



**THE UNIVERSITY OF CHICAGO**

OMB Circular A-133 Audit Report

Year ended June 30, 2014

(With Independent Auditors' Reports Thereon)

# THE UNIVERSITY OF CHICAGO

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## THE UNIVERSITY OF CHICAGO

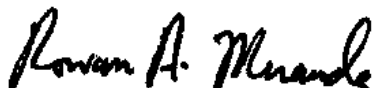
### Management Responsibility for Consolidated Financial Statements

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

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

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

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



Rowan A. Miranda  
Vice President for Operations  
and Chief Financial Officer



John R. Kroll  
Associate Vice President for  
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## **Independent Auditors' Report**

The Board of Trustees  
The University of Chicago:

### **Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of The University of Chicago (the University), which comprise the consolidated balance sheets as of June 30, 2014 and 2013, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements. We did not audit the financial statements of The University of Chicago Medical Center (the Medical Center), which statements reflect total assets constituting 19% and 19% and total revenues constituting 42% and 43% of the related consolidated totals in 2014 and 2013, respectively. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Medical Center, is based solely on the report of the other auditors.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The University of Chicago as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2014 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

**KPMG LLP**

Chicago, Illinois  
October 15, 2014

**THE UNIVERSITY OF CHICAGO**

Consolidated Balance Sheets

June 30, 2014 and 2013

(In thousands of dollars)

<b>Assets</b>	<b>2014</b>	<b>2013</b>
Cash and cash equivalents	\$ 103,010	190,082
Notes and accounts receivable, net	385,643	387,513
Prepaid expenses and other assets	118,713	105,285
Pledges receivable, net	509,365	422,325
Investments	8,232,050	7,686,884
Land, buildings, equipment, and books, net	4,249,105	3,733,388
Total assets	\$ 13,597,886	12,525,477
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 746,623	644,346
Deferred revenue	88,388	89,480
Assets held in custody for others	62,158	58,923
Self-insurance liability	257,762	273,692
Pension and other postretirement benefit obligations	450,677	490,642
Asset retirement obligation	59,783	61,631
Notes and bonds payable	3,700,862	3,563,152
Refundable U.S. government student loan funds	38,711	38,390
Total liabilities	5,404,964	5,220,256
Net assets:		
Unrestricted	2,805,178	2,512,969
Temporarily restricted	3,644,424	3,240,422
Permanently restricted	1,743,320	1,551,830
Total net assets	8,192,922	7,305,221
Total liabilities and net assets	\$ 13,597,886	12,525,477

See accompanying notes to consolidated financial statements.

**THE UNIVERSITY OF CHICAGO**

## Consolidated Statements of Activities

Years ended June 30, 2014 and 2013

(In thousands of dollars)

	<u>2014</u>	<u>2013</u>
Changes in unrestricted net assets:		
Operating:		
Revenue:		
Tuition and fees – gross	\$ 706,731	671,779
Less student aid	(327,518)	(310,056)
Tuition and fees – net	379,213	361,723
Government grants and contracts	344,850	356,938
Private gifts, grants, and contracts	236,528	160,132
Endowment payout	392,118	367,225
Earnings on other investments	3,899	1,772
Patient care	1,593,911	1,480,295
Auxiliaries	208,725	210,945
Other income	284,515	246,938
Net assets released from restrictions	75,015	52,071
Total operating revenue	<u>3,518,774</u>	<u>3,238,039</u>
Expenses:		
Compensation:		
Academic salaries	505,660	484,507
Staff salaries	1,034,184	962,837
Benefits	417,567	412,371
Total compensation	<u>1,957,411</u>	<u>1,859,715</u>
Other operating expenses:		
Utilities, alterations, and repairs	90,406	68,886
Depreciation	247,974	223,140
Interest	129,916	108,320
Supplies, services, and other	1,032,105	939,330
Insurance	38,490	44,733
Total other operating expenses	<u>1,538,891</u>	<u>1,384,409</u>
Total operating expenses	<u>3,496,302</u>	<u>3,244,124</u>
Excess (deficiency) of operating revenue over expenses	<u>22,472</u>	<u>(6,085)</u>

**THE UNIVERSITY OF CHICAGO**

Consolidated Statements of Activities

Years ended June 30, 2014 and 2013

(In thousands of dollars)

	<u>2014</u>	<u>2013</u>
Changes in unrestricted net assets:		
Nonoperating:		
Investment gains	\$ 178,845	26,296
Postretirement benefit changes other than net periodic benefit cost	34,016	89,046
Affiliation – MBL net assets as of July 1, 2013	89,999	—
Change in value of derivative instruments	(7,577)	70,310
Loss on debt refinancing	—	(1,143)
Other, net	<u>(25,546)</u>	<u>9,661</u>
Change in unrestricted net assets from nonoperating activities	<u>269,737</u>	<u>194,170</u>
Increase in unrestricted net assets	<u>292,209</u>	<u>188,085</u>
Changes in temporarily restricted net assets:		
Private gifts	172,128	119,085
Investment gains	323,792	87,456
Affiliation – MBL net assets as of July 1, 2013	16,730	—
Other, net	(33,633)	(64,572)
Net assets released from restrictions	<u>(75,015)</u>	<u>(52,071)</u>
Increase in temporarily restricted net assets	<u>404,002</u>	<u>89,898</u>
Changes in permanently restricted net assets:		
Private gifts	119,042	82,981
Affiliation – MBL net assets as of July 1, 2013	51,256	—
Endowment payout	1,969	2,156
Investment losses	(3,013)	(33,658)
Other, net	<u>22,236</u>	<u>41,832</u>
Increase in permanently restricted net assets	<u>191,490</u>	<u>93,311</u>
Increase in net assets	887,701	371,294
Net assets at beginning of year	<u>7,305,221</u>	<u>6,933,927</u>
Net assets at end of year	<u>\$ 8,192,922</u>	<u>7,305,221</u>

See accompanying notes to consolidated financial statements.



**THE UNIVERSITY OF CHICAGO**  
Consolidated Statements of Cash Flows  
Years ended June 30, 2014 and 2013  
(In thousands of dollars)

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Increase in net assets	\$ 887,701	371,294
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Affiliation – MBL net assets as of July 1, 2013	(157,985)	—
Depreciation	247,974	223,140
Change in value of derivative instruments	8,704	(70,310)
Loss on debt refinancing	—	1,143
Loss on disposal of land, buildings, equipment, and books	10,695	29,407
Net gain on investments	(786,040)	(353,181)
Private gifts and grants restricted for long-term investment	(287,042)	(199,850)
Other nonoperating changes	185,952	120,865
Postretirement benefit changes other than net periodic benefit cost	(33,414)	(89,046)
Changes in operating assets and liabilities:		
Notes and accounts receivable	9,315	(9,924)
Prepaid expenses and other assets	(12,412)	21,632
Accounts payable and other liabilities	75,556	73,553
Self-insurance liability	(15,930)	9,444
Total adjustments	<u>(754,627)</u>	<u>(243,127)</u>
Net cash provided by operating activities	<u>133,074</u>	<u>128,167</u>
Cash flows from investing activities:		
Affiliation – MBL cash and cash equivalents as of July 1, 2013	1,543	—
Purchase of investments	(1,958,015)	(2,054,854)
Proceeds from sale of investments	2,273,401	2,135,012
Acquisition of land, buildings, equipment, and books	(650,297)	(469,877)
Loans disbursed	(6,844)	(6,895)
Principal collected on loans	6,602	6,118
Net cash used in investing activities	<u>(333,610)</u>	<u>(390,496)</u>
Cash flows from financing activities:		
Proceeds from issuance of debt instruments	1,412,121	1,384,452
Principal payments on debt instruments	(1,315,191)	(1,106,347)
Proceeds from private gifts and grants restricted for long-term investment	130,982	94,372
Other nonoperating changes	(114,448)	(66,344)
Net cash provided by financing activities	<u>113,464</u>	<u>306,133</u>
Increase (decrease) in cash and cash equivalents	(87,072)	43,804
Cash and cash equivalents at:		
Beginning of year	190,082	146,278
End of year	\$ <u>103,010</u>	<u>190,082</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 140,465	119,081

See accompanying notes to consolidated financial statements.

# THE UNIVERSITY OF CHICAGO

## Notes to Consolidated Financial Statements

June 30, 2014 and 2013

(In thousands of dollars)

### (1) Summary of Significant Accounting Policies

#### (a) *Description of Business*

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

On July 1, 2013, the University entered into an affiliation agreement with the Marine Biological Laboratory (MBL) in Woods Hole, Massachusetts. Under this affiliation, the University became the sole member of MBL. MBL's net assets of \$157,985 at July 1, 2013 have been recognized as a contribution in the consolidated statement of activities in fiscal year 2014.

Significant accounting policies followed by the University, the Medical Center, and MBL are set forth as follows. Accounting policies specific to the Medical Center and MBL are discussed in notes 2 and 3, respectively.

#### (b) *Basis of Presentation*

The consolidated financial statements of the University have been prepared on the accrual basis and include the accounts of the University, the Medical Center, and MBL. The organization of the Medical Center and MBL and associated agreements with the University are discussed in notes 2 and 3, respectively.

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

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

## THE UNIVERSITY OF CHICAGO

### Notes to Consolidated Financial Statements

June 30, 2014 and 2013

(In thousands of dollars)

- Unrestricted – Net assets that are not subject to donor-imposed restrictions. Items that affect this net asset category principally consist of fees for service and related expenses associated with the core activities of the University-instruction, conduct of sponsored research, and provision of healthcare services. In addition to these exchange transactions, changes in this category of net assets include investment returns on unrestricted “funds functioning as endowment” funds, actuarial adjustments to self-insurance liabilities, and certain types of philanthropic support. Such philanthropic support includes unrestricted gifts, including those designated by the Board of Trustees (the Board) to function as endowment and restricted gifts whose donor-imposed restrictions were met during the fiscal year, as well as restricted gifts and grants for buildings and equipment that have been amortized over the useful life of the assets acquired or constructed.
- Temporarily Restricted – Net assets subject to donor-imposed restrictions that will be met either by actions of the University or the passage of time. Items that affect this net asset category are gifts for which donor-imposed restrictions have not been met, gifts and grants for buildings and equipment, annuity and life income gifts, pledges for which the ultimate purpose of the proceeds is not permanently restricted, investment returns on “true” endowment funds, and endowments where the principal may be expended upon the passage of a stated period of time (term endowments). Expirations of restrictions on temporarily restricted net assets, including amortization of restricted gifts and grants for buildings and equipment, are reported as net assets released from restrictions.
- Permanently Restricted – Net assets subject to donor-imposed restrictions to be maintained permanently by the University. Items that affect this net asset category include gifts and pledges wherein donors stipulate that the corpus be held in perpetuity (primarily gifts for endowment and providing loans to students) and only the income be made available for program operations, and annuity and life income gifts for which the ultimate purpose of the proceeds is permanently restricted.

**THE UNIVERSITY OF CHICAGO**

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

(In thousands of dollars)

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

<u>Detail of net assets</u>	<u>2014</u>		<u>2013</u>	
	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>
University:				
Operating	\$ 12,183	—	10,968	—
Pledges	399,529	103,738	336,966	80,651
Student loans	—	21,088	—	20,192
Endowment	2,934,645	1,515,726	2,628,304	1,407,485
Annuity and life income	27,738	43,030	22,718	37,410
Net investment in physical properties	157,999	—	159,495	—
Subtotal	<u>3,532,094</u>	<u>1,683,582</u>	<u>3,158,451</u>	<u>1,545,738</u>
Medical Center:				
Operating	9,005	—	8,639	—
Pledges	4,481	10	4,698	10
Endowment	74,468	8,082	68,634	6,082
Subtotal	<u>87,954</u>	<u>8,092</u>	<u>81,971</u>	<u>6,092</u>
Marine Biological Laboratory:				
Operating	4,432	—		
Pledges	470	1,137		
Annuity and life income	302	401		
Endowment	19,172	50,108		
Subtotal	<u>24,376</u>	<u>51,646</u>		
Total	<u>\$ 3,644,424</u>	<u>1,743,320</u>	<u>3,240,422</u>	<u>1,551,830</u>

**(c) Operations**

Operating results in the consolidated statements of activities reflect all transactions increasing or decreasing unrestricted net assets except those items associated with long-term investment, actuarial adjustments to self-insurance liabilities, changes in postretirement benefit obligations, changes in the fair value of the derivative instruments, and other infrequent gains and losses.

**(d) Tuition and Fees**

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

**THE UNIVERSITY OF CHICAGO**

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

(In thousands of dollars)

**(e) Gifts, Grants, and Contracts**

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

Revenue from government and private grant and contract agreements is recognized as it is earned through expenditure in accordance with the agreements. Any funding received in advance of expenditure is recorded as deferred revenue on the consolidated balance sheets. Included in deferred revenue at June 30, 2014 and 2013 are \$46,633 and \$45,756, respectively, of private grant and contract receipts, which have not been expended.

Private gifts, grants, and contracts operating revenue for fiscal years 2014 and 2013 consist of the following:

	2014				2013
	University	Medical Center	MBL	Consolidated	Consolidated
Private gifts:					
Unrestricted as to use	\$ 25,496	369	1,906	27,771	21,371
Temporarily restricted gifts whose restrictions were met during the fiscal year and reported as unrestricted revenue	118,442	—	—	118,442	72,628
Private grants and contracts	85,514	—	4,801	90,315	66,133
Total	\$ 229,452	369	6,707	236,528	160,132

**(f) Patient Care**

Patient service revenue is reported net of a provision for doubtful accounts of \$8,402 and \$8,023 for the University and \$55,169 and \$47,812 for the Medical Center for the years ended June 30, 2014 and 2013, respectively. This provision 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. Certain revenue received from third-party payors is subject to audit and retroactive adjustment. Any changes in estimates under these contracts are recorded in operations currently.

