86,780	—
Engineering Grants	ECCS-1711485	47.041	63,654	—	63,654	—
Engineering Grants	EEC-1461215	47.041	72,294	—	72,294	—
Engineering Grants	EEC-1757989	47.041	394	—	394	—
Engineering Grants	IIS-1550833	47.041	57,839	—	57,839	—
Engineering Grants – passed through:						
Orochem Technologies Inc	IIP-1621012	47.041	—	25,574	25,574	—
Software Motor Corporation	SA1738233	47.041	—	56,551	56,551	—
Mathematical and Physical Sciences	CHE-1753012	47.049	51,813	—	51,813	—
Mathematical and Physical Sciences	DMR-1607943	47.049	166,933	—	166,933	—
Mathematical and Physical Sciences	DMR-1610115	47.049	32,877	—	32,877	—
Mathematical and Physical Sciences	DMR-1708596	47.049	52,567	—	52,567	—
Mathematical and Physical Sciences	DMR-1709959	47.049	81,970	—	81,970	—
Mathematical and Physical Sciences	DMS-1522662	47.049	73,808	—	73,808	—
Mathematical and Physical Sciences	DMS-1522687	47.049	83,050	—	83,050	7,170
Mathematical and Physical Sciences	DMS-1620449	47.049	81,597	—	81,597	—
Mathematical and Physical Sciences	DMS-1642545	47.049	19,733	—	19,733	—
Mathematical and Physical Sciences	DMS-1720420	47.049	3,925	—	3,925	—
Mathematical and Physical Sciences	DMS-1759536	47.049	24,027	—	24,027	—
Mathematical and Physical Sciences	PHY-1535676	47.049	140,962	—	140,962	—
Mathematical and Physical Sciences – passed through:						
University of Maine Orono	UMS-1114	47.049	—	15,489	15,489	—
Geosciences	AGS-1352602	47.050	98,930	—	98,930	—
Geosciences	AGS-1651465	47.050	44,450	—	44,450	—
Geosciences	EAR-1424968	47.050	27,325	—	27,325	—
Computer and Information Science and Engineering	ACI-1659421	47.070	245,228	—	245,228	—
Computer and Information Science and Engineering	CCF-1422009	47.070	106,643	—	106,643	—
Computer and Information Science and Engineering	CCF-1526962	47.070	27,462	—	27,462	—
Computer and Information Science and Engineering	CCF-1536079	47.070	42,521	—	42,521	—
Computer and Information Science and Engineering	CCF-1618776	47.070	15,302	—	15,302	—
Computer and Information Science and Engineering	CCF-1744317	47.070	43,602	—	43,602	—
Computer and Information Science and Engineering	CNS-1219109	47.070	13,888	—	13,888	—
Computer and Information Science and Engineering	CNS-1320125	47.070	47,158	—	47,158	—
Computer and Information Science and Engineering	CNS-1320736	47.070	121,436	—	121,436	—
Computer and Information Science and Engineering	CNS-1454770	47.070	29,174	—	29,174	—
Computer and Information Science and Engineering	CNS-1461260	47.070	110,820	—	110,820	—
Computer and Information Science and Engineering	CNS-1526638	47.070	47,513	—	47,513	—
Computer and Information Science and Engineering	CNS-1526887	47.070	127,123	—	127,123	—
Computer and Information Science and Engineering	CNS-1545008	47.070	43,306	—	43,306	—

