

**THE UNIVERSITY OF CHICAGO**

Consolidated Financial Statements and  
Supplemental University Information

June 30, 2000 and 1999

(With Independent Auditors' Report Thereon)

**THE UNIVERSITY OF CHICAGO**

Consolidated Statements of Activities

Years ended June 30, 2000 and 1999

(in thousands of dollars)

	<b>2000</b>		<b>1999</b>	
	<b>University</b>	<b>Hospitals</b>	<b>Consolidated</b>	<b>Consolidated</b>
Changes in unrestricted net assets:				
Operating:				
Revenue:				
Tuition and fees – gross	\$ 285,681	—	285,681	271,177
Less:				
Undergraduate student aid	(34,911)	—	(34,911)	(34,196)
Graduate student aid	(79,165)	—	(79,165)	(74,946)
Tuition and fees – net	171,605	—	171,605	162,035
Government grants and contracts	185,703	—	185,703	182,960
Private gifts, grants, and contracts	93,188	228	93,416	78,375
Endowment payout	98,781	4,304	103,085	85,165
Earnings on other investments	16,274	10,141	26,415	25,998
Patient care	129,162	608,064	737,226	715,909
Auxiliaries	127,882	—	127,882	117,816
Other income	85,627	37,698	123,325	107,976
Total operating revenue	908,222	660,435	1,568,657	1,476,234
Expenses:				
Compensation:				
Academic salaries	259,451	—	259,451	247,516
Staff salaries	211,550	294,050	505,600	478,137
Benefits	91,003	55,703	146,706	141,603
Total compensation	562,004	349,753	911,757	867,256
Other operating expenses:				
Utilities, alterations, and repairs	24,547	15,680	40,227	33,766
Depreciation	46,640	41,908	88,548	83,794
Interest	19,473	16,225	35,698	33,686
Supplies and services	220,818	210,914	431,732	415,464
Loss on debt refinancing	—	—	—	20,735
Insurance	6,840	7,903	14,743	14,522
Total other operating expenses	318,318	292,630	610,948	601,967
Total operating expenses	880,322	642,383	1,522,705	1,469,223
Excess of operating revenue over expenses	27,900	18,052	45,952	7,011
Gain (loss) from operation and sale of discontinued physician practice	—	412	412	(46,321)
Excess (deficiency) of operating revenue over expenses and loss from discontinued physician practice	\$ 27,900	18,464	46,364	(39,310)

**THE UNIVERSITY OF CHICAGO**

Consolidated Statements of Activities

Years ended June 30, 2000 and 1999

(in thousands of dollars)

	<b>2000</b>			<b>1999</b>
	<b><u>University</u></b>	<b><u>Hospitals</u></b>	<b><u>Consolidated</u></b>	<b><u>Consolidated</u></b>
Changes in unrestricted net assets:				
Nonoperating:				
Private gifts and grants for buildings and equipment	\$ —	—	—	4,189
Endowment payout	59	—	59	87
Investment gains	949,625	58,319	1,007,944	281,798
Change in method of accounting for gifts and grants restricted for buildings and equipment	(76,301)	—	(76,301)	—
Other, net	7,438	(34,202)	(26,764)	(9,407)
	<u>880,821</u>	<u>24,117</u>	<u>904,938</u>	<u>276,667</u>
Change in unrestricted net assets from nonoperating activities				
Increase in unrestricted net assets	<u>908,721</u>	<u>42,581</u>	<u>951,302</u>	<u>237,357</u>
Changes in temporarily restricted net assets:				
Private gifts	115,858	3,535	119,393	26,203
Endowment payout	58	—	58	55
Investment gains	1,684	—	1,684	534
Change in method of accounting for gifts and grants restricted for buildings and equipment	76,301	—	76,301	—
Other, net	(18,092)	(1,801)	(19,893)	(18,491)
	<u>175,809</u>	<u>1,734</u>	<u>177,543</u>	<u>8,301</u>
Increase in temporarily restricted net assets				
Changes in permanently restricted net assets:				
Private gifts	36,324	247	36,571	40,005
Endowment payout	1,412	—	1,412	1,147
Investment gains	12,600	—	12,600	10,010
Other, net	15,866	—	15,866	(1,777)
	<u>66,202</u>	<u>247</u>	<u>66,449</u>	<u>49,385</u>
Increase in permanently restricted net assets				
Increase in net assets	1,150,732	44,562	1,195,294	295,043
Net assets at beginning of year	<u>3,198,398</u>	<u>375,309</u>	<u>3,573,707</u>	<u>3,278,664</u>
Net assets at end of year	<u>\$ 4,349,130</u>	<u>419,871</u>	<u>4,769,001</u>	<u>3,573,707</u>

See accompanying notes to consolidated financial statements.