## THE UNIVERSITY OF CHICAGO

### Notes to Consolidated Financial Statements

June 30, 2014 and 2013

(In thousands of dollars)

**(g) Capitalized Interest**

The University capitalizes interest costs incurred on debt during the construction of major projects exceeding one year. During fiscal years 2014 and 2013, the amount of interest capitalized amounted to \$11,522 and \$8,674 for the University and \$60 and \$14,629 for the Medical Center, respectively.

**(h) Fair Value**

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

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

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

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

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

- **Cash Equivalents**

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

- **Investments**

Investments are recorded in the consolidated financial statements at estimated fair value. If an investment is held directly by the University and an active market with quoted prices exists, the market price of an identical security is used as reported fair value. Reported fair values for shares in mutual funds are based on share prices reported by the funds as of the last business day of the fiscal year. The University's interests in alternative investment funds such as private debt, private equity, real estate, natural resources, and absolute return are generally reported at the net

## THE UNIVERSITY OF CHICAGO

### Notes to Consolidated Financial Statements

June 30, 2014 and 2013

(In thousands of dollars)

asset value (NAV) reported by the fund managers, which is used as a practical expedient to estimate the fair value, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. As of June 30, 2014 and 2013, the University had no plans to sell investments at amounts different from NAV.

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

A summary of the inputs used in valuing the University's investments as of June 30, 2014 and 2013 is included in Note 4.

- ***Pledges Receivable***

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

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

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

- ***Split-Interest Agreements***

Split-interest agreements with donors consist primarily of charitable remainder trusts for which the University serves as trustee, gift annuity contracts, and pooled life income agreements. Assets associated with split-interest agreements are included in investments. A liability for split-interest obligations is recorded when the agreement is established at the estimated net present value of future cash flows using a risk-adjusted discount rate commensurate with the duration of the estimated payments. These inputs to the fair value estimate are considered Level 3 in the fair value hierarchy. At June 30, 2014 and 2013, the University had liabilities of \$53,838 and \$53,622 associated with its charitable remainder trust and gift annuity contracts and deferred revenue of \$5,784 and \$5,116 associated with its pooled income agreements, respectively. In subsequent periods, the discount rate is unchanged.

- ***Interest Rate Swap Agreements***

In order to reduce exposure to adjustable interest rates on variable rate debt, the University has entered into debt-related interest rate swap agreements. These agreements have the effect of

## THE UNIVERSITY OF CHICAGO

### Notes to Consolidated Financial Statements

June 30, 2014 and 2013

(In thousands of dollars)

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

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

Assets held in custody for others consists of resources, primarily investments, held by the University as a custodian for affiliated organizations. Investments held for others are included in the University's investment portfolio. The leveling of these investments is presented in Note 4.

- ***Self-insurance Liability***

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

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

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

- ***Asset Retirement Obligation***

Asset retirement obligations arise primarily from regulations that specify how to dispose of asbestos if facilities are demolished or undergo major renovations or repairs. The obligation to remove asbestos is estimated using site-specific surveys where available and a per square foot estimate where surveys were unavailable. These inputs to the fair value estimate are considered Level 3 in the fair value hierarchy.

- ***Notes and Bonds Payable***

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

- ***All Other Assets and Liabilities***

The carrying value of all other assets and liabilities do not differ materially from its estimated fair value.



**THE UNIVERSITY OF CHICAGO**

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

(In thousands of dollars)

(i) ***Internally Managed Investment Derivatives***

The following tables set forth the gross and net notional values and the University's gain (loss) related to internally managed investment derivative activities as of June 30, 2014 and 2013 and for the fiscal years then ended:

		<b>2014</b>		
		<b>Gross notional</b>	<b>Net notional</b>	<b>Gain (loss)</b>
	Interest rate derivatives	\$ 12,719	12,719	218
	Currency derivatives	37,782	—	(2,480)
	Equity derivatives	71,369	71,369	(23,238)
	Other derivatives	—	—	3
	Total	\$ 121,870	84,088	(25,497)
		<b>2013</b>		
		<b>Gross notional</b>	<b>Net notional</b>	<b>Gain (loss)</b>
	Interest rate derivatives	\$ 93,056	93,056	(3,102)
	Currency derivatives	33,708	—	1,001
	Equity derivatives	248,824	(248,824)	(46,537)
	Other derivatives	—	—	4
	Total	\$ 375,588	(155,768)	(48,634)

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

(j) ***Income Taxes***

The University, Medical Center, and MBL are tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code and, except for unrelated business income, are exempt from federal income taxes. There was no provision for income taxes due on unrelated business income in fiscal years 2014 and 2013 and there are no uncertain tax positions considered to be material.

(k) ***Use of Estimates***

The preparation of the consolidated financial statements in accordance with generally accepted accounting principles requires that management make a number of estimates and assumptions related

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to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the consolidated balance sheet date, and the reporting of revenue, expenses, gains, and losses during the reporting period. Actual results may differ from those estimates.

#### **(1) Subsequent Events**

The University has performed an evaluation of subsequent events through October 15, 2014, which is the date the consolidated financial statements were issued.

In August 2014, the University issued \$573,645 in fixed rate bonds through the Illinois Finance Authority (IFA) and \$175,685 in taxable fixed rate bonds. Proceeds were used to 1) advance refund \$397,905 of the IFA fixed rate bonds and 2) finance the construction and renovation of certain educational facilities. See note 8.

In July 2014, the University sold an office building previously held for sale for \$112,000. See note 7.

#### **(2) The University of Chicago Medical Center**

##### **(a) Organization**

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

##### **(b) Agreements with the University**

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

##### **(c) Community Benefits**

The Medical Center's policy is to treat patients in immediate need of medical services without regard to their ability to pay for such services, including patients transferred from other hospitals and patients accepted through the Perinatal and Pediatrics Trauma Networks. Patients are offered discounts of up to 100% of charges on a sliding scale based both on income as a percentage of the Federal Poverty Level guidelines and the charges for services rendered. The Medical Center policy also contains provisions that are responsive to those patients subject to catastrophic healthcare expenses. Since the Medical Center does not pursue collection of these amounts, they are not reported as net patient care revenue. The unreimbursed cost of providing such care, along with the

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unreimbursed cost of government sponsored indigent healthcare programs, unreimbursed cost to support education, clinical research, and other community programs amounted to \$313,300 and \$280,900 for the years ended June 30, 2014 and 2013, respectively.

**(d) Basis of Presentation**

The Medical Center maintains its accounts and prepares stand-alone financial statements in conformity with accounting and reporting principles of the AICPA *Audit and Accounting Guide for Health Care Organizations*. For purposes of presentation of the Medical Center financial position and changes in net assets in the consolidated financial statements, several reclassifications have been made as follows: (1) investment gains used for operations of \$40,658 in fiscal year 2014 and \$37,398 in 2013 have been recorded as unrestricted operating revenue and (2) transfers to the University of \$53,574 in fiscal year 2014 and \$52,896 in fiscal year 2013 have been recorded as a reduction of other income.

**(3) Marine Biological Laboratory (MBL)**

**(a) Organization**

MBL is a private, independent not-for-profit research and educational institution dedicated to establishing and maintaining a laboratory and station for scientific study and investigations, and a school for instruction in biology and natural history. The Laboratory is located in Woods Hole, Massachusetts. The University is the sole corporate member of MBL, elects MBL's Board of Trustees, and approves its bylaws.

**(b) Agreements with the University**

The relationship between the University and MBL is defined in an Affiliation Agreement which specifies the University and MBL responsibilities for the provision of research and education in biology, biomedicine, ecology, and related fields.

**(c) Basis of Presentation**

MBL maintains its accounts and prepares stand-alone financial statements on a calendar year basis. MBL's financial position and changes in net assets in the consolidated financial statements reflect fiscal year activity for the period July 1, 2013 to June 30, 2014.

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Amounts included in the accompanying notes and consolidated financial statements and supplemental schedules reflect MBL activity beginning on July 1, 2013 when MBL entered into an affiliation agreement with the University. MBL's net assets of \$157,985 at July 1, 2013 have been recognized as contribution in the consolidated statement of activities in fiscal year 2014. The following table sets forth the fair value of MBL's assets and liabilities at July 1, 2013:

Assets:	
Cash and cash equivalents	\$ 1,543
Accounts receivable and other assets	10,514
Investments	70,550
Land, buildings, and equipment	116,876
Total assets	<u>\$ 199,483</u>
Liabilities:	
Accounts payable and other liabilities	\$ 11,083
Notes and bonds payable	30,415
Total liabilities	<u>41,498</u>
Net assets:	
Unrestricted	89,999
Temporarily restricted	16,730
Permanently restricted	51,256
Total net assets	<u>157,985</u>
Total liabilities and net assets	<u>\$ 199,483</u>

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#### (4) Investments

Investments at June 30, 2014 and 2013 comprise the following:

	2014				2013
	University	Medical Center	MBL	Consolidated	Consolidated
Cash equivalents	\$ 212,453	27,688	4,341	244,482	172,279
Global public equities (primarily international)	1,307,568	259,065	13,975	1,580,608	1,251,450
Private debt	207,286	23,055	2,491	232,832	237,108
Private equity:					
U.S. venture capital	350,844	42,828	4,172	397,844	323,614
U.S. corporate finance	322,446	35,858	3,883	362,187	356,472
International	399,467	44,725	4,804	448,996	421,537
Real estate	560,477	59,020	6,299	625,796	815,268
Natural resources	602,904	66,979	7,277	677,160	655,566
Absolute return:					
Equity-oriented	497,668	55,327	5,970	558,965	402,896
Global macro/relative value	419,935	46,685	5,038	471,658	391,633
Multistrategy	545,973	60,708	6,597	613,278	561,828
Credit-oriented	189,208	21,035	2,270	212,513	182,496
Protection-oriented	110,525	12,287	1,326	124,138	125,116
Fixed income:					
U.S. treasuries, including TIPS	445,809	127,102	5,522	578,433	564,043
Other fixed income (primarily credit funds)	877,043	122,179	9,633	1,008,855	921,552
Funds in trust	77,175	17,130	—	94,305	304,026
Total	\$ <u>7,126,781</u>	<u>1,021,671</u>	<u>83,598</u>	<u>8,232,050</u>	<u>7,686,884</u>

#### (a) Overall Investment Objective

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

#### (b) Investment Strategies

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

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

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

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

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

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

The University believes that the reported amount of its investments is a reasonable estimate of fair value as of June 30, 2014 and 2013. Because of the inherent uncertainties of valuation, these estimated fair values may differ significantly from values that would have been used had a ready market existed.

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(c) ***Fair Value Hierarchy of Investments***

Following is the fair value hierarchy of investments as of June 30, 2014:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<b>2014 Consolidated total</b>
Cash equivalents	\$ 244,492	—	—	244,492
Global public equities (primarily international)	894,416	375,586	310,606	1,580,608
Private debt	—	—	232,832	232,832
Private equity:				
U.S. venture capital	2,511	—	395,333	397,844
U.S. corporate finance	—	—	362,187	362,187
International	—	—	448,996	448,996
Real estate	12,801	—	612,995	625,796
Natural resources	—	—	677,160	677,160
Absolute return:				
Equity-oriented	79,416	132,342	347,207	558,965
Global macro/relative value	56,106	116,662	298,890	471,658
Multistrategy	—	67,343	545,935	613,278
Credit-oriented	—	—	212,513	212,513
Protection-oriented	—	124,138	—	124,138
Fixed income:				
U.S. treasuries, including TIPS	510,346	68,087	—	578,433
Other fixed income (primarily credit funds)	1,008,855	—	—	1,008,855
Funds in trust	92,295	—	2,000	94,295
	<u>2,901,238</u>	<u>884,158</u>	<u>4,446,654</u>	<u>8,232,050</u>
Total investments at fair value as of June 30, 2014	\$ <u>2,901,238</u>	<u>884,158</u>	<u>4,446,654</u>	<u>8,232,050</u>

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

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



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Changes to the reported amounts of investments measured at fair value using unobservable inputs (Level 3) for the years ended June 30, 2014 and 2013 are as follows:

	Equities and fixed income	Alternative investments			Absolute return	2014 Consolidated total
		Private equity	Private debt	Real assets		
Balance at June 30, 2013	\$ 330,266	1,101,623	237,108	1,457,891	1,237,202	4,364,090
Total net realized gains or losses	38,831	154,185	38,113	92,549	29,119	352,797
Total net unrealized gains or losses	(63,902)	(54,113)	(49,070)	(78,355)	131,668	(113,772)
Purchases	40,000	142,480	63,864	133,150	108,190	487,684
Proceeds from sales, redemptions, and distributions	(32,078)	(137,659)	(57,183)	(313,080)	(101,634)	(641,634)
Transfer in (out) of Level 3	(2,511)	—	—	—	—	(2,511)
Balance at June 30, 2014	\$ <u>310,606</u>	<u>1,206,516</u>	<u>232,832</u>	<u>1,292,155</u>	<u>1,404,545</u>	<u>4,446,654</u>
	Equities and fixed income	Alternative investments			2013 Consolidated total	
		Private equity	Private debt	Real assets	Absolute return	
Balance at June 30, 2012	\$ 460,589	1,158,794	260,031	1,452,392	1,233,627	4,565,433
Total net realized gains or losses	3,243	131,574	57,585	131,827	56,628	380,857
Total net unrealized gains or losses	19,850	(161,432)	(57,969)	(97,395)	34,363	(262,583)
Purchases	15,943	64,711	25,629	127,126	102,662	336,071
Proceeds from sales, redemptions, and distributions	(90,365)	(92,024)	(48,168)	(156,059)	(188,057)	(574,673)
Transfer in (out) of Level 3	(78,994)	—	—	—	(2,021)	(81,015)
Balance at June 30, 2013	\$ <u>330,266</u>	<u>1,101,623</u>	<u>237,108</u>	<u>1,457,891</u>	<u>1,237,202</u>	<u>4,364,090</u>

During fiscal year 2014, there were no transfers between investment Levels 1 and 2. During fiscal year 2014 and 2013, transfers occurred between investment Levels 2 and 3 as a result of changes in observable market data and/or redeemability. The University's policy is to recognize such changes at the end of the fiscal year.

