



The University of Chicago

2012–2013

*Financial Statements and Supplemental
University Information*

THE UNIVERSITY OF CHICAGO

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THE UNIVERSITY OF CHICAGO

Management's Responsibility for Consolidated Financial Statements

The management of The University of Chicago (University) is responsible for the preparation, integrity, and fair presentation of the consolidated financial statements. The consolidated financial statements, presented on pages 4 to 43, have been prepared in conformity with U.S. generally accepted accounting principles and, as such, include amounts based on judgments and estimates by management.

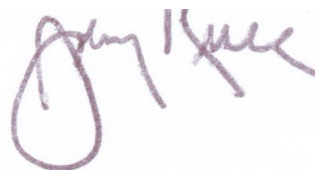
The consolidated financial statements have been audited by the independent accounting firm KPMG LLP (KPMG), which was given unrestricted access to all financial records and related data, including minutes of all meetings of trustees. KPMG did not audit the financial statements of The University of Chicago Medical Center (the Medical Center) and their opinion, insofar as it relates to the amounts included for the Medical Center, is based solely on the report of PricewaterhouseCoopers, the independent auditors for the Medical Center. The University believes that all representations made to KPMG during its audit were valid and appropriate. KPMG's audit opinion is presented on pages 2 and 3.

The University maintains a system of internal controls over financial reporting, which is designed to provide reasonable assurance to the University's management and Board of Trustees regarding the preparation of reliable published financial statements. Such controls are maintained by the establishment and communication of accounting and financial policies and procedures, by the selection and training of qualified personnel, and by an internal audit program designed to identify internal control weakness in order to permit management to take appropriate corrective action on a timely basis. There are, however, inherent limitations in the effectiveness of any system of internal control, including the possibility of human error and the circumvention of controls. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to financial statement preparation.

The Trustees of the University, through its Audit Committee comprised of trustees not employed by the University, are responsible for engaging the independent accountants and meeting with management, internal auditors, and the independent accountants to ensure that each is carrying out their responsibilities. Both internal auditors and the independent accountants have full and free access to the Audit Committee.



Nimalan Chinniah
Executive Vice President for Administration
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Independent Auditors' Report

The Board of Trustees
The University of Chicago:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of The University of Chicago (the University), which comprise the consolidated balance sheets as of June 30, 2013 and 2012, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements. We did not audit the financial statements of The University of Chicago Medical Center (the Medical Center), which statements reflect total assets constituting 19% and 20% and total revenues constituting 43% and 44% of the related consolidated totals in 2013 and 2012, respectively. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Medical Center, is based solely on the report of the other auditors.

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. 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 auditors consider 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 The University of Chicago as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information included in schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. 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 information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

Chicago, Illinois
October 10, 2013

THE UNIVERSITY OF CHICAGO

Consolidated Balance Sheets

June 30, 2013 and 2012

(In thousands of dollars)

Assets	2013	2012
Cash and cash equivalents	\$ 190,082	146,278
Notes and accounts receivable, net	387,513	376,812
Prepaid expenses and other assets	105,285	100,566
Pledges receivable, net	422,325	371,561
Investments	7,686,884	7,440,884
Land, buildings, equipment, and books, net	3,733,388	3,518,629
Total assets	\$ 12,525,477	11,954,730
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 644,346	650,491
Deferred revenue	89,480	89,521
Assets held in custody for others	58,923	61,535
Self-insurance liability	273,692	264,248
Pension and other postretirement benefit obligations	490,642	568,634
Asset retirement obligation	61,631	64,201
Notes and bonds payable	3,563,152	3,284,066
Refundable U.S. government student loan funds	38,390	38,107
Total liabilities	5,220,256	5,020,803
Net assets:		
Unrestricted	2,512,969	2,324,884
Temporarily restricted	3,240,422	3,150,524
Permanently restricted	1,551,830	1,458,519
Total net assets	7,305,221	6,933,927
Total liabilities and net assets	\$ 12,525,477	11,954,730

See accompanying notes to consolidated financial statements.

THE UNIVERSITY OF CHICAGO

Consolidated Statements of Activities

Years ended June 30, 2013 and 2012

(In thousands of dollars)

	<u>2013</u>	<u>2012</u>
Changes in unrestricted net assets:		
Operating:		
Revenue:		
Tuition and fees – gross	\$ 671,779	629,288
Less student aid	<u>(310,056)</u>	<u>(294,394)</u>
Tuition and fees – net	361,723	334,894
Government grants and contracts	356,938	386,797
Private gifts, grants, and contracts	160,132	146,475
Endowment payout	367,225	371,632
Earnings on other investments	1,772	2,477
Patient care	1,480,295	1,429,667
Auxiliaries	210,945	206,240
Other income	246,938	209,087
Net assets released from restrictions	<u>52,071</u>	<u>47,399</u>
Total operating revenue	<u>3,238,039</u>	<u>3,134,668</u>
Expenses:		
Compensation:		
Academic salaries	484,507	466,394
Staff salaries	962,837	889,895
Benefits	<u>412,371</u>	<u>388,774</u>
Total compensation	<u>1,859,715</u>	<u>1,745,063</u>
Other operating expenses:		
Utilities, alterations, and repairs	68,886	68,960
Depreciation	223,140	210,742
Interest	108,320	90,698
Supplies, services, and other	939,330	888,842
Insurance	<u>44,733</u>	<u>51,154</u>
Total other operating expenses	<u>1,384,409</u>	<u>1,310,396</u>
Total operating expenses	<u>3,244,124</u>	<u>3,055,459</u>
Excess (deficiency) of operating revenue over expenses	<u>(6,085)</u>	<u>79,209</u>

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Consolidated Statements of Activities

Years ended June 30, 2013 and 2012

(In thousands of dollars)

	2013	2012
Changes in unrestricted net assets:		
Nonoperating:		
Investment gains (losses)	\$ 26,296	(54,066)
Postretirement benefit changes other than net periodic benefit cost	89,046	(123,322)
Change in value of derivative instruments	70,310	(112,658)
Loss on debt refinancing	(1,143)	(18,776)
Others, net	9,661	1,186
Change in unrestricted net assets from nonoperating activities	194,170	(307,636)
Increase (decrease) in unrestricted net assets	188,085	(228,427)
Changes in temporarily restricted net assets:		
Private gifts	119,085	79,212
Investment gains (losses)	87,456	(39,494)
Others, net	(64,572)	(14,661)
Net assets released from restrictions	(52,071)	(47,399)
Increase (decrease) in temporarily restricted net assets	89,898	(22,342)
Changes in permanently restricted net assets:		
Private gifts	82,981	55,584
Endowment payout	2,156	2,517
Investment gains (losses)	(33,658)	400
Others, net	41,832	(4,494)
Increase in permanently restricted net assets	93,311	54,007
Increase (decrease) in net assets	371,294	(196,762)
Net assets at beginning of year	6,933,927	7,130,689
Net assets at end of year	\$ 7,305,221	6,933,927

See accompanying notes to consolidated financial statements.

THE UNIVERSITY OF CHICAGO
Consolidated Statements of Cash Flows
Years ended June 30, 2013 and 2012
(In thousands of dollars)

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 371,294	(196,762)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Depreciation	223,140	210,742
Change in value of derivative instruments	(70,310)	112,658
Loss on debt refinancing	1,143	18,776
Loss on disposal of land, buildings, equipment, and books	29,407	5,701
Net gain on investments	(353,181)	(200,080)
Private gifts and grants restricted for long-term investment	(199,850)	(134,795)
Other nonoperating changes	120,865	97,566
Postretirement benefit changes other than net periodic benefit cost	(89,046)	123,322
Changes in assets and liabilities:		
Notes and accounts receivable	(9,924)	(83,877)
Prepaid expenses and other assets	21,632	(13,446)
Accounts payable and other liabilities	73,553	(51,456)
Self-insurance liability	9,444	1,522
Total adjustments	<u>(243,127)</u>	<u>86,633</u>
Net cash provided by (used in) operating activities	<u>128,167</u>	<u>(110,129)</u>
Cash flows from investing activities:		
Purchase of investments	(2,054,854)	(738,989)
Proceeds from sale of investments	2,135,012	1,003,174
Acquisition of land, buildings, equipment, and books	(469,877)	(489,155)
Loans disbursed	(6,895)	(5,563)
Principal collected on loans	6,118	5,876
Net cash used in investing activities	<u>(390,496)</u>	<u>(224,657)</u>
Cash flows from financing activities:		
Proceeds from issuance of debt instruments	1,384,452	1,804,200
Principal payments on debt instruments	(1,106,347)	(1,562,730)
Proceeds from private gifts and grants restricted for long-term investment	94,372	82,566
Other nonoperating changes	(66,344)	(45,459)
Net cash provided by financing activities	<u>306,133</u>	<u>278,577</u>
Increase (decrease) in cash and cash equivalents	43,804	(56,209)
Cash and cash equivalents at:		
Beginning of year	146,278	202,487
End of year	<u>\$ 190,082</u>	<u>146,278</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 119,081	91,211

See accompanying notes to consolidated financial statements.

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Notes to Consolidated Financial Statements

June 30, 2013 and 2012

(In thousands of dollars)

(1) Summary of Significant Accounting Policies

(a) Description of Business

The University of Chicago (the University) is a private, nondenominational, coeducational institution of higher learning and research. The University provides education and training services, primarily for students enrolled in undergraduate, graduate, and professional degree programs, and performs research, training, and other services under grants, contracts, and other agreements with sponsoring organizations, including both government agencies and private enterprises. Certain members of the University's faculty also provide professional medical services to patients at The University of Chicago Medical Center (the Medical Center) and other healthcare facilities located in the area.