ILLINOIS INSTITUTE OF TECHNOLOGY

Schedule of Expenditures of Federal Awards

Year ended May 31, 2018

	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	$ (750)	—	(750)	—
Computer and Information Science and Engineering	CNS-1718252	47.070	3,642	—	3,642	—
Computer and Information Science and Engineering	CNS-1730488	47.070	220,437	—	220,437	—
Computer and Information Science and Engineering	CNS-1730689	47.070	267,495	—	267,495	—
Computer and Information Science and Engineering	CNS-1745894	47.070	58,203	—	58,203	—
Computer and Information Science and Engineering	IIS-1125412	47.070	109,741	—	109,741	—
Computer and Information Science and Engineering	IIS-1350337	47.070	83,072	—	83,072	—
Computer and Information Science and Engineering	IIS-1525662	47.070	26,974	—	26,974	—
Computer and Information Science and Engineering	IIS-1526674	47.070	63,839	—	63,839	—
Computer and Information Science and Engineering	IIS-1618244	47.070	134,164	—	134,164	33,431
Computer and Information Science and Engineering – passed through:						
State University of New York at Buffalo (SUNY)	R1045974	47.070	—	117,487	117,487	—
Texas Tech University	21P326-01	47.070	—	(15,551)	(15,551)	—
Biological Sciences	MCB-1552743	47.074	192,183	—	192,183	—
Biological Sciences	MCB-1716099	47.074	47,329	—	47,329	—
Social, Behavioral, and Economic Sciences	SES-1635661	47.075	101,195	—	101,195	—
Social, Behavioral, and Economic Sciences – passed through:						
National Academy of Sciences	2000005678	47.075	—	30,258	30,258	—
Education and Human Resources – passed through:						
Chicago State University	53953	47.076	—	15,724	15,724	—
Tennessee Technological University	BL90126132	47.076	—	379,039	379,039	—
Tennessee Technological University – Program Income	BL90126132 – Program Income	47.076	—	76,403	76,403	—
Office of Cyberinfrastructure	OCI-1054974	47.080	79,939	—	79,939	—
			4,958,981	700,974	5,659,955	104,795
Environmental Protection Agency:						
Great Lakes Program – passed through:						
Indiana University	BL-4339905-IIT	66.469	—	6,234	6,234	—
Environmental Protection Agency, continued:						
Science To Achieve Results (STAR) Research Program	83575001	66.509	112,964	—	112,964	—
			112,964	6,234	119,198	—
Department of Energy:						
Office of Science Financial Assistance Program	DE-SC0008150	81.049	120,214	—	120,214	—
Office of Science Financial Assistance Program	DE-SC0008347	81.049	352,765	—	352,765	—
Office of Science Financial Assistance Program	DE-SC0015479	81.049	72,379	—	72,379	—
Office of Science Financial Assistance Program – passed through:						
University of Massachusetts Amherst	17-009619 B 00	81.049	—	13,663	13,663	—
Yale University	C17E12580(E00169)	81.049	—	41,630	41,630	—
Conservation Research and Development	DE-EE0007798	81.086	383,948	—	383,948	105,179
Renewable Energy Research and Development – passed through:						
Commonwealth Edison Company	27040764	81.087	—	384,441	384,441	—
Fossil Energy Research and Development – passed through:						
University of North Dakota	UND10540	81.089	—	95,558	95,558	—
State Energy Program Special Projects – passed through:						
Illinois Department of Commerce and Economic Opportunity	15-571001	81.119	—	329	329	—
Nuclear Energy Research, Development and Demonstration (B)	DE-NE0000105	81.121	44,156	—	44,156	—
Nuclear Energy Research, Development and Demonstration (B) – passed through:						
University of Florida	UFDSP00011497	81.121	—	15,763	15,763	—

	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 – passed through:						
Commonwealth Edison Company	33069656	81.122	$ —	4,590	4,590	—
Advanced Research Projects Agency – Energy	DE-AR0000497	81.135	(5,359)	—	(5,359)	—
Advanced Research Projects Agency – Energy	DE-AR0000890	81.135	16,974	—	16,974	—
Advanced Research Projects Agency – Energy – passed through:						
Electric Power Research Institute (EPRI)	10007452	81.135	—	139,371	139,371	—
Department of Energy Contracts – passed through:						
Argonne National Laboratory	3J-30001/DE-AC02-06CH11357	81.xxx	—	1,366,465	1,366,465	—
Argonne National Laboratory	5J-30021/DE-AC02-06CH11357	81.xxx	—	375,412	375,412	—
Argonne National Laboratory	8J-30001/DE-AC02-06CH11357	81.xxx	—	67,386	67,386	—
Argonne National Laboratory	DE-AC02-06CH11357	81.xxx	—	52,253	52,253	—
Fermi National Laboratory	610196/DE-AC02-07CH11359	81.xxx	—	242,682	242,682	—
Fermi National Laboratory	624276/DE-AC02-07CH11359	81.xxx	—	36,502	36,502	—
Fermi National Laboratory	635876/DE-AC02-07CH11359	81.xxx	—	22,360	22,360	—
Fermi National Laboratory	637986/DE-AC02-07CH11359	81.xxx	—	29,763	29,763	—
Idaho National Laboratory	167925/DE-AC07-05ID14517	81.xxx	—	301,568	301,568	—
Idaho National Laboratory	172044/DE-AC07-05ID14517	81.xxx	—	282,842	282,842	—
Idaho National Laboratory	182899/DE-AC07-05ID14517	81.xxx	—	4,579	4,579	—
Idaho National Laboratory	186113/DE-AC07-05ID14517	81.xxx	—	217,000	217,000	—
Los Alamos National Laboratory	420816/DE-AC52-06NA25396	81.xxx	—	27,876	27,876	—
Oak Ridge National Laboratory	4000140588/DE-AC05-00OR22725	81.xxx	—	1,644	1,644	—
			985,077	3,723,677	4,708,754	105,179
Department of Health and Human Services:						
Birth Defects and Developmental Disabilities – Prevention and Surveillance – passed through:						
University of California – San Diego	81857257	93.073	—	59,379	59,379	—
Food and Drug Administration – Research	5U19FD005322	93.103	3,947,318	—	3,947,318	144,232
Food and Drug Administration – Research – Program Income	5U19FD005322	93.103	21,341	—	21,341	—
Food and Drug Administration – Research	5U01FD005661	93.103	1,514,032	—	1,514,032	194,076
Mental Health Research Grants – passed through:						
Yale University	M15A11973(A10040)	93.242	—	23,739	23,739	—
Substance Abuse and Mental Health Services:						
Drug Abuse and Addiction Research Programs – passed through:						
University of Chicago	FP039839-A	93.279	—	8,649	8,649	—
Discovery and Applied Research for Technological Innovations to Improve Human Health	4R25EB013121-05	93.286	9,677	—	9,677	—

