

ILLINOIS INSTITUTE OF TECHNOLOGY

Consolidated Financial Statements and Supplemental Information

May 31, 2008 and 2007

(With Independent Auditors' Report Thereon)

ILLINOIS INSTITUTE OF TECHNOLOGY

Table of Contents

	Page
Independent Auditors' Report	1
Consolidated Financial Statements:	
Statements of Financial Position	2
Statements of Activities	3
Statements of Cash Flows	5
Notes to Consolidated Financial Statements	6
Supplemental Information	
Independent Auditors' Report on Supplemental Information	23
Consolidating Statement of Financial Position – May 31, 2008	24
Consolidating Statement of Activities – Year ended May 31, 2008	25
Consolidating Statement of Cash Flows – Year ended May 31, 2008	26

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, 2008 and 2007, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over fine f6(o)--174 of nds geu

ILLINOIS INSTITUTE OF TECHNOLOGY

Consolidated Statements of Financial Position

May 31, 2008 and 2007

(In thousands of dollars)

Assets	2008	2007
Cash	\$ 2,189	1,901
Bond proceeds held by trustees	6,980	23,758
Investments (note 3)	293,458	345,226
Notes and accounts receivable:		
Grants and contracts, less allowance of \$105 in 2008 and 2007	13,274	14,924
Students:		
Tuition, less allowance of \$205 in 2008 and \$7,775 in 2007	7,000	7,168
Notes, less allowance of \$373 in 2008 and 2007	10,320	9,239
Pledges, less allowance of \$254 in 2008 and \$283 in 2007 (note 4)	13,015	17,926
Other	2,687	2,185
Inventories, prepaid expenses, and deferred charges	2,312	2,924
Physical properties, less accumulated depreciation (note 5)	268,390	246,919
Beneficial interest in perpetual trusts (note 6)	21,836	22,333
Total assets	\$ 641,461	694,503
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 20,434	22,986
Accrued salaries and wages	16,902	14,148
Deferred revenue	20,057	24,255
Deposits by students and others	2,407	3,650
Accrued postretirement benefit obligation (note 8)	1,462	1,417
Obligation under split-interest agreements	1,099	1,174

ILLINOIS INSTITUTE OF TECHNOLOGY

Consolidated Statement of Activities

Year ended May 31, 2008

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
Private grants and contracts	15,415	—	—	15,415
Private gifts	11,630	7,586	—	19,216
Endowment spending distribution (note 3)				

ILLINOIS INSTITUTE OF TECHNOLOGY

Consolidated Statements of Cash Flows

Years ended May 31, 2008 and 2007

(In thousands of dollars)

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ (57,133)	37,406
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities:		
Effect of change in accounting principle	(462)	—
Private gifts restricted for long-term investment	(4,923)	(9,029)
Depreciation	14,085	12,640
(Gain) loss on beneficial interest in perpetual trusts	497	(1,480)
Contribution of fixed assets	(55)	—
Net loss on disposal of assets	28	291
Net (gain) loss on investments	26,620	(46,780)
Accretion on asset retirement obligation	(55)	(586)
Changes in assets and liabilities:		
Receivables: tuition, grants, pledges, affiliate and other	6,227	(2,352)
Inventories, prepaid expenses, and deferred charges	612	(386)
Accounts payable and accrued expenses	(2,552)	2,463
Accrued salaries and wages	2,754	(260)
Deferred revenue	(4,198)	(1,077)
Deposits by students and others	(1,243)	751
Accrued postretirement benefit obligation	507	1,417
Obligations under split-interest agreements	(75)	(121)
Asset retirement obligation	(256)	—
Net cash used in operating activities	<u>(19,622)</u>	<u>(7,103)</u>
Cash flows from investing activities:		
Proceeds from sale of investments	246,575	589,525
Purchase of investments	(221,427)	(577,539)
Bond proceeds held by trustees	16,778	27,923
Purchase of physical properties	(35,529)	(42,743)
Issuance of notes receivable	(2,500)	(1,922)
Payments received on notes receivable	<u>1,419</u>	<u>1,896</u>
Net cash provided by (used in) investing activities	<u>5,316</u>	<u>(2,860)</u>
Cash flows from financing activities:		
Private gifts restricted for endowments	4,923	9,029
Payments on notes and bonds payable	(860)	(982)
Proceeds from borrowings under line of credit	<u>10,531</u>	—
Net cash provided by financing activities	<u>14,594</u>	<u>8,047</u>
Increase (decrease) in cash	288	(1,916)
Cash at:		
Beginning of year	<u>1,901</u>	<u>3,817</u>
End of year	\$ <u><u>2,189</u></u>	\$ <u><u>1,901</u></u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 8,547	8,895