Significant accounting policies followed by the University and the Medical Center are set forth as follows. Accounting policies specific to the Medical Center are discussed in note 2.

(b) Basis of Presentation

The consolidated financial statements of the University have been prepared on the accrual basis and include the accounts of the University and the Medical Center. The organization of the Medical Center and agreements between the University and the Medical Center are discussed in note 2.

The University maintains its accounts in accordance with the principles of fund accounting. Under this method of accounting, resources for various purposes are classified into funds that are in accordance with activities or objectives specified by donors. Separate accounts are maintained for each fund.

For reporting purposes, however, the University follows the reporting requirements of the Financial Accounting Standards Board (FASB) and the American Institute of Certified Public Accountants (AICPA), *Audit and Accounting Guide for Not-for-Profit Entities*, which require that resources be classified for reporting purposes based on the existence or absence of donor-imposed restrictions. This is accomplished by classification of fund balances into three classes of net assets – unrestricted, temporarily restricted, and permanently restricted. Descriptions of the three net asset categories and the types of transactions affecting each category follow:

- Unrestricted – net assets that are not subject to donor-imposed restrictions. Items that affect this net asset category principally consist of fees for service and related expenses associated with the core activities of the University – instruction, conduct of sponsored research, and provision of healthcare services. In addition to these exchange transactions, changes in this category of net assets include investment returns on unrestricted “funds functioning as endowment” funds, actuarial adjustments to self-insurance liabilities, and certain types of philanthropic support. Such philanthropic support includes unrestricted gifts, including those designated by the Board of Trustees (the Board) to function as endowment and restricted gifts whose donor-imposed restrictions were met during the fiscal year, as well as restricted gifts and grants for buildings and equipment that have been amortized over the useful life of the assets acquired or constructed.

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Notes to Consolidated Financial Statements

June 30, 2013 and 2012

(In thousands of dollars)

- Temporarily Restricted – net assets 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 donor-imposed restrictions have not been met, gifts and grants for buildings and equipment, annuity and life income gifts, pledges for which the ultimate purpose of the proceeds is not permanently restricted, investment returns on “true” endowment funds, and endowments where the principal may be expended upon the passage of a stated period of time (term endowments). Expirations of restrictions on temporarily restricted net assets, including amortization of restricted gifts and grants for buildings and equipment, are reported as net assets released from restrictions.
- Permanently Restricted – net assets subject to donor-imposed restrictions 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.

Temporarily and permanently restricted net assets consisted of the following at June 30:

<u>Detail of net assets</u>	<u>2013</u>		<u>2012</u>	
	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>
University:				
Operating	\$ 10,968	—	9,934	—
Pledges	336,966	80,651	312,549	48,579
Student loans	—	20,192	—	18,954
Endowment	2,628,304	1,407,485	2,552,126	1,350,616
Annuity and life income	22,718	37,410	18,313	34,278
Net investment in physical properties	<u>159,495</u>	<u>—</u>	<u>162,257</u>	<u>—</u>
Subtotal	<u>3,158,451</u>	<u>1,545,738</u>	<u>3,055,179</u>	<u>1,452,427</u>
Medical Center:				
Operating	8,639	—	17,653	—
Pledges	4,698	10	10,413	20
Endowment	<u>68,634</u>	<u>6,082</u>	<u>67,279</u>	<u>6,072</u>
Subtotal	<u>81,971</u>	<u>6,092</u>	<u>95,345</u>	<u>6,092</u>
Total	<u>\$ 3,240,422</u>	<u>1,551,830</u>	<u>3,150,524</u>	<u>1,458,519</u>

(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, actuarial

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Notes to Consolidated Financial Statements

June 30, 2013 and 2012

(In thousands of dollars)

adjustments to self-insurance liabilities, changes in postretirement benefit obligations, changes in the fair value of the derivative instruments, and other infrequent gains and losses.

(d) Tuition and Fees

Student tuition and fees are recorded as revenue during the year the related academic services are rendered. Student tuition and fees received in advance of services to be rendered are recorded as deferred revenue.

(e) Gifts, Grants, and Contracts

Gifts, including unconditional pledges, are recognized in the appropriate category of net assets in the period received. Contributions of assets other than cash are recorded at their estimated fair value at date of gift. Pledges receivable are stated at the estimated net present value, net of an allowance for uncollectible amounts. Conditional promises to give are not recognized until the conditions on which they depend are substantially met.

Revenue from government and private grant and contract agreements is recognized as it is earned through expenditure in accordance with the agreements. Any funding received in advance of expenditure is recorded as deferred revenue on the consolidated balance sheets. Included in deferred revenue at June 30, 2013 and 2012 are \$45,756 and \$47,138, respectively, of private grant and contract receipts, which have not been expended.

Private gifts, grants, and contracts operating revenue for fiscal years 2013 and 2012 consist of the following:

	2013			2012 Consolidated
	University	Medical Center	Consolidated	
Private gifts:				
Unrestricted as to use	\$ 21,330	41	21,371	18,332
Temporarily restricted gifts whose restrictions were met during the fiscal year and reported as unrestricted revenue	72,628	—	72,628	67,165
Private grants and contracts	66,133	—	66,133	60,978
Total	\$ 160,091	41	160,132	146,475

(f) Patient Care

Patient service revenue is reported net of a provision for doubtful accounts of \$8,053 and \$9,580 for the University and \$47,812 and \$45,133 for the Medical Center for the years ended June 30, 2013 and 2012, respectively. This provision reflects the estimated net realizable amounts due from

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Notes to Consolidated Financial Statements

June 30, 2013 and 2012

(In thousands of dollars)

third-party payors for services rendered. A majority of patient care revenue is derived from contractual agreements with Medicare, Medicaid, Blue Cross/Blue Shield, managed care, and certain other programs. Payments under these agreements and programs are based on specific amounts per case or contracted prices. Certain revenue received from third-party payors is subject to audit and retroactive adjustment. Any changes in estimates under these contracts are recorded in operations currently.

(g) Capitalized Interest

The University capitalizes interest costs incurred on debt during the construction of major projects exceeding one year. During fiscal years 2013 and 2012, the amount of interest capitalized amounted to \$8,674 and \$11,930 for the University and \$14,629 and \$10,015 for the Medical Center, respectively.

(h) Fair Value

Fair value is defined as the price that the University would receive upon selling an asset or pay to settle a liability in an orderly transaction between market participants.

The University uses a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. This hierarchy is broken down into three levels based on inputs that market participants would use in valuing the financial instruments based on market data obtained from sources independent of the University. Inputs refer broadly to the assumptions that market participants would use in pricing the asset, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset developed based on the best information available. The three-tier hierarchy of inputs is summarized in the three broad levels as follows:

Level 1 – quoted market prices in active markets for identical investments

Level 2 – inputs other than quoted prices for similar investments in active markets, quoted prices for identical or similar investments in markets that are not active, or inputs other than quoted prices that are observable including model-based valuation techniques

Level 3 – valuation techniques that use significant inputs that are unobservable because they trade infrequently or not at all

• **Cash Equivalents**

Cash equivalents include U.S. Treasury notes, commercial paper, and corporate notes with original maturities of three months or less, except that such instruments purchased with endowment assets or funds on deposit with bond trustees are classified as investments. Cash equivalents are considered Level 1 in the fair value hierarchy.

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Notes to Consolidated Financial Statements

June 30, 2013 and 2012

(In thousands of dollars)

- ***Investments***

Investments are recorded in the consolidated financial statements at estimated fair value. If an investment is held directly by the University and an active market with quoted prices exists, the market price of an identical security is used as reported fair value. Reported fair values for shares in mutual funds are based on share prices reported by the funds as of the last business day of the fiscal year. The University's interests in alternative investment funds such as private debt, private equity, real estate, natural resources, and absolute return are generally reported at the net asset value (NAV) reported by the fund managers, which is used as a practical expedient to estimate the 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 June 30, 2013 and 2012, the University had no plans to sell investments at amounts different from NAV.

The University does not engage directly in unhedged speculative investments; however, the Board has authorized the use of derivative investments to adjust market exposure within asset class ranges.

A summary of the inputs used in valuing the University's investments as of June 30, 2013 and 2012 is included in Note 3.

- ***Pledges Receivable***

Unconditional promises to give are recognized initially at fair value as private gift revenue in the period the promise is made by a donor. Fair value of the pledge is estimated based on anticipated future cash receipts (net of an allowance for uncollectible amounts), discounted using a risk-adjusted rate commensurate with the duration of the payment plan. These inputs to the fair value estimate are considered Level 3 in the fair value hierarchy. In subsequent periods, the discount rate is unchanged and the allowance for uncollectible amounts is reassessed and adjusted if necessary.

- ***Land, Buildings, Equipment, and Books***

Land, buildings, equipment, and books are generally stated at cost, less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the assets, ranging from 20 to 45 years for buildings and building improvements, 3 to 10 years for equipment, and 10 years for library books.

- ***Split-Interest Agreements***

Split-interest agreements with donors consist primarily of charitable remainder trusts for which the University serves as trustee, gift annuity contracts, and pooled life income agreements. Assets associated with split-interest agreements are included in investments. A liability for split-interest obligations is recorded when the agreement is established at the estimated net present value of future cash flows using a risk-adjusted discount rate commensurate with the duration of the estimated payments. These inputs to the fair value estimate are considered Level 3 in the fair value hierarchy. At June 30, 2013 and 2012, the University had liabilities of \$53,622 and

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Notes to Consolidated Financial Statements

June 30, 2013 and 2012

(In thousands of dollars)

\$50,285 associated with its charitable remainder trust and gift annuity contracts and deferred revenue of \$5,116 and \$5,151 associated with its pooled income agreements, respectively. In subsequent periods, the discount rate is unchanged.

