



THE UNIVERSITY OF CHICAGO

Single Audit Report

Year ended June 30, 2016

(With Independent Auditors' Reports Thereon)

THE UNIVERSITY OF CHICAGO

Table of Contents

	Page
Management Responsibility for Consolidated Financial Statements	1
Independent Auditors' Report	2
Consolidated Financial Statements:	
Consolidated Balance Sheets	4
Consolidated Statements of Activities	5
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	8
Schedule of Expenditures of Federal Awards	46
Notes to Schedule of Expenditures of Federal Awards	56
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 <i>Government Auditing Standards</i>	60
Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance	62
Schedule of Findings and Questioned Costs	65

THE UNIVERSITY OF CHICAGO

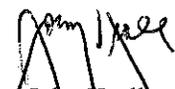
Management's Responsibility for Consolidated Financial Statements

The management of The University of Chicago (the University) is responsible for the preparation and fair presentation of the consolidated financial statements. The consolidated financial statements, presented on pages 4 to 45, have been prepared in conformity with U.S. generally accepted accounting principles and, as such, include amounts based on judgments and estimates by management.

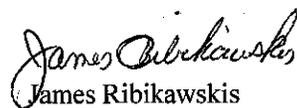
The consolidated financial statements have been audited by the independent accounting firm KPMG LLP (KPMG), which was given unrestricted access to all financial records and related data, including minutes of all meetings of trustees. The University believes that all representations made to KPMG during 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 weaknesses in order to permit management to take appropriate corrective action on a timely basis. There are, however, inherent limitations in the effectiveness of any system of internal control, including the possibility of human error and the circumvention of controls. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to financial statement preparation.

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



John Kroll
Acting Chief Financial Officer



James Ribikawskis
Executive Director, Accounting
and Financial Reporting



KPMG LLP
Aon Center
Suite 5500
200 E. Randolph Street
Chicago, IL 60601-6436

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, 2016 and 2015, 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 2015 financial statements of The University of Chicago Medical Center (Medical Center), which statements reflect total assets constituting 19% and total revenues constituting 43% of the related consolidated totals in 2015. 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 for 2015, 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 audit. We conducted our audit 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 balance sheets of The University of Chicago as of June 30, 2016 and 2015, 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.

Report on Summarized Comparative Information

We have previously audited The University of Chicago's 2015 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated October 29, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2016 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.

The Management's Responsibility Report has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

KPMG LLP

Chicago, Illinois
November 2, 2016

THE UNIVERSITY OF CHICAGO

Consolidated Balance Sheets

June 30, 2016 and 2015

(In thousands of dollars)

Assets	2016	2015
Cash and cash equivalents	\$ 72,119	198,355
Notes and accounts receivable, net	517,245	426,799
Prepaid expenses and other assets	149,459	150,883
Pledges receivable, net	612,672	522,820
Investments	7,999,523	8,365,085
Land, buildings, equipment, and books, net	4,674,581	4,409,265
Total assets	\$ 14,025,599	14,073,207
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 923,003	827,935
Deferred revenue	116,108	104,294
Assets held in custody for others	110,556	65,785
Self-insurance liability	256,947	270,903
Pension and other postretirement benefit obligations	570,276	478,141
Asset retirement obligation	57,292	59,118
Notes and bonds payable	4,513,220	4,185,939
Refundable U.S. government student loan funds	39,414	39,041
Total liabilities	6,586,816	6,031,156
Net assets:		
Unrestricted	2,104,760	2,597,309
Temporarily restricted	3,298,132	3,588,616
Permanently restricted	2,035,891	1,856,126
Total net assets	7,438,783	8,042,051
Total liabilities and net assets	\$ 14,025,599	14,073,207

See accompanying notes to consolidated financial statements.

THE UNIVERSITY OF CHICAGO

Consolidated Statements of Activities

Years ended June 30, 2016 and 2015

(In thousands of dollars)

	<u>2016</u>	<u>2015</u>
Changes in unrestricted net assets:		
Operating:		
Revenue:		
Tuition and fees – gross	\$ 780,083	737,883
Less student aid	(384,309)	(348,920)
Tuition and fees – net	<u>395,774</u>	<u>388,963</u>
Government grants and contracts	364,940	357,061
Private gifts, grants, and contracts	219,857	241,430
Endowment payout	466,478	439,221
Earnings on other investments	2,319	1,323
Patient service	1,746,208	1,681,002
Auxiliaries	217,420	218,334
Other income	360,486	301,734
Net assets released from restrictions	<u>83,716</u>	<u>87,400</u>
Total operating revenue	<u>3,857,198</u>	<u>3,716,468</u>
Expenses:		
Compensation:		
Academic salaries	549,422	526,371
Staff salaries	1,133,161	1,097,039
Benefits	<u>453,438</u>	<u>456,093</u>
Total compensation	<u>2,136,021</u>	<u>2,079,503</u>
Other operating expenses:		
Utilities, alterations, and repairs	77,732	83,386
Depreciation	280,768	255,972
Interest	145,667	131,910
Supplies, services, and other	1,144,956	1,109,505
Insurance	<u>28,785</u>	<u>42,821</u>
Total other operating expenses	<u>1,677,908</u>	<u>1,623,594</u>
Total operating expenses	<u>3,813,929</u>	<u>3,703,097</u>
Excess of operating revenue over expenses	\$ <u>43,269</u>	<u>13,371</u>