See accompanying notes to consolidated financial statements.

ILLINOIS INSTITUTE OF TECHNOLOGY

Notes to Consolidated Financial Statements

May 31, 2008 and 2007

(In thousands of dollars)

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 recognize revenue on fixed contracts based on various performance measures. From time to time, facts develop that require IITRI to revise its estimated total costs or revenues expected. The cumulative effect of revised estimates is recorded in the period in which the facts requiring revisions become known. The full amount of anticipated losses on any type of contract is recognized in the period in which they become known. Under time-and-materials contracts, labor and related costs are reimbursed at negotiated, fixed hourly rates. Revenue on time-and-materials contracts is recognized at contractually billable rates as labor hours and direct expenses are incurred.

Historically, governmental clients have been a major source of revenue for IITRI. For the fiscal years ended May 31, 2008 and 2007, these governmental clients accounted for approximately 42% and 48%, respectively, of IITRI's operating revenue of \$26,555 and \$25,110 respectively. In addition, IITRI has one significant industrial customer, which comprised approximately 28% and 36%, respectively, of their contract revenue in 2008 and 2007. Included in IITRI's revenue for 2008 and 2007 and accounts receivable at May 31, 2008 and 2007 are unbilled receivables in the amounts of approximately \$2,111 and \$3,923, respectively.

The amount of contract and grant revenue reflected in

ILLINOIS INSTITUTE OF TECHNOLOGY

Notes to Consolidated Financial Statements

May 31, 2008 and 2007

(In thousands of dollars)

(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 the future cash flows. Management's estimate of the fair value of private equity and hedge fund investments is determined based on valuations provided by the external investment managers. The valuations for these investments necessarily involve estimates, appraisals, assumptions, and methods which are reviewed by the University.

Cash equivalents, consisting primarily of fixed income securities and money market accounts with original maturities of three months or less, related to endowment funds, are classified as investments. 6 -1.1 to het

ILLINOIS INSTITUTE OF TECHNOLOGY

Notes to Consolidated Financial Statements

May 31, 2008 and 2007

(In thousands of dollars)

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

(i) *Impairment of Long-lived Assets*

The University and IITRI account for long-lived assets in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-lived Assets*. This Statement 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 which are held by third parties. The University recognizes contribution revenue equal to its proportionate share of the fair value of the trust assets upon notification and determination that its right to receive benefits under the agreement is unconditional. Changes in the fair value of the University's interest in the trust assets are reflected as gains or losses in the period they occur.

(k) *Split-interest Agreements*

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

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

ILLINOIS INSTITUTE OF TECHNOLOGY

Notes to Consolidated Financial Statements

May 31, 2008 and 2007

(In thousands of dollars)

(l) *Income Taxes*

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

Management has included a provision for income taxes on unrelated business income related the University's interest in certain partnership investments. The unrelated business income liability of \$253,000 is reported in accounts payable and accrued expenses.

(m) *Use of Estimates*

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

(n) *New Accounting Pronouncements*

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement on Financial Accounting Standard No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (SFAS 158). SFAS 158 requires an employer to recognize the over funded or under funded status of a defined benefit pension and other

ILLINOIS INSTITUTE OF TECHNOLOGY

ILLINOIS INSTITUTE OF TECHNOLOGY

Notes to Consolidated Financial Statements

May 31, 2008 and 2007

(In thousands of dollars)

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

	<u>2008</u>	<u>2007</u>
Return on investments:		
Interest and dividends	\$ 7,108	8,255
Net realized gain on sale of investments	28,177	32,235
Net unrealized gain (loss) on investments	<u>(54,797)</u>	<u>14,545</u>
Net return on investments	\$ <u>(19,512)</u>	<u>55,035</u>

The return on investments reflects interest income of \$815 for 2008 and \$799 for 2007 and an unrealized loss of \$42 for 2007 from investments held by IITRI.