(Continued)

ILLINOIS INSTITUTE OF TECHNOLOGY

Schedule of Expenditures of Federal Awards

Year ended May 31, 2018

	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	$ —	59,750	59,750	—
Washington University	WU-17-183	93.286	—	28,938	28,938	—
Minority Health and Health Disparities Research	5R01MD010541-03	93.307	30,434	—	30,434	—
Minority Health and Health Disparities Research	5U01MD010541-02	93.307	603,408	—	603,408	136,580
National Center for Advancing Translational Sciences – passed through:						
University of Chicago	FP035829-M	93.350	—	10,269	10,269	—
University of Chicago	FP065282-C	93.350	—	32,221	32,221	—
Cancer Detection and Diagnosis Research – passed through:						
Dartmouth College	1438	93.394	—	49,840	49,840	—
University of Washington	UWSC9752	93.394	—	35,580	35,580	—
Cancer Treatment Research	5R01CA112503-08	93.395	217,877	—	217,877	16,273
Cancer Biology Research	1R15CA195526-01A1	93.396	114,588	—	114,588	—
Cardiovascular Diseases Research	5R01HL122484-04	93.837	802,704	—	802,704	437,788
Cardiovascular Diseases Research – passed through:						
Florida State University	R01825	93.837	—	23,361	23,361	—
University of Miami	665288	93.837	—	(1,864)	(1,864)	—
University of Miami	SPC-000312	93.837	—	2,280	2,280	—
Blood Diseases and Resources Research – passed through:						
University of Illinois	16044/083651-00001	93.839	—	63,099	63,099	—
Arthritis, Musculoskeletal and Skin Diseases Research:						
University of Massachusetts Worcester	OSP2018019	93.846	—	35,042	35,042	—
Diabetes, Digestive, and Kidney Diseases Extramural Research	1DP3DK101075-01	93.847	826,414	—	826,414	294,678
Diabetes, Digestive, and Kidney Diseases Extramural Research	1DP3DK101077-01	93.847	778,709	—	778,709	285,045
Diabetes, Digestive, and Kidney Diseases Extramural Research	7R00DK095984-05	93.847	185,029	—	185,029	—
Diabetes, Digestive, and Kidney Diseases Extramural Research passed through:						
University of Chicago	FP0407431	93.847	—	23,200	23,200	—
University of Virginia	GB10167 149673	93.847	—	138,870	138,870	—
Extramural Research Programs in the Neurosciences and Neurological Disorders	5R01NS092760-02	93.853	291,028	—	291,028	76,553
Extramural Research Programs in the Neurosciences and Neurological Disorders	1UG3NS095557-01A1	93.853	1,415,211	—	1,415,211	1,016,497
Extramural Research Programs in the Neurosciences and Neurological Disorders						
passed through:						
Rush University Medical Center	16050403-Sub01	93.853	—	191,069	191,069	—
Allergy and Infectious Diseases Research	1R15AI128627-01	93.855	130,141	—	130,141	—
Allergy and Infectious Diseases Research	5R21AI124037-02	93.855	178,613	—	178,613	47,973
Biomedical Research and Research Training	2R15GM110632-02	93.859	50,227	—	50,227	—
Biomedical Research and Research Training	1R15GM114758-01	93.859	121,224	—	121,224	—
Biomedical Research and Research Training	1R15GM114781-01A1	93.859	130,961	—	130,961	—
Biomedical Research and Research Training	5R35GM119647-02	93.859	249,478	—	249,478	—
Biomedical Research and Research Training	5P41GM103622-21	93.859	1,281,671	—	1,281,671	—
Aging Research	1R01AG052200-01A1	93.866	311,349	—	311,349	90,918
Aging Research – passed through:						
University of Chicago	FP056994-A	93.866	—	52,921	52,921	—
Vision Research	1R15EY025434-01A1	93.867	111,023	—	111,023	—
Medical Library Assistance – passed through:						
Northwestern University	60039607 IIT	93.879	—	92,322	92,322	—
			13,322,457	928,665	14,251,122	2,740,613
Total Research and Development Cluster			21,292,717	6,845,413	28,138,130	3,285,314