## THE UNIVERSITY OF CHICAGO

### Consolidated Balance Sheets

June 30, 2000 and 1999

(in thousands of dollars)

Assets	2000			1999
	University	Hospitals	Consolidated	Consolidated
Cash and cash equivalents	\$ 6,091	16,819	22,910	58,609
Notes and accounts receivable	206,496	126,712	333,208	323,602
Inventories	8,699	6,011	14,710	15,624
Prepaid expenses and other assets	109,188	41,765	150,953	140,851
Pledges receivable	108,912	2,653	111,565	51,179
Investments	4,190,791	402,672	4,593,463	3,445,643
Land, buildings, equipment, and books	610,581	389,366	999,947	927,097
	\$ 5,240,758	985,998	6,226,756	4,962,605
<b>Liabilities and Net Assets</b>				
Liabilities:				
Accounts payable and accrued expenses	\$ 125,058	239,704	364,762	336,526
Deferred revenue	57,928	—	57,928	55,397
Assets held in custody for others	59,471	—	59,471	56,638
Self-insurance liability	99,116	19,021	118,137	115,679
Notes and bonds payable	512,789	307,402	820,191	788,079
Refundable U.S. Government student loan funds	37,266	—	37,266	36,579
	891,628	566,127	1,457,755	1,388,898
Net assets:				
Unrestricted	3,490,037	408,192	3,898,229	2,946,927
Temporarily restricted	251,836	6,858	258,694	81,151
Permanently restricted	607,257	4,821	612,078	545,629
	4,349,130	419,871	4,769,001	3,573,707
	\$ 5,240,758	985,998	6,226,756	4,962,605

See accompanying notes to consolidated financial statements.

**THE UNIVERSITY OF CHICAGO**

Consolidated Statements of Cash Flows

Years ended June 30, 2000 and 1999

(in thousands of dollars)

	<b>2000</b>			<b>1999</b>
	<u>University</u>	<u>Hospitals</u>	<u>Consolidated</u>	<u>Consolidated</u>
Cash flows from operating activities:				
Increase in net assets	\$ 1,150,732	44,562	1,195,294	295,043
Adjustments to reconcile increase in net assets to net cash provided by operating activities:				
Depreciation	46,640	41,908	88,548	83,794
(Gain) loss from sale of discontinued physician practice	—	(412)	(412)	27,014
Loss on debt refinancing	—	—	—	20,735
Net gain on investments	(963,909)	(58,319)	(1,022,228)	(292,342)
Private gifts and grants restricted for long-term investment	(152,182)	(3,950)	(156,132)	(70,397)
Other nonoperating (additions) deductions – net	(6,741)	36,171	29,430	28,386
Pension income	(15,570)	—	(15,570)	(15,964)
Changes in assets and liabilities:				
Notes and accounts receivable	(9,372)	3,106	(6,266)	(62,233)
Prepaid expenses and other assets	(2,892)	9,686	6,794	(2,761)
Accounts payable and other liabilities	6,667	27,620	34,287	16,649
Self-insurance liability	921	1,537	2,458	3,718
Total adjustments	<u>(1,096,438)</u>	<u>57,347</u>	<u>(1,039,091)</u>	<u>(263,401)</u>
Net cash provided by operating activities	<u>54,294</u>	<u>101,909</u>	<u>156,203</u>	<u>31,642</u>
Cash flows from investing activities:				
Purchase of investments	(6,006,145)	(193,684)	(6,199,829)	(1,204,128)
Proceeds from sale of investments	5,873,223	201,014	6,074,237	1,052,586
Acquisition of land, buildings, equipment, and books	(119,265)	(42,546)	(161,811)	(138,074)
Gain (loss) on disposal of land, buildings, equipment, and books	2,817	(2,404)	413	3,205
Loans disbursed	(49,482)	—	(49,482)	(50,271)
Principal collected on loans	46,142	—	46,142	29,795
Net cash used in investing activities	<u>(252,710)</u>	<u>(37,620)</u>	<u>(290,330)</u>	<u>(306,887)</u>
Cash flows from financing activities:				
Proceeds from issuance of notes and bonds payable	146,012	2,854	148,866	409,704
Retirement of long-term debt	—	—	—	(191,251)
Principal payments on notes and bonds payable	(90,389)	(26,365)	(116,754)	(33,038)
Proceeds from private gifts and grants restricted for long-term investment	92,715	3,031	95,746	57,935
Other nonoperating additions (deductions) – net	6,741	(36,171)	(29,430)	(28,386)
Net cash provided by (used in) financing activities	<u>155,079</u>	<u>(56,651)</u>	<u>98,428</u>	<u>214,964</u>
Increase (decrease) in cash and cash equivalents	<u>(43,337)</u>	<u>7,638</u>	<u>(35,699)</u>	<u>(60,281)</u>
Cash and cash equivalents at:				
Beginning of year	<u>49,428</u>	<u>9,181</u>	<u>58,609</u>	<u>118,890</u>
End of year	<u>\$ 6,091</u>	<u>16,819</u>	<u>22,910</u>	<u>58,609</u>
Supplemental disclosure of cash flow information – cash paid for interest	<u>\$ 20,896</u>	<u>16,607</u>	<u>37,503</u>	<u>32,006</u>

See accompanying notes to consolidated financial statements.

# THE UNIVERSITY OF CHICAGO

## Notes to Consolidated Financial Statements

June 30, 2000 and 1999

(in thousands of dollars)

### (1) Summary of Significant Accounting Policies

#### *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 Hospitals (Hospitals) and other health care facilities located in the area.

Significant accounting policies followed by the University and the Hospitals are set forth below. Accounting policies specific to the Hospitals are discussed in note 2.