(4) Pledges Receivable

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

	<u>2008</u>	<u>2007</u>
Pledges receivable	\$ 16,064	21,263
Allowance for uncollectible pledges	(254)	(283)
Discount to present value future cash flows	<u>(2,795)</u>	<u>(3,054)</u>
Net pledges receivable	\$ <u>13,015</u>	<u>17,926</u>

The following is a summary showing the expected timing of collection of total unconditional pledges receivable outstanding as of May 31, 2008:

<u>Fiscal year(s)</u>	<u>Amount</u>
2009	\$ 4,148
2010 through 2014	10,336
2015 and thereafter	<u>1,580</u>
	\$ <u>16,064</u>

ILLINOIS INSTITUTE OF TECHNOLOGY

Notes to Consolidated Financial Statements

May 31, 2008 and 2007

(In thousands of dollars)

(5) Physical Properties

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

	<u>2008</u>	<u>2007</u>
Land and land improvements	\$ 31,939	27,610
Building and building improvements	296,791	253,164
Equipment and library collection	88,972	80,995
Construction in progress	33,534	55,456
Total physical properties	<u>451,236</u>	<u>417,225</u>
Less accumulated depreciation	<u>182,846</u>	<u>170,306</u>
Physical properties, net	<u>\$ 268,390</u>	<u>246,919</u>

The University executed an agreement to purchase two parcels of land for \$7,800 in December 2006. Phase I (\$3,500) of the purchase of a surface parking lot at the corner of Jefferson and Jackson Streets, Chicago, Illinois, which is in close proximity to the University's downtown campus occurred. The purchase agreement included a put-option, which allows the University the option to reconvey the first land parcel back to the seller by October 15, 2007 with a refund of the initial purchase payment of \$3,500. The option was not exercised and Phase II (\$4,300) was executed in 2008 to complete the purchase of the

ILLINOIS INSTITUTE OF TECHNOLOGY

Notes to Consolidated Financial Statements

May 31, 2008 and 2007

(In thousands of dollars)

(7) Notes and Bonds Payable

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

	<u>Interest rate</u>	<u>2008</u>	<u>2007</u>
University:			
IFA Bonds, Series 2006, payable in varying installments through 2036	5.0% and 6.10%	\$ 160,000	160,000
Note payable to ISAC for student lender program	Various	261	230
City of Chicago Energy Loan	Interest free	300	450
IITRI (IFA Series 2004, payable in varying installments through 2034	Variable	16,830	17,540
Short-term line of credit	Various	<u>10,500</u>	<u>—</u>
Total notes and bonds payable		\$ <u>187,891</u>	<u>178,220</u>

The following is a summary of required principal payments, excluding amounts due under the note payable

ILLINOIS INSTITUTE OF TECHNOLOGY

Notes to Consolidated Financial Statements

May 31, 2008 and 2007

(In thousands of dollars)

The University has also been designated a lender by the U.S. Department of Education for the Federal Stafford Loan program. As a lender the University participates in the Federal Family Education Loan Program and 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; (iii) and pay certain costs incurred in connection with the bond issue. Additionally, IITRI has obtained an irrevocable letter of credit issued by Fifth Third Bank through August 4, 2010, which is renewable annually upon mutual consent of the parties. In the event that the agent is unable to remarket the bonds, the bonds become a demand note under the irrevocable letter of credit issued by Fifth Third Bank. If the letter of credit is not renewed and an alternate credit facility is not in place, IITRI's bonds are subject to mandatory redemption. Although the loan agreement between IITRI and IFA is for a thirty year period, the terms of the letter of credit between IITRI and Fifth Third Bank require the bonds to be amortized over a twenty year life carrying interest rate of 1.00%; accordingly, the current amortization schedule is as follows:

ILLINOIS INSTITUTE OF TECHNOLOGY

Notes to Consolidated Financial Statements

May 31, 2008 and 2007

(In thousands of dollars)

(8) 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, 2008 and 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 measurement date.