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A summary of the University's investment return for the years ended June 30, 2014 and 2013 is presented as follows:

	2014				2013 Consolidated
	University	Medical Center	MBL	Consolidated	
Investment return:					
Interest and dividends	\$ 104,715	38,419	1,004	144,138	136,772
Net realized and unrealized gains	666,083	75,502	11,887	753,472	314,475
Investment return	\$ 770,798	113,921	12,891	897,610	451,247

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

The University is obligated under certain limited partnership investment fund agreements to advance additional funding periodically up to specified levels. At June 30, 2014, the University had unfunded commitments of \$960,454, which are likely to be called through 2021. Details of these commitments are as follows:

	<b>Unfunded commitments</b>
Private equity	\$ 377,389
Real estate	228,403
Natural resources	166,767
Absolute return	3,732
Private debt	184,163
Total	\$ 960,454

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

	Remaining life	Redemption terms	Redemption restrictions and terms	Capital held in side pockets at June 30, 2014
<b>Cash</b>	N/A	Daily	None	None
<b>Global public equities:</b>				
Separate accounts	N/A	Daily with notice periods of 1 to 7 years	Lock-up provisions ranging from 0 to 1 year	None
Partnerships	N/A	Daily to triennial with notice periods of 2 to 90 days	Lock-up provisions ranging from 0 to 5 years, some investments have a portion of capital held in side pockets with no redemptions permitted	\$23.6 million
<b>Private debt:</b>				
Partnerships	N/A	Redemptions not permitted	Capital held in side pockets with no redemption permitted	\$2.6 million
Drawdown partnerships	1 to 10 years	Redemptions not permitted	N/A	N/A
<b>Private equity</b>	1 to 19 years	Redemptions not permitted	N/A	N/A
<b>Real estate:</b>				
Drawdown partnerships	1 to 18 years	Redemption not permitted	N/A	N/A
Separate accounts	N/A	Daily with notice period of 5 days	None	None
<b>Natural resources</b>	1 to 17 years	Redemptions not permitted	N/A	N/A
<b>Absolute return:</b>				
Partnerships	N/A	Daily to triennial with notice periods of 1 to 180 days	Lock-up provisions ranging from 0 to 3 years, some investments have a portion of capital held in side pockets with no redemptions permitted	\$168.9 million
Drawdown partnerships	1 to 3 years	Redemptions not permitted	N/A	N/A
<b>Fixed income:</b>				
Separate accounts	N/A	Daily to monthly with notice periods of 1 to 30 days	None	None
Commingled funds	N/A	Daily to monthly with notice periods of 1 to 10 days	None	None
Partnerships	N/A	Quarterly with notice periods of 10 days	Only one-third capital available in any 12-month period	None
<b>Funds in Trust</b>	N/A	Daily	None	None

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**(5) Endowments**

The University's endowment consists of approximately 3,000 individual funds established for a variety of purposes. The endowment includes both donor-restricted "true" endowment funds and funds designated by the Board to function as endowments commonly referred to as "funds functioning as endowment." Net assets associated with endowment funds, including funds functioning as endowment, are classified and reported based on the existence or absence of donor-imposed restrictions.

**(a) University Endowment**

Changes in the fair value of the University endowment investments and net assets by type of fund were as follows for the fiscal year ended June 30, 2014:

	2014			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
<b>Changes in the fair value of endowment investments</b>				
Investment return:				
Endowment yield (interest and dividends)	\$ 30,090	70,044	675	100,809
Net appreciation (realized and unrealized) on investments	223,768	444,006	(1,719)	666,055
Total investment return	253,858	514,050	(1,044)	766,864
Endowment payout	(136,543)	(207,795)	(1,969)	(346,307)
Net investment return	117,315	306,255	(3,013)	420,557
Other changes in endowment investments:				
Gifts and pledge payments received in cash	—	85	99,043	99,128
Transfers to create funds functioning as endowment	37,913	—	—	37,913
Other changes	3,476	1	12,211	15,688
Total other changes in endowment investments	41,389	86	111,254	152,729
Net change in endowment investments	158,704	306,341	108,241	573,286
Endowment investments at:				
Beginning of year	1,851,179	2,628,304	1,407,485	5,886,968
End of year	\$ 2,009,883	2,934,645	1,515,726	6,460,254
<b>Net assets by type of fund</b>				
Donor-restricted "true" endowment	\$ (808)	2,934,645	1,515,726	4,449,563
Board-designated "funds functioning as endowment"	2,010,691	—	—	2,010,691
Total – as above	\$ 2,009,883	2,934,645	1,515,726	6,460,254

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

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

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**(b) Medical Center Endowment**

Changes in the fair value of the Medical Center endowment investments and net assets by type of fund were as follows for the fiscal year ended June 30, 2014:

	2014			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
<b>Changes in the fair value of endowment investments</b>				
Investment return:				
Endowment yield (interest and dividends)	\$ 37,212	1,207	—	38,419
Net appreciation (realized and unrealized) on investments	67,078	8,092	—	75,170
Total investment return	104,290	9,299	—	113,589
Endowment payout	(40,272)	(3,850)	—	(44,122)
Net investment return	64,018	5,449	—	69,467
Other changes in endowment investments:				
Gifts and pledge payments received in cash	—	—	2,000	2,000
Transfers to create funds functioning as endowment	87,500	—	—	87,500
Return of endowment used to finance capital expenditures	64,084	—	—	64,084
Other changes	(1,196)	385	—	(811)
Total other changes in endowment investments	150,388	385	2,000	152,773
Net change in endowment investments	214,406	5,834	2,000	222,240
Endowment investments at:				
Beginning of year	707,290	68,634	6,082	782,006
End of year	\$ 921,696	74,468	8,082	1,004,246
<b>Net assets by type of fund</b>				
Donor-restricted "true" endowment	\$ —	74,468	8,082	82,550
Board-designated "funds functioning as endowment"	921,696	—	—	921,696
Total – as above	\$ 921,696	74,468	8,082	1,004,246

Included in board-designated "funds functioning as endowment" are \$253,235 of net assets that are separately invested by the Medical Center.

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

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

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

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**(c) MBL**

Changes in the fair value of the MBL endowment investments and net assets by type of fund were as follows for the fiscal year ended June 30, 2014:

	2014			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
<b>Changes in the fair value of endowment investments</b>				
Investment return:				
Endowment yield (interest and dividends)	\$ 109	902	—	1,011
Net appreciation (realized and unrealized) on investments	1,279	10,586	—	11,865
Total investment return	1,388	11,488	—	12,876
Endowment payout	(499)	(3,159)	—	(3,658)
Net investment return	889	8,329	—	9,218
Other changes in endowment investments:				
Gifts and pledge payments received in cash	290	—	907	1,197
Affiliation – MBL endowment as of July 1, 2013	8,275	11,270	49,201	68,746
Other changes	301	(427)	—	(126)
Total other changes in endowment investments	8,866	10,843	50,108	69,817
Net change in endowment investments	9,755	19,172	50,108	79,035
Endowment investments at:				
Beginning of year	—	—	—	—
End of year	\$ 9,755	19,172	50,108	79,035
<b>Net assets by type of fund</b>				
Donor-restricted “true” endowment	\$ —	19,172	50,108	69,280
Board-designated “funds functioning as endowment”	9,755	—	—	9,755
Total – as above	\$ 9,755	19,172	50,108	79,035

**(d) Interpretation of Relevant Law**

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



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**(e) Endowment Payout**

Approximately 96% of the University, Medical Center, and MBL endowment is merged into one investment pool referred to as the Total Return Investment Pool (TRIP). The University utilizes the total return concept in allocating endowment income from TRIP. In accordance with the University's return objective, between 4.5% and 5.5% of a 12-quarter moving average of the fair value of endowment investments lagged by one year, is available each year for expenditure in the form of endowment payout. The payout percentage, which is set each year by the Board with the objective of a 5.0% average payout over time, was 5.5% for the fiscal years ended June 30, 2014 and 2013. Periodically, the University's Board will adjust the endowment payout to fund specifically approved strategic initiatives.

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

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

	2014				2013 Consolidated
	University	Medical Center	MBL	Consolidated	
TRIP formula payout	\$ 297,388	34,038	3,658	335,084	306,488
Payout from separately invested endowment	7,573	10,084	—	17,657	21,772
Special payouts:					
Alumni Relations and Development	19,466	—	—	19,466	18,718
Strategic initiatives	21,880	—	—	21,880	22,403
Total	\$ 346,307	44,122	3,658	394,087	369,381

**(f) Funds with Deficiencies**

From time to time, the fair value of assets associated with individual donor-restricted "true" endowment funds may fall below the level that the donor or UPMIFA requires to be retained as a fund of perpetual duration. Deficiencies of this nature are reported in unrestricted net assets, which, as of June 30, 2014 and 2013, amounted to \$808 and \$3,972, respectively, for the University.

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**(6) Notes and Accounts Receivable**

Components of notes and accounts receivable at June 30, 2014 and 2013 are shown as follows:

	2014			2013 Net receivable
	Receivable	Allowance for doubtful accounts	Net receivable	
University:				
Patients	\$ 21,515	(1,335)	20,180	21,326
Students:				
Loans	46,383	(2,500)	43,883	43,448
Tuition and fees	4,544	(1,300)	3,244	3,000
U.S. government	46,874	—	46,874	31,422
All other	87,336	(4,920)	82,416	84,038
Total University	206,652	(10,055)	196,597	183,234
Medical Center	226,639	(41,874)	184,765	204,279
MBL	4,316	(35)	4,281	
Total	\$ 437,607	(51,964)	385,643	387,513

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

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

Components of land, buildings, equipment, and books at June 30, 2014 and 2013 are shown as follows:

	2014				2013 Consolidated
	University	Medical Center	MBL	Consolidated	
Land	\$ 121,446	36,008	53,083	210,537	120,225
Buildings	3,143,239	1,288,213	99,996	4,531,448	4,172,340
Equipment	467,228	515,713	22,518	1,005,459	1,026,433
Books	324,024	—	842	324,866	306,212
Construction in progress	414,555	58,313	458	473,326	344,401
Subtotal	4,470,492	1,898,247	176,897	6,545,636	5,969,611
Less accumulated depreciation	(1,632,207)	(698,340)	(63,502)	(2,394,049)	(2,236,223)
Subtotal	2,838,285	1,199,907	113,395	4,151,587	3,733,388
Office building held for sale	97,518	—	—	97,518	—
Total	\$ 2,935,803	1,199,907	113,395	4,249,105	3,733,388

On July 25, 2014, the University sold the office building held for sale for \$112,000.

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**(8) Notes and Bonds Payable**

Notes and bonds payable at June 30, 2014 and 2013 are shown as follows:

	<b>Fiscal year</b>	<b>Interest rate</b>	<b>2014</b>	<b>2013</b>
	<b>maturity</b>			
University:				
Fixed rate:				
Illinois Educational Facilities Authority (IEFA)	—	—	\$ —	3,930
Illinois Finance Authority (IFA)	2035–2053	3.2–5.6	1,398,850	1,403,469
Taxable bonds	2031–2046	4.2–5.2	691,005	693,355
Unamortized premium			65,274	66,034
Total fixed rate			<u>2,155,129</u>	<u>2,166,788</u>
Variable rate:				
IEFA	2026–2037	0.1–1.9	302,542	303,821
IFA	2035	0.1	84,291	86,817
Taxable commercial paper (\$200,000 available)	2014	0.1	150,000	100,000
Bank lines of credit (\$350,000 available)	2015	0.1	138,200	75,000
Total variable rate			<u>675,033</u>	<u>565,638</u>
Total University			<u>2,830,162</u>	<u>2,732,426</u>
Medical Center:				
Fixed rate:				
Illinois Health Facilities Authority (IHFA)	2015	5.0	7,410	14,530
IFA	2027–2045	3.9–5.5	719,655	722,920
Unamortized premium			9,797	11,163
Total fixed rate			<u>736,862</u>	<u>748,613</u>
Variable rate:				
IEFA	2020	3.1	24,706	686
IEFA	2038	0.1	79,517	81,427
Bank line of credit (\$15,000 available)	2015	—	—	—
Total variable rate			<u>104,223</u>	<u>82,113</u>
Total Medical Center			<u>841,085</u>	<u>830,726</u>
MBL:				
Fixed rate:				
Massachusetts Development Finance Authority	2015–2018	3.5	29,615	—
Variable rate:				
Bank line credit (\$3,000 available)	2015	—	—	—
Total MBL			<u>29,615</u>	<u>—</u>
Total notes and bonds payable			<u>\$ 3,700,862</u>	<u>3,563,152</u>

As of June 30, 2014, the University, Medical Center, and MBL fixed rate notes and bonds payable include variable rate debt with interest rates that have been fixed through interest rate swap agreements which amounted to \$186,905, \$325,000, and \$29,615, respectively. As of June 30, 2013, University and Medical Center variable to fixed rate swap agreements amounted to \$189,749 and \$325,000, respectively.