- ***Interest Rate Swap Agreements***

In order to reduce exposure to adjustable interest rates on variable rate debt, the University has entered into debt-related interest rate swap agreements. These agreements have the effect of fixing the rate of interest for the variable rate debt. The fair value of these swap agreements is the estimated amount that the University would have to pay or receive to terminate the agreements as of the consolidated balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparty. These inputs to the fair value estimate are considered Level 2 in the fair value hierarchy.

- ***Assets Held in Custody For Others***

Assets held in custody for others consists of resources, primarily investments, held by the University as a custodian for affiliated organizations. Investments held for others are included in the University's investment portfolio. The leveling of these investments is presented in Note 3.

- ***Self-insurance Liability***

The self-insurance liability is the estimated present value of self-insured claims that will be settled in the future and considers anticipated payout patterns as well as investment returns on available assets prior to payment. The discount rate used to value the self-insurance liability is a risk-adjusted rate commensurate with the duration of anticipated payments. These inputs to the fair value estimate of the liability are considered Level 2 in the fair value hierarchy.

- ***Pension and Other Postretirement Benefit Obligations***

The pension and other postretirement benefit obligation considers anticipated payout patterns as well as investment returns on available assets prior to payment. The discount rate used to value the pension and other postretirement benefit obligation is a risk-adjusted rate commensurate with the duration of anticipated payments. These inputs to the fair value estimate are considered Level 2 in the fair value hierarchy.

- ***Asset Retirement Obligation***

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 obligation to remove asbestos is estimated using site-specific surveys where available and a per square foot estimate where surveys were unavailable. These inputs to the fair value estimate are considered Level 3 in the fair value hierarchy.

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Notes to Consolidated Financial Statements

June 30, 2013 and 2012

(In thousands of dollars)

- **All Other Assets and Liabilities**

The carrying value of all other assets and liabilities, including notes and bonds payable, does not differ materially from its estimated fair value and are considered Level 1 in the fair value hierarchy.

(i) **Internally Managed Investment Derivatives**

The following tables set forth the gross and net notional values and the University's gain (loss) related to internally managed investment derivative activities as of June 30, 2013 and 2012 and for the fiscal years then ended:

		2013		
		Gross notional	Net notional	Gain (Loss)
Interest rate derivatives	\$	93,056	93,056	(3,102)
Currency derivatives		33,708	—	1,001
Equity derivatives		248,824	(248,824)	(46,537)
Other derivatives		—	—	4
Total	\$	375,588	(155,768)	(48,634)

		2012		
		Gross notional	Net notional	Gain
Interest rate derivatives	\$	—	—	2,623
Currency derivatives		24,974	—	2,122
Equity derivatives		195,241	(108,296)	2,494
Other derivatives		—	—	60
Total	\$	220,215	(108,296)	7,299

To minimize the risk of loss, externally managed absolute return investments are diversified by strategy, external manager, and number of positions. In addition, the activities of external hedge fund managers are reviewed by their independent auditors and the University Investment Office. The risk of any derivative exposure associated with an externally managed hedge fund is limited to the amount invested with each manager. Investment managers report derivative investments at fair value and valuation gains and losses are included in investment gains in the consolidated statements of activities.

(j) **Income Taxes**

The University is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, except to the extent the University has unrelated business income, is exempt from federal

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Notes to Consolidated Financial Statements

June 30, 2013 and 2012

(In thousands of dollars)

income taxes. There was no provision for income taxes due on unrelated business income in fiscal years 2013 and 2012. The University has no uncertain tax positions which the University considers to be material.

(k) Use of Estimates

The preparation of the consolidated financial statements in accordance with generally accepted accounting principles requires that management make a number of estimates and assumptions related to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the consolidated balance sheet date, and the reporting of revenue, expenses, gains, and losses during the reporting period. Actual results may differ from those estimates.

(l) Subsequent Events

The University has performed an evaluation of subsequent events through October 10, 2013, which is the date the consolidated financial statements were issued.

On July 1, 2013, the University entered into an affiliation agreement with the Marine Biological Laboratory (MBL) in Woods Hole, Massachusetts. Under this affiliation, the University became the sole member of MBL. MBL's net assets of approximately \$160,000 at July 1, 2013 will be recognized as a contribution in the consolidated statements of activities in fiscal year 2014.

(2) The University of Chicago Medical Center

(a) Organization

The Medical Center, an Illinois not-for-profit corporation, operates the Center for Care and Discovery, the Bernard Mitchell Hospital, the University of Chicago Comer Children's Hospital, the Duchossois Center for Advanced Medicine, and various other outpatient clinics and treatment areas. The University, as the sole corporate member of the Medical Center, elects the Medical Center's Board of Trustees and approves its bylaws.

(b) Agreements with the University

The relationship between the University and the Medical Center is defined in an Affiliation Agreement and an Operating Agreement along with an associated Lease Agreement. The Affiliation Agreement specifies University and Medical Center responsibilities for the provision of patient care, teaching, and research at the hospitals and clinics. The Operating Agreement provides for the management and operation by the Medical Center of the University's hospital and clinic facilities. The Lease Agreement provides the Medical Center a leasehold interest in certain University facilities and land.

(c) Community Benefits

The Medical Center's policy is to treat patients in immediate need of medical services without regard to their ability to pay for such services, including patients transferred from other hospitals and patients accepted through the Perinatal and Pediatrics Trauma Networks. Patients are offered discounts of up to 100% of charges on a sliding scale based both on income as a percentage of the

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Federal Poverty Level guidelines and the charges for services rendered. The Medical Center policy also contains provisions that are responsive to those patients subject to catastrophic healthcare expenses. Since the Medical Center does not pursue collection of these amounts, they are not reported as net patient care revenue. The unreimbursed cost of providing such care, along with the unreimbursed cost of government sponsored indigent healthcare programs, unreimbursed cost to support education, clinical research, and other community programs amounted to \$284,000 and \$252,000 for the years ended June 30, 2013 and 2012, respectively.

(d) Basis of Presentation

The Medical Center maintains its accounts and prepares stand-alone financial statements in conformity with accounting and reporting principles of the AICPA *Audit and Accounting Guide for Health Care Organizations*. For purposes of presentation of the Medical Center financial position and changes in net assets in the consolidated financial statements, several reclassifications have been made as follows: (1) investment gains used for operations of \$37,398 in fiscal year 2013 and \$37,722 in 2012 have been recorded as unrestricted operating revenue and (2) transfers to the University of \$52,896 in fiscal year 2013 and \$31,892 in fiscal year 2012 have been recorded as a reduction of other income.

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(3) Investments

Investments at June 30, 2013 and 2012 comprise the following:

	2013			2012 Consolidated
	University	Medical Center	Consolidated	
Cash equivalents	\$ 139,500	32,779	172,279	108,992
Global public equities (primarily international)	1,076,403	175,047	1,251,450	1,267,953
Private debt	215,780	21,328	237,108	260,031
Private equity:				
U.S. venture capital	290,760	32,854	323,614	326,962
U.S. corporate finance	324,450	32,022	356,472	378,391
International	383,417	38,120	421,537	453,441
Real estate	758,290	56,978	815,268	781,850
Natural resources	596,780	58,786	655,566	682,714
Absolute return:				
Equity-oriented	366,741	36,155	402,896	330,201
Global macro/relative value	356,490	35,143	391,633	458,396
Multistrategy	511,371	50,457	561,828	573,355
Credit-oriented	166,120	16,376	182,496	127,762
Protection-oriented	113,889	11,227	125,116	113,647
Fixed income:				
U.S. treasuries, including TIPS	459,174	104,869	564,043	824,902
Other fixed income (primarily credit funds)	841,181	80,371	921,552	512,708
Funds in trust	289,222	14,804	304,026	239,579
Total	\$ 6,889,568	797,316	7,686,884	7,440,884

(a) Overall Investment Objective

The overall investment objective of the University is to invest its assets in a prudent manner that will achieve a long-term rate of return sufficient to fund a portion of its annual operating activities and increase investment value after inflation. The University diversifies its investments among various asset classes incorporating multiple strategies and external investment managers. Major investment decisions are authorized by the Board's Investment Committee, which oversees the University's investment program in accordance with established guidelines.

(b) Investment Strategies

Cash equivalent investments include cash equivalents and fixed-income investments, with maturities of less than one year, which are valued based on quoted market prices in active markets. The majority of these investments are held in U.S. money market accounts. Global public equity investments consist of separate accounts, commingled funds with liquidity ranging from daily to

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monthly, and limited partnerships. Securities held in separate accounts and daily-traded commingled funds are generally valued based on quoted market prices in active markets. Commingled funds with monthly liquidity are valued based on independently determined NAV. Limited partnership interests in equity-oriented funds are valued based upon NAV provided by external fund managers.

Investments in private debt, private equity, real estate, and natural resources are in the form of limited partnership interests, which typically invest in private securities for which there is no readily determinable market value. In these cases, market value is determined by external managers based on a combination of discounted cash flow analysis, industry comparables, and outside appraisals. Where private equity, real estate, and natural resources managers hold publicly traded securities, these securities are generally valued based on market prices. The value of the limited partnership interests are held at the manager's reported NAV, unless information becomes available indicating the reported NAV may require adjustment. The methods used by managers to assess the NAV of these external investments vary by asset class. The University monitors the valuation methodologies and practices of managers.