THE UNIVERSITY OF CHICAGO

Consolidated Statements of Activities

Years ended June 30, 2016 and 2015

(In thousands of dollars)

	<u>2016</u>	<u>2015</u>
Changes in unrestricted net assets:		
Nonoperating:		
Investment losses	\$ (276,109)	(101,434)
Postretirement benefit changes other than net periodic benefit cost	(142,939)	(29,718)
Defined benefit pension plan curtailment (partial)	45,926	—
Change in value of derivative instruments	(74,139)	(18,775)
Loss on debt refinancing	(16,946)	(70,958)
Other, net	(71,611)	(355)
	<u>(535,818)</u>	<u>(221,240)</u>
Change in unrestricted net assets from nonoperating activities	(535,818)	(221,240)
Decrease in unrestricted net assets	<u>(492,549)</u>	<u>(207,869)</u>
Changes in temporarily restricted net assets:		
Private gifts	157,496	143,635
Investment losses	(360,179)	(67,023)
Other, net	(4,085)	(45,020)
Net assets released from restrictions	(83,716)	(87,400)
	<u>(290,484)</u>	<u>(55,808)</u>
Decrease in temporarily restricted net assets	(290,484)	(55,808)
Changes in permanently restricted net assets:		
Private gifts	165,807	81,619
Endowment payout	1,990	1,880
Investment losses	(3,342)	(426)
Other, net	15,310	29,733
	<u>179,765</u>	<u>112,806</u>
Increase in permanently restricted net assets	179,765	112,806
Decrease in net assets	<u>(603,268)</u>	<u>(150,871)</u>
Net assets at beginning of year	<u>8,042,051</u>	<u>8,192,922</u>
Net assets at end of year	<u>\$ 7,438,783</u>	<u>8,042,051</u>

See accompanying notes to consolidated financial statements.

THE UNIVERSITY OF CHICAGO
Consolidated Statements of Cash Flows
Years ended June 30, 2016 and 2015
(In thousands of dollars)

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Decrease in net assets	\$ (603,268)	(150,871)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:		
Depreciation	280,768	255,972
Change in value of derivative instruments	78,334	21,016
Loss on debt refinancing	16,946	70,258
Loss on disposal of land, buildings, equipment, and books	5,623	3,541
Gain on sale of property	(61,053)	(8,217)
Donated property	—	(4,726)
Net (gain) loss on investments	245,222	(185,883)
Private gifts and grants restricted for long-term investment	(317,371)	(222,321)
Other nonoperating changes	167,948	171,135
Postretirement benefit changes other than net periodic benefit cost	97,013	29,718
Changes in operating assets and liabilities:		
Notes and accounts receivable	(94,477)	(40,131)
Prepaid expenses and other assets	11,875	(52,119)
Accounts payable and other liabilities	66,087	66,426
Self-insurance liability	(9,246)	13,141
Total adjustments	<u>487,669</u>	<u>117,810</u>
Net cash used in operating activities	<u>(115,599)</u>	<u>(33,061)</u>
Cash flows from investing activities:		
Purchase of investments	(1,106,553)	(1,739,633)
Proceeds from sale of investments	1,224,468	1,790,492
Acquisition of land, buildings, equipment, and books	(573,647)	(503,871)
Acquisition of physician practice	(1,447)	—
Proceeds from sale of property	70,100	110,462
Loans disbursed	(7,055)	(7,262)
Principal collected on loans	7,435	7,522
Net cash used in investing activities	<u>(386,699)</u>	<u>(342,290)</u>
Cash flows from financing activities:		
Proceeds from issuance of debt instruments	1,980,981	2,399,654
Principal payments on debt instruments	(1,670,084)	(1,965,352)
Proceeds from private gifts and grants restricted for long-term investment	162,844	138,597
Other nonoperating changes	(97,679)	(102,203)
Net cash provided by financing activities	<u>376,062</u>	<u>470,696</u>
Increase (decrease) in cash and cash equivalents	(126,236)	95,345
Cash and cash equivalents at:		
Beginning of year	<u>198,355</u>	<u>103,010</u>
End of year	<u>\$ 72,119</u>	<u>198,355</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 147,347	134,121

See accompanying notes to consolidated financial statements.