(Continued)

ILLINOIS INSTITUTE OF TECHNOLOGY

Schedule of Expenditures of Federal Awards

Year ended May 31, 2018

	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	P007A171173	84.007	$ 511,488	—	511,488	—
Federal Work-Study Program	P033A161173	84.033	77,355	—	77,355	—
Federal Work-Study Program	P033A171173	84.033	550,910	—	550,910	—
Federal Perkins Loan Program		84.038	8,951,876	—	8,951,876	—
Federal Pell Grant Program	P063P161349	84.063	14,042	—	14,042	—
Federal Pell Grant Program	P063P171349	84.063	4,047,734	—	4,047,734	—
Federal Direct Student Loans	P268K171349	84.268	676,093	—	676,093	—
Federal Direct Student Loans	P268K181349	84.268	20,218,814	—	20,218,814	—
Federal Direct Student Loans	P268K176726	84.268	145,655	—	145,655	—
Federal Direct Student Loans	P268K186726	84.268	16,305,403	—	16,305,403	—
Total Student Financial Assistance Cluster			51,499,370	—	51,499,370	—
Other Awards:						
Small Business Administration:						
Small Business Administration Grants	SBAHQ-12-C-0017	59.xxx	155,719	—	155,719	92,350
Total Small Business Administration			155,719	—	155,719	92,350
Department of Education:						
Rehabilitation Long-Term Training	H129B140071	84.129	321,788	—	321,788	—
Teacher Quality Partnership Grants – passed through:						
National Lewis University	513093	84.336S	—	68,197	68,197	—
Total Department of Education			321,788	68,197	389,985	—
Other Awards			477,507	68,197	545,704	92,350
Total Federal Awards			$ 73,269,594	6,913,610	80,183,204	3,377,664

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

ILLINOIS INSTITUTE OF TECHNOLOGY

Notes to Schedule of Expenditures of Federal Awards

May 31, 2018

(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, 2018. 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, 2018 consolidated statement of activities. The federal expenditures are classified in the accompanying consolidated statement of activities as government grants and contracts revenue, totaling approximately $50,955,000. The government grants and contracts consist of approximately $7,169,000 of awards received from states and other sources, with the balance of approximately $9,901,000 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.

(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 $5,389,944 of indirect costs were reimbursed to the University during the year ended May 31, 2018. 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, 2018 are summarized as follows:

Perkins	$	1,863,639
FDL		37,345,965
Total federal student loan programs	$	39,209,604

The Perkins program is administered directly by the University and balances and transactions relating to this program are included in the University's consolidated financial statements. The balance of loans outstanding under the Perkins program was $7,395,880 and $6,940,601 at May 31, 2018 and 2017, respectively. The University received an administrative cost allowance of $147,636 under the Perkins program during the fiscal year ended May 31, 2018. The balance of loans outstanding at May 31, 2018 consist of the following amounts:

Outstanding balance as of May 31, 2017	$	6,940,601
Loans disbursed		1,863,639
Repayments		(1,405,675)
Cancellations		(2,685)
Outstanding balance as of May 31, 2018	$	7,395,880

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, 2018.

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

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

The Board of Trustees
Illinois Institute of Technology:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Illinois Institute of Technology (the University), which comprise the consolidated statement of financial position as of May 31, 2018, 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 25, 2018.

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*.

KPMG

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 25, 2018

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

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, 2018. The University's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

The University's consolidated financial statements include the operations of IIT Research Institute (IITRI), which expended $9,901,000 in federal awards, which is not included in the University's schedule of expenditures of federal awards for the year ended May 31, 2018. 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, 2018.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2018-001. Our opinion on the University's major federal program is not modified with respect to this matter.

The University's response to the noncompliance finding 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.