#### *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 Hospitals. The organization of the Hospitals and agreements between the University and the Hospitals 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 Statement of Financial Accounting Standards No. 117, *Financial Statements of Not-for-Profit Organizations* (SFAS No. 117). SFAS No. 117 requires 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 health care services. In addition to these exchange transactions, changes in this category of net assets include realized and unrealized gains and losses on endowment funds and certain types of philanthropic support. Such philanthropic support includes unrestricted gifts, including those designated by 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.

# THE UNIVERSITY OF CHICAGO

## Notes to Consolidated Financial Statements

June 30, 2000 and 1999

(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 restrictions have not been met, gifts and grants for buildings and equipment, annuity and life income gifts and pledges for which the ultimate purpose of the proceeds is not permanently restricted, 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 reclassifications between the net asset classes and included in other.
- 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.

### *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.

As discussed in note 2, the Hospitals provides certain operating support to the University's Biological Sciences Division. Such support is included in other operating income by the University to the extent expended for non-capital purposes during the period, and amounted to \$20,030 in fiscal 2000 and \$21,038 in fiscal 1999.

### *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 agreement. Any funding received in advance of expenditure is recorded as deferred revenue on the consolidated balance sheets. Included in deferred revenue at June 30, 2000 and 1999 are \$32,879 and \$32,394, respectively, of private grant and contract receipts which have not been expended.

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Notes to Consolidated Financial Statements

June 30, 2000 and 1999

(in thousands of dollars)

Private gifts, grants, and contracts operating revenue for fiscal years 2000 and 1999 consists of the following:

	<u>University</u>	<u>2000 Hospitals</u>	<u>Total</u>	<u>1999</u>
Private gifts:				
Unrestricted as to use	\$ 19,519	228	19,747	18,749
Temporarily restricted gifts whose restrictions were met during the fiscal year and reported as unrestricted revenue	24,172	—	24,172	23,594
Private grants and contracts	<u>49,497</u>	<u>—</u>	<u>49,497</u>	<u>36,032</u>
Total	<u>\$ 93,188</u>	<u>228</u>	<u>93,416</u>	<u>78,375</u>

***Endowment Payout***

The University utilizes the total return concept in allocating endowment income. In accordance with the University's total return objective, 5% of a twelve quarter moving average of the market value of endowment investments is available each year for expenditure in the form of endowment payout. Change from the prior fiscal year's endowment payout is limited to a reduction of 4% with no limit on increases.

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.

Endowment payout for fiscal years 2000 and 1999 consists of the following:

	<u>University</u>	<u>2000 Hospitals</u>	<u>Total</u>	<u>1999</u>
Interest, dividends, and rents	\$ 64,594	2,736	67,330	69,413
Realized investment gains used to support the endowment payout formula	<u>35,716</u>	<u>1,568</u>	<u>37,284</u>	<u>17,041</u>
Total	<u>\$ 100,310</u>	<u>4,304</u>	<u>104,614</u>	<u>86,454</u>



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Notes to Consolidated Financial Statements

June 30, 2000 and 1999

(in thousands of dollars)

Unrestricted operating endowment payout revenue for fiscal years 2000 and 1999 consists of the following:

	<b>2000</b>			<b>1999</b>
	<b>University</b>	<b>Hospitals</b>	<b>Total</b>	
Unrestricted payout	\$ 28,013	—	28,013	21,456
Temporarily restricted payout whose restrictions were met during the fiscal year and reported as unrestricted revenue	70,768	4,304	75,072	63,709
Total	\$ 98,781	4,304	103,085	85,165

***Patient Care***

Net patient service revenue reflects the estimated net realizable amounts due from 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.

***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 and annuity and life income assets or funds on deposit with bond trustees are classified as investments.

***Inventories***

Inventories are comprised principally of goods and supplies held by the University Press and Hospitals and are valued at the lower of cost or net realizable value.

***Investments***

Investments are recorded in the consolidated financial statements at fair value. The value of investments in index funds and publicly-traded fixed income and equity securities is based upon quoted market prices and exchange rates, if applicable.

Fair values for certain private equity, real estate, and natural resource investments held through limited partnerships or commingled funds are estimated by the respective investment managers if market values are not readily ascertainable. These valuations necessarily involve estimates, assumptions, and methods which are reviewed by the University's Investment Office.

## THE UNIVERSITY OF CHICAGO

### Notes to Consolidated Financial Statements

June 30, 2000 and 1999

(in thousands of dollars)

#### ***Land, Building, 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.

#### ***Split Interest Agreements***

The University's split interest agreements with donors consist primarily of irrevocable charitable remainder trusts for which the University serves as trustee. Assets held in these trusts are included in investments. Contribution revenue is recognized at the dates the trusts are established after recording liabilities for the present value of the estimated future payments to be made to the donors and/or other beneficiaries. The liabilities are adjusted during the term of the trusts for changes in the value of the assets, accretion of the discount, and other changes in the estimates of future benefits.

#### ***Use of Estimates***

The preparation of 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 balance sheet date, and the reporting of revenue, expenses, gains, and losses during the period. Actual results may differ from those estimates.