THE UNIVERSITY OF CHICAGO
Notes to Consolidated Financial Statements
June 30, 2016 and 2015
(In thousands of dollars)

(1) Summary of Significant Accounting Policies

(a) Description of Business

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

Significant accounting policies followed by the University, the Medical Center, and the Marine Biological Laboratory (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:

- 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

THE UNIVERSITY OF CHICAGO
Notes to Consolidated Financial Statements
June 30, 2016 and 2015
(In thousands of dollars)

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, 2016 and 2015
(In thousands of dollars)

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

Detail of net assets	2016		2015	
	Temporarily restricted	Permanently restricted	Temporarily restricted	Permanently restricted
University:				
Operating	\$ 33,682	—	18,005	—
Pledges	438,350	165,464	408,579	110,557
Student loans	—	23,555	—	21,794
Endowment	2,531,298	1,745,000	2,856,193	1,624,856
Annuity and life income	24,788	37,669	27,139	37,805
Net investment in physical properties	167,030	—	168,499	—
Subtotal	<u>3,195,148</u>	<u>1,971,688</u>	<u>3,478,415</u>	<u>1,795,012</u>
Medical Center:				
Operating	10,384	—	9,927	—
Pledges	4,140	10	2,614	10
Endowment	67,401	8,102	73,568	8,092
Subtotal	<u>81,925</u>	<u>8,112</u>	<u>86,109</u>	<u>8,102</u>
Marine Biological Laboratory:				
Operating	4,157	—	2,894	—
Pledges	1,337	3,371	396	664
Annuity and life income	791	416	968	457
Endowment	14,774	52,304	19,834	51,891
Subtotal	<u>21,059</u>	<u>56,091</u>	<u>24,092</u>	<u>53,012</u>
Total	<u>\$ 3,298,132</u>	<u>2,035,891</u>	<u>3,588,616</u>	<u>1,856,126</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, 2016 and 2015
(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 the 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, 2016 and 2015 are \$50,326 and \$46,533, respectively, of private grant and contract receipts, which have not been expended.

Private gifts, grants, and contracts operating revenue for fiscal years 2016 and 2015 consist of the following:

	2016				2015 Consolidated
	University	Medical Center	MBL	Consolidated	
Private gifts:					
Unrestricted as to use	\$ 16,998	222	1,202	18,422	23,880
Temporarily restricted gifts whose restrictions were met during the fiscal year and reported as unrestricted revenue	113,215	—	—	113,215	122,025
Private grants and contracts	82,389	—	5,831	88,220	95,525
Total	\$ 212,602	222	7,033	219,857	241,430

(f) **Patient Service**

Patient service revenue is reported net of a provision for doubtful accounts of \$6,997 and \$6,450 for the University and \$84,243 and \$52,166 for the Medical Center for the years ended June 30, 2016 and 2015, respectively. This provision reflects the estimated net realizable amounts due from third-party payors for services rendered. The Medical Center analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for uncollectible accounts receivable. A majority of patient service 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 Medical Center's gross write-offs increased from approximately \$128,000

THE UNIVERSITY OF CHICAGO
Notes to Consolidated Financial Statements
June 30, 2016 and 2015
(In thousands of dollars)

for fiscal year 2015 to \$146,000 in fiscal year 2016. The Medical Center did not have significant write-offs from third-party payors.

(g) Capitalized Interest

The University capitalizes interest costs incurred on debt during the construction of major projects exceeding one year. During fiscal years 2016 and 2015, the amount of interest capitalized amounted to \$12,288 and \$17,480 for the University and \$3,168 and \$321 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.

THE UNIVERSITY OF CHICAGO
Notes to Consolidated Financial Statements
June 30, 2016 and 2015
(In thousands of dollars)

- ***Investments***

Investments are recorded in the consolidated financial statements at estimated fair value. If an investment is held directly by the University and an active market with quoted prices exists, the market price of an identical security is used as reported fair value. Reported fair values for shares in mutual funds are based on share prices reported by the funds as of the last business day of the fiscal year. The University's interests in alternative investment funds such as private debt, private equity, real estate, natural resources, and absolute return are generally reported at the net asset value (NAV) reported by the fund managers, which is used as a practical expedient to estimate the fair value, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. As of June 30, 2016 and 2015, 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, 2016 and 2015 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, 2016 and 2015, the University had liabilities of \$55,669 and \$55,757

THE UNIVERSITY OF CHICAGO
Notes to Consolidated Financial Statements
June 30, 2016 and 2015
(In thousands of dollars)

associated with its charitable remainder trust and gift annuity contracts and deferred revenue of \$5,474 and \$5,441 associated with its pooled income agreements, respectively. In subsequent periods, the discount rate is unchanged.