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 2018-001 and 2018-002, 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, 2018, and have issued our report thereon dated October 25, 2018, 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 25, 2018

ILLINOIS INSTITUTE OF TECHNOLOGY

Schedule of Findings and Questioned Costs

May 31, 2018

(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 program:

Research and Development Cluster – various CFDA numbers

h. Dollar threshold used to distinguish between Type A and Type B programs: $2,405,496

i. Auditee qualified as a low risk auditee: Yes

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

(3) Findings and Questioned Costs Relating to Federal Awards

Finding 2018-001 – Failure to Perform Required Risk Assessment of Subrecipients of the Research and Development Cluster

Program Information:

Federal Agency:	U.S. Department of Agriculture U.S. Department of Commerce U.S. Department of Defense U.S. Department of Housing and Urban Development U.S. Department of Justice U.S. Department of Transportation National Aeronautics and Space Administration National Science Foundation Environmental Protection Agency U.S. Department of Energy U.S. Department of Health and Human Services
Program Name:	Research and Development Cluster
CFDA # and Program Expenditures:	Various ($28,138,130)
2018 Award Numbers:	See table of award information
Federal Award Year:	See table of award information
Questioned Costs:	None

Requirement

According to 2 CFR Section 200.331(b), a pass-through entity must evaluate each subrecipient's risk of noncompliance for purposes of determining the appropriate subrecipient monitoring related to the subaward.

Additionally, 2 CFR 200.303 requires non-Federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include implementing procedures to ensure required risk assessment procedures have been performed for Research and Development Cluster (R&D Cluster) program subrecipients.

Condition Found

Illinois Institute of Technology (the University) did not perform a risk assessment of subrecipients of the R&D Cluster program as required by Uniform Guidance.

Certain provisions of the Uniform Guidance require the University to perform and document a risk assessment to establish appropriate monitoring procedures based upon the risks inherent at each subrecipient. The risk assessment procedures are required to include consideration of, among other things, the results of recent audits/reviews and the amount of federal funding passed through to the subrecipients.

(Continued)

During our testing of subrecipient payments and the related monitoring performed, we noted the University's subrecipient monitoring procedures for all subrecipients consists of performing single audit report desk reviews and reviewing periodic financial reports submitted by subrecipients. Formal documentation of the risks applicable to each subrecipient and the resulting monitoring to be performed as a result of the risks identified has not been formally documented by the University.

Amounts passed through to subrecipients of the R&D Cluster program totaled $3,285,314 during the year ended May 31, 2018.

Repeat Finding

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

Cause

In discussing these conditions with management, they stated that they had not updated risk assessment procedures.

Possible Asserted Effect

Failure to adequately evaluate and document each subrecipient's risk of noncompliance and determine the appropriate monitoring based on those risks results in noncompliance with the Uniform Guidance and may result in improper monitoring of subrecipients.

Statistical Sampling

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

Recommendation

We recommend the University review and revise their risk assessment procedures to ensure the risk criteria used will appropriately identify high risk subrecipients. Additionally, the risk assessment procedures performed should be adequately documented and used to determine the appropriate level of monitoring to be performed for each subrecipient.

View of Responsible Officials

The University agrees with the condition noted. The University will review and update its risk assessment procedures. This will allow the university to effectively assess and document the level of risk related to each subrecipient.

Finding 2018-002 – Inadequate Controls over Procurement Documentation

Program Information:

Federal Agency:	U.S. Department of Agriculture U.S. Department of Commerce U.S. Department of Defense U.S. Department of Housing and Urban Development U.S. Department of Justice U.S. Department of Transportation National Aeronautics and Space Administration National Science Foundation Environmental Protection Agency U.S. Department of Energy U.S. Department of Health and Human Services
Program Name:	Research and Development Cluster
CFDA # and Program Expenditures:	Various ($28,138,130)
2018 Award Numbers:	See table of award information
Federal Award Year:	See table of award information
Questioned Costs:	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 procurement files are complete and adequately document decisions made to sole source procurements of goods and services in accordance with the University's procurement policies.

Condition Found

Illinois Institute of Technology's (the University) procurement files did not adequately document the rationale for sole-sourced procurements of goods and services funded by the Research and Development Cluster (R&D Cluster) program.

The University's procurement policy (pre-Uniform Guidance) requires purchases totaling $25,000 or more to be supported by documentation of a solicitation effort and the evaluation of three written proposals. A sole source justification form is required to document any instances in which competitive bids or offers are not obtained. The University also utilizes a Vendor Selection Form to document the rationale in situations where competition is limited. The University's Purchasing Department reviews the procurement file to ensure the University's procurement policies and procedures have been followed prior to approving the purchase.

(Continued)

During our testwork over 40 expenditures charged to the R&D Cluster (totaling $1,210,808), we noted three purchase requisitions (related to R&D Cluster expenditures totaling $143,381) for which the Vendor Selection Form and Sole Source Justification Request Form did not contain all information supporting the rationale for sole sourcing the purchase. The University was able to provide additional information supporting the rationale to sole source the sampled purchases; however, this information was not maintained in the procurement file.

