

**THE UNIVERSITY OF CHICAGO**

Consolidated Financial Statements and  
Supplemental University Information

June 30, 2003 and 2002

(With Independent Auditors' Report Thereon)

## **Management Responsibility for Financial Statements**

The management of The University of Chicago is responsible for the preparation, integrity, and fair presentation of the consolidated financial statements. The financial statements, presented on pages 3 to 26, have been prepared in conformity with 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, 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 Hospitals and their opinion, insofar as it relates to the amounts included for the Hospitals, is based solely on the report of PricewaterhouseCoopers, the independent auditors for the Hospitals. The University believes that all representations made to KPMG during their audit were valid and appropriate. KPMG's audit opinion is presented on page 2.

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 of Chicago, through its Audit Committee comprised of trustees not employed by the University, is 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.

Donald J. Reaves  
Vice President for Administration  
and Chief Financial Officer

William J. Hogan, Jr.  
Comptroller



303 East Wacker Drive  
Chicago, IL 60601-5212

## 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, 2003 and 2002, 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 (the Hospitals), which statements reflect total assets constituting 17% and 15% and total operating revenue constituting 38% of the related consolidated totals in 2003 and 2002. Our opinion, insofar as it relates to the amounts included for the Hospitals, is based solely on the report of other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report 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, 2003 and 2002, 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.

**KPMG LLP**

September 26, 2003



**THE UNIVERSITY OF CHICAGO**

Consolidated Statements of Activities

Years ended June 30, 2003 and 2002

(In thousands of dollars)

	2003			2002
	University	Hospitals	Consolidated	Consolidated
Changes in unrestricted net assets:				
Operating:				
Revenue:				
Tuition and fees – gross	\$ 364,765	—	364,765	340,936
Less:				
Undergraduate student aid	(37,777)	—	(37,777)	(35,286)
Graduate student aid	(114,881)	—	(114,881)	(103,100)
Tuition and fees – net	212,107	—	212,107	202,550
Government grants and contracts	254,338	—	254,338	240,371
Private gifts, grants, and contracts	88,584	430	89,014	97,414
Endowment payout	168,312	6,930	175,242	152,824
Earnings on other investments	11,779	9,863	21,642	23,438
Patient care	150,246	634,121	784,367	730,193
Auxiliaries	143,157	—	143,157	142,318
Other income	99,006	31,177	130,183	147,459
Total operating revenue	1,127,529	682,521	1,810,050	1,736,567
Expenses:				
Compensation:				
Academic salaries	299,860	—	299,860	282,499
Staff salaries	266,739	269,800	536,539	496,190
Benefits	118,648	55,720	174,368	156,849
Total compensation	685,247	325,520	1,010,767	935,538
Other operating expenses:				
Utilities, alterations, and repairs	28,195	18,931	47,126	47,960
Depreciation	58,410	40,051	98,461	94,291
Interest	24,336	13,098	37,434	37,404
Supplies and services	264,270	214,806	479,076	460,036
Insurance	15,941	10,112	26,053	14,064
Total other operating expenses	391,152	296,998	688,150	653,755
Total operating expenses	1,076,399	622,518	1,698,917	1,589,293
Excess of operating revenue over expenses	51,130	60,003	111,133	147,274
Loss from operation and sale of discontinued hospital	—	155	155	62,481
Excess of operating revenue over expenses and loss from discontinued hospital	51,130	59,848	110,978	84,793

**THE UNIVERSITY OF CHICAGO**

Consolidated Statements of Activities

Years ended June 30, 2003 and 2002

(In thousands of dollars)

	<b>University</b>	<b>2003 Hospitals</b>	<b>Consolidated</b>	<b>2002 Consolidated</b>
Changes in unrestricted net assets:				
Nonoperating:				
Investment losses	\$ (81,801)	(9,610)	(91,411)	(358,744)
Minimum pension liability adjustment	(62,499)	(9,159)	(71,658)	—
Change in method of accounting for pension plan assets	—	—	—	(25,614)
Other, net	(30,494)	(5,177)	(35,671)	(37,507)
Change in unrestricted net assets from nonoperating activities	(174,794)	(23,946)	(198,740)	(421,865)
Increase (decrease) in unrestricted net assets	(123,664)	35,902	(87,762)	(337,072)
Changes in temporarily restricted net assets:				
Private gifts	43,609	32,736	76,345	60,589
Endowment payout	192	—	192	144
Investment gains (losses)	234	—	234	(520)
Other, net	(34,880)	(11,193)	(46,073)	(43,818)
Increase in temporarily restricted net assets	9,155	21,543	30,698	16,395
Changes in permanently restricted net assets:				
Private gifts	29,431	152	29,583	50,375
Endowment payout	2,019	—	2,019	1,608
Investment losses	(1,041)	—	(1,041)	(4,615)
Other, net	3,985	—	3,985	2,307
Increase in permanently restricted net assets	34,394	152	34,546	49,675
Increase (decrease) in net assets	(80,115)	57,597	(22,518)	(271,002)
Net assets at beginning of year	3,815,364	349,584	4,164,948	4,435,950
Net assets at end of year	\$ 3,735,249	407,181	4,142,430	4,164,948

See accompanying notes to consolidated financial statements.