- ***Interest Rate Swap Agreements***

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

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

Assets held in custody for others consist 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.

THE UNIVERSITY OF CHICAGO
Notes to Consolidated Financial Statements
June 30, 2016 and 2015
(In thousands of dollars)

- **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 their estimated fair value.

(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, 2016 and 2015 and for the fiscal years then ended:

	2016		
	Gross notional	Net notional	Gain (loss)
Equity derivatives	\$ 19,638	19,638	(11,145)
	19,638	19,638	(11,145)
	2015		
	Gross notional	Net notional	Gain (loss)
Interest rate derivatives	\$ —	—	68
Currency derivatives	—	—	1,791
Equity derivatives	105,371	105,371	9,479
Total	\$ 105,371	105,371	11,338
	105,371	105,371	11,338

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 (losses) in the consolidated statements of activities.

THE UNIVERSITY OF CHICAGO
Notes to Consolidated Financial Statements
June 30, 2016 and 2015
(In thousands of dollars)

(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 2016 and 2015, 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 to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the consolidated balance sheet date, and the reporting of revenue, expenses, gains, and losses during the reporting period. Actual results may differ from those estimates.

(l) *Recent Accounting Pronouncement*

During 2016, the University adopted ASU No. 2015-03 – *Implementation of Interest (Subtopic 835-30): The Presentation of Debt Issuance Costs*. This guidance requires debt issuance costs to be presented on the balance sheet as a direct reduction from the carrying amount of the related debt liability versus being shown on the balance sheet as a prepaid expense.

(m) *Reclassification*

Certain 2015 amounts have been reclassified to conform to the 2016 financial statement presentation.

(n) *Subsequent Events*

The University has performed an evaluation of subsequent events through November 2, 2016 which is the date the consolidated financial statements were issued.

In August 2016, the University increased its available operating lines of credit from \$350 million to \$500 million.

In October 2016, the University sold twelve residential properties previously held for sale for \$54,475. See note 7.

In November 2015, the Medical Center signed a letter of intent to combine with Ingalls Health System, an independent health system serving Chicago's south suburbs. The agreement was finalized on October 1, 2016.

THE UNIVERSITY OF CHICAGO
Notes to Consolidated Financial Statements
June 30, 2016 and 2015
(In thousands of dollars)

(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, the University of Chicago Medicine Care Network, 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 unreimbursed cost of government sponsored indigent healthcare programs, unreimbursed cost to support education, clinical research, and other community programs amounted to \$328,591 and \$308,070 for the years ended June 30, 2016 and 2015, 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 \$45,045 in fiscal year 2016 and \$43,895 in 2015 have been recorded as unrestricted operating revenue and (2) transfers to the University of \$68,843 in fiscal year 2016 and \$72,935 in fiscal year 2015 have been recorded as a reduction of other income.

THE UNIVERSITY OF CHICAGO
Notes to Consolidated Financial Statements
June 30, 2016 and 2015
(In thousands of dollars)

(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. MBL 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's financial position and changes in net assets in the consolidated financial statements reflect fiscal year activity for the period July 1 to June 30.

THE UNIVERSITY OF CHICAGO
Notes to Consolidated Financial Statements
June 30, 2016 and 2015
(In thousands of dollars)

(4) Investments

Investments at June 30, 2016 and 2015 are comprised of the following:

	<u>2016</u> <u>Consolidated</u>	<u>2015</u> <u>Consolidated</u>
Cash equivalents	\$ 233,304	278,050
Global public equities (primarily international)	1,774,567	1,684,934
Private debt	358,522	310,194
Private equity:		
U.S. venture capital	375,962	423,235
U.S. corporate finance	311,726	364,835
International	401,184	417,389
Real estate	485,153	520,908
Natural resources	459,791	510,739
Absolute return:		
Equity-oriented	768,992	692,499
Global macro/relative value	511,965	559,346
Multistrategy	580,936	588,082
Credit-oriented	365,223	339,943
Protection-oriented	140,332	147,747
Fixed income:		
U.S. treasuries, including TIPS	309,290	479,686
Other fixed income (primarily credit funds)	665,928	902,035
Funds in trust	256,648	145,463
Total	<u>\$ 7,999,523</u>	<u>8,365,085</u>

THE UNIVERSITY OF CHICAGO
Notes to Consolidated Financial Statements
June 30, 2016 and 2015
(In thousands of dollars)

(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 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.

