Independent Auditors' Report

The Board of Trustees
Illinois Institute of Technology:

We have audited the accompanying consolidated statements of financial position of Illinois Institute of Technology (the University) as of May 31, 2007 and 2006 and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Illinois Institute of Technology as of May 31, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2007 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal g7U1o-8(m

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

September 21, 2007

ILLINOIS INSTITUTE OF TECHNOLOGY

Consolidated Statements of Financial Position

May 31, 2007 and 2006

(In thousands of dollars)

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

See accompanyiAccountsntleGcN.e-cGctea587 1S0,02848 TD S3065.ecBSeeaaccoe5a8 TD 206n CN7

ILLINOIS INSTITUTE OF TECHNOLOGY

Consolidated Statement of Activities

Year ended May 31, 2007

(In thousands of dollars)

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating revenue:					
Tuition and fees, net of scholarships of $38,740	$	85,249	—	—	85,249
Government grants and contracts		44,474	—	—	44,474

ILLINOIS INSTITUTE OF TECHNOLOGY

Consolidated Statement of Activities

Year ended May 31, 2006

(In thousands of dollars)

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating revenue:					
Tuition and fees, net of scholarships of $35,038	$	77,035	—	—	77,035
Government grants and contracts		37,180	—	—	37,180
Private grants and contracts		18,140	—	—	18,140
Private gifts		11,453	6,601	—	18,054
Endowment spending distribution (note 4)		12,600	—	—	12,600
Sales and services of auxiliary enterprises		11,388	—	—	11,388
Other sources		12,066	664	—	12,730
Net assets released from restrictions		6,177	(6,177)	—	—
Total operating revenue		186,039	1,088	—	187,127
Operating expenses:					
Faculty salaries		40,458	—	—	40,458
Administrative salaries		33,998	—	—	33,998
Part-time salaries		10,919	—	—	10,919
Employee benefits		14,566	—	—	14,566
Operations and maintenance		19,475	—	—	19,475
Supplies and services		34,625	—	—	34,625
Professional fees and advertising		8,996	—	—	8,996
IITRI research		19,154	—	—	19,154
Depreciation		12,088	—	—	12,088
Total operating expenses		194,279	—	—	194,279
Increase (decrease) in net assets from operating activities		(8,240)	1,088	—	(TjN2s)Private gif207-192

ILLINOIS INSTITUTE OF TECHNOLOGY

Consolidated Statements of Cash Flows

Years ended May 31, 2007 and 2006

(In thousands of dollars)

		2007	2006
Cash flows from operating activities:			
Increase in net assets	$	37,406	7,485
Adjustments to reconcile increase in net assets to net cash used in operating activities:			
Cumulative effect of change in accounting principle		—	9,930

(1) Nature of Organization

Illinois Institute of Technology

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

IIT India is a private not-for-profit coeducational technical engineering institution that is dedicated to superior teaching and excellent scholarship. Located in Bangalore, India, the institution services students from across India.

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

IIT Research Institute

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

(2) Summary of Significant Accounting Policies and Reporting Practices

(a) Principles of Consolidation

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

(b) Basis of Presentation

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

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

(Continued)

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

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

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

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

(c) Operations

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

(d) Revenue

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

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

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

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

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

IITRI's research project revenue results from contract research and other services under a variety of contracts, some of which provide for reimbursement of cost plus fees and others which are fixed-price or time and materials type contracts. IITRI generally recognizes revenue when a contract has been executed, the contract price is fixed or determinable, delivery of the services or product has occurred, and collectibility of the contract price is considered probable. Revenue on cost-plus contracts is recognized as costs are incurred and include a proportionate share of the fees earned. The percentage of completion method is used to r

(e) Investments

Investments are reported at fair value. The fair values of investments are generally determined based on quoted market prices or estimated fair values provided by external investment managers or other sources. Direct investments in real estate included in the investment portfolio are recorded at fair value determined based on the discounted value of

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

(j) Impairment of Long-Lived Assets

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

(m) Income Taxes

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

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

(n) Use of Estimates

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

(o) Reclassifications

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

(3) Change in Accounting Principle

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

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

(Continued)

(In thousands of dollars)

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

Investments consist of the following at May 31:

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

For investment purposes, the University pools substantially all assets of its endowment accounts. Each account owns “units” of the consolidated investment pool. The pooled assets are valued on a monthly basis and a fair value per unit is determined which is used to calculate the number of units purchased by accounts entering the pool and redeemed by accounts withdrawing from the pool. Income (interest, dividends, and rents) earned by the investment pool is distributed to the individual accounts on the basis of average units owned by each account in the pool during the year.