#### ***Change in Method of Accounting***

Beginning in fiscal 2000, gifts and grants, including unconditional pledges, restricted for buildings and equipment are recognized as increases in temporarily restricted net assets and amortized into operating revenue over the useful lives of the assets acquired or constructed. Prior to fiscal 2000 restricted gifts and grants for buildings and equipment were recognized as a nonoperating increase in unrestricted net assets. The change in method of recognition was adopted to more closely match restricted resources used to acquire or construct buildings and equipment with the depreciation of those assets. The cumulative effect of this change in reporting amounts to \$76,301 and is shown as a reclassification between unrestricted and temporarily restricted net assets.

#### ***Reclassifications***

Certain 1999 realized capital gains and investment income amounts associated with long term investments of the Hospitals have been reclassified as nonoperating to conform to the 2000 presentation. Certain other 1999 amounts have been reclassified to conform to the 2000 presentation.

## THE UNIVERSITY OF CHICAGO

### Notes to Consolidated Financial Statements

June 30, 2000 and 1999

(in thousands of dollars)

#### (2) The University of Chicago Hospitals

##### *Organization*

The University of Chicago Hospitals was incorporated and assumed the operations of the University hospitals and clinics on October 1, 1986. The University of Chicago Hospitals also includes Louis A. Weiss Memorial Hospital, a community hospital in Chicago, Illinois; and QV, Inc., an affiliated not-for-profit health care corporation consisting of several physician practices, home health-care services, and a health care management service organization. The University elects the Hospitals' Board of Trustees. Accordingly, the Hospitals' financial information is included in the consolidated financial statements.

##### *Agreements with the University*

The relationship between the University and the Hospitals is defined in the Affiliation Agreement and the Operating Agreement, both dated October 1, 1986. The Affiliation Agreement specifies University and Hospitals 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 Hospitals of the University's hospital and clinic facilities. On June 30, 1987, the University and the Hospitals entered into a lease agreement. Under the agreement, the Hospitals acquired a 40-year leasehold interest in the University's health care facilities.

##### *Basis of Presentation*

The Hospitals maintains its accounts and prepares stand-alone financial statements in conformity with accounting and reporting principles of the American Institute of Certified Public Accountants Audit and Accounting Guide Health Care Organizations. For purposes of presentation of the Hospitals' financial position and changes in net assets in the consolidated financial statements, several reclassifications have been made as follows: (1) the provision for uncollectible Hospitals' patient accounts receivable of \$86,739 in fiscal year 2000 and \$79,837 in fiscal year 1999 has been reclassified as a reduction of patient care revenue and (2) realized investment gains of \$42,979 in fiscal year 2000 and \$46,752 in fiscal year 1999 not used for operations have been reclassified as a nonoperating change in unrestricted net assets.

The Hospitals have made certain commitments to support the enhancement and expansion of several programs within the University's Biological Sciences Division. During fiscal 2000 and 1999, the Hospitals transferred to the University \$18,370 and \$24,452, respectively, in support of these programs. In addition, unpaid commitments of \$16,000 at June 30, 2000 have been accrued and recognized by the Hospitals and University as a change in unrestricted net assets.

**THE UNIVERSITY OF CHICAGO**

Notes to Consolidated Financial Statements

June 30, 2000 and 1999

(in thousands of dollars)

**(3) Investments**

Fair values of investments at June 30, 2000 and 1999 are shown below:

	<b>2000</b>				
	<b>University and Hospitals Endowment</b>	<b>All others</b>		<b>Total</b>	<b>1999</b>
	<b>University</b>	<b>Hospitals</b>			
Cash equivalents	\$ 80,648	12,110	—	92,758	32,566
Stocks	1,949,268	102,906	141,497	2,193,671	1,914,459
Private equity	967,962	—	16,812	984,774	378,407
Bonds	676,175	150,917	34,090	861,182	588,963
Real estate	136,457	27,611	22,415	186,483	294,308
Assets held by trustee (primarily cash equivalents and bonds)	16,379	226,062	10,898	253,339	234,448
Other	—	2,584	18,672	21,256	2,492
Total	\$ 3,826,889	522,190	244,384	4,593,463	3,445,643

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Notes to Consolidated Financial Statements

June 30, 2000 and 1999

(in thousands of dollars)

Changes in the fair value of endowment investments were as follows for the fiscal years ended June 30, 2000 and 1999:

	<u>University</u>	<u>2000 Hospitals</u>	<u>Consolidated</u>	<u>1999 Consolidated</u>
Investment return:				
Endowment yield (interest, dividends, and rents)	\$ 64,594	2,736	67,330	69,413
Realized gains on investments	924,680	40,159	964,839	173,281
Unrealized gains on investments	<u>72,919</u>	<u>3,379</u>	<u>76,298</u>	<u>109,299</u>
Total investment return	1,062,193	46,274	1,108,467	351,993
Endowment payout	<u>(100,310)</u>	<u>(4,304)</u>	<u>(104,614)</u>	<u>(86,454)</u>
Net investment return reinvested	<u>961,883</u>	<u>41,970</u>	<u>1,003,853</u>	<u>265,539</u>
Other changes in endowment investments:				
Gifts and pledge payments received in cash	49,155	528	49,683	34,034
Transfers to create funds functioning as endowment	22,178	—	22,178	89,343
Other changes	<u>(5,154)</u>	<u>1,019</u>	<u>(4,135)</u>	<u>624</u>
Total other changes in endowment investments	<u>66,179</u>	<u>1,547</u>	<u>67,726</u>	<u>124,001</u>
Net change in endowment investments	1,028,062	43,517	1,071,579	389,540
Endowment investments at:				
Beginning of year	<u>2,640,539</u>	<u>114,771</u>	<u>2,755,310</u>	<u>2,365,770</u>
End of year	<u>\$ 3,668,601</u>	<u>158,288</u>	<u>3,826,889</u>	<u>2,755,310</u>