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 and are valued based on quoted market prices in active markets, except for a commingled fund that is valued on independently determined NAV.

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

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, private debt, 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

THE UNIVERSITY OF CHICAGO
Notes to Consolidated Financial Statements
June 30, 2016 and 2015
(In thousands of dollars)

method. Most hedge funds that hold illiquid investments designate them in special side pockets, which are subject to special restrictions on redemption.

The University believes that the reported amount of its investments is a reasonable estimate of fair value as of June 30, 2016 and 2015. 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.

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

Following is the fair value hierarchy of investments as of June 30, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>2016 Consolidated total</u>
Cash equivalents	\$ 233,304	—	233,304
Global public equities (primarily international)	452,674	44,181	496,855
Real estate funds	50,282	—	50,282
Absolute return:			
Equity-oriented	—	50,617	50,617
Global macro / relative value	85,888	26,015	111,903
Fixed income:			
U.S. treasuries, including TIPS	309,291	—	309,291
Other fixed income (primarily credit funds)	546,023	—	546,023
Funds in trust	250,104	—	250,104
	<u>1,927,566</u>	<u>120,813</u>	<u>2,048,379</u>
Investments measured at net asset value			<u>5,951,144</u>
Total investments at fair value as of June 30, 2016			<u>\$ 7,999,523</u>

THE UNIVERSITY OF CHICAGO
Notes to Consolidated Financial Statements
June 30, 2016 and 2015
(In thousands of dollars)

Following is the fair value hierarchy of investments as of June 30, 2015:

	Level 1	Level 2	2015 Consolidated total
Cash equivalents	\$ 278,050	—	278,050
Global public equities (primarily international)	489,975	35,377	525,352
Real estate funds	20,990	—	20,990
Natural resources	32,628	—	32,628
Absolute return:			
Equity-oriented	—	99,516	99,516
Global macro/relative value	99,597	—	99,597
Fixed income:			
U.S. treasuries, including TIPS	420,130	—	420,130
Other fixed income (primarily credit funds)	822,400	—	822,400
Funds in trust	139,005	—	139,005
	2,302,775	134,893	2,437,668
Investments measured at net asset value			5,927,417
Total investments at fair value as of June 30, 2015			\$ 8,365,085

During fiscal years 2016 and 2015, there were no transfers between investment Levels 1 and 2.

The University re-evaluated the application of the definition of readily determinable fair value in accordance with ASU 2015-10, *Technical Corrections and Improvements*, and has corrected the classification of investments totaling \$99,516 previously shown as Investments measured at net asset value. These investments are now classified as level 2 investments in the 2015 table.

THE UNIVERSITY OF CHICAGO
Notes to Consolidated Financial Statements
June 30, 2016 and 2015
(In thousands of dollars)

A summary of the University's investment return for the years ended June 30, 2016 and 2015 is presented as follows:

	2016				2015
	University	Medical Center	MBL	Consolidated	Consolidated
Investment return:					
Interest and dividends	\$ 63,882	11,141	745	75,768	117,703
Net realized and unrealized gains (losses)	<u>(213,842)</u>	<u>(28,119)</u>	<u>(2,650)</u>	<u>(244,611)</u>	<u>155,838</u>
Investment return	<u>\$ (149,960)</u>	<u>(16,978)</u>	<u>(1,905)</u>	<u>(168,843)</u>	<u>273,541</u>

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, 2016, the University had unfunded commitments of \$1,158,390, which are likely to be called through 2026. Details of these commitments are as follows:

	Unfunded commitments
Private equity	\$ 453,886
Real estate	268,801
Natural resources	177,395
Absolute return	26,641
Private debt	<u>231,667</u>
Total	<u>\$ 1,158,390</u>

THE UNIVERSITY OF CHICAGO
Notes to Consolidated Financial Statements
June 30, 2016 and 2015
(In thousands of dollars)

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

	Remaining life	Redemption terms	Redemption restrictions and terms	Redemption restrictions or side pockets at June 30, 2016
Cash	N/A	Daily	None	None
Global public equities: Commingled funds	N/A	Daily to triennial with notice periods of 2 to 180 days	Lock-up provisions for up to 3 years, some investments have a portion of capital held in side pockets with no redemptions permitted	\$0.3 million
Partnerships	N/A	Monthly to biennial with notice periods of 7 to 90 days	Lock-up provisions for up to 4 years, some investments have a portion of capital held in side pockets with no redemptions permitted	\$33.0 million
Separate accounts	N/A	Daily with notice periods of 1 to 7 days	Lock-up provisions ranging for up to 1 year	None
Private debt: Drawdown partnerships	1 to 11 years	Redemptions not permitted	N/A	N/A
Partnerships	N/A	Redemptions not permitted	Capital held in side pockets with no redemptions permitted	\$0.8 million
Private equity Drawdown partnerships	1 to 21 years	Redemptions not permitted	N/A	N/A
Separate account	N/A	Daily with notice period of 1 day	None	None
Partnerships	N/A	Semi-annual with notice period of 90 days	A portion of capital is held in side pockets with no redemption permitted	\$7.7 million