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

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

The University utilizes the total return concept of endowment spending. Under the method adopted by the University, interest, dividends, and rents, as well as appreciation on investments held by the investment pool, are made available for spending. Endowment payouts for operations of $14,723 for fiscal year 2007 and $12,600 for fiscal year 2006 were set by the University’s board of trustees.

(6) Physical Properties

The University's consolidated physical proper

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

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

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

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

The University and IITRI are subject to certain debt covenants. As of May 31, 2007, those covenants have been met.

The carrying value of long-term debt does not differ materially from its estimated fair value as of May 31, 2007 and 2006, based on quoted market prices for the same or similar issues.

(9) Accrued Postretirement Benefit Obligation

The University created a retirement incentive program for tenured faculty in November 2006. As part of the incentive program, certain medical benefits are offered to participants. A reconciliation of the plan's funded status with the accrued benefit cost reported on the statement of financial position at May 31, 2007 is presented below. The accumulated postretirement benefit obligation disclosed below is the actuarial value of future benefits used on employees' service rendered through the measur

Reconciliation of Benefit Obligation

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

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

Service cost	$	285
Interest cost		371
Amortization of prior service cost		811
Net periodic postretirement benefit cost	$	1,467

(In thousands of dollars)

Estimated Future Benefits Payments

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

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

ILLINOIS INSTITUTE OF TECHNOLOGY

(In thousands of dollars)

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

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

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

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

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

(13) Leases

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

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

IIT State Street, NFP is a 501(c)(3) corporation that is affiliated with, but not controlled by the University, and accordingly, is not included in the University's financial statements. IIT State Street, NFP, has borrowed $28,800 from IEFA to construct the dorms and $1,000 from the University for a supplemental reserve fund. The University has no obligation for the corporation's liabilities or debts. However, the University has provided $1,000 loan to State Street to establish the supplemental reserve fund, which was subsequently used to fund construction costs of the housing complex.

(Continued)

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

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

(14) Contingencies

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

ILLINOIS INSTITUTE OF TECHNOLOGY

Schedule of Expenditures of Federal Awards

Year ended May 31, 2007

Program title	Award number	CFDA number	Federal expenditures
Major Programs:			
Research and Development Cluster – Direct awards:			
Department of Agriculture:			
Grants for Agricultural Research – Competitive Research Grants		10.206	$ (3,118)
Integrated Programs		10.303	1,897
Cochran Fellowship Program – International Training – Foreign Participant		10.962	14,437
			13,216
Department of Commerce:			
Measurement and Engineering Research and Standards		11.609	7,750
Development of Mathematical Morphology Software	SB134106W0652	11.xxx	16,643
			24,393
Department of Defense:			
Procurement Technical Assistance For Business Firms		12.002	37,256
Basic and Applied Scientific Research		12.300	848,774
Military Medical Research and Development		12.420	97,858
Basic Scientific Research		12.431	42,884
Air Force Defense Research Sciences Program		12.800	(48)
Research and Technology Development		12.910	5,162
			1,031,886
Department of Justice:			
Law Enforcement Assistance – FBI Field Police Training		16.302	613,317
Legal Assistance for Victims		16.524	26,441
			639,758
Department of State:			
Professional Development International Educators/Administrators		19.404	49,162
Department of Transportation:			
Highway Research and Development Program		20.200	38,482
Department of Treasury:			
Low-Income Taxpayer Clinics		21.008	81,951
National Aeronautics and Space Administration:			
Contract	NNC04AA68		

ILLINOIS INSTITUTE OF TECHNOLOGY

Schedule of Expenditures of Federal Awards

Year ended May 31, 2007

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

(Continued)

ILLINOIS INSTITUTE OF TECHNOLOGY

Schedule of Expenditures of Federal Awards

Year ended May 31, 2007

Program title	Award number	CFDA number	Federal expenditures
Institute of Museum and Library Services:			
Grants to States – passed through:		45.310	
Iowa Tc 0 c5			

ILLINOIS INSTITUTE OF TECHNOLOGY

Schedule of Expenditures of Federal Awards

Year ended May 31, 2007

Program title	Award number	CFDA number		Federal expenditures
Department of Energy Contracts – passed through:				
Battelle	DE-AC05-76RL01830	81.xxx	$	(16,983)
Brookhaven National Lab	DE-AC02-98CH	81.xxx		83,347
Ernest Orlando Lawrence Berkely Lab	DE-AC02-05CH11231	81.xxx		30,119
Fermilab	570056	81.xxx		67,082
Fermilab	57882	81.xxx		35,834
Los Alamos National Lab	DE-AC52-06NA25396	81.xxx		39,158
Muons Inc	DE-FG02-06ER86281	81.xxx		30,000
National Renewable Energy Lab	DE-AC36-99GO10337	81.xxx		29,976
				298,533

ILLINOIS INSTITUTE OF TECHNOLOGY

Schedule of Expenditures of Federal Awards

Year ended May 31, 2007

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

See accompanying independent auditors' report.