**THE UNIVERSITY OF CHICAGO**

Notes to Consolidated Financial Statements

June 30, 2000 and 1999

(in thousands of dollars)

**(4) Notes and Accounts Receivable**

Components of notes and accounts receivable at June 30, 2000 and 1999 are shown below:

	<b>2000</b>		<b>1999</b>	
	<u>University</u>	<u>Hospitals</u>	<u>University</u>	<u>Hospitals</u>
Patients	\$ 91,871	199,576	73,257	203,530
Students:				
Loans	116,303	—	112,676	—
Tuition and fees	3,229	—	3,177	—
U.S. Government	19,680	—	15,727	—
All other	48,079	—	49,520	—
	<u>279,162</u>	<u>199,576</u>	<u>254,357</u>	<u>203,530</u>
Less allowance for doubtful accounts (primarily patient receivables)	<u>(72,666)</u>	<u>(72,864)</u>	<u>(60,573)</u>	<u>(73,712)</u>
Total	<u>\$ 206,496</u>	<u>126,712</u>	<u>193,784</u>	<u>129,818</u>

**(5) Land, Buildings, Equipment, and Books**

Components of land, buildings, equipment, and books at June 30, 2000 and 1999 are shown below:

	<b>2000</b>		<b>1999</b>	
	<u>University</u>	<u>Hospitals</u>	<u>University</u>	<u>Hospitals</u>
Land	\$ 26,325	23,105	25,586	24,206
Buildings	617,314	443,112	600,352	424,304
Equipment	221,797	257,745	211,882	237,455
Books	132,792	—	123,834	—
Construction in-progress	139,418	12,929	71,299	27,817
	<u>1,137,646</u>	<u>736,891</u>	<u>1,032,953</u>	<u>713,782</u>
Less accumulated depreciation	<u>(527,065)</u>	<u>(347,525)</u>	<u>(492,180)</u>	<u>(327,458)</u>
Total	<u>\$ 610,581</u>	<u>389,366</u>	<u>540,773</u>	<u>386,324</u>

Depreciation is calculated on a straight-line basis using the following useful lives: buildings and building improvements, 13 to 63 years; equipment, 3 to 20 years; and books, 10 years.

**THE UNIVERSITY OF CHICAGO**

Notes to Consolidated Financial Statements

June 30, 2000 and 1999

(in thousands of dollars)

**(6) Notes and Bonds Payable**

Notes and bonds payable at June 30, 2000 and 1999 are shown below:

	<u>Maturity</u>	<u>Interest rate</u>	<u>2000</u>	<u>1999</u>
<b>University:</b>				
Fixed rate:				
Illinois Educational Facilities Authority (IEFA):				
Series 1985 – student loan	2000	—	\$ —	1,195
Series 1993	2014	5.1%-6.0%	4,990	5,215
Series 1993B	2025	5.5%-5.7%	36,975	36,975
Series 1993C	2008	4.4%-5.0%	13,700	15,100
Series 1998A	2039	5.0%-5.3%	125,000	125,000
Unamortized discount			(3,442)	(3,559)
U.S. Government housing bonds	2003	3.4%-3.6%	<u>311</u>	<u>446</u>
Total fixed rate			<u>177,534</u>	<u>180,372</u>
Variable rate:				
Illinois Health Facilities Authority (IHFA) – Series 1985	2016	3.4%	62,300	62,300
Illinois Student Assistance Commission	2000	5.9%	73,444	70,672
IEFA:				
Series 1985 NORC	2007	4.8%	376	437
Pooled financing program	2011	4.4%	8,625	6,875
Series 1998B	2026	4.4%	90,510	90,510
Series 2000 commercial paper	2000	3.9%-4.1%	100,000	—
Taxable commercial paper		—	<u>—</u>	<u>46,000</u>
Total variable rate			<u>335,255</u>	<u>276,794</u>
Total University			<u>512,789</u>	<u>457,166</u>
<b>Hospitals:</b>				
Fixed rate:				
IHFA:				
Series 1993A	2008	4.5%-5.5%	41,945	45,650
Series 1993B	2014	5.8%	41,000	41,000
Unamortized discount			(274)	(324)
Other	2001	5.0%-8.6%	<u>11,178</u>	<u>11,821</u>
Total fixed rate			<u>93,849</u>	<u>98,147</u>
Variable rate:				
IHFA:				
Series 1994C	2026	2.8%-4.6%	55,400	55,400
Series 1998	2026	4.5%	118,800	119,500
IEFA pooled financing program	2028	4.4%	27,866	27,866
Bank and other notes	2000	7.0%-8.0%	<u>11,487</u>	<u>30,000</u>
Total variable rate			<u>213,553</u>	<u>232,766</u>
Total Hospitals			<u>307,402</u>	<u>330,913</u>
Total notes and bonds payable			\$ <u>820,191</u>	\$ <u>788,079</u>

## THE UNIVERSITY OF CHICAGO

### Notes to Consolidated Financial Statements

June 30, 2000 and 1999

(in thousands of dollars)

As of June 30, 2000 and 1999, the total principal amount of indebtedness considered to be legally extinguished and, therefore, excluded from notes and bonds payable was \$94,945 and \$95,665, respectively for the University, and \$107,085 and \$107,185, respectively for the Hospitals.