THE UNIVERSITY OF CHICAGO
Notes to Consolidated Financial Statements
June 30, 2016 and 2015
(In thousands of dollars)

	Remaining life	Redemption terms	Redemption restrictions and terms	Redemption restrictions or side pockets at June 30, 2016
Real estate				
Drawdown partnerships	1 to 16 years	Redemptions not permitted	N/A	N/A
Separate account	N/A	Daily with notice period of 5 days	None	None
Natural resources				
Drawdown partnerships	1 to 17 years	Redemptions not permitted	N/A	N/A
Commingled Funds	N/A	Daily with notice period of 1 day	None	None
Absolute return:				
Commingled funds	N/A	Daily to triennial with notice periods of 1 to 122 days	Lock-up provisions for up to 3 years, some investments have a portion of capital held in side pockets with no redemptions permitted	\$19.8 million
Drawdown partnerships	1 to 4 years	Redemptions not permitted	N/A	N/A
Partnerships	N/A	Quarterly to triennial with notice periods of 45 to 180 days	Lock-up provisions for up to 5 years, some investments have a portion of capital held in side pockets with no redemptions permitted	\$142.6 million
Fixed income:				
Commingled funds	N/A	Weekly to monthly with notice periods of 5 to 10 days	None	None
Separate accounts	N/A	Daily to monthly with notice periods of 1 to 30 days	None	None
Funds in Trust	N/A	Daily	None	None

THE UNIVERSITY OF CHICAGO
Notes to Consolidated Financial Statements
June 30, 2016 and 2015
(In thousands of dollars)

(5) Endowments

The University's endowment consists of approximately 4,000 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.

The University, Medical Center, and MBL endowment each invest in an investment pool, the Total Return on Investment Pool (TRIP). As of June 30, 2016, 99%, 76%, and 100% of the University, Medical Center, and MBL endowments respectively, are invested in TRIP.

(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, 2016:

	2016			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Changes in the fair value of endowment investments				
Investment return:				
Endowment yield (interest and dividends)	\$ 18,676	42,435	427	61,538
Net depreciation (realized and unrealized) on investments	(50,240)	(161,783)	(1,779)	(213,802)
Total investment return	(31,564)	(119,348)	(1,352)	(152,264)
Endowment payout	(180,291)	(233,090)	(1,990)	(415,371)
Net investment return	(211,855)	(352,438)	(3,342)	(567,635)
Other changes in endowment investments:				
Gifts and pledge payments received in cash	—	223	114,272	114,495
Transfers to create funds functioning as endowment	24,445	—	—	24,445
Other changes	(24,645)	27,320	9,214	11,889
Total other changes in endowment investments	(200)	27,543	123,486	150,829
Net change in endowment investments	(212,055)	(324,895)	120,144	(416,806)
Endowment investments at:				
Beginning of year	1,980,760	2,856,193	1,624,856	6,461,809
End of year	\$ 1,768,705	2,531,298	1,745,000	6,045,003
Investments by type of fund				
Donor-restricted "true" endowment	\$ (26,452)	2,531,298	1,745,000	4,249,846
Board-designated "funds functioning as endowment"	1,795,157	—	—	1,795,157
Total – as above	\$ 1,768,705	2,531,298	1,745,000	6,045,003

THE UNIVERSITY OF CHICAGO
Notes to Consolidated Financial Statements
June 30, 2016 and 2015
(In thousands of dollars)

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, 2015:

	2015			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Changes in the fair value of endowment investments				
Investment return:				
Endowment yield (interest and dividends)	\$ 22,533	51,025	496	74,054
Net appreciation (realized and unrealized) on investments	61,764	98,094	958	160,816
Total investment return	84,297	149,119	1,454	234,870
Endowment payout	(169,002)	(220,553)	(1,880)	(391,435)
Net investment return	(84,705)	(71,434)	(426)	(156,565)
Other changes in endowment investments:				
Gifts and pledge payments received in cash	—	1,676	92,966	94,642
Transfers to create funds functioning as endowment	55,296	—	—	55,296
Other changes	286	(8,694)	16,590	8,182
Total other changes in endowment investments	55,582	(7,018)	109,556	158,120
Net change in endowment investments	(29,123)	(78,452)	109,130	1,555
Endowment investments at:				
Beginning of year	2,009,883	2,934,645	1,515,726	6,460,254
End of year	\$ 1,980,760	2,856,193	1,624,856	6,461,809
Investments by type of fund				
Donor-restricted "true" endowment	\$ (1,457)	2,856,193	1,624,856	4,479,592
Board-designated "funds functioning as endowment"	1,982,217	—	—	1,982,217
Total – as above	\$ 1,980,760	2,856,193	1,624,856	6,461,809