	2008	2007
Change in accumulated postretirement benefit obligation at beginning of the period	\$ 11,059	10,945
Service cost	99	285
Interest cost	186	372
Plan amendments	(9,817)	—
Actuarial gain	(47)	(492)
Actuarial benefit payments net contributions	(18)	(50)

ILLINOIS INSTITUTE OF TECHNOLOGY

Notes to Consolidated Financial Statements

May 31, 2008 and 2007

(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	
2009	\$ 29
2010	41
2011	53
2012	66
2013	85
2014-2018	586

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.

(9) Employee Benefit Plans

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, 2008 and 2007 were \$4,960 and \$4,818 by the University and \$402 and \$404 by IITRI, respectively.

Health Care Benefit Plans

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

ILLINOIS INSTITUTE OF TECHNOLOGY

Notes to Consolidated Financial Statements

May 31, 2008 and 2007

(In thousands of dollars)

(10) Functional Classification of Expenses

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

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

	<u>2008</u>	<u>2007</u>
Instruction	\$ 80,311	72,428
Research and other grant activities	67,615	57,668
Academic support	27,562	26,758
Student services	16,056	15,044
Institutional support	40,367	36,139
Auxiliary enterprises	13,136	12,025
Total	<u>\$ 245,047</u>	<u>220,062</u>

(11) Net Assets

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

	<u>2008</u>	<u>2007</u>
Net investment in land, buildings, and equipment	\$ 74,957	76,046
Funds designated by the board of trustees for endowment	73,533	20,201
Undesignated	35,742	150,275
Total	<u>\$ 184,232</u>	<u>246,522</u>

ILLINOIS INSTITUTE OF TECHNOLOGY

Notes to Consolidated Financial Statements

May 31, 2008 and 2007

(In thousands of dollars)

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

	<u>2008</u>	<u>2007</u>
Net investment in land, buildings, and equipment	\$ 5,885	6,743
Scholarships	2,351	1,851
Instruction and academic departments	5,901	6,328
Library	427	518
General operations	8,137	9,492
Split-interest annuity agreements	<u>1,065</u>	<u>1,073</u>
Total	<u>\$ 23,766</u>	<u>26,005</u>

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

	<u>2008</u>	<u>2007</u>
Endowment investments	\$ 125,092	117,763
Endowments restricted for plant	9,898	9,898
Donor-restricted revolving loans funds	7,000	6,665
Split-interest annuity agreements	2,258	2,029
Beneficial interest in perpetual trusts	<u>21,836</u>	<u>22,333</u>
Total	<u>\$ 166,084</u>	<u>158,688</u>

The amount of outstanding loans from quasi-endowments to unrestricted funds is \$5,798 and \$6,900 at May 31, 2008 and 2007, respectively.

(12) 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.

ILLINOIS INSTITUTE OF TECHNOLOGY

Notes to Consolidated Financial Statements

May 31, 2008 and 2007

(In thousands of dollars)

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.

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 \$769, \$788, \$808, \$828, \$849 respectively over each of the next five years and \$10,949 in years thereafter.

(13) 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.



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Independent Auditors' Report on Supplemental Information

The Board of Trustees
Illinois Institute of Technology:

We have audited and reported separately herein on the consolidated financial statements of Illinois Institute of Technology (the University) as of and for the years ended May 31, 2008 and 2007.

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

October 2, 2008

ILLINOIS INSTITUTE OF TECHNOLOGY

Consolidating Statement of Financial Position

May 31, 2008

(In thousands of dollars)