The absolute return portfolio is comprised of investments of limited partnership interests in hedge funds and drawdown private equity style partnerships whose managers have the authority to invest in various asset classes at their discretion, including the ability to invest long and short. The majority of the underlying holdings are marketable securities. The remainder of the underlying holdings is held in marketable securities that trade infrequently or in private investments, which are valued by the manager on the basis of an appraised value, discounted cash flow, industry comparables, or some other method. Most hedge funds that hold illiquid investments designate them in special side pockets, which are subject to special restrictions on redemption.

Fixed-income investments consist of directly held actively traded treasuries, separately managed accounts, commingled funds, and bond mutual funds that hold securities, the majority of which have maturities greater than one year. These are valued based on quoted market prices in active markets.

Funds in trust investments consist primarily of project construction funds and externally managed endowments.

The University believes that the reported amount of its investments is a reasonable estimate of fair value as of June 30, 2013 and 2012. Because of the inherent uncertainties of valuation, these estimated fair values may differ significantly from values that would have been used had a ready market existed.

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(c) ***Fair Value of Financial Instruments***

Following is a summary of the inputs used as of June 30, 2013 in valuing the University's investments carried at fair value:

	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	2013 Consolidated total
Cash equivalents	\$ 172,279	—	—	172,279
Global public equities (primarily international)	688,141	233,043	330,266	1,251,450
Private debt	—	—	237,108	237,108
Private equity:				
U.S. venture capital	—	—	323,614	323,614
U.S. corporate finance	—	—	356,472	356,472
International	—	—	421,537	421,537
Real estate	14,943	—	800,325	815,268
Natural resources	—	—	655,566	655,566
Absolute return:				
Equity-oriented	70,974	68,741	263,181	402,896
Global macro/relative value	68,262	63,970	259,401	391,633
Multistrategy	—	29,704	532,124	561,828
Credit-oriented	—	—	182,496	182,496
Protection-oriented	—	125,116	—	125,116
Fixed income:				
U.S. treasuries, including TIPS	517,303	46,740	—	564,043
Other fixed income (primarily credit funds)	921,552	—	—	921,552
Funds in trust	302,026	—	2,000	304,026
Total investments at fair value as of June 30, 2013	\$ 2,755,480	567,314	4,364,090	7,686,884

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Following is a summary of the inputs used as of June 30, 2012 in valuing the University's investments carried at fair value:

	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	2012 Consolidated total
Cash equivalents	\$ 108,992	—	—	108,992
Global public equities (primarily international)	615,604	191,763	460,586	1,267,953
Private debt	—	—	260,031	260,031
Private equity:				
U.S. venture capital	—	—	326,962	326,962
U.S. corporate finance	—	—	378,391	378,391
International	—	—	453,441	453,441
Real estate	14,172	—	767,678	781,850
Natural resources	—	—	682,714	682,714
Absolute return:				
Equity-oriented	65,257	62,065	202,879	330,201
Global macro/relative value	65,666	63,099	329,631	458,396
Multistrategy	—	—	573,355	573,355
Credit-oriented	—	—	127,762	127,762
Protection-oriented	—	113,647	—	113,647
Fixed income:				
U.S. treasuries, including TIPS	750,115	74,787	—	824,902
Other fixed income (primarily credit funds)	512,705	—	3	512,708
Funds in trust	237,579	—	2,000	239,579
Total investments at fair value as of June 30, 2012	\$ <u>2,370,090</u>	<u>505,361</u>	<u>4,565,433</u>	<u>7,440,884</u>

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Changes to the reported amounts of investments measured at fair value using unobservable inputs (Level 3) for the years ended June 30, 2013 and 2012 are as follows:

	Equities and fixed income	Alternative investments			Absolute return	2013 Consolidated total
		Private equity	Private debt	Real assets		
Balance at June 30, 2012	\$ 460,589	1,158,794	260,031	1,452,392	1,233,627	4,565,433
Total net realized gains or losses	3,243	131,574	57,585	131,827	56,628	380,857
Total net unrealized gains or losses	19,850	(161,432)	(57,969)	(97,395)	34,363	(262,583)
Purchases	15,943	64,711	25,629	127,126	102,662	336,071
Proceeds from sales, redemptions, and distributions	(90,365)	(92,024)	(48,168)	(156,059)	(188,057)	(574,673)
Transfer in (out) of Level 3	(78,994)	—	—	—	(2,021)	(81,015)
Balance at June 30, 2013	\$ <u>330,266</u>	<u>1,101,623</u>	<u>237,108</u>	<u>1,457,891</u>	<u>1,237,202</u>	<u>4,364,090</u>
	Equities and fixed income	Alternative investments			Absolute return	2012 Consolidated total
		Private equity	Private debt	Real assets		
Balance at June 30, 2011	\$ 679,529	1,243,613	290,369	1,363,609	1,051,904	4,629,024
Total net realized gains or losses	(2,477)	122,720	27,941	104,334	36,055	288,573
Total net unrealized gains or losses	2,624	(219,405)	(35,683)	(90,813)	(11,888)	(355,165)
Purchases	18,277	119,818	37,495	213,595	199,533	588,718
Proceeds from sales, redemptions, and distributions	(69,735)	(107,952)	(60,091)	(138,333)	(237,797)	(613,908)
Transfer in (out) of Level 3	(167,629)	—	—	—	195,820	28,191
Balance at June 30, 2012	\$ <u>460,589</u>	<u>1,158,794</u>	<u>260,031</u>	<u>1,452,392</u>	<u>1,233,627</u>	<u>4,565,433</u>

During fiscal year 2013, there were no transfers between investment Levels 1 and 2. During fiscal year 2013 and 2012, transfers occurred between investment Levels 2 and 3 as a result of changes in observable market data. The University's policy is to recognize such changes at the end of the fiscal year.

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A summary of the University's investment returns for the years ended June 30, 2013 and 2012 is presented as follows:

	2013			2012
	University	Medical Center	Consolidated	Consolidated
Investment return:				
Interest and dividends	\$ 94,817	41,955	136,772	120,139
Net realized and unrealized gains	288,789	25,686	314,475	163,327
Investment return	\$ 383,606	67,641	451,247	283,466

Investment returns are reported in the accompanying consolidated statements of activities as endowment payout, earnings on other investments, and investment gains (losses).

The University is obligated under certain limited partnership investment fund agreements to advance additional funding periodically up to specified levels. At June 30, 2013, the University had unfunded commitments of \$786,652, which are likely to be called through 2021. Details of these commitments are as follows:

	Unfunded commitments
Private equity	\$ 314,855
Real estate	190,659
Natural resources	171,129
Absolute return	3,750
Private debt	106,259
Total	\$ 786,652

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The University has made investments in various long-lived partnerships and, in other cases, has entered into contractual agreements that may limit its ability to initiate redemptions due to notice periods, lock-ups, and gates. Details on typical redemption terms by asset class and type of investment are provided as follows:

	Remaining life	Redemption terms	Redemption restrictions and terms	Redemption restrictions in place at June 30, 2013
Cash	N/A	Daily	None	None
Global public equities:				
Separate accounts	N/A	Daily to monthly with notice periods of 1 to 14 days	Lock-up provisions ranging from 0 to 1 year	None
Partnerships	N/A	Quarterly to annually with notice periods of 30 to 90 days	Lock-up provisions ranging from 0 to 5 years, some investments have a portion of capital held in side pockets with no redemptions permitted	None
Private debt				
Partnerships	1 to 3 years	Semi-annually with notice periods of 180 days	Lock-up provisions ranging from 0 to 3 years	N/A
Drawdown Partnerships	1 to 8 years	Redemptions not permitted	N/A	N/A
Private equity	1 to 18 years	Redemptions not permitted	N/A	N/A
Real estate	1 to 14 years	Redemptions not permitted	N/A	N/A
Natural resources	1 to 11 years	Redemptions not permitted	N/A	N/A
Absolute return:				
Partnerships	N/A	Monthly to annually with varying notice periods	Lock-up provisions ranging from 0 to 5 years, some investments have a portion of capital held in side pockets with no redemptions permitted	Approximately \$46.5 million of investments are in gated or liquidating funds
Drawdown partnerships	1 to 4 years	Redemptions not permitted	N/A	N/A
Fixed income:				
Separate accounts	N/A	Daily to monthly with notice periods of 1 to 30 days	None	None
Commingled funds	N/A	Daily	None	None
Partnerships	N/A	Quarterly with notice periods of 10 days	Only one-third capital available in any 12-month period	None
Funds in Trust	N/A	Daily	None	None

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(4) Endowments

The University's endowment consists of approximately 2,900 individual funds established for a variety of purposes. The endowment includes both donor-restricted "true" endowment funds and funds designated by the Board to function as endowments commonly referred to as "funds functioning as endowment." Net assets associated with endowment funds, including funds functioning as endowment, are classified and reported based on the existence or absence of donor-imposed restrictions.