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**(a) Fiscal 2014 Transactions**

During fiscal year 2014, the University 1) increased its bank lines of credit from \$250,000 to \$350,000 to provide financing flexibility for the construction and renovation of certain educational and research facilities and 2) issued an additional \$50,000 in taxable commercial paper to help finance the purchase of an office building.

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

**(b) Defeased Debt**

As of June 30, 2014 and 2013, the total principal amount of indebtedness considered to be legally extinguished and, therefore, excluded from the University notes and bonds payable was \$102,935 and \$291,040, respectively.

**(c) Interest Rate Swaps**

At June 30, 2014 and 2013 the fair value of the interest rate swap agreements was an accrued liability of \$139,108 and \$126,276, respectively as follows:

	<u>2014</u>	<u>2013</u>
University	\$ 39,138	37,507
Medical Center	95,810	88,769
MBL	4,160	—
Total	<u>\$ 139,108</u>	<u>126,276</u>

Changes in the fair value of the interest rate swap agreements are included in other unrestricted nonoperating changes in the accompanying consolidated statements of activities for the years ended June 30, 2014 and 2013 as follows:

	<u>2014</u>	<u>2013</u>
University	\$ (1,631)	23,207
Medical Center	(5,914)	47,103
MBL	(32)	—
Total	<u>\$ (7,577)</u>	<u>70,310</u>

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These financial instruments involve counterparty credit exposure. The counterparties for these swap transactions are major financial institutions that meet the University's criteria for financial stability and creditworthiness.

The Medical Center maintains two cash flow hedges against interest on variable rate debt which were entered into in August 2011 and have a combined notional amount of \$325,000. The interest rate swaps terminate on February 1, 2044. Cash settlement payments are recorded in interest expense. These payments were \$12,400 and \$4,300 for 2014 and 2013, respectively.

The Medical Center is required to provide collateral on one of the interest rate swap agreements when the liability of that swap exceeds \$50,000. If the Medical Center's credit rating were to be downgraded one level; collateral would need to be provided under the swap with JP Morgan when the liability of that swap exceeds \$40,000 and under the Wells Fargo swap when the liability of that swap exceeds \$60,000. Upon further downgrade, the collateral requirements increase. At June 30, 2014 and 2013, there was no collateral required.

**(d) Debt Payments**

Principal payments required for University notes and bonds in each of the five years ending June 30, 2015 through 2019 are approximately \$14,539, \$25,901, \$39,218, \$54,831 and \$19,964, respectively.

Principal payments required in each of the five years ending June 30, 2015 through 2019 for the Medical Center notes and bonds are approximately \$10,050, \$12,778, \$13,255, \$13,868, and \$14,513, respectively.

Principal payments required in each of the five years ending June 30, 2015 through 2019 for MBL's notes and bonds are approximately \$830, \$860, \$895, \$930, and \$965, respectively.

**(e) Collateral**

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

**(f) Remarketing**

Included in the University, Medical Center, and MBL's notes and bonds payable are \$861,938, \$429,223, and \$29,615, respectively, of variable rate notes and bonds maturing through fiscal year 2045. In the event the University, Medical Center, or MBL's remarketing agents are unable to remarket the notes and bonds, they become demand obligations and require immediate payment. To supplement internal liquidity, the University, Medical Center, and MBL have standby bond purchase agreements totaling \$300,000, \$404,517, and \$29,891, respectively, which support variable rate debt in the event of a failed remarketing.

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In addition, the University has a standby bond purchase agreement of \$109,170 in support of its IFA variable rate bonds, which, through an interest rate swap agreement, carry a synthetically fixed interest rate.

**(g) Subsequent Event**

In August 2014, the University issued \$573,645 in fixed rate bonds through the IFA and \$175,685 in taxable fixed rate bonds. Proceeds were used to 1) advance refund \$397,905 of the IFA fixed rate bonds and 2) finance the construction and renovation of certain educational facilities.

**(9) Pledges**

Pledges receivable at June 30, 2014 and 2013 are shown as follows:

	2014				2013
	University	Medical Center	MBL	Consolidated	Consolidated
Unconditional promises expected to be collected in:					
Less than one year	\$ 128,654	2,420	965	132,039	81,407
One year to five years	243,305	2,142	759	246,206	189,203
More than five years	234,530	—	20	234,550	235,448
	<u>606,489</u>	<u>4,562</u>	<u>1,744</u>	<u>612,795</u>	<u>506,058</u>
Less unamortized discount and allowance for uncollectible pledges	<u>(103,222)</u>	<u>(71)</u>	<u>(137)</u>	<u>(103,430)</u>	<u>(83,733)</u>
Total	<u>\$ 503,267</u>	<u>4,491</u>	<u>1,607</u>	<u>509,365</u>	<u>422,325</u>

The University's five largest pledges comprise 91% of pledges expected to be collected in more than five years. Included in this amount is the estimated fair value of a nonmarketable equity investment (based on discounted cash flow and market multiples) specifically aligned with a promise to give, the proceeds of which, when sold, will be used to satisfy the pledge.

In addition, at June 30, 2014, the University has received \$287,480 of promises to give, which are conditional upon the raising of matching gifts from other sources, implementation of academic programs, or future income from pledged investments. These amounts will be recognized as revenue in the periods in which the conditions are fulfilled.

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**(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, 2014 and 2013, was \$5,000 per claim and unlimited in the aggregate. Claims in excess of \$5,000 are subject to an additional self-insurance retention limited to \$12,500 per claim and \$12,500 in annual aggregate. The Medical Center is included under this insurance program and is charged for its portion of self-insurance costs. The University and Medical Center also maintain a self-insurance program for workers' compensation and certain other liability claims.

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

The medical malpractice self-insurance liability is the estimated present value of self-insured claims that will be settled in the future, and considers anticipated payout patterns as well as interest to be earned on available assets prior to payment. If the present value method was not used, the liability for medical malpractice self-insurance claims would be approximately \$43,113 higher than the amount recorded in the consolidated financial statements at June 30, 2014. The interest rate assumed in determining the present value was 4.25%. The University recorded unrestricted nonoperating actuarial income adjustments of \$(3,756) and \$18,860 during the years ended June 30, 2014 and 2013, respectively, which are included in the accompanying consolidated statements of activities.

The estimated liability for incurred malpractice, workers' compensation, and other claims (filed and unfiled) as of June 30, 2014 and 2013 is presented as follows:

	<b>2014</b>			<b>2013</b>
	<b>University</b>	<b>Medical Center</b>	<b>Consolidated</b>	<b>Consolidated</b>
Medical malpractice	\$ 238,552	—	238,552	254,328
Workers' compensation	6,855	8,241	15,096	15,143
Others	4,114	—	4,114	4,221
Total	<u>\$ 249,521</u>	<u>8,241</u>	<u>257,762</u>	<u>273,692</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 Medical Center employees participate in the University's pension plans for nonacademic employees. The University and Medical Center make annual contributions to the defined benefit pension plans at a rate necessary to maintain plan funding on an actuarially recommended basis. Based primarily on

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

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

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

	<b>Defined benefit pension plans</b>		<b>Other postretirement benefit plans</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Change in benefit obligation:				
Benefit obligation at beginning of year	\$ 795,133	780,797	252,747	274,092
Service cost	35,779	33,211	10,112	12,654
Interest cost	38,291	34,411	11,165	11,142
Benefits paid	(39,285)	(36,216)	(9,520)	(7,816)
Plan amendment	—	—	(50,613)	—
Actuarial (gain) loss, net	86,873	(17,070)	9,618	(37,325)
Benefit obligation at end of year	916,791	795,133	223,509	252,747
Change in fair value of plan assets:				
Fair value of plan assets at beginning of year	557,966	496,657	5,002	1
Actual return on plan assets	88,112	32,525	2,087	1
Employer contributions	65,000	65,000	23,520	12,816
Benefits paid	(39,285)	(36,216)	(9,520)	(7,816)
Fair value of plan assets at end of year	671,793	557,966	21,089	5,002
Funded status – liability	\$ (244,998)	(237,167)	(202,420)	(247,745)

The accumulated benefit obligation for the defined benefit pension plans was \$784,550 and \$682,611 at June 30, 2014 and 2013, respectively.



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**(a) Components of Net Periodic Benefit Cost**

	Defined benefit pension plans		Other postretirement benefit plans	
	2014	2013	2014	2013
Service cost	\$ 35,779	33,211	10,112	12,654
Interest cost	38,291	34,411	11,165	11,142
Expected return on plan assets	(37,013)	(36,714)	(1,228)	(368)
Amortization of prior service cost (benefit)	1,134	1,134	(5,705)	(2,105)
Amortization of transition obligation	—	—	—	800
Amortization of actuarial loss	24,811	27,371	5,723	8,130
<b>Net periodic benefit cost</b>	<b>\$ 63,002</b>	<b>59,413</b>	<b>20,067</b>	<b>30,253</b>
Amounts included in the consolidated statements of activities:				
University	\$ 30,502	26,913	20,067	30,253
Medical Center	32,500	32,500	—	—
<b>Total</b>	<b>\$ 63,002</b>	<b>59,413</b>	<b>20,067</b>	<b>30,253</b>

**(b) Actuarial Assumptions**

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

	Defined benefit pension plans		Other postretirement benefit plans	
	2014	2013	2014	2013
Discount rate	4.3%	4.9%	4.4%	5.1%
Expected return on plan assets	6.5	6.5	6.5	7.0
Rate of compensation increase	3.5	3.5	3.5	3.5
Healthcare cost trend rates:				
Next two fiscal years			6.7%–7.0%	7.2%–7.5%
Next seven fiscal years			5.3%–6.5%	5.7%–7.0%
Thereafter			4.5%–5.1%	4.5%–5.5%

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

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Assumed healthcare cost trend rates have a significant effect on the amounts reported for healthcare plans. A one-percentage-point change in assumed healthcare cost trend rates would have the following effects for the fiscal years ended June 30:

	<b>2014</b>	<b>2013</b>
Effect on total service cost and interest cost:		
One-percentage-point increase	\$ 4,248	5,201
One-percentage-point decrease	(3,240)	(3,931)
Effect on year-end postretirement benefit obligation:		
One-percentage-point increase	\$ 34,743	39,232
One-percentage-point decrease	(27,553)	(31,294)

**(c) Plan Assets**

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

	<b>Defined benefit pension plans</b>		<b>Other postretirement benefit plans</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Domestic public equities	28%	29%	51%	—%
International public equities	18	15	—	—
Fixed income	54	56	49	100
	100%	100%	100%	100%

As of June 30, 2014, 86% of plan assets for the defined benefit pension plans are invested in cash, mutual funds, exchange traded funds, or separately managed accounts comprised of individual securities and are valued based on quoted market prices in active markets for identical investments (Level 1). The remaining assets are invested in commingled funds and limited partnerships generally valued based on quoted market prices in active markets valued based, NAV reported by external fund managers, or independently determined by the University. The remaining 14% of the plan assets are categorized as Level 2 or Level 3.

The defined benefit plans combined target asset allocation of 45% public equities and 55% fixed income securities is meant to result in a favorable long-term rate of return from a diversified portfolio of equity and fixed income investments. Plan assets for the other postretirement benefit plans are managed by the University and were held in mutual funds (Level 1) at June 30, 2014.

**(d) Contributions**

The University expects to make a \$7,955 contribution to its postretirement healthcare plan and, combined with the Medical Center, expects to make a \$65,000 contribution to the defined benefit pension plans in fiscal year 2015.

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**(e) *Estimated Future Benefits Payments***

The following benefit payments, which reflect expected future service, are expected to be paid for each of the fiscal years ending June 30:

<u>Fiscal year</u>	<u>Defined benefit pension plans</u>	<u>Other postretirement benefit plans</u>
2015	\$ 70,010	8,464
2016	46,975	8,531
2017	48,850	9,138
2018	50,719	9,403
2019	52,682	10,190
2020 – 2024	306,906	60,026

**(f) *Prescription Drug Act***

The Medicare Prescription Drug, Improvement, and Modernization Act provides for special tax-free subsidies to employers that offer retiree medical benefit plans with qualifying drug coverage. Effective January 1, 2014, the University ceased its participation in the Part D Retiree Drug Subsidy (RDS) program and began providing prescription drug benefits to Medicare eligible retirees through an Employer Group Waiver Plan (EGWP) design. As a result, the University is eligible for reimbursement from the federal government prescription drug program and, in addition, is eligible for government mandated rebates from pharmaceutical companies that participate in the Medicare Part D program. The University has recognized the effect of these subsidies in the calculation of its postretirement benefit obligation, the impact of which was to reduce the benefit obligation by \$50.6 million at June 30, 2014.