**THE UNIVERSITY OF CHICAGO**

Consolidated Balance Sheets

June 30, 2003 and 2002

(In thousands of dollars)

<b>Assets</b>	<b>2003</b>			<b>2002</b>
	<b>University</b>	<b>Hospitals</b>	<b>Consolidated</b>	<b>Consolidated</b>
Cash and cash equivalents	\$ 17,141	49,769	66,910	43,237
Notes and accounts receivable	212,009	113,792	325,801	341,805
Collateral held for securities loaned	283,435	—	283,435	476,342
Inventories	9,022	3,799	12,821	13,925
Prepaid expenses and other assets	28,905	40,633	69,538	115,459
Pledges receivable	130,127	34,645	164,772	163,360
Investments	3,477,946	405,193	3,883,139	3,993,280
Land, buildings, equipment, and books	942,402	361,468	1,303,870	1,160,788
Total assets	\$ 5,100,987	1,009,299	6,110,286	6,308,196
<b>Liabilities and Net Assets</b>				
Liabilities:				
Accounts payable and accrued expenses	\$ 153,448	237,349	390,797	375,150
Deferred revenue	68,681	—	68,681	68,771
Payable under securities loan agreements	283,435	—	283,435	476,342
Assets held in custody for others	21,216	—	21,216	24,831
Self-insurance liability	132,324	6,088	138,412	108,691
Notes and bonds payable	667,664	358,681	1,026,345	1,050,925
Refundable U.S. Government student loan funds	38,970	—	38,970	38,538
Total liabilities	1,365,738	602,118	1,967,856	2,143,248
Net assets:				
Unrestricted	2,704,506	354,284	3,058,790	3,146,552
Temporarily restricted	286,112	47,593	333,705	303,007
Permanently restricted	744,631	5,304	749,935	715,389
Total net assets	3,735,249	407,181	4,142,430	4,164,948
Total liabilities and net assets	\$ 5,100,987	1,009,299	6,110,286	6,308,196

See accompanying notes to consolidated financial statements.

**THE UNIVERSITY OF CHICAGO**  
Consolidated Statements of Cash Flows  
Years ended June 30, 2003 and 2002  
(In thousands of dollars)

	<b>2003</b>			<b>2002</b>
	<b>University</b>	<b>Hospitals</b>	<b>Consolidated</b>	<b>Consolidated</b>
Cash flows from operating activities:				
Increase (decrease) in net assets from continuing operations	\$ (80,115)	59,630	(20,485)	(246,045)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:				
Depreciation	58,410	40,051	98,461	94,291
Net (gain) loss on investments	(24,314)	(5,570)	(29,884)	258,053
Private gifts and grants restricted for long-term investment	(73,040)	(32,888)	(105,928)	(110,964)
Other nonoperating changes	59,178	15,783	74,961	74,316
Pension income	(573)	—	(573)	(427)
Minimum pension liability adjustment	62,499	9,159	71,658	—
Change in method of accounting for pension plan assets	—	—	—	25,614
Changes in assets and liabilities:				
Notes and accounts receivable	8,521	9,917	18,438	(66,515)
Prepaid expenses and other assets	6,160	(10,871)	(4,711)	29,642
Accounts payable and other liabilities	(13,153)	7,416	(5,737)	67,739
Self-insurance liability	29,612	109	29,721	14,968
Total adjustments	113,300	33,106	146,406	386,717
Net cash provided by operating activities of continuing operations	33,185	92,736	125,921	140,672
Decrease in net assets from discontinued operations	—	(2,033)	(2,033)	(20,751)
Loss on disposal of discontinued hospital	—	—	—	26,051
Change in assets and liabilities of discontinued hospital	—	69	69	(60,087)
Net cash used in operating activities of discontinued hospital	—	(1,964)	(1,964)	(54,787)
Net cash provided by operating activities	33,185	90,772	123,957	85,885
Cash flows from investing activities:				
Purchase of investments	(214,361)	(228,839)	(443,200)	(801,060)
Proceeds from sale of investments	366,581	216,554	583,135	674,650
Acquisition of land, buildings, equipment, and books	(177,606)	(70,854)	(248,460)	(225,911)
Disposal of land, buildings, equipment, and books	5,998	—	5,998	2,986
Loans disbursed	(57,432)	—	(57,432)	(52,183)
Principal collected on loans	54,998	—	54,998	52,188
Proceeds from sale of discontinued operations	—	—	—	55,390
Net cash used in investing activities	(21,822)	(83,139)	(104,961)	(293,940)
Cash flows from financing activities:				
Proceeds from issuance of notes and bonds payable	50,881	486	51,367	383,645
Principal payments on notes and bonds payable	(69,861)	(6,167)	(76,028)	(174,863)
Proceeds from private gifts and grants restricted for long-term investment	83,936	20,580	104,516	82,691
Other nonoperating changes	(59,178)	(16,000)	(75,178)	(78,693)
Net cash provided by (used in) financing activities	5,778	(1,101)	4,677	212,780
Increase in cash and cash equivalents	17,141	6,532	23,673	4,725
Cash and cash equivalents at:				
Beginning of year	—	43,237	43,237	38,512
End of year	\$ 17,141	49,769	66,910	43,237
Supplemental disclosure of cash flow information:				
Cash paid for interest	\$ 26,429	14,900	41,329	32,561

See accompanying notes to consolidated financial statements.