(a) University Endowment

Changes in the fair value of the University endowment investments and net assets by type of fund were as follows for the fiscal year ended June 30, 2013:

	2013			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Changes in the fair value of endowment investments				
Investment return:				
Endowment yield (interest and dividends)	\$ 27,175	62,662	3,208	93,045
Net appreciation (realized and unrealized) on investments	108,786	212,643	(32,201)	289,228
Total investment return	135,961	275,305	(28,993)	382,273
Endowment payout	(131,603)	(192,465)	(4,666)	(328,734)
Net investment return	4,358	82,840	(33,659)	53,539
Other changes in endowment investments:				
Gifts and pledge payments received in cash	—	81	70,587	70,668
Transfers to create funds functioning as endowment	46,582	—	—	46,582
Other changes	1,562	(6,743)	19,941	14,760
Total other changes in endowment investments	48,144	(6,662)	90,528	132,010
Net change in endowment investments	52,502	76,178	56,869	185,549
Endowment investments at:				
Beginning of year	\$ 1,798,677	2,552,126	1,350,616	5,701,419
End of year	\$ 1,851,179	2,628,304	1,407,485	5,886,968
Net assets by type of fund				
Donor-restricted "true" endowment	\$ (3,972)	2,628,304	1,407,485	4,031,817
Board-designated "funds functioning as endowment"	1,855,151	—	—	1,855,151
Total – as above	\$ 1,851,179	2,628,304	1,407,485	5,886,968

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Changes in the fair value of the University endowment investments and net assets by type of fund were as follows for the fiscal year ended June 30, 2012:

	2012			
	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Changes in the fair value of endowment investments				
Investment return:				
Endowment yield (interest and dividends)	\$ 23,682	51,875	2,773	78,330
Net appreciation (realized and unrealized) on investments	67,382	100,960	2,232	170,574
Total investment return	91,064	152,835	5,005	248,904
Endowment payout	(133,243)	(195,166)	(4,605)	(333,014)
Net investment return	(42,179)	(42,331)	400	(84,110)
Other changes in endowment investments:				
Gifts and pledge payments received in cash	—	386	58,690	59,076
Transfers to create funds functioning as endowment	23,004	—	—	23,004
Other changes	971	19,796	(8,331)	12,436
Total other changes in endowment investments	23,975	20,182	50,359	94,516
Net change in endowment investments	(18,204)	(22,149)	50,759	10,406
Endowment investments at:				
Beginning of year	\$ 1,816,881	2,574,275	1,299,857	5,691,013
End of year	\$ 1,798,677	2,552,126	1,350,616	5,701,419
Net assets by type of fund				
Donor-restricted "true" endowment	\$ (4,429)	2,552,126	1,350,616	3,898,313
Board-designated "funds functioning as endowment"	1,803,106	—	—	1,803,106
Total – as above	\$ 1,798,677	2,552,126	1,350,616	5,701,419

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(b) Medical Center Endowment

Changes in the fair value of the Medical Center endowment investments and net assets by type of fund were as follows for the fiscal year ended June 30, 2013:

	2013			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Changes in the fair value of endowment investments				
Investment return:				
Endowment yield (interest and dividends)	\$ 38,437	3,518	—	41,955
Net appreciation (realized and unrealized) on investments	21,351	1,086	—	22,437
Total investment return	59,788	4,604	—	64,392
Endowment payout	(37,037)	(3,610)	—	(40,647)
Net investment return	22,751	994	—	23,745
Other changes in endowment investments:				
Gifts and pledge payments received in cash	—	—	10	10
Transfers to create funds functioning as endowment	25,000	—	—	25,000
Withdrawal to finance capital expenditures	(134,707)	—	—	(134,707)
Other changes	(1,859)	361	—	(1,498)
Total other changes in endowment investments	(111,566)	361	10	(111,195)
Net change in endowment investments	(88,815)	1,355	10	(87,450)
Endowment investments at:				
Beginning of year	\$ 796,105	67,279	6,072	869,456
End of year	\$ 707,290	68,634	6,082	782,006
Net assets by type of fund				
Donor-restricted "true" endowment	\$ —	68,634	6,082	74,716
Board-designated "funds functioning as endowment"	707,290	—	—	707,290
Total – as above	\$ 707,290	68,634	6,082	782,006

Included in board-designated "funds functioning as endowment" are \$173,791 of net assets that are separately invested by the Medical Center.

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Changes in the fair value of the Medical Center endowment investments and net assets by type of fund were as follows for the fiscal year ended June 30, 2012:

	2012			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Changes in the fair value of endowment investments				
Investment return:				
Endowment yield (interest and dividends)	\$ 36,192	3,140	—	39,332
Net appreciation (realized and unrealized) on investments	(11,335)	(305)	—	(11,640)
Total investment return	24,857	2,835	—	27,692
Endowment payout	(37,343)	(3,792)	—	(41,135)
Net investment return	(12,486)	(957)	—	(13,443)
Other changes in endowment investments	(1,593)	379	—	(1,214)
Net change in endowment investments	(14,079)	(578)	—	(14,657)
Endowment investments at:				
Beginning of year	810,184	67,857	6,072	884,113
End of year	\$ 796,105	67,279	6,072	869,456
Net assets by type of fund				
Donor-restricted “true” endowment	\$ —	67,279	6,072	73,351
Board-designated “funds functioning as endowment”	796,105	—	—	796,105
Total – as above	\$ 796,105	67,279	6,072	869,456

Included in board-designated “funds functioning as endowment” are \$296,863 of net assets that are separately invested by the Medical Center.

(c) Interpretation of Relevant Law

The “Uniform Prudent Management of Institutional Funds Act” (UPMIFA) was enacted in the state of Illinois in 2009. Although UPMIFA does not preclude the University from spending below the original gift value of donor-restricted “true” endowment funds, for accounting and reporting purposes, the University and Medical Center classify as permanently restricted net assets the historical value of donor-restricted “true” endowment funds, which includes (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) changes to the permanent endowment made in accordance with the direction of the applicable donor gift instrument. The remaining portion of the donor-restricted “true” endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA.

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(d) Endowment Payout

Approximately 95% of the University and Medical Center endowment is merged into one investment pool referred to as the Total Return Investment Pool (TRIP). The University utilizes the total return concept in allocating endowment income from TRIP. In accordance with the University's return objective, between 4.5% and 5.5% of a 12-quarter moving average of the fair value of endowment investments lagged by one year, is available each year for expenditure in the form of endowment payout. The payout percentage, which is set each year by the Board with the objective of a 5.0% average payout over time, was 5.5% for the fiscal years ended June 30, 2013 and 2012. Periodically, the University's Board will adjust the endowment payout to fund specifically approved strategic initiatives.

If endowment income received is not sufficient to support the total return objective, the balance is provided from capital gains. If income received is in excess of the objective, the balance is reinvested in the endowment.

The endowment payout is comprised of the TRIP formula payout, payout from separately held investments, as well as special payouts for the funding of Alumni Relations and Development and University-wide strategic initiatives as follows:

	2013			2012 Consolidated
	University	Medical Center	Consolidated	
TRIP formula payout	\$ 277,241	29,247	306,488	315,159
Payout from separately invested endowment	10,372	11,400	21,772	19,604
Special payout:				
Alumni Relations and Development	18,718	—	18,718	17,998
Strategic initiatives	22,403	—	22,403	21,388
Total	\$ 328,734	40,647	369,381	374,149

(e) Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted "true" endowment funds may fall below the level that the donor or UPMIFA requires to be retained as a fund of perpetual duration. Deficiencies of this nature are reported in unrestricted net assets, which, as of June 30, 2013 and 2012, amounted to \$3,972 and \$4,429 for the University, respectively.

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(5) Notes and Accounts Receivable

Components of notes and accounts receivable at June 30, 2013 and 2012 are shown as follows:

	2013			2012 Net receivable
	Receivable	Allowance for doubtful accounts	Net receivable	
University:				
Patients	\$ 91,600	(70,274)	21,326	19,172
Students:				
Loans	45,948	(2,500)	43,448	42,547
Tuition and fees	4,300	(1,300)	3,000	513
U.S. government	31,422	—	31,422	31,948
All other	89,009	(4,971)	84,038	73,626
Total University	262,279	(79,045)	183,234	167,806
Medical Center	233,891	(29,612)	204,279	209,006
Total	\$ 496,170	(108,657)	387,513	376,812

Accounts receivable are carried at estimated net realizable value. Management regularly assesses the adequacy of the allowance for doubtful accounts, and balances are written off when deemed permanently uncollectible.

(6) Land, Buildings, Equipment, and Books

Components of land, buildings, equipment, and books at June 30, 2013 and 2012 are shown as follows:

	2013			2012 Consolidated
	University	Medical Center	Consolidated	
Land	\$ 84,217	36,008	120,225	104,434
Buildings	2,916,798	1,255,542	4,172,340	3,445,023
Equipment	450,059	576,374	1,026,433	911,911
Books	306,212	—	306,212	287,271
Construction in progress	269,713	74,688	344,401	828,381
Subtotal	4,026,999	1,942,612	5,969,611	5,577,020
Less accumulated depreciation	(1,483,234)	(752,989)	(2,236,223)	(2,058,391)
Total	\$ 2,543,765	1,189,623	3,733,388	3,518,629

THE UNIVERSITY OF CHICAGO
Notes to Consolidated Financial Statements
June 30, 2013 and 2012
(In thousands of dollars)

(7) Notes and Bonds Payable

Notes and bonds payable at June 30, 2013 and 2012 are shown as follows:

	Fiscal year maturity	Interest rate	2013	2012
University:				
Fixed rate:				
Illinois Educational Facilities Authority (IEFA):				
Series 1993	2014	6.0%	\$ 500	975
Series 2001A	2042	—	—	2,860
Series 2003A	2014	4.6	3,430	6,700
Illinois Finance Authority (IFA):				
Series 2004A	2035	—	—	15,810
Series 2004C *	2040	3.8	77,869	77,998
Series 2007	2047	5.0	239,500	241,085
Series 2008 *	2039	3.2	111,880	114,502
Series 2008B	2039	6.0	455,675	500,000
Series 2012A	2052	4.7	369,455	369,570
Series 2013A	2053	4.7	149,090	—
Taxable bonds:				
Series 2010	2031	5.2	300,000	300,000
Series 2012B	2043	4.4	188,355	190,485
Series 2013B	2046	4.2	205,000	—
Unamortized premium			66,034	56,251
Total fixed rate			<u>2,166,788</u>	<u>1,876,236</u>
Variable rate:				
IEFA:				
Series 1998B	2026	3.4	90,090	90,090
Series 2001B-1	2037	1.4	60,000	60,000
Series 2001B-2	2037	1.9	40,000	40,000
Series 2001B-3	2037	0.3	72,265	72,265
Series 2003B	2034	0.2	41,466	42,697
IFA – Series 2004B	2035	0.2	86,817	89,233
Taxable commercial paper (\$200,000 available)	2014	0.3	100,000	100,000
Bank lines of credit (\$250,000 available)	2014	0.6	75,000	69,000
Total variable rate			<u>565,638</u>	<u>563,285</u>
Total University			<u>2,732,426</u>	<u>2,439,521</u>
Medical Center:				
Fixed rate:				
Illinois Health Facilities Authority (IHFA):				
Series 2003	2015	5.0	14,530	21,235
IFA:				
Series 2009A and B	2027	4.9	150,840	152,350
Series 2009C	2037	5.4	85,000	85,000
Series 2009D-1 and 2 *	2044	3.9	70,000	70,000
Series 2009E-1 and 2 *	2044	3.9	70,000	70,000
Series 2010A and B *	2045	3.9	92,500	92,500
Series 2011A and B *	2045	3.9	92,500	92,500
Series 2011C	2042	5.5	90,000	90,000
Series 2012A	2037	4.5	72,080	75,155
Unamortized premium			11,163	12,528
Total fixed rate			<u>748,613</u>	<u>761,268</u>
Variable rate:				
IEFA pooled financing program	2038	0.2	81,427	83,277
IEFA Series 2013A (\$75,000 available)	2020	1.0	686	—
Bank line of credit (\$15,000 available)	2014	—	—	—
Total variable rate			<u>82,113</u>	<u>83,277</u>
Total Medical Center			<u>830,726</u>	<u>844,545</u>
Total notes and bonds payable			<u>\$ 3,563,152</u>	<u>3,284,066</u>

* Variable rate debt with interest rates that have been fixed through interest rate swap agreements.

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Notes to Consolidated Financial Statements

June 30, 2013 and 2012

(In thousands of dollars)

(a) Fiscal 2013 Transactions

During fiscal year 2013, the University issued \$149,090 in fixed rate revenue bonds through the IFA (Series 2013A) and \$205,000 in taxable fixed rate bonds (Series 2013B). Proceeds from the Series 2013A and 2013B bonds were used to 1) advance refund all or a portion of the IEFA Series 2001A, IFA Series 2004A, and IFA Series 2008B fixed rate bonds and 2) finance the construction and renovation of certain educational facilities.

During fiscal year 2013, the Medical Center entered into an issuance of a \$75,000 tax-exempt direct purchase loan through the IFA (Series 2013A), proceeds from which will be used to finance the construction of a parking garage. Bond proceeds will be drawn down over time as construction of the parking garage proceeds. Interest is payable each month based on the outstanding principal balance of the loan.

(b) Defeased Debt

As of June 30, 2013 and 2012, the total principal amount of indebtedness considered to be legally extinguished and, therefore, excluded from the University notes and bonds payable was \$291,040 and \$295,855, respectively.

(c) Interest Rate Swaps

At June 30, 2013 and 2012, the fair value of the interest rate swap agreements was an accrued liability of \$37,507 and \$60,714 for the University and \$88,769 and \$135,872 for the Medical Center, respectively. Changes in the fair value of the interest rate swap agreements for the fiscal years ended June 30, 2013 and 2012, which amounted to \$23,207 and \$(34,850) for the University, and \$47,103 and \$(77,808) for the Medical Center, respectively, are included in other unrestricted nonoperating changes in the accompanying consolidated statements of activities. These financial instruments involve counterparty credit exposure. The counterparties for these swap transactions are major financial institutions that meet the University's criteria for financial stability and creditworthiness.

(d) Debt Payments

Principal payments required for University notes and bonds in each of the five years ending June 30, 2014 through 2018 are approximately \$14,704, \$14,539, \$25,901, \$39,218, and \$54,831, respectively.

Principal payments required in each of the five years ending June 30, 2014 through 2018 for the Medical Center notes and bonds are approximately \$10,385, \$10,050, \$12,778, \$13,255, and \$13,868, respectively.

(e) Collateral

Each of the Medical Center bond series is collateralized by unrestricted receivables and subject to certain restrictions. In addition, the Medical Center variable rate bonds are guaranteed by bank letters of credit.

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Notes to Consolidated Financial Statements

June 30, 2013 and 2012

(In thousands of dollars)

(f) Remarketing

Included in the University and Medical Center's notes and bonds payable are \$755,387 and \$407,113, respectively, of variable rate notes and bonds maturing through fiscal year 2045. In the event the University and Medical Center's remarketing agents are unable to remarket the notes and bonds, they become demand obligations and require immediate payment. To supplement internal liquidity, the University and Medical Center have standby bond purchase agreements totaling \$300,000 and \$406,427, respectively, which support variable rate debt in the event of a failed remarketing.

In addition, the University has a standby bond purchase agreement of \$111,880 in support of its IFA Series 2008 variable rate bonds, which, through an interest rate swap agreement, carry a synthetically fixed interest rate.

(8) Pledges

Pledges receivable at June 30, 2013 and 2012 are shown as follows:

	2013			2012
	University	Medical Center	Consolidated	Consolidated
Unconditional promises expected to be collected in:				
Less than one year	\$ 79,135	2,272	81,407	76,301
One year to five years	186,569	2,634	189,203	128,652
More than five years	235,448	—	235,448	239,574
	<u>501,152</u>	<u>4,906</u>	<u>506,058</u>	<u>444,527</u>
Less unamortized discount and allowance for uncollectible pledges	<u>(83,535)</u>	<u>(198)</u>	<u>(83,733)</u>	<u>(72,966)</u>
Total	<u>\$ 417,617</u>	<u>4,708</u>	<u>422,325</u>	<u>371,561</u>

The University's five largest pledges comprise 95% of pledges expected to be collected in more than five years. Included in this amount is the estimated fair value of a nonmarketable equity investment (based on discounted cash flow and market multiples) specifically aligned with a promise to give, the proceeds of which, when sold, will be used to satisfy the pledge.

In addition, at June 30, 2013, the University has received \$289,723 of promises to give, which are conditional upon the raising of matching gifts from other sources, implementation of academic programs, completion of construction projects, or future income from pledged investments. These amounts will be recognized as revenue in the periods in which the conditions are fulfilled.

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June 30, 2013 and 2012

(In thousands of dollars)

(9) Self-Insurance Liability

The University maintains a self-insurance program for medical malpractice liability. This program is supplemented with commercial excess insurance above the University's self-insurance retention, which, for the year ended June 30, 2013, was \$5,000 per claim and unlimited in the aggregate. Claims in excess of \$5,000 are subject to an additional self-insurance retention limited to \$12,500 per claim and \$12,500 in annual aggregate. For the year ended June 30, 2012, the self-insurance retention was \$7,500 per claim and unlimited in annual aggregate. Claims in excess of \$7,500 are subject to an additional self-insurance retention limited to \$12,500 per claim and \$12,500 in annual aggregate. The Medical Center is included under this insurance program and is charged for its portion of self-insurance costs. The University and Medical Center also maintain a self-insurance program for workers' compensation and certain other liability claims.

Under the medical malpractice self-insurance program, the University and Medical Center make annual contributions to a related trust fund at an actuarially determined rate that is intended to provide adequate funding of the self-insurance liability over a period of years. Actual settlements of medical malpractice claims may be more or less than the liability estimated by the University.

The medical malpractice self-insurance liability is the estimated present value of self-insured claims that will be settled in the future, and considers anticipated payout patterns as well as interest to be earned on available assets prior to payment. If the present value method was not used, the liability for medical malpractice self-insurance claims would be approximately \$47,200 higher than the amount recorded in the consolidated financial statements at June 30, 2013. The interest rate assumed in determining the present value was 4.50%. The University recorded unrestricted nonoperating actuarial income adjustments of \$13,269 and \$14,973 during the years ended June 30, 2013 and 2012, respectively, which are included in the accompanying consolidated statements of activities.

The estimated liability for incurred malpractice, workers' compensation, and other claims (filed and unfiled) as of June 30, 2013 and 2012 is presented as follows:

	2013			2012
	University	Medical Center	Consolidated	Consolidated
Medical malpractice	\$ 254,328	—	254,328	246,700
Workers' compensation	5,615	9,528	15,143	13,550
Others	4,221	—	4,221	3,998
Total	<u>\$ 264,164</u>	<u>9,528</u>	<u>273,692</u>	<u>264,248</u>

(10) Pension Plans and Other Postretirement Benefits

Substantially all personnel of the University participate in either the defined contribution pension plan for academic staff or the defined benefit and contribution pension plans for nonacademic personnel. The majority of Medical Center employees participate in the University's pension plans for nonacademic employees. The University and Medical Center make annual contributions to the defined benefit pension

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Notes to Consolidated Financial Statements

June 30, 2013 and 2012

(In thousands of dollars)

plans at a rate necessary to maintain plan funding on an actuarially recommended basis. Based primarily on participation, the University and Medical Center share equally in contributions made to the defined benefit pension plans. In fiscal year 2009, the University's 403(b) defined benefit pension plan was frozen and a new 401(a) plan was initiated to be in compliance with revised Internal Revenue Service regulations. Because this change does not impact participant benefits, information pertaining to these plans has been combined for financial reporting and disclosure purposes.

In addition to providing pension benefits, the University provides certain healthcare benefits for retired employees and a retirement incentive bonus for eligible faculty electing to participate in a retirement incentive program. In addition to a retirement bonus, all Medicare eligible-tenured faculty who elect to participate in the retirement incentive program receive supplemental health insurance at no cost for themselves and their spouses. All other academic and nonacademic employees are entitled to supplemental health insurance coverage subject to deductibles, copayment provisions, and other limitations.