**(g) *Curtailed Pension Plan***

The Medical Center maintains a separate noncontributory defined benefit pension plan on behalf of a former affiliated organization. Prior to assumption, the benefit plan was curtailed by freezing participation and benefit accruals. At June 30, 2014 and 2013, the benefit obligation for the plan exceeded the plan's assets thus creating an unfunded liability of \$3,259 and \$5,730 at June 30, 2014 and 2013, respectively.

**(h) *Defined Contribution Pension Plan***

Defined contribution pension plan expenses included in the consolidated statements of activities amounted to \$47,727 in fiscal year 2014 and \$46,690 in fiscal year 2013 for the University and \$11,700 in fiscal year 2014 and \$11,300 in fiscal year 2013 for the Medical Center.

**THE UNIVERSITY OF CHICAGO**

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

(In thousands of dollars)

**(12) Functional Classification of Expenses**

Expenses by functional classification for the years ended June 30, 2014 and 2013 are shown as follows:

	<b>2014</b>	<b>2013</b>
University:		
Academic and research:		
Instruction	\$ 947,614	863,162
Research	250,469	262,292
Auxiliary enterprises	144,301	134,842
Library	17,524	17,216
Student services	70,098	62,812
Operation and maintenance of physical plant	136,180	120,368
Depreciation	129,244	123,280
Interest on notes and bonds	69,047	65,156
Total academic and research	1,764,477	1,649,128
Administration:		
Institutional support	116,537	145,938
Informational services	55,170	63,557
Development and alumni relations	68,458	64,528
Operation and maintenance of physical plant	11,172	9,688
Depreciation	30,479	29,394
Interest on notes and bonds	26,236	23,281
Total administration	308,052	336,386
Total University	2,072,529	1,985,514
Medical Center:		
Healthcare service	1,285,218	1,177,672
General and administrative	92,922	80,938
Total Medical Center	1,378,140	1,258,610
MBL:		
Academic and research	40,276	
General and administrative	5,357	
Total MBL	45,633	
Total University	\$ 3,496,302	3,244,124

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

## THE UNIVERSITY OF CHICAGO

### Notes to Consolidated Financial Statements

June 30, 2014 and 2013

(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, 2013 and 2012 was \$154,621 and \$136,962, respectively. Net assets at December 31, 2013 and 2012 were \$29,158 and \$25,586, respectively. Consolidation of this not-for-profit organization is not required because the University does not have both control and an economic interest.

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

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

The expenditures under the respective contracts and the related reimbursements of \$762,814 for ANL and \$386,600 for Fermilab in fiscal year 2014, and \$796,737 for ANL and \$420,030 for Fermilab in fiscal year 2013 are not included in the consolidated statements of activities. Net assets relating to ANL and to Fermilab are owned by the U.S. government and, therefore, are not included in the consolidated balance sheets.

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

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

**THE UNIVERSITY OF CHICAGO**  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2014

<u>Federal agency and pass-through entity</u>	<u>CFDA numbers/ Award numbers</u>	<u>Direct awards</u>	<u>Pass-through awards</u>	<u>Total expenditures</u>
Research and Development Cluster:				
Agency for International Development: USAID Foreign Assistance for Programs Overseas	98.001	\$ 331,991	—	331,991
Department of Agriculture: Agriculture and Food Research Initiative (AFRI): University of Minnesota	10.310	249,149	74,876	249,149 74,876
Total Department of Agriculture		249,149	74,876	324,025
Department of Commerce: Education Quality Award Ambassadorship	11.013	12,729	—	12,729
Measurement and Engineering Research and Standards: Northwestern University	11.609	—	100,166	100,166
Total Department of Commerce		12,729	100,166	112,895
Department of Defense:				
Basic and Applied Scientific Research: Drexel University	12.300	1,385,057	—	1,385,057
University of California San Diego		—	120,855	120,855
University of Minnesota		—	304,356	304,356
Total Basic and Applied Scientific Research		1,385,057	843,989	2,229,046
Basic Scientific Research – Combating Weapons of Mass Destruction	12.351	364,861	—	364,861
Military Medical Research and Development: Illinois Institute of Technology	12.420	2,100,686	—	2,100,686
Northwestern University		—	65,172	65,172
University of Alabama at Birmingham		—	26,690	26,690
Total Military Medical Research and Development		2,100,686	169,994	2,270,680
Basic Scientific Research: Albany Medical College	12.431	1,553,537	—	1,553,537
Colorado School of Mines		—	11,907	11,907
Ohio State University		—	316,964	316,964
University of Maryland		—	61,136	61,136
University of Utah		—	229,112	229,112
Total Basic Scientific Research		1,553,537	675,575	2,229,112
Air Force Defense Research Sciences Program: Carnegie Mellon University	12.800	1,255,426	—	1,255,426
University of California Berkeley		—	162,094	162,094
University of Maryland, College Park		—	50,000	50,000
Total Air Force Defense Research Sciences Program		1,255,426	502,488	1,757,914
Research and Technology Development: Massachusetts Institute of Technology	12.910	2,203,016	—	2,203,016
Michigan State University		—	65,954	65,954
Northwestern University		—	42,702	42,702
University of Utah		—	492,292	492,292
Total Research and Technology Development		2,203,016	735,272	2,938,288
Department of Defense:				
Department of Defense W81XWH-13-1-0234	12.RD	166,525	—	166,525
Department of Defense W81XWH-13-1-0451		141,278	—	141,278
Argonne National Laboratory 0J-30381-0025A		—	6,762	6,762
FDC for Applied Molecular Evolution, Inc. HDTRA1-13-1-0004		—	107,946	107,946
Johns Hopkins University N66001-10-C-4056		—	303,644	303,644
Sivananthan Laboratories W911NF-14-1-0003		—	30,223	30,223
UES, Inc. S-875-060-026		—	74,787	74,787
University of New Mexico W81XWH-09-2-0073		—	49,856	49,856
Total Department of Defense		307,803	573,218	881,021
Total Department of Defense		9,170,386	3,500,536	12,670,922
Department of Education:				
Graduate Assistance in Areas of National Need	84.200	1,274,886	—	1,274,886
Education Research, Development and Dissemination: American Institutes for Research	84.305	2,062,939	—	2,062,939
Harvard University		—	165,555	165,555
Michigan State University		—	3,160	3,160
Northwestern University		—	171,308	171,308
Saint Louis University		—	107,276	107,276
Total Education Research, Development and Dissemination		2,062,939	609,943	2,672,882
Research in Special Education	84.324	308,483	—	308,483
Department of Education: American Institutes for Research	84.RD	—	54,207	54,207
Total Department of Education		3,646,308	664,150	4,310,458
Department of Energy:				
Office of Science Financial Assistance Program: Arradance, Inc.	81.049	5,168,974	—	5,168,974
Brookhaven National Laboratory		—	41,588	41,588
Fermi National Accelerator Laboratory		—	16,548	16,548
Incom, Inc.		—	90,992	90,992
Innosys, Inc.		—	1,184	1,184
Northwestern University		—	36,139	36,139
Princeton University		—	445,715	445,715
Radiation Monitoring Devices, Inc.		—	46,975	46,975
Total Office of Science Financial Assistance Program		5,168,974	692,634	5,861,608
ARRA – Office of Science Financial Assistance Program: Princeton University	81.049	—	196,720	196,720
Renewable Energy Research and Development	81.087	258,220	—	258,220
State Energy Program Special Projects: Argonne National Laboratory	81.119	—	83,323	83,323
Brookhaven National Laboratory		—	122,547	122,547
Fermi National Accelerator Laboratory		—	91,070	91,070
Total State Energy Program Special Projects		—	296,940	296,940

**THE UNIVERSITY OF CHICAGO**  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2014

Federal agency and pass-through entity	CFDA numbers/ Award numbers	Direct awards	Pass-through awards	Total expenditures
Nuclear Energy Research, Development and Demonstration	81.121	\$ 61,184	—	61,184
ARRA – Department of Energy:	81.RD			
Argonne National Laboratory	01-30381-0006B	—	57,253	57,253
Argonne National Laboratory	01-30381-0024A	—	8,089	8,089
Total ARRA – Department of Energy		—	65,342	65,342
Department of Energy:				
Argonne National Laboratory	01-30381-0005A	—	286,698	286,698
Argonne National Laboratory	01-30381-0011D	—	2,154	2,154
Argonne National Laboratory	01-30381-0017A	—	72,522	72,522
Argonne National Laboratory	01-30381-0020A	—	119,737	119,737
Argonne National Laboratory	01-30381-0026A	—	50,248	50,248
Argonne National Laboratory	3F-32561	—	29,002	29,002
Argonne National Laboratory	51-00023-0037D	—	5,668	5,668
Argonne National Laboratory	DE-AC02-06CH11357	—	110,369	110,369
Argonne National Laboratory	NO OI-30381	—	38,011	38,011
Argonne National Laboratory	01-30381-0028A	—	423,057	423,057
Argonne National Laboratory	01-30381-0029A	—	19,658	19,658
Fermi National Accelerator Laboratory	DE-AC02-76CH03000	—	128,000	128,000
Fermi National Accelerator Laboratory	FNAL PO #602848	—	57,013	57,013
Fermi National Accelerator Laboratory	FNAL PO #606882	—	62,290	62,290
Fermi National Accelerator Laboratory	PO #602173	—	5,920	5,920
Fermi National Accelerator Laboratory	PO #614163	—	41,040	41,040
Idaho National Laboratory	00139552	—	208,240	208,240
Idaho National Laboratory	DE-AC07-05ID14517	—	81,577	81,577
Innosys, Inc.	Pending	—	2,014	2,014
Los Alamos National Laboratory	271923	—	106,939	106,939
Oak Ridge National Laboratory	DE-AC05-00OR22725	—	122,607	122,607
Sandia National Laboratory	1309936	—	30,630	30,630
Savannah River Nuclear Solutions	DE-AC09-08SR22470	—	10,938	10,938
University of Texas at Austin	2.114	—	2,114	2,114
University of Wisconsin	DE-AC07-05ID14517	—	2,820	2,820
Pending		—	2,820	2,820
Total Department of Energy		—	2,019,266	2,019,266
Total Department of Energy		5,488,378	3,270,902	8,759,280
Department of Health and Human Services:				
Maternal and Child Health Federal Consolidated Programs:	93.110	—	42,745	42,745
University of Illinois at Chicago		—	42,745	42,745
Environmental Health:	93.113	1,256,768	—	1,256,768
Columbia University		—	4,012	4,012
Harvard University		—	7,404	7,404
New York University		—	192,664	192,664
Total Environmental Health		1,256,768	204,080	1,460,848
Oral Diseases and Disorders Research	93.121	405,014	—	405,014
Injury Prevention and Control Research and State and				
Community Based Programs	93.136	1,157,644	—	1,157,644
NIHES Superfund Hazardous Substances – Basic Research				
and Education:	93.143	—	516,738	516,738
Columbia University		—	516,738	516,738
AIDS Education and Training Centers	93.145	—	39,423	39,423
University of Illinois at Chicago		—	39,423	39,423
Human Genome Research:	93.172	1,978,937	—	1,978,937
Brigham and Women's Hospital		—	70,990	70,990
Stanford University		—	450,618	450,618
University of California Santa Cruz		—	3,281	3,281
University of Illinois at Chicago		—	71,706	71,706
University of Washington		—	827,691	827,691
Wisegene, LLC		—	49,815	49,815
Total Human Genome Research		1,978,937	1,474,101	3,453,038
Research Related to Deafness and Communication Disorders:	93.173	1,524,837	—	1,524,837
University of California Irvine		—	(2,934)	(2,934)
University of Washington		—	70,227	70,227
Total Research Related to Deafness and Communication Disorders		1,524,837	67,293	1,592,130
Research and Training in Complementary and Alternative				
Medicine	93.213	531,242	—	531,242
National Research Service Awards – Health Services				
Research Training:	93.225	306,594	—	306,594
Northwestern University		—	177,867	177,867
Total National Research Service Awards – Health Services		306,594	177,867	484,461
Research on Healthcare Costs, Quality and Outcomes:	93.226	1,349,262	—	1,349,262
Johns Hopkins University		—	69,441	69,441
Northwestern University		—	157,863	157,863
University of Illinois at Chicago		—	13,047	13,047
Total Research on Healthcare Costs, Quality and Outcomes		1,349,262	240,351	1,589,613
National Center on Sleep Disorders Research	93.233	750,186	—	750,186
Mental Health Research Grants:	93.242	8,204,587	—	8,204,587
LNK Chemsolutions LLC		—	94,866	94,866
New York University		—	165,606	165,606
Northwestern University		—	(42,821)	(42,821)
Stanford University		—	19,185	19,185
University of California San Diego		—	238,030	238,030
University of Illinois at Chicago		—	5,433	5,433
University of Pittsburgh		—	36,744	36,744
University of Texas Health Science Cntr-Houston		—	157,592	157,592
University of Washington		—	29,326	29,326
Total Mental Health Research Grants		8,204,587	703,961	8,908,548
Geriatric Academic Career Awards	93.250	78,102	—	78,102
Occupational Safety and Health Program	93.262	638,390	—	638,390
Rapid Expansion of Antiretroviral Therapy Programs for HIV-				
Infected Persons in Selected Countries in Africa and the				
Caribbean Under the President's Emergency Plan for				
AIDS Relief	93.266	14,478	—	14,478
Alcohol Research Programs	93.273	1,070,516	—	1,070,516
Drug Abuse and Addiction Research Programs:	93.279	3,777,947	—	3,777,947
Brown University		—	154,302	154,302
National Opinion Research Center		—	91,899	91,899
Northwestern University		—	40,490	40,490
University of California San Francisco		—	10,605	10,605
University of Illinois at Chicago		—	37,156	37,156
Total Drug Abuse and Addiction Research Programs		3,777,947	334,452	4,112,399