**THE UNIVERSITY OF CHICAGO**  
Notes to Consolidated Financial Statements  
June 30, 2003 and 2002  
(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 (the 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, 2003 and 2002

(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, 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 and amounted to \$23,645 in fiscal 2003 and \$28,950 in fiscal 2002.
- 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.

Net assets consisted of the following at June 30:

Detail of Net Assets	2003			Total	2002 Total
	Unrestricted	Temporarily restricted	Permanently restricted		
University:					
Operating	\$ 154,664	23,563	—	178,227	238,131
Pledges	—	97,495	32,632	130,127	141,023
Student loans	—	—	11,448	11,448	10,978
Endowment	2,383,838	17,167	678,092	3,079,097	3,111,626
Annuity and life income	—	9,086	22,459	31,545	37,122
Net investment in physical properties	166,004	138,801	—	304,805	276,484
Subtotal	<u>2,704,506</u>	<u>286,112</u>	<u>744,631</u>	<u>3,735,249</u>	<u>3,815,364</u>
Hospitals:					
Operating	167,064	12,948	—	180,012	156,261
Pledges	—	34,645	—	34,645	22,337
Endowment	119,756	—	5,304	125,060	128,322
Net investment in physical properties	67,464	—	—	67,464	42,664
Subtotal	<u>354,284</u>	<u>47,593</u>	<u>5,304</u>	<u>407,181</u>	<u>349,584</u>
Total	<u>\$ 3,058,790</u>	<u>333,705</u>	<u>749,935</u>	<u>4,142,430</u>	<u>4,164,948</u>

**THE UNIVERSITY OF CHICAGO**  
Notes to Consolidated Financial Statements  
June 30, 2003 and 2002  
(In thousands of dollars)

***Operations***

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

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 noncapital purposes during the period, and amounted to \$14,829 in fiscal 2003 and \$18,908 in fiscal 2002.

***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, 2003 and 2002 are \$39,405 and \$35,827, respectively, of private grant and contract receipts which have not been expended.

Private gifts, grants, and contracts operating revenue for fiscal years 2003 and 2002 consists of the following:

	<u>University</u>	<u>2003 Hospitals</u>	<u>Total</u>	<u>2002 Total</u>
Private gifts:				
Unrestricted as to use	\$ 15,593	430	16,023	27,638
Temporarily restricted gifts whose restrictions were met during the fiscal year and reported as unrestricted revenue	21,277	—	21,277	24,341
Private grants and contracts	51,714	—	51,714	45,435
Total	<u>\$ 88,584</u>	<u>430</u>	<u>89,014</u>	<u>97,414</u>

**THE UNIVERSITY OF CHICAGO**

Notes to Consolidated Financial Statements

June 30, 2003 and 2002

(In thousands of dollars)

***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 2003 and 2002 consists of the following:

	2003			2002
	University	Hospitals	Total	Total
Interest, dividends, and rents	\$ 63,601	2,480	66,081	67,204
Realized investment gains used to support the endowment payout formula	106,922	4,450	111,372	87,372
Total	\$ 170,523	6,930	177,453	154,576

Unrestricted operating endowment payout revenue for fiscal years 2003 and 2002 consists of the following:

	2003			2002
	University	Hospitals	Total	Total
Unrestricted payout	\$ 48,339	—	48,339	42,938
Temporarily restricted payout whose restrictions were met during the fiscal year and reported as unrestricted revenue	119,973	6,930	126,903	109,886
Total	\$ 168,312	6,930	175,242	152,824

***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.

**THE UNIVERSITY OF CHICAGO**  
Notes to Consolidated Financial Statements  
June 30, 2003 and 2002  
(In thousands of dollars)

***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.

***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, open-end and closed-end 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, appraisals, assumptions, and methods which are reviewed by the University's Investment Office.

The University does not engage directly in unhedged speculative investments, however, the board of trustees has authorized derivative investments to gain market exposure within asset class ranges, hedge nondollar investments and currencies, and provide for defensive portfolio strategies. To minimize the risk of loss, hedge fund investments are diversified by strategy, external manager, and number of positions. In addition, the activities of all hedge fund managers are regularly reviewed by independent outside auditors and the University Investment Office. The risk of any derivative their exposure is limited to the amount invested with each manager. Derivative investments are recorded at fair value and valuation gains and losses are included in the consolidated statements of activities.