Principal payments required for University notes and bonds in each of the five years ending June 30, 2001 through 2005 are approximately \$1,953, \$1,956, \$1,960, \$2,051, and \$2,061, respectively.

Principal payments required in each of the five years ending June 30, 2001 through 2005 for the Hospitals' notes and bonds are approximately \$9,525, \$6,922, \$9,285, \$5,475, and \$5,480, respectively.

#### **(7) Collateral for Notes and Bonds Payable**

The University notes and bonds payable are secured by certain physical properties with a carrying value of approximately \$10,100 as of June 30, 2000. In addition, at June 30, 2000, the University had approximately \$8,189 of assets held by trustees for debt service.

The Hospitals Series 1993, 1994, and 1998 bonds are guaranteed by a municipal bond insurance policy.

Payment on the University and Hospitals IEFA Pooled Financing Program bonds is guaranteed by a bank letter of credit.

#### **(8) Securities Loaned**

The University has an agreement with its investment custodian to lend University securities to brokers in exchange for a fee. The security lending agreement specifies that the custodian is responsible for the lending of securities and obtaining adequate collateral from the borrower. At June 30, 2000, investment securities with an aggregate market value of \$617,078 were loaned to various brokers and are returnable on demand.



**THE UNIVERSITY OF CHICAGO**

Notes to Consolidated Financial Statements

June 30, 2000 and 1999

(in thousands of dollars)

**(9) Pledges**

Pledges receivable at June 30, 2000 and 1999 are shown below:

	<b>2000</b>		<b>1999</b>	
	<u>University</u>	<u>Hospitals</u>	<u>University</u>	<u>Hospitals</u>
Unconditional promises expected to be collected in:				
Less than one year	\$ 36,532	1,244	20,095	923
One year to five years	98,374	1,409	42,554	811
More than five years	1,720	—	485	—
	<u>136,626</u>	<u>2,653</u>	<u>63,134</u>	<u>1,734</u>
Less unamortized discount and allowance for uncollectible pledges	<u>(27,714)</u>	<u>—</u>	<u>(13,689)</u>	<u>—</u>
Total	<u>\$ 108,912</u>	<u>2,653</u>	<u>49,445</u>	<u>1,734</u>

**(10) 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 years ended June 30, 2000 and 1999, was \$4,000 per claim and \$19,000 in annual aggregate. The Hospitals are included under this insurance program and are charged for their portion of self-insurance costs. The University and Hospitals also maintain a self-insurance program for workers' compensation and certain other liability claims.

Under the medical malpractice self-insurance program, the University makes 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 \$28,000 higher than the amount recorded in the consolidated financial statements at June 30, 2000. The interest rate assumed in determining the present value was 7.6%.

**THE UNIVERSITY OF CHICAGO**

Notes to Consolidated Financial Statements

June 30, 2000 and 1999

(in thousands of dollars)

In addition, the Hospitals maintains a separate professional self-insurance liability program for certain of its employees at Weiss Memorial Hospital. This program is supplemented with commercial excess insurance above a self-insurance retention of \$2,000 per claim and \$4,000 in annual aggregate. The liability for this self-insurance program is actuarially determined on a present value basis. If the present value method was not used, the liability for these claims would be approximately \$2,900 higher.

The estimated liability for incurred malpractice, workers' compensation, and other claims (filed and unfiled) as of June 30, 2000 and 1999 is presented below:

	<b>2000</b>		<b>1999</b>	
	<u>University</u>	<u>Hospitals</u>	<u>University</u>	<u>Hospitals</u>
Medical malpractice	\$ 93,698	12,635	91,475	11,329
Workers' compensation	3,100	6,386	3,056	6,155
Other	2,318	—	3,664	—
Total	<u>\$ 99,116</u>	<u>19,021</u>	<u>98,195</u>	<u>17,484</u>

**(11) 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 Hospitals employees participate in the University's pension plan for nonacademic employees.

In addition to providing pension benefits, the University provides certain health care benefits for retired employees. All Medicare eligible tenured faculty who elect to participate in the University Faculty 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 UNIVERSITY OF CHICAGO**

Notes to Consolidated Financial Statements

June 30, 2000 and 1999

(in thousands of dollars)

The postretirement benefit obligation, fair value of plan assets, and funded status along with the prepaid (accrued) benefit cost for these plans are shown below:

	<b>Defined Benefit Pension Plan</b>		<b>Postretirement Health Care Benefits</b>	
	<u>2000</u>	<u>1999</u>	<u>2000</u>	<u>1999</u>
Benefit obligation at March 31	\$ 207,570	196,221	36,735	31,742
Fair value of plan assets at March 31	<u>416,743</u>	<u>368,871</u>	<u>17,066</u>	<u>13,464</u>
Excess (deficiency) of plan assets over benefit obligation	<u>\$ 209,173</u>	<u>172,650</u>	<u>(19,669)</u>	<u>(18,278)</u>
Prepaid (accrued) benefit cost recognized in the consolidated balance sheets at June 30	<u>\$ 75,908</u>	<u>60,338</u>	<u>(18,684)</u>	<u>(12,242)</u>