**THE UNIVERSITY OF CHICAGO**  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2014

<u>Federal agency and pass-through entity</u>	<u>CFDA numbers/ Award numbers</u>	<u>Direct awards</u>	<u>Pass-through awards</u>	<u>Total expenditures</u>
Mental Health National Research Service Awards for Research Training: University of Minnesota	93.282	\$ 35,152	—	35,152
Total Mental Health National Research Service Awards for Research Training		35,152	108,908	144,060
Discovery and Applied Research for Technological Innovations to Improve Human Health: Berkeley National Laboratory	93.286	2,590,148	—	2,590,148
California Institute of Technology		—	81,189	81,189
Illinois Institute of Technology		—	32,136	32,136
University of Illinois at Champaign		—	18,687	18,687
University of Illinois at Chicago		—	11,252	11,252
Total Discovery and Applied Research for Technological Innovations		2,590,148	341,237	2,931,385
President's Council on Fitness, Sports, and Nutrition	93.289	113,582	—	113,582
Minority Health and Health Disparities Research: University of Illinois at Chicago	93.307	—	10,972	10,972
Trans-NIH Research Support: California Institute of Technology	93.310	5,912,715	—	5,912,715
Cincinnati Children's Hospital		—	69,060	69,060
Duke University		—	51,977	51,977
University of Michigan		—	172,546	172,546
Total Trans-NIH Research Support		5,912,715	326,497	6,239,212
National Center for Advancing Translational Sciences	93.350	4,262,641	—	4,262,641
Research Infrastructure Programs	93.351	1,090,110	—	1,090,110
Nursing Research: Beth Israel Deaconess Medical Center, Inc.	93.361	—	16,459	16,459
Johns Hopkins University		—	188,993	188,993
Total Nursing Research		—	205,452	205,452
National Center for Research Resources: Johns Hopkins University	93.389	423,843	—	423,843
Pennsylvania State University		—	9,897	9,897
Total National Center for Research Resources		423,843	23,729	457,469
Cancer Cause and Prevention Research: Beckman Research Institute of the City of Hope	93.393	5,561,572	—	5,561,572
Fox Chase Cancer Center		—	10,270	10,270
Harvard University		—	19,326	19,326
Health Research		—	33,327	33,327
Res. Inst. McGill University Health Center		—	5,416	5,416
University of California San Francisco		—	4,414	4,414
University of Illinois at Chicago		—	56,578	56,578
University of Miami		—	616	616
University of Pennsylvania		—	9,189	9,189
University of Rochester		—	16,158	16,158
University of Southern California		—	75,516	75,516
University of Texas		—	5,348	5,348
University of Texas MD Anderson Cancer Center		—	28,590	28,590
Total Cancer Cause and Prevention Research		5,561,572	313,660	5,875,232
Cancer Detection and Diagnosis Research: American College of Radiology	93.394	3,072,881	—	3,072,881
Johns Hopkins University		—	24,287	24,287
Marquette University		—	100,509	100,509
Northwestern University		—	34,731	34,731
University of California Berkeley		—	113,941	113,941
University of California San Francisco		—	9,075	9,075
Total Cancer Detection and Diagnosis Research		3,072,881	391,812	3,464,693
Cancer Treatment Research: American College of Radiology	93.395	3,416,785	—	3,416,785
Brigham and Women's Hospital		—	78,057	78,057
Brigham and Women's Hospital		—	897,558	897,558
Children's Hospital Los Angeles		—	3,045,871	3,045,871
Duke University		—	6,603	6,603
Gynecologic Oncology Group		—	(1,999)	(1,999)
LNK Chemsolutions LLC		—	73,441	73,441
Mayo Hospitals and Clinics		—	277,808	277,808
Northwestern University		—	150,164	150,164
Oregon Health and Science University		—	100,000	100,000
Sloan-Kettering Institute for Cancer Research		—	21,629	21,629
St. Jude Children's Research Hospital		—	13,591	13,591
The Children's Hospital of Philadelphia		—	10,541	10,541
University of Alabama at Birmingham		—	111,385	111,385
University of Illinois at Chicago		—	444,927	444,927
University of Rochester		—	9,737	9,737
University of Texas		—	54,575	54,575
Total Cancer Treatment Research		3,416,785	5,306,495	8,723,280
Cancer Biology Research: Northwestern University	93.396	6,133,791	—	6,133,791
Total Cancer Biology Research		6,133,791	164,730	6,298,521
Cancer Centers Support Grants: Northwestern University	93.397	4,451,551	—	4,451,551
Total Cancer Centers Support Grants		4,451,551	176,628	4,628,179
Cancer Research Manpower: American College of Radiology	93.398	2,265,011	—	2,265,011
Beckman Research Institute of the City of Hope		—	16,307	16,307
Northwestern University		—	21,039	21,039
Total Cancer Research Manpower		2,265,011	70,927	2,335,938
Cancer Control: Mayo Foundation	93.399	—	3,292	3,292
Mayo Hospitals and Clinics		—	28,685	28,685
Total Cancer Control		—	31,977	31,977



**THE UNIVERSITY OF CHICAGO**  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2014

Federal agency and pass-through entity	CFDA numbers/ Award numbers	Direct awards	Pass-through awards	Total expenditures
Child Care and Development Block Grant	93.575	\$ 92,729	—	92,729
Health Care Innovation Awards (HCIA)	93.610	1,852,034	—	1,852,034
Social Services Research and Demonstration	93.647	632,884	—	632,884
ARRA – Trans-NIH Recovery Act Research Support:	93.701	386,285	—	386,285
Duke University		—	1,193	1,193
Medical College of Wisconsin		—	51,137	51,137
University of Washington		—	59,867	59,867
Total ARRA – Trans-NIH Recovery Act Research Support		386,285	112,197	498,482
Cardiovascular Diseases Research:	93.837	5,148,986	—	5,148,986
Brigham and Women's Hospital		—	49,392	49,392
Children's Hospital Oakland Research Institute		—	100,729	100,729
Johns Hopkins University		—	405,271	405,271
Northwestern University		—	126,626	126,626
University of California San Francisco		—	65,762	65,762
University of Illinois at Chicago		—	1,947	1,947
University of Maryland		—	99,118	99,118
University of North Carolina		—	36,337	36,337
University of Rochester		—	954	954
University of Texas		—	256,391	256,391
University of Washington		—	130,849	130,849
Vanderbilt University		—	68,724	68,724
Total Cardiovascular Diseases Research		5,148,986	1,342,100	6,491,086
Lung Diseases Research:	93.838	7,456,127	—	7,456,127
Brigham and Women's Hospital		—	126,698	126,698
Cleveland Clinic		—	21,760	21,760
Duke University		—	75,064	75,064
Harvard University		—	166,365	166,365
Johns Hopkins University		—	109,168	109,168
Northwestern University		—	3,292	3,292
University of Illinois at Chicago		—	37,744	37,744
University of Pennsylvania		—	(31,200)	(31,200)
University of Pittsburgh		—	23,392	23,392
University of Southern California		—	147,745	147,745
University of Washington		—	36,814	36,814
University of Wisconsin		—	321,163	321,163
Washington University		—	(2,544)	(2,544)
Total Lung Diseases Research		7,456,127	1,035,461	8,491,588
Blood Diseases and Resources Research:	93.839	566,968	—	566,968
Cleveland Clinic		—	30,000	30,000
Health Research		—	26,516	26,516
Northwestern University		—	9,383	9,383
Sloan-Kettering Institute for Cancer Research		—	13,231	13,231
University of Illinois at Chicago		—	3,440	3,440
Total Blood Diseases and Resources Research		566,968	82,570	649,538
Arthritis, Musculoskeletal and Skin Diseases Research:	93.846	458,798	—	458,798
Cincinnati Children's Hospital		—	(20,179)	(20,179)
Pennsylvania State University		—	6,716	6,716
University of Pennsylvania		—	404,049	404,049
Total Arthritis, Musculoskeletal and Skin Diseases Research		458,798	390,586	849,384
Diabetes, Digestive, and Kidney Diseases Extramural Research:	93.847	16,215,610	—	16,215,610
Case Western University		—	72,189	72,189
Emory University		—	31,186	31,186
Illinois Institute of Technology		—	38,315	38,315
Johns Hopkins University		—	58,252	58,252
Kaiser Foundation Research Institute		—	101,553	101,553
Massachusetts General Hospital		—	22,798	22,798
Mount Sinai School of Medicine		—	145,376	145,376
North Shore University Health System		—	50,600	50,600
Northwestern University		—	(1,744)	(1,744)
Palo Alto Medical Foundation Research Institute		—	8,721	8,721
Seattle Children's Research Institute		—	32,556	32,556
State University of New York		—	304,408	304,408
University of Illinois at Chicago		—	8,489	8,489
University of Iowa		—	137,863	137,863
University of North Carolina		—	186,007	186,007
University of Pittsburgh		—	530	530
University of Rochester		—	34,984	34,984
University of Texas		—	250,523	250,523
University of Wisconsin		—	51,878	51,878
Vanderbilt University		—	1,754	1,754
Vidiasm		—	77,143	77,143
Wake Forest University		—	26,618	26,618
Yale University		—	51,557	51,557
Total Diabetes, Digestive, and Kidney Diseases Extramural Research		16,215,610	1,691,556	17,907,166
Extramural Research Programs in the Neurosciences and				
Neurological Disorders:	93.853	8,545,151	—	8,545,151
Boston University		—	133,095	133,095
Columbia University		—	58,155	58,155
EIC Laboratories		—	82,847	82,847
Emory University		—	37,899	37,899
Hines VA Hospital		—	97,757	97,757
Immersive Touch		—	7,048	7,048
Johns Hopkins University		—	337,633	337,633
Northwestern University		—	183,561	183,561
Seattle Children's Research Institute		—	82,717	82,717
University of Ibadan		—	7,866	7,866
University of Minnesota		—	15,594	15,594
Total Extramural Research Programs in the Neurosciences and Neurological Disorders		8,545,151	1,044,172	9,589,323
Allergy, Immunology and Transplantation Research:	93.855	21,679,045	—	21,679,045
Columbia University		—	209,978	209,978
Duke University		—	490,955	490,955
Emory University		—	335,966	335,966
Mount Sinai School of Medicine		—	459,911	459,911
Northwestern University		—	377,974	377,974
Oklahoma Medical Research Foundation		—	(50,527)	(50,527)