***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.

**THE UNIVERSITY OF CHICAGO**  
Notes to Consolidated Financial Statements  
June 30, 2003 and 2002  
(In thousands of dollars)

***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.

***Accounting Changes***

Beginning in fiscal 2002, the University changed its method of accounting for recognizing gains and losses in the value of pension assets for its defined benefit pension plan. Previously, the University immediately recognized gains and losses on pension assets as they occurred. The University changed its method of accounting to systematically and gradually recognize gains and losses as they occur over subsequent periods. This change in method of accounting reduces the volatility of pension assets for significant changes in valuations. The cumulative effect of this change in method of accounting amounts to \$25,614 and is shown as a nonoperating reduction in unrestricted net assets.

***Reclassifications***

Certain 2002 amounts have been reclassified to conform to the 2003 presentation.

**(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 QV, Inc., an affiliated not-for-profit health care corporation consisting of a home health agency and several clinics; and until June 2002, Louis A. Weiss Memorial Hospital (Weiss), a community hospital in Chicago, Illinois. The University elects the Hospitals' board of trustees. Accordingly, the Hospitals' financial information is included in the consolidated financial statements.

On June 6, 2002, Weiss sold substantially all of its assets at a loss of \$62,481 which is shown as an operating change in unrestricted net assets in the consolidated statements of activities.

***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 University and the Hospitals also entered into a lease agreement which provides a leasehold interest in the University's health care facilities and certain land and parking structures. Each of these agreements has an initial term of 40 years which automatically renews for additional successive 10-year terms following expiration of the initial term, unless either party provides the other with at least two years' prior notice of its election not to review. 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.

**THE UNIVERSITY OF CHICAGO**  
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***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 \$61,372 in fiscal year 2003 and \$52,125 in fiscal year 2002 has been reclassified as a reduction of patient care revenue and (2) realized investment (losses) of (\$16,383) in fiscal year 2003 and (\$33,897) in fiscal year 2002 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 2003 and fiscal 2002, the Hospitals transferred \$15,000 to the University in support of these programs.

**(3) Investments**

Fair values of investments at June 30, 2003 and 2002 are shown below:

	<b>2003</b>				<b>2002 Total</b>
	<b>University and hospitals endowment</b>	<b>All others</b>		<b>Total</b>	
		<b>University</b>	<b>Hospitals</b>		
Cash equivalents	\$ 7,420	2,775	—	10,195	87,124
Domestic public equities	723,753	41,043	107,750	872,546	684,615
International public equities	542,210	14,530	572	557,312	541,500
Private equity	504,312	2,837	19,360	526,509	584,054
Real assets	306,335	6,877	7,154	320,366	274,593
Absolute return	482,972	2,717	—	485,689	505,807
High yield bonds	237,081	6,297	—	243,378	233,478
Fixed income	384,500	145,460	67,086	597,046	739,785
Funds held in trust (primarily cash equivalents and bonds)	15,574	176,313	78,211	270,098	342,324
Total	\$ 3,204,157	398,849	280,133	3,883,139	3,993,280

**THE UNIVERSITY OF CHICAGO**

Notes to Consolidated Financial Statements

June 30, 2003 and 2002

(In thousands of dollars)

Changes in the fair value of endowment investments were as follows for the fiscal years ended June 30, 2003 and 2002:

	<b>2003</b>			<b>2002</b>
	<u>University</u>	<u>Hospitals</u>	<u>Consolidated</u>	<u>Consolidated</u>
Investment return:				
Endowment yield (interest, dividends, and rents)	\$ 63,601	2,480	66,081	67,204
Realized gains (losses) on investments	20,622	764	21,386	(139,913)
Unrealized gains (losses) on investments	3,197	92	3,289	(101,693)
Total investment gain (loss)	87,420	3,336	90,756	(174,402)
Endowment payout	(170,523)	(6,930)	(177,453)	(154,576)
Net investment loss	(83,103)	(3,594)	(86,697)	(328,978)
Other changes in endowment investments:				
Gifts and pledge payments received in cash	33,742	332	34,074	41,262
Transfers to create funds functioning as endowment	14,582	—	14,582	26,084
Other changes	2,250	—	2,250	9,851
Total other changes in endowment investments	50,574	332	50,906	77,197
Net change in endowment investments	(32,529)	(3,262)	(35,791)	(251,781)
Endowment investments at:				
Beginning of year	3,111,626	128,322	3,239,948	3,491,729
End of year	\$ 3,079,097	125,060	3,204,157	3,239,948

**THE UNIVERSITY OF CHICAGO**  
Notes to Consolidated Financial Statements  
June 30, 2003 and 2002  
(In thousands of dollars)

**(4) Notes and Accounts Receivable**

Components of notes and accounts receivable at June 30, 2003 and 2002 are shown below:

	<b>2003</b>		<b>2002</b>	
	<u>University</u>	<u>Hospitals</u>	<u>University</u>	<u>Hospitals</u>
Patients	\$ 86,673	185,002	91,134	186,847
Students:				
Loans	127,545	—	124,804	—
Tuition and fees	4,913	—	3,502	—
U.S. Government	15,667	—	17,952	—
All other	50,386	—	57,888	—
Subtotal	285,184	185,002	295,280	186,847
Less allowance for doubtful accounts (primarily patient receivables)	(73,175)	(71,210)	(77,184)	(63,138)
Total	<u>\$ 212,009</u>	<u>113,792</u>	<u>218,096</u>	<u>123,709</u>

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

Components of land, buildings, equipment, and books at June 30, 2003 and 2002 are shown below:

	<b>2003</b>		<b>2002</b>	
	<u>University</u>	<u>Hospitals</u>	<u>University</u>	<u>Hospitals</u>
Land	\$ 28,565	21,905	27,922	21,905
Buildings	883,008	376,824	832,264	374,597
Equipment	270,873	237,579	254,468	209,813
Books	167,270	—	155,424	—
Construction in-progress	235,572	64,682	156,184	31,313
Subtotal	1,585,288	700,990	1,426,262	637,628
Less accumulated depreciation	(642,886)	(339,522)	(597,058)	(306,044)
Total	<u>\$ 942,402</u>	<u>361,468</u>	<u>829,204</u>	<u>331,584</u>



**THE UNIVERSITY OF CHICAGO**  
Notes to Consolidated Financial Statements  
June 30, 2003 and 2002  
(In thousands of dollars)

**(6) Notes and Bonds Payable**

Notes and bonds payable at June 30, 2003 and 2002 are shown below:

	<u>Fiscal year maturity</u>	<u>Interest rate</u>	<u>2003</u>	<u>2002</u>
University:				
Fixed rate:				
Illinois Educational Facilities Authority (IEFA):				
Series 1993	2014	5.3% - 5.9%	\$ 4,215	4,490
Series 1993B	2025	5.5% - 5.6%	36,975	36,975
Series 1993C	2008	4.7% - 5.0%	9,100	10,700
Series 1998A	2039	5.0% - 5.3%	125,000	125,000
Series 2001A	2042	5.3%	75,000	75,000
Series 2001B-2	2037	4.0%	40,000	40,000
Illinois Health Facilities Authority (IHFA) – Series 1985				
	2021	5.5%	61,965	62,080
U.S. Government housing bonds				
	—	—	—	24
Unamortized discount				
			<u>(6,089)</u>	<u>(6,288)</u>
Total fixed rate			<u>346,166</u>	<u>347,981</u>
Variable rate:				
Illinois Student Assistance Commission				
	2003	1.0%	87,170	81,974
IEFA:				
Series 1985 NORC	2007	1.0%	193	254
Pooled financing program	2011	1.0%	8,625	8,625
Series 1998B	2026	4.4%	90,510	90,510
Series 2001B-1	2037	2.7%	60,000	60,000
Series 2001B-3	2037	1.0% - 1.7%	75,000	75,000
Bank line of credit (\$65,000 available)				
	—	—	—	22,300
Total variable rate			<u>321,498</u>	<u>338,663</u>
Total University			<u>667,664</u>	<u>686,644</u>
Hospitals:				
Fixed rate:				
IHFA:				
Series 1993A	2009	4.5% - 5.5%	30,190	34,225
Series 1993B	2015	5.8%	41,000	41,000
Series 2001 Serial bond	2024	4.0 - 5.4%	36,725	36,725
Series 2001 Term bond	2032	5.0%	28,100	28,100
Series 2001 Term bond	2037	5.1%	24,065	24,065
Unamortized discount				
			<u>(1,151)</u>	<u>(1,232)</u>
Total fixed rate			<u>158,929</u>	<u>162,883</u>
Variable rate:				
IHFA:				
Series 1994C	2027	1.0%	55,400	55,400
Series 1998	2027	1.0%	116,000	116,900
IEFA pooled financing program				
	2029	1.0%	27,866	27,866
Bank and other notes				
	2003	—	486	1,232
Total variable rate			<u>199,752</u>	<u>201,398</u>
Total Hospitals			<u>358,681</u>	<u>364,281</u>
Total notes and bonds payable			<u>\$ 1,026,345</u>	<u>1,050,925</u>

## THE UNIVERSITY OF CHICAGO

### Notes to Consolidated Financial Statements

June 30, 2003 and 2002

(In thousands of dollars)

As of June 30, 2003 and 2002, the total principal amount of indebtedness considered to be legally extinguished and, therefore, excluded from notes and bonds payable was \$92,450 and \$93,340, respectively for the University, and \$105,775 and \$106,160, respectively, for the Hospitals.

Principal payments required for University notes and bonds in each of the five years ending June 30, 2004 through 2008 are approximately \$2,487; \$2,162; \$2,187; \$9,241; and \$4,056, respectively.

Principal payments required in each of the five years ending June 30, 2004 through 2008 for the Hospitals' notes and bonds are approximately \$5,961; \$5,480; \$7,170; \$7,280; and \$8,675, respectively.

The carrying value of long-term debt does not differ materially from its estimated fair value as of June 30, 2003 and 2002, based on quoted market prices for the same or similar issues.