The funded status and amounts recognized in the consolidated financial statements for the defined benefit pension plans and other postretirement benefit plans are shown as follows:

	<u>Defined benefit pension plans</u>		<u>Other postretirement benefit plans</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Change in benefit obligation:				
Benefit obligation at beginning of year	\$ 780,797	651,244	274,092	211,793
Service cost	33,211	29,701	12,654	9,044
Interest cost	34,411	34,803	11,142	11,708
Benefits paid	(36,216)	(32,241)	(7,816)	(9,210)
Actuarial (gain) loss, net	<u>(17,070)</u>	<u>97,290</u>	<u>(37,325)</u>	<u>50,757</u>
Benefit obligation at end of year	<u>795,133</u>	<u>780,797</u>	<u>252,747</u>	<u>274,092</u>
Change in fair value of plan assets:				
Fair value of plan assets at beginning of year	496,657	385,578	1	5,232
Actual return on plan assets	32,525	37,844	1	102
Employer contributions	65,000	105,476	12,816	3,877
Benefits paid	<u>(36,216)</u>	<u>(32,241)</u>	<u>(7,816)</u>	<u>(9,210)</u>
Fair value of plan assets at end of year	<u>557,966</u>	<u>496,657</u>	<u>5,002</u>	<u>1</u>
Funded status – liability	<u>\$ (237,167)</u>	<u>(284,140)</u>	<u>(247,745)</u>	<u>(274,091)</u>

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Notes to Consolidated Financial Statements

June 30, 2013 and 2012

(In thousands of dollars)

The accumulated benefit obligation for the defined benefit pension plans was \$682,611 and \$679,458 at June 30, 2013 and 2012, respectively.

(a) Components of Net Periodic Benefit Cost

	Defined benefit pension plans		Other postretirement benefit plans	
	2013	2012	2013	2012
Service cost	\$ 33,211	29,701	12,654	9,044
Interest cost	34,411	34,803	11,142	11,708
Expected return on plan assets	(36,714)	(34,500)	(368)	(152)
Amortization of prior service cost (benefit)	1,134	1,134	(2,105)	(2,105)
Amortization of transition obligation	—	—	800	1,300
Amortization of actuarial loss	27,371	18,462	8,130	5,298
Net periodic benefit cost	<u>\$ 59,413</u>	<u>49,600</u>	<u>30,253</u>	<u>25,093</u>
Amounts included in the consolidated statements of activities:				
University	\$ 26,913	(3,138)	30,253	25,093
Medical Center	32,500	52,738	—	—
Total	<u>\$ 59,413</u>	<u>49,600</u>	<u>30,253</u>	<u>25,093</u>

(b) Actuarial Assumptions

The weighted average assumptions used in the accounting for the pension and other postretirement benefit plans are shown as follows:

	Defined benefit pension plans		Other postretirement benefit plans	
	2013	2012	2013	2012
Discount rate	4.9%	4.5%	5.1%	4.1%
Expected return on plan assets	7.0	7.1	7.0	7.0
Rate of compensation increase	3.5	3.5	3.5	3.5
Healthcare cost trend rates:				
Next two fiscal years				7.2% – 7.5%
Next seven fiscal years				5.7% – 7.0%
Thereafter				4.5% – 5.5%

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Notes to Consolidated Financial Statements

June 30, 2013 and 2012

(In thousands of dollars)

The expected return on plan assets assumptions for both the defined benefit pension plan and the other postretirement benefit plans is determined based on models that incorporate a number of different methodologies, including historical returns and capital market forecasts.

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 June 30:

	<u>2013</u>	<u>2012</u>
Effect on total service cost and interest cost:		
One-percentage-point increase	\$ 5,201	3,904
One-percentage-point decrease	(3,931)	(3,017)
Effect on year-end postretirement benefit obligation:		
One-percentage-point increase	\$ 39,232	46,751
One-percentage-point decrease	(31,294)	(36,832)

(c) **Plan Assets**

Weighted average asset allocations as of fiscal year end by asset category are as follows:

	Defined benefit pension plans		Other postretirement benefit plans	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Domestic public equities	29%	27%	—%	—%
International public equities	15	14	—	—
Fixed income	56	59	100	100
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

As of June 30, 2013, 91% of plan assets for the defined benefit pension plans are invested in cash, mutual funds, exchange traded funds, or separately managed accounts comprised of individual securities and are valued based on quoted market prices in active markets for identical investments (Level 1). The remaining assets are invested in commingled funds and limited partnerships generally valued based on quoted market prices in active markets valued based, NAV reported by external fund managers, or independently determined by the University. The remaining 9% of the plan assets are categorized as Level 2 or Level 3.

The defined benefit plans combined target asset allocation of 45% public equities and 55% fixed-income securities is meant to result in a favorable long-term rate of return from a diversified portfolio of equity and fixed income investments. Plan assets for the other postretirement benefit plans are managed by the University and were held in cash at June 30, 2013.

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Notes to Consolidated Financial Statements

June 30, 2013 and 2012

(In thousands of dollars)

(d) Contributions

The University expects to make a \$14,000 contribution to its postretirement healthcare plan and, combined with the Medical Center, expects to make a \$65,000 contribution to the defined benefit pension plans in fiscal year 2013.

(e) 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 June 30:

Fiscal year	Defined benefit pension plans	Other postretirement benefit plans
2014	\$ 42,109	9,159
2015	37,761	9,222
2016	40,072	11,254
2017	42,672	11,183
2018	45,160	11,538
2019 – 2023	265,818	70,926

(f) Prescription Drug Act

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) provides for special tax-free subsidies to employers that offer retiree medical benefit plans with qualifying drug coverage. The University's postretirement plan currently meets Medicare's criteria for the tax-free subsidy because the University's plan provides for a higher level of reimbursement than Medicare. The University has recognized the effect of this subsidy in the calculation of its postretirement benefit obligation, the impact of which is to reduce the benefit obligation by \$51,698 and \$60,640 at June 30, 2013 and 2012, respectively.

(g) Curtailed Pension Plan

The Medical Center maintains a separate noncontributory defined benefit pension plan on behalf of a former affiliated organization. Prior to assumption, the benefit plan was curtailed by freezing participation and benefit accruals. At June 30, 2013 and 2012, the benefit obligation for the plan exceeded the plan's assets thus creating an unfunded liability of \$5,730 and \$10,403 at June 30, 2013 and 2012, respectively.

(h) Defined Contribution Pension Plan

Defined contribution pension plan expenses included in the consolidated statements of activities amounted to \$46,690 in fiscal year 2013 and \$44,477 in fiscal year 2012 for the University and \$11,300 in fiscal year 2013 and \$11,100 in fiscal year 2012 for the Medical Center.

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Notes to Consolidated Financial Statements

June 30, 2013 and 2012

(In thousands of dollars)

(11) Functional Classification of Expenses

Expenses by functional classification for the years ended June 30, 2013 and 2012 are shown as follows:

	2013	2012
University:		
Academic and research:		
Instruction	\$ 863,162	822,043
Research	262,292	270,846
Auxiliary enterprises	134,842	134,138
Library	17,216	15,639
Student services	62,812	55,264
Operation and maintenance of physical plant	120,368	112,576
Depreciation	123,280	113,533
Interest on notes and bonds	65,156	57,877
Total academic and research	1,649,128	1,581,916
Administration:		
Institutional support	145,938	125,030
Informational services	63,557	59,340
Development and alumni relations	64,528	59,469
Operation and maintenance of physical plant	9,688	9,261
Depreciation	29,394	29,688
Interest on notes and bonds	23,281	20,032
Total administration	336,386	302,820
Total University	1,985,514	1,884,736
Medical Center:		
Healthcare service	1,177,672	1,103,904
General and administrative	80,938	66,819
	1,258,610	1,170,723
Total	\$ 3,244,124	3,055,459

The University's primary program service is instruction and research. Expenses reported as auxiliary enterprises, library, and student services are incurred in support of this primary program activity.

THE UNIVERSITY OF CHICAGO

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

(In thousands of dollars)

(12) Affiliated Organizations

The University has an ongoing relationship with the National Opinion Research Center (NORC), a not-for-profit organization that conducts research in the public interest primarily for various federal agencies. The majority of NORC's board of trustees are faculty members or officers of the University. Program-related revenue for the years ended December 31, 2012 and 2011 was \$136,962 and \$146,492, respectively. Net assets at December 31, 2012 and 2011 were \$25,586 and \$25,157, respectively. Consolidation of this not-for-profit organization is not required because the University does not have both control and an economic interest.

The University, through its affiliate UChicago Argonne, LLC, operates Argonne National Laboratory (ANL) under a contract with the U.S. Department of Energy (DOE). This contract provides for the payment of a fixed management allowance and an additional fee based on performance judged against established measures. The University is the sole member of UChicago Argonne, LLC; however, the performance fee is shared with a subcontractor that assists UChicago Argonne, LLC with the management and operation of ANL.

The University, as a member of Fermi Research Alliance, LLC (FRA), also operates Fermi National Accelerator Laboratory (Fermilab) on behalf of DOE. The Fermilab contract between DOE and FRA provides for the payment of a fixed management allowance and an additional performance fee. The University shares the performance fee with Universities Research Association, the other member of FRA, and with a subcontractor that assists FRA with the management and operation of Fermilab.

The expenditures under the respective contracts and the related reimbursements of \$769,737 for ANL and \$420,030 for Fermilab in fiscal year 2013, and \$756,019 for ANL and \$433,691 for Fermilab in fiscal year 2012 are not included in the consolidated statements of activities. Net assets relating to ANL and to Fermilab are owned by the U.S. government and, therefore, are not included in the consolidated balance sheets.