**THE UNIVERSITY OF CHICAGO**  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2014

Federal agency and pass-through entity	CFDA numbers/ Award numbers	Direct awards	Pass-through awards	Total expenditures
University of California San Francisco		\$ —	3,578	3,578
University of Illinois at Chicago		—	2,746	2,746
University of Pittsburgh		—	(810)	(810)
Total Allergy, Immunology and Transplantation Research		21,679,045	1,829,771	23,508,816
Biomedical Research and Research Training:	93.859	37,534,356	—	37,534,356
Johns Hopkins University		—	1,478	1,478
Northwestern University		—	6,386	6,386
Pennsylvania State University		—	21,833	21,833
Schrodinger, Inc.		—	69,425	69,425
University of California San Francisco		—	39,626	39,626
University of Kansas		—	125,639	125,639
University of Notre Dame		—	70,699	70,699
University of Pittsburgh		—	18,230	18,230
University of Southern California		—	385,555	385,555
University of Utah		—	85,590	85,590
Total Biomedical Research and Research Training		37,534,356	824,461	38,358,817
Child Health and Human Development Extramural Research:	93.865	4,655,206	—	4,655,206
Emory University		—	107,899	107,899
National Bureau of Economic Research		—	175,564	175,564
National Opinion Research Center		—	153,235	153,235
Northwestern University		—	151,621	151,621
University of California San Francisco		—	892	892
University of Illinois at Chicago		—	45,620	45,620
University of Maryland		—	370,618	370,618
University of Michigan		—	4,740	4,740
Washington University		—	255,616	255,616
Total Child Health and Human Development Extramural Research		4,655,206	1,265,805	5,921,011
Aging Research:	93.866	4,104,103	—	4,104,103
Beckman Research Institute of the City of Hope		—	8,723	8,723
Duke University		—	127,196	127,196
National Bureau of Economic Research		—	284,964	284,964
National Opinion Research Center		—	385,119	385,119
Rand Corporation		—	21,530	21,530
University of California San Diego		—	23,150	23,150
University of Rochester		—	7,180	7,180
University of Southern California		—	33,698	33,698
University of Tennessee		—	21,639	21,639
Total Aging Research		4,104,103	913,199	5,017,302
Vision Research:	93.867	1,936,358	—	1,936,358
University of Illinois at Chicago		—	75,704	75,704
Total Vision Research		1,936,358	75,704	2,012,062
Grants for Training in Primary Care Medicine and Dentistry:	93.884	14,337	—	14,337
Beckman Research Institute of the City of Hope		—	4,480	4,480
Total Grants for Training in Primary Care Medicine and Dentistry		14,337	4,480	18,817
Family Planning Service Delivery Improvement Research Grants	93.974	56,854	—	56,854
International Research and Research Training:	93.989	51,857	—	51,857
Northwestern University		—	6,342	6,342
Total International Research and Research Training		51,857	6,342	58,199
Department of Health and Human Services:	93.RD			
Department of Health and Human Services	HHSN261200622001C	5,447	—	5,447
Department of Health and Human Services	HHSN261201000145C	250,291	—	250,291
Department of Health and Human Services	HHSN261201100071C	1,382,466	—	1,382,466
Department of Health and Human Services	HHSN272201300988P	24,455	—	24,455
Department of Health and Human Services	HHSN275201300009	46,898	—	46,898
Department of Health and Human Services	HHSN275201300009/00002	135,116	—	135,116
ABT Associates Inc	H1N1 CHILDREN 41171	—	3,750	3,750
American College of Radiology	R01 CA021661	—	52,027	52,027
Cinlanian Biotechnology, Inc.	R43 HG006634-01	—	28,251	28,251
City of Chicago Department of Health	24346-RELEASE 3	—	(108,752)	(108,752)
City of Chicago Department of Health	24346-RELEASE 4	—	951,762	951,762
Columbia University	1 R21 EB016515-01A1	—	14,988	14,988
Columbia University	1 R21 EB016515-02	—	498	498
Fox Chase Cancer Center	CRC SURVEILLANCE 43004-01	—	4,827	4,827
Johns Hopkins University	5 U24 CA160036-02	—	2,642	2,642
Johns Hopkins University	5 U54 CA151838	—	30,747	30,747
Leidos Biomedical Research	12XS572 ST02	—	468	468
Leidos Biomedical Research	12XS572 TO1	—	124,773	124,773
Leidos Biomedical Research	13XS021	—	84,410	84,410
Leidos Biomedical Research	14X050	—	185,689	185,689
Leidos Biomedical Research	HHSN261200800001E	—	48,965	48,965
Mayo Hospitals and Clinics	RU241201	—	4,407	4,407
National Opinion Research Center	GS10F0033M	—	105,167	105,167
National Opinion Research Center	HHSP23320095647WC	—	1,989	1,989
Neurodx Development	2 R44 NS067772-02	—	3,000	3,000
Northwestern University	HHSN272200700058C	—	(9,379)	(9,379)
Northwestern University	HHSN272201200026C	—	1,392,564	1,392,564
Northwestern University	N01-CN-35157-01 AMEND	—	8,920	8,920
Radiological Society of North America	HHSN268201200078C	—	2,246	2,246
Solulink, Inc.	HHSN261201200089C	—	100,060	100,060
Southwest Oncology Group	CA37429	—	2,830	2,830
University of California San Francisco	HHSN27220070031C	—	351,476	351,476
University of California San Francisco	N01 AI15416	—	(55,534)	(55,534)
University of Colorado	1 R21 EB015040-01A1	—	16,492	16,492
University of Michigan	3002521816	—	(1,163)	(1,163)
University of Michigan	HHSN271200900786P	—	10,118	10,118
University of South Florida	TN-01	—	4,200	4,200
Virginia Tech	HHSN272200900040C	—	2,129,531	2,129,531
Total Department of Health and Human Services		1,844,673	5,491,969	7,336,642
ARRA – Department of Health and Human Services:	93.RD			
ARRA – Department of Health and Human Services	N01 CM62201	(4,867)	—	(4,867)
Blue Cross Blue Shield Association	HHSA 290-2007-10058-1	—	(1,627)	(1,627)
Cleveland Clinic	HHSN261201000606C	—	40,921	40,921
Radiological Society of North America	HHSN268200900060C	—	139,186	139,186
Total ARRA – Department of Health and Human Services		(4,867)	178,480	173,613
Total Department of Health and Human Services		175,601,780	27,610,131	203,211,911

**THE UNIVERSITY OF CHICAGO**  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2014

<u>Federal agency and pass-through entity</u>	<u>CFDA numbers/ Award numbers</u>	<u>Direct awards</u>	<u>Pass-through awards</u>	<u>Total expenditures</u>
Department of Homeland Security:	97.RD			
Northeastern University	HSHQDC-12-J-00056	\$ —	85,000	85,000
Total Department of Homeland Security		—	85,000	85,000
Department of Justice:				
National Institute of Justice Research, Evaluation, and and Development Project Grants	16.560	187,955	—	187,955
Juvenile Mentoring Program	16.276	204,465	—	204,465
Total Department of Justice		392,420	—	392,420
Department of Labor:	17.RD			
DOLB139634411		106,352	—	106,352
Total Department of Labor		106,352	—	106,352
Department of State:				
Public Diplomacy Programs for Afghanistan and Pakistan	19.501	816,127	—	816,127
General Department of State Assistance	19.700	(1,832)	—	(1,832)
Total Department of State		814,295	—	814,295
National Aeronautics and Space Administration:				
Science:	43.001	2,696,160	—	2,696,160
California Institute of Technology		—	500,851	500,851
Carnegie Mellon University		—	106,334	106,334
Cornell University		—	10,014	10,014
Jet Propulsion Laboratory		—	193,137	193,137
Smithsonian Institute		—	196,260	196,260
Southwest Research Institute		—	167,593	167,593
Space Telescope Science Institute		—	520,645	520,645
University of Cincinnati		—	82,895	82,895
University of Washington		—	97,188	97,188
University Space Research Association		—	46,491	46,491
Total Science		2,696,160	1,921,408	4,617,568
National Aeronautics and Space Administration:	43.RD			
National Aeronautics and Space Administration	1455917	40,402	—	40,402
National Aeronautics and Space Administration	RSA#1436804	12,894	—	12,894
California Institute of Technology	RSA#1436852	—	4,458	4,458
Cornell University	NNM08AA26C	—	1,342	1,342
Space Telescope Science Institute	HST-GO-12267.04-A	—	5,011	5,011
Space Telescope Science Institute	HST-GO-12371.04-A	—	4,565	4,565
Total National Aeronautics and Space Administration		53,296	15,376	68,672
Total National Aeronautics and Space Administration		2,749,456	1,936,784	4,686,240
National Endowment for the Arts:				
Promotion of the Arts – Grants to Organizations and Individuals	45.169	2,442	—	2,442
National Endowment for the Arts:	45.RD			
MBK Analytics, LLC	RSA#1436852	—	28,629	28,629
Total National Endowment for the Arts		2,442	28,629	31,071
National Endowment for the Humanities:				
Promotion of the Humanities – Division of Preservation and Access	45.149	148,506	—	148,506
Promotion of the Humanities – Fellowships and Stipends	45.160	100,796	—	100,796
Promotion of the Humanities – Research	45.161	(3,389)	—	(3,389)
Total National Endowment for the Humanities		245,913	—	245,913
National Science Foundation:				
Engineering Grants:	47.041	322,815	—	322,815
California Institute of Technology		—	110,589	110,589
Total Engineering Grants		322,815	110,589	433,404
Mathematical and Physical Sciences:	47.049	22,455,057	—	22,455,057
California Institute of Technology		—	81,154	81,154
Columbia University		—	1,462,110	1,462,110
Emory University		—	110,146	110,146
Smithsonian Institute		—	(500)	(500)
University of California Irvine		—	278,479	278,479
University of California Los Angeles		—	256,476	256,476
University of Notre Dame		—	206,703	206,703
University of Wisconsin		—	1,661,069	1,661,069
Total Mathematical and Physical Sciences		22,455,057	4,055,637	26,510,694
Geosciences:	47.050	4,599,425	—	4,599,425
University Corporation for Atmospheric Research		—	41,178	41,178
University of California San Diego		—	119,696	119,696
University of California Davis		—	97,816	97,816
University of Illinois at Champaign		—	41,490	41,490
Total Geosciences		4,599,425	300,180	4,899,605
Computer and Information Science and Engineering:	47.070	1,306,236	—	1,306,236
DePaul University		—	31,451	31,451
Johns Hopkins University		—	(8,930)	(8,930)
Princeton University		—	37,539	37,539
Total Computer and Information Science and Engineering		1,306,236	60,060	1,366,296
Biological Sciences:	47.074	2,737,117	—	2,737,117
University of Arizona		—	450,080	450,080
University of California Davis		—	19,607	19,607
University of Florida		—	79,335	79,335
University of Illinois at Chicago		—	(682)	(682)
University of Michigan		—	20,868	20,868
University of South Dakota		—	138,962	138,962
Total Biological Sciences		2,737,117	708,170	3,445,287
Social, Behavioral, and Economic Sciences:	47.075	3,733,840	—	3,733,840
Case Western University		—	63,893	63,893
National Bureau of Economic Research		—	34,308	34,308
Temple University		—	957,970	957,970
University of Arkansas		—	37,205	37,205
University of California Irvine		—	36,467	36,467
University of New Hampshire		—	133,226	133,226
Total Social, Behavioral, and Economic Sciences		3,733,840	1,263,069	4,996,909
Education and Human Resources:	47.076	2,074,406	—	2,074,406
Ohio State University		—	5,763	5,763
Total Education and Human Resources		2,074,406	5,763	2,080,169
Polar Programs:	47.078	1,678,372	—	1,678,372
Ohio State University		—	13,202	13,202
Total Polar Programs		1,678,372	13,202	1,691,574

**THE UNIVERSITY OF CHICAGO**  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2014

Federal agency and pass-through entity	CFDA numbers/ Award numbers	Direct awards	Pass-through awards	Total expenditures
International Science and Engineering (OISE)	47.079	\$ 1,456,984	—	1,456,984
Office of Cyberinfrastructure:	47.080	2,726,789	—	2,726,789
Indiana University		—	371,455	371,455
University of Florida		—	25,026	25,026
University of Illinois at Champaign		—	1,967,329	1,967,329
University of Wisconsin		—	76,807	76,807
Virginia Tech		—	(32,826)	(32,826)
Total Office of Cyberinfrastructure		2,726,789	2,407,791	5,134,580
ARRA – Trans-NSF Recovery Act Research Support	47.082	350,369	—	350,369
National Science Foundation:	47.RD			
Argonne National Laboratory	OI-30381-0023A	—	8,215	8,215
DePaul University	CNS-1359459	—	20,811	20,811
Total National Science Foundation		—	29,026	29,026
Total National Science Foundation		43,441,410	8,953,487	52,394,897
Total Research and Development Cluster		242,253,009	46,224,661	288,477,670
Foreign Language and Area Studies (FLAS) Cluster:				
Department of Education:				
National Resource Centers Program for Foreign Language and Area Studies or Foreign Language and International Studies Program and Foreign Language and Area Studies Fellowship Program (NRCPLAS):	84.015	1,523,730	—	1,523,730
University of Illinois at Champaign		—	392,518	392,518
Total NRCPLAS		1,523,730	392,518	1,916,248
Total Department of Education		1,523,730	392,518	1,916,248
Total FLAS Cluster		1,523,730	392,518	1,916,248
Teacher Quality Partnerships Cluster:				
Department of Education:				
ARRA – Teacher Quality Partnerships, Recovery Act	84.405	2,659,967	—	2,659,967
Total Department of Education		2,659,967	—	2,659,967
Total Teacher Quality Partnerships Cluster		2,659,967	—	2,659,967
Student Financial Aid Cluster:				
Department of Education:				
Federal Supplemental Educational Opportunity Grants	84.007	740,854	—	740,854
Federal Work-Study Program	84.033	1,645,537	—	1,645,537
Federal Perkins Loan Program – Federal Capital Contributions	84.038	7,132,121	—	7,132,121
Federal Pell Grant Program	84.063	2,969,557	—	2,969,557
Federal Direct Student Loans	84.268	95,798,798	—	95,798,798
Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379	127,113	—	127,113
Total Department of Education		108,413,980	—	108,413,980
Total Student Financial Assistance Cluster		108,413,980	—	108,413,980
Other Federal Programs:				
Department of Commerce				
Sea Grant Support:	11.417			
University of Illinois at Champaign		—	28,082	28,082
Total Department of Commerce		—	28,082	28,082
Department of Education:				
Title I Grants to Local Educational Agencies:	84.010			
Chicago Public Schools	2230266G-0	—	23,816	23,816
Overseas Programs – Doctoral Dissertation Research Abroad	84.022	284,578	—	284,578
TRIO – Upward Bound	84.047	600,111	—	600,111
Javits Fellowships	84.170	309,462	—	309,462
Gaining Early Awareness and Readiness for Undergraduate Programs:	84.334			
Northeastern Illinois University		—	190,504	190,504
Arts in Education	84.351	—	5,726	5,726
Improving Teacher Quality State Grants:	84.367			
Illinois Board of Higher Education	S367B110013	—	57,222	57,222
Illinois Board of Higher Education	300012NCLB9	—	125,059	125,059
Illinois Board of Higher Education	S367B110013	—	142,539	142,539
Total Improving Teacher Quality State Grants		—	324,820	324,820
School Improvement Grants:	84.377	1,227,934	—	1,227,934
Chicago Public Schools		—	236,958	236,958
North Lawndale College Prep		—	298,187	298,187
Total School Improvement Grants		1,227,934	535,145	1,763,079
Race to the Top:	84.413			
Illinois Board of Higher Education	B413A120006	—	11,650	11,650
Department of Education:	84.0TH			
Illinois Board of Education	110727PR252	—	1,306,908	1,306,908
Total Department of Education		2,422,085	2,398,569	4,820,654
Department of Energy:				
Office of Science Financial Assistance Program:	81.049			
Battelle Memorial Institute		—	10,029	10,029
Krell Institute		—	11,361	11,361
Total Office of Science Financial Assistance Program		—	21,390	21,390
State Energy Program Special Projects:	81.119			
Fermi National Accelerator Laboratory		—	188,677	188,677
Department of Energy:	81.0TH			
Department of Energy	PO #1315756	178,981	—	178,981
Fermi National Accelerator Laboratory	FNAL PO #570086	—	9,936	9,936
Total Department of Energy		178,981	9,936	188,917
Total Department of Energy		178,981	220,003	398,984
Department of Health and Human Services:				
Substance Abuse and Mental Health Services – Projects of Regional and National Significance:	93.243			
Access Community Health		—	33,250	33,250
Justice Research Institute, Inc.		—	32,620	32,620
Total Substance Abuse and Mental Health Services		—	65,870	65,870
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program:	93.505			
Illinois Department of Human Services	FCSRE01577	—	2,613	2,613
Illinois Department of Public Health	FCSRE01567	—	723,989	723,989
Total ACA Maternal, Infant, and Early Childhood Home Visiting Program		—	726,602	726,602