In August 2003, the University issued \$250,000 in revenue bonds through the IEFA consisting of \$200,000 (IEFA Series 2003A) fixed rate revenue bonds and \$50,000 (IEFA Series 2003B) adjustable rate revenue bonds. The IEFA Series 2003A fixed rate bonds were issued at an average interest rate of 5.0% and the IEFA Series 2003B adjustable rate bonds were issued with an initial adjustable rate of .9%. Bond proceeds are being used to finance the construction and renovation of certain educational facilities and to refund the \$36,975 IEFA Series 1993B and \$9,100 IEFA Series 1993C bonds.

In August 2003, the Hospitals issued \$65,290 in revenue bonds through the IHFA (IHFA Series 2003) at an average interest rate of 3.9%. The Series 2003 bonds were sold at a premium of \$4,966 and are being used to refund the \$30,190 IHFA Series 1993A and \$41,000 Series 1993B bonds.

#### **(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 \$1,465 as of June 30, 2003. In addition, at June 30, 2003, the University had approximately \$8,637 of assets held by trustees for debt service.

Each of the Hospitals' IHFA bond series is collateralized and subject to certain restrictions. The Hospitals Series 1993, 1994 1998, and 2001 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. Among other provisions that limit the University's risk, the security lending agreement specifies that the custodian is responsible for the lending of securities and obtaining adequate collateral from the borrower. Collateral is limited to cash, government securities, and irrevocable letters of credit. At June 30, 2003 and 2002, investment securities with an aggregate market value of \$496,078 and \$707,926, respectively, were loaned to various brokers and are returnable on demand. In exchange, the University received cash collateral of \$283,435 and \$476,342 and noncash collateral of \$225,916 and \$251,084, at June 30, 2003 and 2002, respectively. In accordance with SFAS No. 140, the cash collateral is shown as both an asset and liability of the University.

**THE UNIVERSITY OF CHICAGO**  
Notes to Consolidated Financial Statements  
June 30, 2003 and 2002  
(In thousands of dollars)

**(9) Pledges**

Pledges receivable at June 30, 2003 and 2002 are shown below:

	<b>2003</b>		<b>2002</b>	
	<u>University</u>	<u>Hospitals</u>	<u>University</u>	<u>Hospitals</u>
Unconditional promises expected to be collected in:				
Less than one year	\$ 45,751	11,213	45,846	6,777
One year to five years	107,638	25,332	115,395	17,960
More than five years	15,489	—	16,919	—
	<u>168,878</u>	<u>36,545</u>	<u>178,160</u>	<u>24,737</u>
Less unamortized discount and allowance for uncollectible pledges	<u>(38,751)</u>	<u>(1,900)</u>	<u>(37,137)</u>	<u>(2,400)</u>
Total	<u>\$ 130,127</u>	<u>34,645</u>	<u>141,023</u>	<u>22,337</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 year ended June 30, 2003, was \$10,000 per claim and \$32,000 in annual aggregate. The self-insurance retention for the year ended June 30, 2002 was \$8,000 per claim and \$18,000 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 \$38,000 higher than the amount recorded in the consolidated financial statements at June 30, 2003. The interest rate assumed in determining the present value was 7.6%.

**THE UNIVERSITY OF CHICAGO**  
Notes to Consolidated Financial Statements  
June 30, 2003 and 2002  
(In thousands of dollars)

The estimated liability for incurred malpractice, workers' compensation, and other claims (filed and unfiled) as of June 30, 2003 and 2002 is presented below:

	<b>2003</b>		<b>2002</b>	
	<u>University</u>	<u>Hospitals</u>	<u>University</u>	<u>Hospitals</u>
Medical malpractice	\$ 123,420	—	97,792	—
Workers' compensation	3,100	6,088	3,100	5,979
Other	5,804	—	1,820	—
Total	<u>\$ 132,324</u>	<u>6,088</u>	<u>102,712</u>	<u>5,979</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, 2003 and 2002

(In thousands of dollars)

The postretirement benefit obligation, fair value of plan assets, and funded status along with amounts recognized in the financial statements for these plans are shown below:

	<b>Defined benefit pension plan</b>		<b>Postretirement health care benefits</b>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Change in benefit obligation:				
Benefit obligation at beginning of year	\$ 248,882	241,775	56,206	45,033
Service cost	12,578	12,338	2,594	1,696
Interest cost	18,156	17,620	4,128	2,750
Amendments to the plan	—	—	—	(7,361)
Benefits paid	(20,979)	(21,400)	(4,494)	(3,648)
Actuarial (gain) loss	47,022	(1,451)	34,394	17,736
Benefit obligation at end of year	<u>\$ 305,659</u>	<u>248,882</u>	<u>92,828</u>	<u>56,206</u>
Change in fair value of plan assets:				
Fair value of plan assets at beginning of year	\$ 313,178	330,110	17,756	17,807
Actual return on plan assets	(58,918)	4,468	882	(1,120)
Plan participant contributions	—	—	1,826	1,726
Employer contributions	—	—	4,494	4,717
Benefits paid	(20,979)	(21,400)	(6,320)	(5,374)
Fair value of plan assets at end of year	<u>\$ 233,281</u>	<u>313,178</u>	<u>18,638</u>	<u>17,756</u>
Reconciliation of funded status:				
Funded status	\$ (72,378)	64,296	(74,190)	(38,450)
Unrecognized actuarial loss (gain)	124,369	(15,816)	53,582	20,308
Unrecognized transition obligation	—	—	7,995	8,794
Unrecognized prior service cost (benefit)	13,565	16,503	(7,745)	(8,325)
Net amount recognized	<u>\$ 65,556</u>	<u>64,983</u>	<u>(20,358)</u>	<u>(17,673)</u>
Amounts recognized in consolidated financial statements:				
Prepaid (accrued) benefit cost	\$ (10,508)	64,983	(20,358)	(17,673)
Intangible asset	13,565	—	—	—
Minimum pension liability adjustment	62,499	—	—	—
Net amount recognized	<u>\$ 65,556</u>	<u>64,983</u>	<u>(20,358)</u>	<u>(17,673)</u>

Plan assets for the defined benefit pension plan are managed through the Teachers Insurance and Annuity Association and College Equities Fund and consist primarily of equity securities and fixed income obligations.

**THE UNIVERSITY OF CHICAGO**

Notes to Consolidated Financial Statements

June 30, 2003 and 2002

(In thousands of dollars)

At March 31, 2003 (the measurement date), the accumulated benefit obligation for the defined benefit pension plan exceeded the plan's assets, thus creating an unfunded accumulated benefit obligation. This situation required the recording of a minimum pension liability adjustment of \$62,499, which is reported as a non-operating change in unrestricted net assets in the consolidated statement of activities. The unfunded accumulated benefit obligation at March 31, 2003 resulted primarily from a decline in the value of plan assets combined with a lower assumed discount rate.

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>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
Discount rate	6.5%	7.5%	6.5%	7.5%
Expected return on plan assets	8.0	8.5	8.0	6.0
Rate of compensation increase	4.0	4.0	—	—
Health care cost trend rates:				
Next two fiscal years	—	—	7.5-10.0	7.5-10.0
Next seven fiscal years	—	—	4.0-8.0	4.0-8.0
Thereafter	—	—	4.0	4.0

The components of net periodic benefit cost (income) for the defined benefit pension and postretirement benefit plans are shown below for the fiscal years ended June 30:

	<b>Defined benefit pension plan</b>		<b>Postretirement health care benefits</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
Service cost	\$ 12,578	12,338	2,594	1,696
Interest cost	18,156	17,620	4,128	2,750
Expected return on plan assets	(31,292)	(31,094)	(1,417)	(1,101)
Amortization of prior service cost (benefit)	2,938	2,389	(581)	(581)
Amortization of transition obligation	—	—	800	800
Amortization of actuarial (gain) loss	(2,953)	(1,680)	773	—
Net periodic benefit cost (income)	\$ <u>(573)</u>	<u>(427)</u>	<u>6,297</u>	<u>3,564</u>

Defined contribution pension plan costs included in the consolidated statements of activities amounted to \$23,042 in fiscal 2003 and \$21,372 in fiscal 2002.

**THE UNIVERSITY OF CHICAGO**  
Notes to Consolidated Financial Statements  
June 30, 2003 and 2002  
(In thousands of dollars)

In addition, prior to its sale, Weiss Memorial Hospital maintained a separate noncontributory defined benefit pension plan covering substantially all their employees. Effective June 3, 2002, the Hospitals assumed sponsorship of the Weiss benefit plan. Prior to assumption of the benefit plan, Weiss curtailed the plan by freezing participation and benefit accruals. At June 30, 2003, the accumulated benefit obligation for the plan exceeded the plan's assets thus creating an unfunded accumulated benefit obligation requiring the recording of a minimum pension liability adjustment at \$9,159.

**(12) Functional Classification of Expenses**

Expenses by functional classification for the years ended June 30, 2003 and 2002 are shown below:

	<u>2003</u>	<u>2002</u>
University:		
Academic and research:		
Instruction	\$ 496,793	484,072
Research	176,311	160,939
Auxiliary enterprises	116,830	115,667
Library	15,468	16,346
Student services	28,000	29,584
Operation and maintenance of physical plant	71,408	68,353
Depreciation	53,213	50,036
Interest on notes and bonds	22,596	21,961
Total academic and research	<u>980,619</u>	<u>946,958</u>
Administration:		
Institutional support	85,590	72,757
Operation and maintenance of physical plant	3,253	3,126
Depreciation	5,197	4,840
Interest on notes and bonds	1,740	1,556
Total administration	<u>95,780</u>	<u>82,279</u>
Total University	<u>1,076,399</u>	<u>1,029,237</u>
Hospitals:		
Hospital services	<u>622,518</u>	<u>560,056</u>
Total	<u>\$ 1,698,917</u>	<u>1,589,293</u>

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, 2003 and 2002  
(In thousands of dollars)

**(13) 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, 2002 and 2001 was \$59,991 and \$45,539, respectively. Unrestricted net assets at December 31, 2002 and 2001 were \$4,047 and \$3,387, respectively. In addition, the University has guaranteed \$6,858 of NORC's debt. Consolidation of this not-for-profit organization is not required because the University does not have both control and an economic interest.