Assets	University	IITRI	Eliminations	Total
Cash	\$ 1,777	412	—	2,189
Bond proceeds held by trustees	4,853	2,127	—	6,980
Investments	279,475	13,983	—	293,458
Notes and accounts receivable:				
Grants and contracts, less allowance of \$105	9,382	3,892	—	13,274
Students:				
Tuition, less allowance of \$205	7,000	—	—	7,000
Notes, less allowance of \$373	10,320	—	—	10,320
Pledges, less allowance of \$254	13,015	—	—	13,015
Other	2,596	91	—	2,687
Affiliated organizations, net	1,024	—	(1,024) (a)	—
Inventories, prepaid expenses, and deferred charges	2,034	278	—	2,312
Equity interest in IITRI	17,186	—	(17,186) (b)	—
Physical properties, less accumulated depreciation	248,264	20,126	—	268,390
Beneficial interest in perpetual trusts	21,836	—	—	21,836
Total assets	<u>\$ 618,762</u>	<u>40,909</u>	<u>(18,210)</u>	<u>641,461</u>
Liabilities and Net Assets				
Liabilities:				
Accounts payable and accrued expenses	\$ 20,353	1,105	(1,024) (a)	20,434
Accrued salaries and wages	15,914	988	—	16,902
Deferred revenue	15,257	4,800	—	20,057
Deposits by students and others	2,407	—	—	2,407
Accrued postretirement benefit obligation	1,462	—	—	1,462
Obligation under split-interest agreements	1,099	—	—	1,099
Notes and bonds payable	171,061	16,830	—	187,891
Advances from U.S. Government for student loans	8,094	—	—	8,094
Asset retirement obligation	9,033	—	—	9,033
Total liabilities	<u>244,680</u>	<u>23,723</u>	<u>(1,024)</u>	<u>267,379</u>
Net assets:				
Unrestricted	184,232	17,186	(17,186) (b)	184,232
Temporarily restricted	23,766	—	—	23,766
Permanently restricted	166,084	—	—	166,084
Total net assets	<u>374,082</u>	<u>17,186</u>	<u>(17,186)</u>	<u>374,082</u>
Total liabilities and net assets	<u>\$ 618,762</u>	<u>40,909</u>	<u>(18,210)</u>	<u>641,461</u>

(a) Elimination of interentity accounts payable/receivable.

(b) Elimination of equity interest in IITRI.

See accompanying independent auditors' report on supplemental information.

INSTITUTE OF TECHNOLOGY

Statement of Activities

For the period ended May 31, 2008
 (in thousands of dollars)

		Unrestricted TRI	Interentity eliminations	Total	Temporarily restricted – University	Permanently restricted – University	Total	
		—	—	96,747	—	—	96,747	
		11,173	—	44,323	—	—	44,323	
		15,382	—	19,615	—	—	19,615	
		—	—	6,337	9,607	—	15,944	
		—	—	16,935	—	—	16,935	
		—	—	12,502	—	—	12,502	
		1	(1,089) (a)	13,587	—	—	13,587	
		—	—	9,030	(9,030)	—	—	
	Total operating revenue	193,609	26,556	(1,089)	219,076	577	—	219,653
Operating expenses:								
	Faculty salaries	46,914	—	—	46,914	—	—	46,914
	Administrative salaries	40,382	—	—	40,382	—	—	40,382
	Part-time salaries	14,049	—	—	14,049	—	—	14,049
	Employee benefits	18,751	—	—	18,751	—	—	18,751
	Operations and maintenance	25,859	—	—	25,859	—	—	25,859
	Supplies and services	40,253	—	—	40,253	—	—	40,253
	Professional fees and advertising	13,545	—	—	13,545	—	—	13,545
	IITRI research	—	23,234	(1,089) (a)	22,145	—	—	22,145
	Depreciation	12,597	1,488	—	14,085	—	—	14,085
	Total operating expenses	212,350	24,722	(1,089)	235,983	—	—	235,983
	Increase (decrease) in net assets from operating activities	(18,741)	1,834	—	(16,907)	577	—	(16,330)
Nonoperating revenue and expenses:								
	Private gifts	—	—	—	—	4,923	—	4,923
	Change in donor restriction	—	—	—	(2,800)	2,800	—	—
	Interest on indebtedness	(8,402)	(662)	—	(9,064)	—	—	(9,064)
	Net gain (loss) on investments	(43,494)	—	—	(43,494)	11	(569)	(44,052)
	Endowment income	6,293	815	—	7,108	—	—	7,108
	Net loss on disposal of assets	(28)	—	—	(28)	—	—	(28)
	Asset retirement obligation accretion	55	—	—	55	—	—	55
	Other	(422)	—	—	(422)	(27)	242	(207)
	Equity income from IITRI	1,987	—	(1,987) (b)	—	—	—	—
	Increase (decrease) in net assets from nonoperating activities	(44,011)	153	(1,987)	(45,845)	(2,816)	7,396	(41,265)
	Increase (decrease) in net assets before effect of adoption of change in accounting principle	(62,752)	1,987	(1,987)	(62,752)	(2,239)	7,396	(57,595)
	Effect of adoption of change in accounting principle	462	—	—	462	—	—	462
	Increase (decrease) in net assets	(62,290)	1,987	(1,987)	(62,290)	(2,239)	7,396	(57,133)
	Net assets at beginning of year	246,522	15,199	(15,199)	246,522	26,005	158,688	431,215
	Net assets end of year	\$ 184,232	17,186	(17,186)	184,232	23,766	166,084	374,082