ILLINOIS INSTITUTE OF TECHNOLOGY

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

(c) Subrecipients

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

(d) Pass-through Funds

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

(2) Indirect Costs

The University has four-year predetermined fixed indirect cost rates, effective June 1, 2003 through May 31, 2007, which have been negotiated with its cognizant agency, the U.S. Department of Health and Human Services. The predetermined fixed rates were based on the University's financial information for fiscal year 2003. The base rates for on- and off-campus research were 50% and 24% of modified total direct costs, respectively. Approximately $3.4 million of indirect costs were reimbursed to the University for the year ended May 31, 2007.

(3) Federal Student Loan Programs

Loans made by the University to eligible students under federal student loan programs and federally guaranteed loans issued to students of the University by financial institutions during the fiscal year ended May 31, 2007, are summarized as follows:

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

The Perkins program is administered directly by the University and balances and transactions relating to this program are included in the University's consolidated financial statements. The balance of loans outstanding under the Perkins program was $6,875,000 at May 31, 2007. The University received an administrative cost allowance of $155,413 under the Perkins program during the fiscal year ended May 31, 2007.

The University is responsible only for the performance of certain administrative duties with respect to the FFEL and, accordingly, these loans are not included in its

(4) Summary of Subrecipient Payments

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

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

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

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

The Board of Trustees
Illinois Institute of Technology:

We have audited the consolidated financial statements of Illinois Institute of Technology (the University) as of and for the year ended May 31, 2007, and have issued our report thereon dated September 21, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to University management in a separate letter dated September 21, 2007.

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

September 21, 2007

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

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

The Board of Trustees
Illinois Institute of Technology:

Compliance

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

The University's consolidated financial statements include the operations of IIT Research Institute, which received $13,028,000 in federal awards that are not included in the University's schedule of expenditures of federal awards for the year ended May 31, 2007. Our audit, described below, did not include the operations of IIT Research Institute because those awards will be audited separately.

We did not audit the University's compliance with the requirements governing the billing, collection, and due diligence functions in accordance with the requirements of the Student Financial Assistance Cluster: Federal Perkins Loan Program as described in the Compliance Supplement. Those requirements govern functions performed by Affiliated Computer Services, Inc. Education Services (ACS). Since we did not apply auditing procedures to satisfy ourselves as to compliance with those requirements, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on compliance with those requirements. ACS' compliance with the requirements governing the functions that it performs for the University for the year ended June 30, 2007 was examined by other accountants in accordance with the U.S. Department of Education's Audit Guide, *Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers*. Our report does not include the results of the other accountants' examination of ACS' compliance with such requirements.

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

U.S. Department of Education's Audit Guide, *Compliance Audits (Attestation Engagements) for Lenders and Lender Servicers Participating in the Federal Family Education Loan Program* for the year ended June 30, 2007. Our report does not include the results of the other accountants' examination of IDAPP's compliance with such requirements.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial statement audits contained in *Government Auditing Standards*

ILLINOIS INSTITUTE OF TECHNOLOGY

Schedule of Findings and Questioned Costs

Year ended May 31, 2007

(1) Summary of Auditors' Results:

(a) The type of opinion issued on the consolidated financial statements: **Unqualified opinion**

(b) Significant deficiencies in internal control disclosed by the audit of the consolidated financial statements: **None reported**

Material weaknesses: **No**

(c) Noncompliance which is material to the consolidated financial statements: **No**

(d) Significant deficiencies in internal control over major programs: **Yes**

Material weaknesses: **No**

(e) The type of report issued on compliance for major programs: **Unqualified opinion**

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

(g) Major programs:

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

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

(i) Auditee qualified as a low-risk auditee under Section. 530 of OMB Circular A-133: **Yes**

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

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

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

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

Award Numbers: None

Questioned Costs: None

Finding 07-01 *Student Status Changes*

Requirement

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

Additionally, OMB Circular A-110 requires nonfederal entities receiving federal awards establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and

Effect

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

Recommendation

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

Views of Responsible Officials

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