THE UNIVERSITY OF CHICAGO
Notes to Consolidated Financial Statements
June 30, 2016 and 2015
(In thousands of dollars)

(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, 2016:

	2016			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Changes in the fair value of endowment investments				
Investment return:				
Endowment yield (interest and dividends)	\$ 16,383	737	—	17,120
Net depreciation (realized and unrealized) on investments	(34,742)	(3,162)	—	(37,904)
Total investment return	(18,359)	(2,425)	—	(20,784)
Endowment payout	(44,622)	(4,229)	—	(48,851)
Net investment return	(62,981)	(6,654)	—	(69,635)
Other changes in endowment investments:				
Gifts and pledge payments received in cash	—	—	10	10
Withdrawal to finance capital expenditures	(50,000)	—	—	(50,000)
Other changes	2,939	487	—	3,426
Total other changes in endowment investments	(47,061)	487	10	(46,564)
Net change in endowment investments	(110,042)	(6,167)	10	(116,199)
Endowment investments at:				
Beginning of year	914,479	73,568	8,092	996,139
End of year	\$ 804,437	67,401	8,102	879,940
Investments by type of fund				
Donor-restricted "true" endowment	\$ —	67,401	8,102	75,503
Board-designated "funds functioning as endowment"	804,437	—	—	804,437
Total – as above	\$ 804,437	67,401	8,102	879,940

Included in board-designated "funds functioning as endowment" are \$213,898 of net assets that are separately invested by the Medical Center.

THE UNIVERSITY OF CHICAGO
Notes to Consolidated Financial Statements
June 30, 2016 and 2015
(In thousands of dollars)

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, 2015:

	2015			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Changes in the fair value of endowment investments				
Investment return:				
Endowment yield (interest and dividends)	\$ 40,491	907	—	41,398
Net appreciation (depreciation) (realized and unrealized) on investments	(13,703)	1,879	—	(11,824)
Total investment return	26,788	2,786	—	29,574
Endowment payout	(43,486)	(4,095)	—	(47,581)
Net investment return	(16,698)	(1,309)	—	(18,007)
Other changes in endowment investments:				
Gifts and pledge payments received in cash	—	—	10	10
Transfers to create funds functioning as endowment	32,000	—	—	32,000
Withdrawal to finance capital expenditures	(21,332)	—	—	(21,332)
Other changes	(1,187)	409	—	(778)
Total other changes in endowment investments	9,481	409	10	9,900
Net change in endowment investments	(7,217)	(900)	10	(8,107)
Endowment investments at:				
Beginning of year	921,696	74,468	8,082	1,004,246
End of year	\$ 914,479	73,568	8,092	996,139
Investments by type of fund				
Donor-restricted "true" endowment	\$ —	73,568	8,092	81,660
Board-designated "funds functioning as endowment"	914,479	—	—	914,479
Total – as above	\$ 914,479	73,568	8,092	996,139

Included in board-designated "funds functioning as endowment" are \$221,768 of net assets that are separately invested by the Medical Center.

THE UNIVERSITY OF CHICAGO
Notes to Consolidated Financial Statements
June 30, 2016 and 2015
(In thousands of dollars)

(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, 2016:

	2016			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Changes in the fair value of endowment investments				
Investment return:				
Endowment yield (interest and dividends)	\$ 91	651	—	742
Net depreciation (realized and unrealized) on investments	(327)	(2,324)	—	(2,651)
Total investment return	(236)	(1,673)	—	(1,909)
Endowment payout	(617)	(3,629)	—	(4,246)
Net investment return	(853)	(5,302)	—	(6,155)
Other changes in endowment investments:				
Gifts and pledge payments received in cash	—	—	413	413
Other changes	(250)	242	—	(8)
Total other changes in endowment investments	(250)	242	413	405
Net change in endowment investments	(1,103)	(5,060)	413	(5,750)
Endowment investments at:				
Beginning of year	10,288	19,834	51,891	82,013
End of year	\$ 9,185	14,774	52,304	76,263
Investments by type of fund				
Donor-restricted "true" endowment	\$ —	14,774	52,304	67,078
Board-designated "funds functioning as endowment"	9,185	—	—	9,185
Total – as above	\$ 9,185	14,774	52,304	76,263