(13) Contingencies

Various lawsuits, claims, and other contingent liabilities arise in the ordinary course of the University's education, research, and healthcare activities. In the opinion of management, all such matters have been adequately provided for, are without merit, or are of such kind that if disposed of unfavorably, would not have a material adverse effect on the consolidated financial position of the University.

THE UNIVERSITY OF CHICAGO

Consolidated Balance Sheet

June 30, 2013

(In thousands of dollars)

Assets	University			Medical Center	2013 Consolidated
	University Excluding BSD	BSD	Total		
Cash and cash equivalents	\$ (182,255)	207,833	25,578	164,504	190,082
Notes and accounts receivable, net	128,676	54,558	183,234	204,279	387,513
Prepaid expenses and other assets	6,052	48,335	54,387	50,898	105,285
Pledges receivable, net	417,617	—	417,617	4,708	422,325
Internal loan receivable (payable)	416,001	(416,001)	—	—	—
Investments	5,478,386	1,411,182	6,889,568	797,316	7,686,884
Land, buildings, equipment, and books, net	2,014,289	529,476	2,543,765	1,189,623	3,733,388
Total assets	\$ 8,278,766	1,835,383	10,114,149	2,411,328	12,525,477
Liabilities and Net Assets					
Liabilities:					
Accounts payable and accrued expenses	\$ 296,062	28,535	324,597	319,749	644,346
Deferred revenue	76,674	12,806	89,480	—	89,480
Assets held in custody for others	58,706	217	58,923	—	58,923
Self-insurance liability	9,836	254,328	264,164	9,528	273,692
Pension and other postretirement benefit obligations	484,912	—	484,912	5,730	490,642
Asset retirement obligation	53,726	—	53,726	7,905	61,631
Notes and bonds payable	2,732,426	—	2,732,426	830,726	3,563,152
Refundable U.S. government student loan funds	38,120	270	38,390	—	38,390
Total liabilities	3,750,462	296,156	4,046,618	1,173,638	5,220,256
Net assets:					
Unrestricted	697,774	665,568	1,363,342	1,149,627	2,512,969
Temporarily restricted	2,603,255	555,196	3,158,451	81,971	3,240,422
Permanently restricted	1,227,275	318,463	1,545,738	6,092	1,551,830
Total net assets	4,528,304	1,539,227	6,067,531	1,237,690	7,305,221
Total liabilities and net assets	\$ 8,278,766	1,835,383	10,114,149	2,411,328	12,525,477

The Biological Sciences Division (BSD) consists of the Pritzker School of Medicine, twenty-one clinical and basic science Departments, and thirteen interdisciplinary Committees that provide education, research, and patient care.

See accompanying independent auditors' report.

THE UNIVERSITY OF CHICAGO

Consolidated Statement of Activities

Year ended June 30, 2013

(In thousands of dollars)

	University			Medical Center	2013 Consolidated
	University Excluding BSD	BSD	Total		
Changes in unrestricted net assets:					
Operating:					
Revenue:					
Tuition and fees – gross	\$ 633,662	38,117	671,779	—	671,779
Less student aid	(266,718)	(43,338)	(310,056)	—	(310,056)
Tuition and fees – net	366,944	(5,221)	361,723	—	361,723
Government grants and contracts	140,665	216,273	356,938	—	356,938
Private gifts, grants, and contracts	105,348	54,743	160,091	41	160,132
Endowment payout	273,272	53,306	326,578	40,647	367,225
Earnings on other investments	1,772	—	1,772	—	1,772
Patient care	—	224,320	224,320	1,255,975	1,480,295
Auxiliaries	151,440	59,505	210,945	—	210,945
Other income	147,096	74,844	221,940	24,998	246,938
Net assets released from restrictions	40,421	11,650	52,071	—	52,071
Total operating revenue	1,226,958	689,420	1,916,378	1,321,661	3,238,039
Expenses:					
Compensation:					
Academic salaries	240,895	243,612	484,507	—	484,507
Staff salaries	345,591	154,848	500,439	462,398	962,837
Benefits	168,997	109,804	278,801	133,570	412,371
Total compensation	755,483	508,264	1,263,747	595,968	1,859,715
Other operating expenses:					
Utilities, alterations, and repairs	40,075	2,382	42,457	26,429	68,886
Depreciation	112,870	39,804	152,674	70,466	223,140
Interest	88,431	6	88,437	19,883	108,320
Supplies, services, and other	295,520	116,328	411,848	527,482	939,330
Insurance	3,715	22,636	26,351	18,382	44,733
Total other operating expenses	540,611	181,156	721,767	662,642	1,384,409
Total operating expenses	1,296,094	689,420	1,985,514	1,258,610	3,244,124
Excess (deficiency) of operating revenue over expenses	(69,136)	—	(69,136)	63,051	(6,085)

THE UNIVERSITY OF CHICAGO

Consolidated Statement of Activities

Year ended June 30, 2013

(In thousands of dollars)

	University			Medical Center	2013 Consolidated
	University Excluding BSD	BSD	Total		
Changes in unrestricted net assets:					
Nonoperating:					
Investment gains	\$ 494	3,412	3,906	22,390	26,296
Postretirement benefit changes other than net periodic benefit cost	85,168	—	85,168	3,878	89,046
Change in value of derivative instruments	23,207	—	23,207	47,103	70,310
Loss on debt refinancing	(1,143)	—	(1,143)	—	(1,143)
Others, net	(9,012)	33,385	24,373	(14,712)	9,661
Change in unrestricted net assets from nonoperating activities	98,714	36,797	135,511	58,659	194,170
Increase in unrestricted net assets	29,578	36,797	66,375	121,710	188,085
Changes in temporarily restricted net assets:					
Private gifts	115,056	892	115,948	3,137	119,085
Investment gains	47,784	35,068	82,852	4,604	87,456
Others, net	(36,337)	(7,120)	(43,457)	(21,115)	(64,572)
Net assets released from restrictions	(51,600)	(471)	(52,071)	—	(52,071)
Increase (decrease) in temporarily restricted net assets	74,903	28,369	103,272	(13,374)	89,898
Changes in permanently restricted net assets:					
Private gifts	68,012	14,969	82,981	—	82,981
Endowment payout	1,721	435	2,156	—	2,156
Investment gains (losses)	283	(33,941)	(33,658)	—	(33,658)
Others, net	26,173	15,659	41,832	—	41,832
Increase (decrease) in permanently restricted net assets	96,189	(2,878)	93,311	—	93,311
Increase in net assets	200,670	62,288	262,958	108,336	371,294
Net assets at beginning of year	4,327,634	1,476,939	5,804,573	1,129,354	6,933,927
Net assets at end of year	\$ 4,528,304	1,539,227	6,067,531	1,237,690	7,305,221

See accompanying independent auditors' report.

THE UNIVERSITY OF CHICAGO

Consolidated Statement of Cash Flows

Year ended June 30, 2013

(In thousands of dollars)

	<u>University</u>	<u>Medical Center</u>	<u>2013 Consolidated</u>
Cash flows from operating activities:			
Increase in net assets	\$ 262,958	108,336	371,294
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:			
Depreciation	152,674	70,466	223,140
Change in value of derivative instruments	(23,207)	(47,103)	(70,310)
Loss on debt refinancing	1,143	—	1,143
Loss on disposal of land, buildings, equipment, and books	28,472	935	29,407
Net gain on investments	(288,789)	(64,392)	(353,181)
Private gifts and grants restricted for long-term investment	(198,929)	(921)	(199,850)
Other nonoperating changes	46,514	74,351	120,865
Postretirement benefit changes other than net periodic benefit cost	(85,168)	(3,878)	(89,046)
Changes in assets and liabilities:			
Notes and accounts receivable	(14,651)	4,727	(9,924)
Prepaid expenses and other assets	(4,797)	26,429	21,632
Accounts payable and other liabilities	27,237	46,316	73,553
Self-insurance liability	8,132	1,312	9,444
Total adjustments	<u>(351,369)</u>	<u>108,242</u>	<u>(243,127)</u>
Net cash provided by (used in) operating activities	<u>(88,411)</u>	<u>216,578</u>	<u>128,167</u>
Cash flows from investing activities:			
Purchase of investments	(1,832,926)	(221,928)	(2,054,854)
Proceeds from sale of investments	1,748,592	386,420	2,135,012
Acquisition of land, buildings, equipment, and books	(260,518)	(209,359)	(469,877)
Loans disbursed	(6,895)	—	(6,895)
Principal collected on loans	6,118	—	6,118
Net cash used in investing activities	<u>(345,629)</u>	<u>(44,867)</u>	<u>(390,496)</u>
Cash flows from financing activities:			
Proceeds from issuance of debt instruments	1,383,766	686	1,384,452
Principal payments on debt instruments	(1,092,004)	(14,343)	(1,106,347)
Proceeds from private gifts and grants restricted for long-term investment	87,726	6,646	94,372
Other nonoperating changes	8,200	(74,544)	(66,344)
Net cash provided by (used in) financing activities	<u>387,688</u>	<u>(81,555)</u>	<u>306,133</u>
Increase (decrease) in cash and cash equivalents	(46,352)	90,156	43,804
Cash and cash equivalents at:			
Beginning of year	<u>71,930</u>	<u>74,348</u>	<u>146,278</u>
End of year	<u>\$ 25,578</u>	<u>164,504</u>	<u>190,082</u>
Supplemental disclosure of cash flow information:			
Cash paid for interest	\$ 100,829	18,252	119,081

See accompanying independent auditors' report.