The weighted-average assumptions used in the accounting for the pension and postretirement plans are shown below as of March 31:

	<b>Defined Benefit Pension Plan</b>		<b>Postretirement Health Care Benefits</b>	
	<u>2000</u>	<u>1999</u>	<u>2000</u>	<u>1999</u>
Discount rate	8.0%	7.3	8.0%	7.3
Expected return on plan assets	8.5	8.5	6.0	6.0
Rate of compensation increase	4.5	3.6	—	—
Health care cost trend rates:				
Next two fiscal years	—	—	7.5	7.5
Next seven fiscal years	—	—	5.0	4.5
Thereafter	<u>—</u>	<u>—</u>	<u>4.0</u>	<u>3.5</u>

**THE UNIVERSITY OF CHICAGO**

Notes to Consolidated Financial Statements

June 30, 2000 and 1999

(in thousands of dollars)

The net periodic benefit cost (income), employer contribution, participant contributions, and benefits paid for these plans are shown below for the fiscal years ended June 30:

	<b>Defined Benefit Pension Plan</b>		<b>Postretirement Health Care Benefits</b>	
	<b>2000</b>	<b>1999</b>	<b>2000</b>	<b>1999</b>
Benefit cost (income) included in the consolidated statements of activities	\$ (15,570)	(15,964)	3,381	3,084
Employer contributions	—	—	1,763	1,245
Plan participants' contributions	—	—	1,564	1,871
Benefits paid	18,349	20,971	3,328	3,116

Defined contribution pension plan costs included in the consolidated statements of activities amounted to \$19,530 in fiscal 2000 and \$18,627 in fiscal 1999.

In addition, Weiss Memorial Hospital maintains a separate defined benefit pension plan for certain of its employees. Assets of this plan approximated \$38,000 and \$35,000 at June 30, 2000 and 1999, and compared with the related projected benefit obligations of \$33,600 and \$35,500 for those years, respectively.

**THE UNIVERSITY OF CHICAGO**

Notes to Consolidated Financial Statements

June 30, 2000 and 1999

(in thousands of dollars)

**(12) Functional Classification of Expenses**

Expenses by functional classification for the years ended June 30, 2000 and 1999 are shown below:

	<b>2000</b>	<b>1999</b>
University:		
Academic and research:		
Instruction	\$ 434,123	413,052
Research	120,025	106,252
Auxiliary enterprises	104,617	94,244
Library	14,498	13,945
Student services	24,278	22,918
Operation and maintenance of physical plant	61,480	64,989
Depreciation	43,429	40,373
Interest on notes and bonds	19,010	17,583
Total academic and research	821,460	773,356
Administration:		
Institutional support	53,091	47,961
Operation and maintenance of physical plant	2,097	2,264
Depreciation	3,211	2,774
Interest on notes and bonds	463	474
Total administration	58,862	53,473
Total University	880,322	826,829
Hospitals – hospital services	642,383	642,394
Total	\$ 1,522,705	1,469,223

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

## THE UNIVERSITY OF CHICAGO

### Notes to Consolidated Financial Statements

June 30, 2000 and 1999

(in thousands of dollars)

#### **(13) Affiliated Organizations**

The University has an ongoing relationship with the National Opinion Research Center (NORC) and The Baptist Theological Union (BTU). Consolidation of these financially interrelated not-for-profit organizations is not required because the University does not have both control and an economic interest. A summary description of these organizations follows:

- NORC is 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, 1999 and 1998 was \$39,619 and \$53,818, respectively. Unrestricted net assets at December 31, 1999 and 1998 were \$5,174 and \$6,974, respectively.
- BTU is a not-for-profit organization that distributes its earnings on endowment assets to the University's Divinity School. No University faculty or officers are members of the BTU Board of Trustees. During the fiscal years ended June 30, 2000 and 1999, BTU distributed \$4,114 and \$3,661 to the University's Divinity School, respectively. The market value of the BTU endowment at June 30, 2000 and 1999 was \$52,274 and \$50,671, respectively. Such amounts are included in assets held in custody for others on the balance sheet.

In addition, the University operates the Argonne National Laboratory under a contract with the U.S. Department of Energy, which provides for the payment of a fixed management allowance and an additional fee based on performance judged against established measures. The expenditures under this contract and the related reimbursements of \$480,145 in fiscal year 2000 and \$491,705 in fiscal year 1999 are not included in the consolidated statements of activities. Also, net assets relating to Argonne National Laboratory are owned by the United States government and, therefore, are not included in the consolidated balance sheets.