(a) Elimination of interentity utility income and expense.

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

See accompanying independent auditors' report on supplemental information.

ILLINOIS INSTITUTE OF TECHNOLOGY

Consolidating Statement of Cash Flows

Year ended May 31, 2008

(In thousands of dollars)

	<u>University</u>	<u>IITRI</u>	<u>Eliminations</u>	<u>Total</u>
Cash flows from operating activities:				
Increase (decrease) in net assets	\$ (57,133)	1,987	(1,987) (a)	(57,133)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:				
Effect of change in accounting principle	(462)	—	—	(462)
Private gifts restricted for long-term investment	(4,923)	—	—	(4,923)
Depreciation	12,597	1,488	—	14,085
Loss on beneficial interest in perpetual trusts	497	—	—	497
Contribution of fixed assets	(55)	—	—	(55)
Net loss on disposal of assets	28	—	—	28
Net loss on investments	26,620	—	—	26,620
Accretion on asset retirement obligation	(55)	—	—	(55)
Changes in assets and liabilities:				
Receivables: tuition, grants, pledges, affiliate and other	4,034	1,966	227 (b)	6,227
Inventories, prepaid expenses, and deferred charges	438	174	—	612
Equity interest in IITRI	(1,987)	—	1,987 (a)	—
Accounts payable and accrued expenses	(88)	(2,237)	(227) (b)	(2,552)
Accrued salaries and wages	2,821	(67)	—	2,754
Deferred revenue	(1,500)	(2,698)	—	(4,198)
Deposits by students and others	(1,243)	—	—	(1,243)
Accrued postretirement benefit obligation	507	—	—	507
Obligations under split-interest agreements	(75)	—	—	(75)
Asset retirement obligation	(256)	—	—	(256)
Net cash provided by (used in) operating activities	<u>(20,235)</u>	<u>613</u>	<u>—</u>	<u>(19,622)</u>
Cash flows from investing activities:				
Proceeds from sale of investments	246,037	538	—	246,575
Purchase of investments	(221,427)	—	—	(221,427)
Bond proceeds held by trustees	16,772	6	—	16,778
Purchase of physical properties	(34,498)	(1,031)	—	(35,529)
Issuance of notes receivable	(2,500)	—	—	(2,500)
Payments received on notes receivable	1,419	—	—	1,419
Net cash provided by (used in) investing activities	<u>5,803</u>	<u>(487)</u>	<u>—</u>	<u>5,316</u>
Cash flows from financing activities:				
Private gifts restricted for long-term investment	4,923	—	—	4,923
Payments on notes and bonds payable	(150)	(710)	—	(860)
Proceeds from borrowings under line of credit	10,531	—	—	10,531
Net cash provided by (used in) financing activities	<u>15,304</u>	<u>(710)</u>	<u>—</u>	<u>14,594</u>
Increase (decrease) in cash	872	(584)	—	288
Cash at:				
Beginning of year	905	996	—	1,901
End of year	<u>\$ 1,777</u>	<u>412</u>	<u>—</u>	<u>2,189</u>
Supplemental disclosure of cash flow information:				
Cash paid for interest	\$ 8,075	472	—	8,547

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

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

See accompanying independent auditors' report on supplemental information.