Total expenditures for contractual services charged to the R&D Cluster program totaled $7,728,467 during the year ended May 31, 2018. Total expenditures for the R&D Cluster program totaled $28,138,130 during the year ended May 31, 2018.

Repeat Finding

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

Cause

In discussing these conditions with management, they stated that the current decentralized purchasing system does not adequately meet the University’s needs in providing control over these types of purchases. The vendor selection form serves as a tool in communicating requirements with the faculty to ensure compliance with federal rules and regulations rather than a control.

Possible Asserted Effect

Failure to document and maintain records for the procurement of goods and services may result in noncompliance with Federal procurement regulations.

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 documenting and maintaining procurement documentation to ensure procurement files are complete and sole-sourced purchases are adequately documented.

View of Responsible Officials

The University recognized the limitations of our current decentralized purchasing system and undertook a full procurement assessment in spring 2018. Following the assessment, the University has purchased the Unimarket eProcurement and Contract Management modules and will be commencing implementation of these solutions in the coming weeks. Through the implementation of the eProcurement solution, we will update our procurement policies to be in line with Federal procurement regulations as appropriate, standardize the current decentralized purchasing practices, educate and communicate to campus, especially those in the research community using grant funding, the appropriate procedures to follow when procuring goods and services, put in place appropriate approvals workflow at the department level and within purchasing, and place additional emphasis on the documentation of control to ensure compliance with Federal procurement regulations and Illinois Tech procurement policies.

(Continued)

The University is also in the process of launching a long-planned new department aimed at helping principal investigators (PI) in all matters related to the administration of their grants which includes the proper procedures used while purchasing equipment, engaging consultants and adhering to uniform guidance.

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2014-67017-21707	10.310	12/15/13-12/14/16
2015-68003-23310	10.310	03/01/15-02/28/18
2016-67017-24432	10.310	12/15/15-12/14/18
2017-67018-26230	10.310	06/01/17-05/31/20
RC104967IIT	10.310	05/15/15-05/14/19
2011-0494-11	10.310	06/01/11-03/31/18
WSU16041	10.326	01/01/16-12/31/18
2017-1449-01	10.329	03/01/17-02/28/19
70NANB17H079	11.620	05/01/17-09/30/17
WC-133R-15-CN-0092	11.xxx	09/01/15-08/31/17
N00014-15-1-2921	12.300	08/15/15-08/13/17
N00014-16-1-2622	12.300	07/01/16-06/30/19
RC107586-IIT	12.420	07/15/17-07/14/21
W911NF-17-1-0032	12.431	01/01/17-12/31/17
FA9550-14-1-0141	12.800	06/01/14-05/31/17
FA9550-15-1-0190	12.800	06/01/15-05/31/17
FA9550-16-1-0098	12.800	12/01/15-11/30/18
FA9550-17-1-0240	12.800	08/15/17-08/14/20
0205 G SA599	12.800	09/15/14-09/14/17
202706IIT	12.800	12/01/15-11/30/17
H98230-17-1-0324	12.902	09/01/17-08/31/19
16-020/W81XWH-16-C-0095	12.xxx	08/16/16-10/31/17
17-030/W81XWH-17-C-0207	12.xxx	10/01/17-01/31/20
R937/N68335-16-C-011326	12.xxx	01/26/16-07/21/17
C15-29/W909MY-15-C-0002	12.xxx	04/17/15-09/16/17
2014-03127-05/H98230-14-C-0141	12.xxx	03/31/14-07/31/17
202092IIT/MARCO 2013-MA-2383	12.xxx	09/15/14-12/31/17
ILHHU0031-16	14.906	12/01/16-11/30/19
2015-WY-BX-0001	16.xxx	04/01/16-09/30/18
2014-R2-CX-K002	16.560	01/01/15-09/30/18
DTFACT-16-C-00012	20.108	03/30/16-03/29/18
DTFAWA-16-A-00004	20.108	02/01/16-02/01/19
2011-05776-48-00	20.205	12/01/15-06/30/17
087795-16652	20.205	07/06/17-01/31/19
FP062899-A	20.514	12/01/15-05/31/18
NNX15AI16G	43.001	04/06/15-04/05/17
NNX15AT07H	43.001	09/01/15-08/31/18
NNX15AV01G	43.001	11/01/15-10/31/19
GA-2015-207	43.001	02/13/15-09/13/19
078131-15651	43.008	04/10/15-04/09/19
NNX16AF05G	43.012	01/28/16-01/27/19
1558291/NNN12AA01C	43.xxx	09/05/16-12/21/17
NNX16CP19C	43.xxx	04/28/16-04/27/18
CBET-1263994	47.041	10/01/13-09/30/18
CBET-1336442	47.041	09/01/13-08/31/17
CBET-1438700	47.041	01/01/15-12/31/18
CBET-1511925	47.041	06/01/15-05/31/19
CBET-1545560	47.041	07/01/14-08/31/19
CBET-1653627	47.041	02/15/17-01/31/22