**THE UNIVERSITY OF CHICAGO**  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2014

Federal agency and pass-through entity	CFDA numbers	Direct awards	Pass-through awards	Total expenditures
Health Care Innovation Awards (HCIA)	93.610	2,090,541	—	2,090,541
ARRA – Health Information Technology Regional Extension Centers Program:				
Northwestern University	93.718	—	94,599	94,599
HIV Emergency Relief Project Grants:				
Aids Foundation of Chicago	93.914	—	71,945	71,945
City of Chicago Department of Health	23794	—	401,141	401,141
Total HIV Emergency Relief Project Grants		—	473,086	473,086
Healthy Start Initiative:				
Illinois Department of Human Services	93.926	—	27,000	27,000
HIV Prevention Activities – Health Department Based:				
City of Chicago Department of Health	FCSSU00768	—	27,000	27,000
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance:	93.940	—	181,408	181,408
Illinois Department of Human Services	U62 PS003644	—	181,408	181,408
Illinois Department of Human Services	93.944	—	108,243	108,243
Illinois Department of Human Services	FCSSU03285	—	984	984
Total HIV Surveillance		—	109,227	109,227
Maternal and Child Health Services Block Grant to States:				
Illinois Department of Human Services	93.994	—	137,547	137,547
Illinois Department of Public Health	FCSSU00768	—	425,760	425,760
Illinois Department of Public Health	43789009B	—	660	660
Total Maternal and Child Health Services Block Grant to States	33789009A	—	563,967	563,967
Department of Health and Human Services:				
Chicago Department of Children and Youth	93.OTH	—	8,510	8,510
Chicago Department of Children and Youth	26045	—	313	313
City of Chicago Department of Health	26045	—	43,977	43,977
Total Department of Health and Human Services	30597	—	52,800	52,800
Total Department of Health and Human Services		2,090,541	2,294,559	4,385,100
Department of Justice:				
ARRA - Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants to States and Territories:				
Chapin Hall	16.803	—	15,934	15,934
Illinois Criminal Justice Information Authority	809076	—	187,144	187,144
Total ARRA JAG Grants		—	203,078	203,078
Second Chance Act Prisoner Reentry Initiative:				
Illinois Department of Human Services	16.812	—	18,689	18,689
Total Department of Justice	FCSSR03420	—	221,767	221,767
Environmental Protection Agency:				
Science To Achieve Results (STAR) Fellowship Program	66.514	32,238	—	32,238
Total Environmental Protection Agency		32,238	—	32,238
Institute of Museum Services:				
Museums for America	45.301	102,785	—	102,785
Total Institute of Museum Services		102,785	—	102,785
National Aeronautics and Space Administration:				
Science:				
Space Telescope Science Institute	43.001	387,951	—	387,951
Total Science		387,951	6,449	394,400
National Aeronautics and Space Administration:				
University of Illinois at Champaign	43.OTH	—	33,204	33,204
Total National Aeronautics and Space Administration		387,951	39,653	427,604
National Endowment for the Arts:				
Promotion of the Arts – Grants to Organizations and Individuals	45.024	15,000	—	15,000
Total National Endowment for the Arts		15,000	—	15,000
National Endowment for the Humanities:				
Promotion of the Humanities Division of Preservation and Access	45.149	88,989	—	88,989
Promotion of the Humanities Research	45.161	41,766	—	41,766
Promotion of the Humanities – Professional Development	45.163	49,535	—	49,535
Promotion of the Humanities – Public Programs	45.164	56,744	—	56,744
Total National Endowment for the Humanities		237,034	—	237,034
National Science Foundation:				
Mathematical and Physical Sciences:				
University of Notre Dame	47.049	—	76,597	76,597
Computer and Information Science and Engineering	47.070	46,987	—	46,987
Social, Behavioral, and Economic Sciences	47.075	762	—	762
Education and Human Resources	47.076	3,791,445	—	3,791,445
Office of Cyberinfrastructure	47.080	101,337	—	101,337
OCI-1239751	47.OTH	254,071	—	254,071
Total National Science Foundation		4,194,602	76,597	4,271,199
Total Other Federal Programs		9,661,217	5,279,230	14,940,447
Grand total		\$ 364,511,903	51,896,409	416,408,312

# THE UNIVERSITY OF CHICAGO

## Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2014

### (1) Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) displays the expenditures charged to federal programs by The University of Chicago (the University) on the accrual basis of accounting for the year ended June 30, 2014. The Schedule excludes expenditures incurred for operating Argonne National Laboratory (ANL) and the Fermi National Accelerator Laboratory (Fermilab). The University, through its affiliate UChicago Argonne, LLC, operates ANL under a contract with the U.S. Department of Energy (DOE). Beginning in fiscal year 2008, the University, as a member of Fermi Research Alliance, LLC (FRA), also operates Fermilab on behalf of the DOE. The Schedule also excludes expenditures incurred by the University of Chicago Medical Center and the University of Chicago Charter School Corporation. The Schedule summarizes expenditures by:

- Research and Development, Student Financial Assistance, other clusters, and other programs;
- Primary federal funding agency;
- Direct award agreements between the University and federal granting agencies; and
- Subaward (pass-through award) agreements between the University and nonfederal granting agencies.

#### (a) *Research and Development Cluster*

The research and development cluster includes those awards that are for basic and applied research and development activities and for research training. OMB Circular A 133, *Audits of States, Local Governments, and Non-Profit Organizations*, defines research and development as follows: research is a systematic study directed toward fuller scientific knowledge or understanding of the subject studied; development is the systematic use of knowledge and understanding gained from research directed toward the production of useful materials, devices, systems, or methods, including design and development of prototypes and processes.

#### (b) *Student Financial Assistance Program Cluster*

The student financial assistance program cluster includes those awards that provide general student financial aid. They include Federal Pell grants, Federal Supplemental Educational Opportunity Grants (FSEOG), and Federal Work Study (FWS) awards. The University also receives awards to make loans to eligible students under the Perkins, Health Professions – Primary Care, and Loans to Disadvantaged Students loan programs. The University and various financial institutions also issue federally guaranteed loans to students under the Federal Direct Loan Program. The student financial assistance cluster does not include programs that provide fellowships or similar awards to students on a competitive basis; the Schedule classifies those programs as research and development or as training.

The University recognizes expenditures for federal student financial aid programs as they are incurred. Student financial aid programs with fiscal year 2014 expenditures include the Federal Pell program grants to students, the federal share of students' FSEOG program grants, and the federal share of the FWS program expenditures.

**THE UNIVERSITY OF CHICAGO**

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2014

**(c) American Recovery and Reinvestment Act (ARRA)**

During fiscal year 2014, the University expended \$4,242,170 of ARRA funds that it received from the following agencies:

Department of Education	\$	2,659,967
Department of Energy		262,062
Department of Health and Human Services		766,694
Department of Justice		203,078
National Science Foundation		350,369
	\$	<u>4,242,170</u>

**(d) Direct and Indirect Federal Award Expenditures**

Federal award expenditures consist of direct and indirect costs. Direct costs are those that can be easily identified with an individual federally sponsored project. The salary of a principal investigator of a sponsored research project and the materials consumed by the project are examples of direct costs.

Unlike direct costs, indirect costs cannot easily be identified with an individual federally sponsored project. Indirect costs are the costs of services and resources that benefit both sponsored and nonsponsored projects and activities. Indirect costs consist of expenses incurred for administration, library, plant maintenance, debt, and building and equipment depreciation.

The University and federal agencies use an indirect cost rate to charge indirect costs to individual federally sponsored projects. The rate is the result of a number of complex cost allocation procedures that the University uses to allocate its indirect costs to both sponsored and nonsponsored activities. The costs allocated to sponsored projects are divided by the direct costs of sponsored projects to arrive at a rate. Before the rate is applied, the U.S. Department of Health and Human Services must approve it.

**(2) Summary of Indirect Costs**

Indirect cost charges to federal awards for the year ended June 30, 2014 were as follows:

Research and development	\$	78,604,464
Other		1,214,700
Total	\$	<u>79,819,164</u>

**THE UNIVERSITY OF CHICAGO**

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2014

**(3) Summary of Subrecipient Payments**

Subrecipient payments charged to federal awards for the year ended June 30, 2014 were as follows:

Research and development:	
Department of Commerce	\$ 2,577
Department of Defense	1,725,823
Department of Education	182,909
Department of Energy	136,305
Department of Health and Human Services	21,794,539
Department of Justice	36,779
National Aeronautics and Space Administration	32,261
National Science Foundation	3,086,297
	<u>26,997,490</u>
Other:	
Department of Education	33,493
Department of Health and Human Services	675,701
National Endowment for the Humanities	33,466
National Science Foundation	39,626
	<u>782,286</u>
Total	\$ <u><u>27,779,776</u></u>

**(4) Federal Loan Programs**

Loans made to University students under the various federal loan programs for the year ended June 30, 2014 are summarized below:

University federal loans:	
Perkins	\$ <u>7,132,121</u>
Total University federal loans	<u>7,132,121</u>
Non-University federal loans:	
Federal Direct Student Loans	53,022,222
Parent Loans for Undergraduate Students (PLUS) and Graduate PLUS	42,776,576
Total non-University federal loans	<u>95,798,798</u>
Total	\$ <u><u>102,930,919</u></u>



**THE UNIVERSITY OF CHICAGO**

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2014

University federal loans outstanding at June 30, 2014 are shown below:

Perkins	\$	36,565,351
Health professions		120,519
Loans to disadvantaged students		<u>526</u>
Total	\$	<u><u>36,686,396</u></u>

For non-University federal loans, the University is responsible only for the performance of certain administrative duties; therefore, the outstanding loans for those programs are not included in the University's consolidated financial statements.

**(5) Non-Cash Assistance**

The University had no non-cash assistance awarded or expended for the year ended June 30, 2014.

**(6) Guaranteed Insurance**

The University had no guaranteed insurance in effect for the year ended June 30, 2014.



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

The Board of Trustees  
The University of Chicago:

We have audited, in accordance with the 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, the consolidated financial statements of The University of Chicago (the University), which comprise the consolidated balance sheet as of June 30, 2014, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 15, 2014.

**Internal Control over Financial Reporting**

In planning and performing our audit of the consolidated financial statements, we considered the University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the University's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance



with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Chicago, Illinois  
October 15, 2014



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**Independent Auditors' Report on Compliance for Each Major Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations***

The Board of Trustees  
The University of Chicago:

**Report on Compliance for Each Major Federal Program**

We have audited The University of Chicago's (the University) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the University's major federal programs for the year ended June 30, 2014. The University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

The University's consolidated financial statements include the operations of The University of Chicago Medical Center (the Medical Center) and University Charter Schools, which received federal awards that are not included in the schedule of expenditures of federal awards for the year ended June 30, 2014, and were audited by other auditors.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of the University's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the University's compliance.



### ***Opinion on Each Major Federal Program***

In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

### **Report on Internal Control over Compliance**

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



### **Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

We have audited the consolidated financial statements of the University as of and for the year ended June 30, 2014, and have issued our report thereon dated October 15, 2014, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

**KPMG LLP**

Chicago, Illinois  
March 27, 2015

**THE UNIVERSITY OF CHICAGO**  
 Schedule of Findings and Questioned Costs  
 Year ended June 30, 2014

**(1) Summary of Auditors' Results**

- (a) The type of report issued on the consolidated financial statements: **Unmodified opinion**
- (b) Significant deficiencies in internal control disclosed by the audit of the consolidated financial statements: **None reported**

Material weaknesses: **No**

- (c) Noncompliance, which is material to the consolidated financial statements: **No**
- (d) Significant deficiencies in internal control over major programs: **None reported**

Material weaknesses: **No**

- (e) The type of report issued on compliance for major programs: **Unmodified opinions**
- (f) Any audit findings that are required to be reported under Section 0.510(a) of OMB Circular A – 133: **No**

- (g) Major programs:

Research and Development Cluster – Various CFDA numbers (see  
 Schedule of Expenditures of Federal Awards)

Foreign Language and Area Studies (FLAS) Cluster:

National Resource Centers Programs for FLAS 84.015

Teacher Quality Partnerships Cluster:

Teacher Quality Partnerships, Recovery Act 84.405

- (h) Dollar threshold used to distinguish between Type A and Type B programs: **\$3,000,000**
- (i) Auditee qualified as a low-risk auditee under Section 0.530 of OMB Circular A – 133: **Yes**

**(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards***

None

**(3) Findings and Questioned Costs Relating to Federal Awards**

None

**(4) Schedule of Prior Year Findings and Questioned Costs Relating to Federal Awards**

Not applicable