The University operates 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 \$527,553 in fiscal year 2003 and \$507,695 in fiscal year 2002 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, 2003 and 2002

(In thousands of dollars)

	<u>2003</u>	<u>2002</u>
Changes in unrestricted net assets:		
Operating:		
Revenue:		
Tuition and fees – gross	\$ 364,765	340,936
Less:		
Undergraduate student aid	(37,777)	(35,286)
Graduate student aid	(114,881)	(103,100)
Tuition and fees – net	212,107	202,550
Government grants and contracts	254,338	240,371
Private gifts, grants, and contracts	88,584	97,001
Endowment payout	168,312	146,726
Earnings on other investments	11,779	13,209
Patient care	150,246	136,419
Auxiliaries	143,157	142,318
Other income	99,006	109,573
Total operating revenue	<u>1,127,529</u>	<u>1,088,167</u>
Expenses:		
Compensation:		
Academic salaries	299,860	282,499
Staff salaries	266,739	248,630
Benefits	118,648	110,552
Total compensation	<u>685,247</u>	<u>641,681</u>
Other operating expenses:		
Utilities, alterations, and repairs	28,195	28,613
Depreciation	58,410	54,876
Interest	24,336	23,517
Supplies and services	264,270	272,315
Insurance	15,941	8,235
Total other operating expenses	<u>391,152</u>	<u>387,556</u>
Total operating expenses	<u>1,076,399</u>	<u>1,029,237</u>
Excess of operating revenue over expenses	<u>51,130</u>	<u>58,930</u>

## THE UNIVERSITY OF CHICAGO

## Statements of Activities Information – University

Years ended June 30, 2003 and 2002

(In thousands of dollars)

	<u>2003</u>	<u>2002</u>
Changes in unrestricted net assets:		
Nonoperating:		
Investment losses	\$ (81,801)	(316,085)
Minimum pension liability adjustment	(62,499)	—
Change in method of accounting for pension plan assets	—	(25,614)
Other, net	<u>(30,494)</u>	<u>(25,792)</u>
Change in unrestricted net assets from nonoperating activities	<u>(174,794)</u>	<u>(367,491)</u>
Decrease in unrestricted net assets	<u>(123,664)</u>	<u>(308,561)</u>
Changes in temporarily restricted net assets:		
Private gifts	43,609	55,118
Endowment payout	192	144
Investment gains (losses)	234	(520)
Other, net	<u>(34,880)</u>	<u>(37,760)</u>
Increase in temporarily restricted net assets	<u>9,155</u>	<u>16,982</u>
Changes in permanently restricted net assets:		
Private gifts	29,431	50,098
Endowment payout	2,019	1,608
Investment losses	(1,041)	(4,615)
Other, net	<u>3,985</u>	<u>2,307</u>
Increase in permanently restricted net assets	<u>34,394</u>	<u>49,398</u>
Decrease in net assets	<u>(80,115)</u>	<u>(242,181)</u>
Net assets at beginning of year	<u>3,815,364</u>	<u>4,057,545</u>
Net assets at end of year	<u>\$ 3,735,249</u>	<u>3,815,364</u>

See accompanying independent auditors' report.

## THE UNIVERSITY OF CHICAGO

## Balance Sheet Information – University

June 30, 2003 and 2002

(In thousands of dollars)

<b>Assets</b>	<b>2003</b>	<b>2002</b>
Cash and cash equivalents	\$ 17,141	—
Notes and accounts receivable	212,009	218,096
Collateral held for securities loaned	283,435	476,342
Inventories	9,022	10,016
Prepaid expenses and other assets	28,905	85,489
Pledges receivable	130,127	141,023
Investments	3,477,946	3,605,852
Land, buildings, equipment, and books	942,402	829,204
Total assets	<u>\$ 5,100,987</u>	<u>5,366,022</u>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 153,448	152,820
Deferred revenue	68,681	68,771
Payable under securities loan agreements	283,435	476,342
Assets held in custody for others	21,216	24,831
Self-insurance liability	132,324	102,712
Notes and bonds payable	667,664	686,644
Refundable U.S. Government student loan funds	38,970	38,538
Total liabilities	<u>1,365,738</u>	<u>1,550,658</u>
Net assets:		
Unrestricted	2,704,506	2,828,170
Temporarily restricted	286,112	276,957
Permanently restricted	744,631	710,237
Total net assets	<u>3,735,249</u>	<u>3,815,364</u>
Total liabilities and net assets	<u>\$ 5,100,987</u>	<u>5,366,022</u>

See accompanying independent auditors' report.