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CMMI-1334998	47.041	09/01/13-08/31/17
CMMI-1435902	47.041	09/01/14-08/31/18
CMMI-1436786	47.041	08/01/14-04/30/18
CMMI-1537468	47.041	09/01/15-08/31/19
CMMI-1553823	47.041	03/01/16-02/28/21
CMMI-1554033	47.041	02/01/16-01/31/21
CMMI-1554559	47.041	08/01/16-03/31/18
CMMI-1637899	47.041	09/01/16-08/31/19
CMMI-1660572	47.041	09/01/17-08/31/20
CMMI-1663068	47.041	09/01/17-08/31/20
ECCS-1247944	47.041	10/15/12-09/30/17
ECCS-1307625	47.041	08/01/13-07/31/17
ECCS-1407540	47.041	08/15/14-07/31/17
ECCS-1549937	47.041	09/15/15-08/31/18
ECCS-1554576	47.041	01/01/16-12/31/20
ECCS-1610874	47.041	08/01/16-07/31/19
ECCS-1711485	47.041	08/01/17-07/31/20
EEC-1461215	47.041	04/01/15-03/31/19
EEC-1757989	47.041	05/01/18-04/30/21
IIS-1550833	47.041	09/01/15-06/30/19
IIP-1621012	47.041	07/01/16-06/30/18
SA1738233	47.041	09/01/17-08/31/19
CHE-1753012	47.049	06/01/18-05/31/23
DMR-1607943	47.049	09/01/16-08/31/19
DMR-1610115	47.049	09/01/16-08/31/19
DMR-1708596	47.049	08/15/17-07/31/20
DMR-1709959	47.049	09/01/17-08/31/20
DMS-1522662	47.049	09/01/15-08/31/19
DMS-1522687	47.049	08/01/15-07/31/18
DMS-1620449	47.049	09/15/16-08/31/19
DMS-1642545	47.049	03/01/17-02/28/18
DMS-1720420	47.049	09/01/17-08/31/20
DMS-1759536	47.049	08/01/17-07/31/19
PHY-1535676	47.049	08/15/15-07/31/19
UMS-1114	47.049	07/01/17-06/30/20
AGS-1352602	47.050	05/15/14-04/30/19
AGS-1651465	47.050	09/01/17-08/31/20
EAR-1424968	47.050	03/01/15-02/28/18
ACI-1659421	47.070	06/01/17-05/31/19
CCF-1422009	47.070	08/15/14-07/31/19
CCF-1526962	47.070	07/01/15-01/31/18
CCF-1536079	47.070	08/01/15-07/31/18
CCF-1618776	47.070	09/01/16-08/31/19
CCF-1744317	47.070	08/01/17-12/31/18
CNS-1219109	47.070	09/01/12-08/31/17
CNS-1320125	47.070	10/01/13-09/30/17
CNS-1320736	47.070	01/01/14-12/31/17
CNS-1454770	47.070	10/01/14-09/30/17
CNS-1461260	47.070	03/15/15-02/28/18