#### **(14) Contingencies**

Various lawsuits, claims, and other contingent liabilities arise in the ordinary course of the University's education, research, and health care 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

## Statements of Activities Information – University

Years ended June 30, 2000 and 1999

(in thousands of dollars)

	<u>2000</u>	<u>1999</u>
Changes in unrestricted net assets:		
Operating:		
Revenue:		
Tuition and fees – gross	\$ 285,681	271,177
Less:		
Undergraduate student aid	(34,911)	(34,196)
Graduate student aid	<u>(79,165)</u>	<u>(74,946)</u>
Tuition and fees – net	171,605	162,035
Government grants and contracts	185,703	182,960
Private gifts, grants, and contracts	93,188	77,730
Endowment payout	98,781	81,473
Earnings on other investments	16,274	16,074
Patient care	129,162	127,632
Auxiliaries	127,882	117,816
Other income	<u>85,627</u>	<u>81,847</u>
Total operating revenue	<u>908,222</u>	<u>847,567</u>
Expenses:		
Compensation:		
Academic salaries	259,451	247,516
Staff salaries	211,550	196,148
Benefits	<u>91,003</u>	<u>87,514</u>
Total compensation	<u>562,004</u>	<u>531,178</u>
Other operating expenses:		
Utilities, alterations, and repairs	24,547	22,593
Depreciation	46,640	43,147
Interest	19,473	18,057
Supplies and services	220,818	199,542
Loss on debt refinancing	—	6,043
Insurance	<u>6,840</u>	<u>6,269</u>
Total other operating expenses	<u>318,318</u>	<u>295,651</u>
Total operating expenses	<u>880,322</u>	<u>826,829</u>
Excess of operating revenue over expenses	<u>\$ 27,900</u>	<u>20,738</u>

## THE UNIVERSITY OF CHICAGO

## Statements of Activities Information – University

Years ended June 30, 2000 and 1999

(in thousands of dollars)

	<u>2000</u>	<u>1999</u>
Changes in unrestricted net assets:		
Nonoperating:		
Gifts and grants for buildings and equipment	\$ —	4,189
Endowment payout	59	87
Investment gains	949,625	248,532
Change in method of accounting for gifts and grants restricted for buildings and equipment	(76,301)	—
Other	<u>7,438</u>	<u>13,460</u>
Change in unrestricted net assets from nonoperating activities	<u>880,821</u>	<u>266,268</u>
Increase in unrestricted net assets	<u>908,721</u>	<u>287,006</u>
Changes in temporarily restricted net assets:		
Private gifts	115,858	24,473
Endowment payout	58	55
Investment gains	1,684	534
Change in method of accounting for gifts and grants restricted for buildings and equipment	76,301	—
Other	<u>(18,092)</u>	<u>(15,951)</u>
Increase in temporarily restricted net assets	<u>175,809</u>	<u>9,111</u>
Changes in permanently restricted net assets:		
Private gifts	36,324	39,943
Endowment payout	1,412	1,147
Investment gains	12,600	10,010
Other	<u>15,866</u>	<u>(1,277)</u>
Increase in permanently restricted net assets	<u>66,202</u>	<u>49,823</u>
Increase in net assets	1,150,732	345,940
Net assets at beginning of year	<u>3,198,398</u>	<u>2,852,458</u>
Net assets at end of year	<u>\$ 4,349,130</u>	<u>3,198,398</u>

See accompanying independent auditors' report.



## THE UNIVERSITY OF CHICAGO

## Balance Sheet Information – University

June 30, 2000 and 1999

(in thousands of dollars)

<b>Assets</b>	<b>2000</b>	<b>1999</b>
Cash and cash equivalents	\$ 6,091	49,428
Notes and accounts receivable	206,496	193,784
Inventories	8,699	8,838
Prepaid expenses and other assets	109,188	90,587
Pledges receivable	108,912	49,445
Investments	4,190,791	3,093,960
Land, buildings, equipment, and books	<u>610,581</u>	<u>540,773</u>
Total assets	<u>\$ 5,240,758</u>	<u>4,026,815</u>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 125,058	124,442
Deferred revenue	57,928	55,397
Assets held in custody for others	59,471	56,638
Self-insurance liability	99,116	98,195
Notes and bonds payable	512,789	457,166
Refundable U.S. Government student loan funds	<u>37,266</u>	<u>36,579</u>
Total liabilities	<u>891,628</u>	<u>828,417</u>
Net assets:		
Unrestricted	3,490,037	2,581,316
Temporarily restricted	251,836	76,027
Permanently restricted	<u>607,257</u>	<u>541,055</u>
Total net assets	<u>4,349,130</u>	<u>3,198,398</u>
Total liabilities and net assets	<u>\$ 5,240,758</u>	<u>4,026,815</u>

See accompanying independent auditors' report.



303 East Wacker Drive  
Chicago, IL 60601

## Independent Auditors' Report

The Board of Trustees  
The University of Chicago:

We have audited the accompanying consolidated balance sheets of The University of Chicago as of June 30, 2000 and 1999, 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 did not audit the financial statements of The University of Chicago Hospitals, which statements reflect total assets constituting 16% and 19% and total change in net assets constituting 4% and 13% of the related consolidated totals in 2000 and 1999, respectively. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for The University of Chicago Hospitals, is based solely on the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, 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, 2000 and 1999, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. 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.





In accordance with *Government Auditing Standards*, we have also issued a report dated September 29, 2000, on our consideration of the University's internal control over financial reporting and our tests of its compliance with laws and regulations. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

As discussed in Note 1 to the financial statements, in fiscal year 2000 the University changed its method of accounting for gifts and grants restricted for buildings and equipment.

KPMG LLP

September 29, 2000