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CNS-1526638	47.070	10/01/15-09/30/19
CNS-1526887	47.070	09/01/15-08/31/19
CNS-1545008	47.070	09/15/15-09/30/18
CNS-1551935	47.070	08/15/15-08/31/17
CNS-1718252	47.070	08/01/17-07/31/20
CNS-1730488	47.070	08/01/17-07/31/20
CNS-1730689	47.070	07/15/17-06/30/20
CNS-1745894	47.070	09/01/17-08/31/19
IIS-1125412	47.070	10/01/11-09/30/17
IIS-1350337	47.070	05/01/14-04/30/19
IIS-1525662	47.070	09/01/15-02/28/18
IIS-1526674	47.070	08/01/15-01/31/19
IIS-1618244	47.070	09/01/16-08/31/19
R1045974	47.070	10/03/16-12/31/19
21P326-01	47.070	10/01/13-09/30/17
MCB-1552743	47.074	06/01/16-05/31/21
MCB-1716099	47.074	08/01/17-07/31/20
SES-1635661	47.075	09/01/16-08/31/19
2000005678	47.075	02/01/15-01/31/19
53953	47.076	09/01/14-08/31/19
BL90126132	47.076	07/28/17-08/31/18
OCI-1054974	47.080	01/01/11-06/30/18
BL-4339905-IIT	66.469	10/01/14-10/31/19
83575001	66.509	11/01/14-07/31/19
DE-SC0008150	81.049	07/01/12-06/30/18
DE-SC0008347	81.049	07/01/12-03/31/19
DE-SC0015479	81.049	04/01/16-03/31/19
17-009619 B 00	81.049	08/15/16-08/14/19
C17E12580(E00169)	81.049	07/01/16-06/30/18
DE-EE0007798	81.086	10/01/16-09/30/19
27040764	81.087	01/01/17-01/31/19
UND10540	81.089	04/01/17-11/30/17
15-571001	81.119	01/01/15-06/30/17
DE-NE0000105	81.121	07/01/09-06/30/22
UFDSP00011497	81.121	10/01/16-09/30/19
33069656	81.122	10/01/17-06/30/20
DE-AR0000497	81.135	10/01/14-03/31/17
DE-AR0000890	81.135	12/18/17-12/17/20
10007452	81.135	09/01/16-02/28/19
3J-30001/DE-AC02-06CH11357	81.xxx	12/01/12-11/30/17
5J-30021/DE-AC02-06CH11357	81.xxx	03/01/15-02/28/20
8J-30001/DE-AC02-06CH11357	81.xxx	12/01/17-11/30/22
DE-AC02-06CH11357	81.xxx	07/26/16-07/25/17
610196/DE-AC02-07CH11359	81.xxx	10/01/12-09/30/18
624276/DE-AC02-07CH11359	81.xxx	09/01/15-08/31/19
635876/DE-AC02-07CH11359	81.xxx	06/05/17-08/11/17
637986/DE-AC02-07CH11359	81.xxx	09/01/17-08/31/19
167925/DE-AC07-05ID14517	81.xxx	02/23/16-09/27/18
172044/DE-AC07-05ID14517	81.xxx	07/18/16-09/30/18

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182899/DE-AC07-05ID14517	81.xxx	02/21/17-08/31/17
186113/DE-AC07-05ID14517	81.xxx	06/26/17-02/10/19
420816/DE-AC52-06NA25396	81.xxx	01/01/17-12/31/21
4000140588/DE-AC05-00OR22725	81.xxx	07/22/15-06/01/17
81857257	93.073	09/30/16-09/29/18
5U19FD005322	93.103	09/15/14-08/31/19
5U01FD005661	93.103	09/05/15-08/31/19
M15A11973(A10040)	93.242	09/01/14-05/31/18
FP039839-A	93.279	02/15/15-11/30/18
4R25EB013121-05	93.286	05/01/12-04/30/19
2-5-23047	93.286	09/01/11-08/31/17
WU-17-183	93.286	08/01/16-08/07/17
5R01MD010541-03	93.307	05/19/16-01/31/21
5U01MD010541-02	93.307	05/19/16-01/31/21
FP035829-M	93.350	01/01/17-06/30/17
FP065282-C	93.350	09/06/17-06/30/18
1438	93.394	04/01/14-02/28/19
UWSC9752	93.394	04/01/17-03/31/19
5R01CA112503-08	93.395	01/23/13-08/31/19
1R15CA195526-01A1	93.396	01/01/16-12/31/18
5R01HL122484-04	93.837	05/01/14-04/30/19
R01825	93.837	05/01/16-04/30/19
665288	93.837	07/06/15-04/30/16
SPC-000312	93.837	05/01/17-04/30/18
16044/083651-00001	93.839	08/05/16-08/15/17
OSP2018019	93.846	07/01/17-06/30/19
1DP3DK101075-01	93.847	09/30/13-06/30/18
1DP3DK101077-01	93.847	09/30/13-06/30/18
7R00DK095984-05	93.847	09/15/15-08/31/19
FP0407431	93.847	03/01/17-02/28/18
GB10167 149673	93.847	08/01/15-07/31/19
5R01NS092760-02	93.853	02/01/16-01/31/21
1UG3NS095557-01A1	93.853	09/30/16-06/30/22
16050403-Sub01	93.853	09/30/16-07/31/18
1R15AI128627-01	93.855	01/05/17-12/31/20
5R21AI124037-02	93.855	03/01/16-02/28/19
2R15GM110632-02	93.859	09/30/17-08/31/20
1R15GM114758-01	93.859	04/01/15-03/31/19
1R15GM114781-01A1	93.859	09/25/15-08/31/18
5R35GM119647-02	93.859	09/01/16-08/31/21
5P41GM103622-21	93.859	04/01/16-12/31/20
1R01AG052200-01A1	93.866	09/01/16-05/31/21
FP056994-A	93.866	09/15/15-04/30/19
1R15EY025434-01A1	93.867	04/01/16-04/30/19
60039607 IIT	93.879	06/15/15-06/14/18

See accompanying independent auditors' report.