THE UNIVERSITY OF CHICAGO
Notes to Consolidated Financial Statements
June 30, 2016 and 2015
(In thousands of dollars)

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, 2015:

	2015			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Changes in the fair value of endowment investments				
Investment return:				
Endowment yield (interest and dividends)	\$ 112	786	—	898
Net appreciation (realized and unrealized) on investments	724	1,546	—	2,270
Total investment return	836	2,332	—	3,168
Endowment payout	(328)	(1,757)	—	(2,085)
Net investment return	508	575	—	1,083
Other changes in endowment investments:				
Gifts and pledge payments received in cash	—	—	1,782	1,782
Other changes	24	87	1	112
Total other changes in endowment investments	24	87	1,783	1,894
Net change in endowment investments	532	662	1,783	2,977
Endowment investments at:				
Beginning of year	9,755	19,172	50,108	79,035
End of year	\$ 10,287	19,834	51,891	82,012
Investments by type of fund				
Donor-restricted “true” endowment	\$ —	19,834	51,891	71,725
Board-designated “funds functioning as endowment”	10,287	—	—	10,287
Total – as above	\$ 10,287	19,834	51,891	82,012

(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.

THE UNIVERSITY OF CHICAGO
Notes to Consolidated Financial Statements
June 30, 2016 and 2015
(In thousands of dollars)

(e) **Endowment Payout**

Approximately 97% 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% average payout over time, was 5.5% for the fiscal years ended June 30, 2016 and 2015. 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:

	University	Medical Center	MBL	Consolidated	2015 Consolidated
TRIP formula payout	\$ 336,157	39,571	4,246	379,974	360,790
Payout from separately invested endowment	2,966	9,280	—	12,246	11,848
Special payouts:					
Alumni Relations and Development	21,055	—	—	21,055	20,245
Strategic initiatives	21,513	—	—	21,513	21,482
Operational support	33,680	—	—	33,680	26,736
Total	<u>\$ 415,371</u>	<u>48,851</u>	<u>4,246</u>	<u>468,468</u>	<u>441,101</u>

(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, 2016 and 2015, amounted to \$26,452 and \$1,457 respectively.

THE UNIVERSITY OF CHICAGO
Notes to Consolidated Financial Statements
June 30, 2016 and 2015
(In thousands of dollars)

(6) Notes and Accounts Receivable

Components of notes and accounts receivable at June 30, 2016 and 2015 are shown as follows:

	2016			2015 Net receivable
	Receivable	Allowance for doubtful accounts	Net receivable	
University:				
Patients	\$ 23,063	(1,092)	21,971	22,342
Students:				
Loans	46,553	(2,500)	44,053	44,178
Tuition and fees	1,997	(1,350)	647	2,157
U.S. government	54,206	—	54,206	47,899
All other	107,792	(5,243)	102,549	95,117
Total University	233,611	(10,185)	223,426	211,693
Medical Center	362,147	(73,746)	288,401	209,736
MBL	5,453	(35)	5,418	5,370
Total	\$ 601,211	(83,966)	517,245	426,799

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, 2016 and 2015 are shown as follows:

	2016				2015 Consolidated
	University	Medical Center	MBL	Consolidated	
Land	\$ 119,927	36,008	53,182	209,117	210,537
Buildings	3,776,461	1,417,450	102,893	5,296,804	4,872,137
Equipment	519,180	524,676	24,726	1,068,582	1,025,314
Books	360,839	—	842	361,681	342,565
Construction in progress	286,074	197,346	—	483,420	556,596
Subtotal	5,062,481	2,175,480	181,643	7,419,604	7,007,149
Less accumulated depreciation	(1,896,405)	(795,348)	(72,916)	(2,764,669)	(2,603,452)
Subtotal	3,166,076	1,380,132	108,727	4,654,935	4,403,697
Residential properties held for sale	19,646	—	—	19,646	5,568
Total	\$ 3,185,722	1,380,132	108,727	4,674,581	4,409,265

On October 13, 2016, the University sold the residential properties held for sale for \$54,475.

THE UNIVERSITY OF CHICAGO
Notes to Consolidated Financial Statements
June 30, 2016 and 2015
(In thousands of dollars)

(8) Notes and Bonds Payable

Notes and bonds payable at June 30, 2016 and 2015 are shown as follows:

	Fiscal year	Interest rate	2016	2015
	maturity			
University:				
Fixed rate:				
Illinois Finance Authority (IFA)	2039–2053	3.2%–4.8%	\$ 1,734,854	1,566,424
Taxable bonds	2031–2046	4.2–5.2	1,012,285	864,270
Unamortized premium and issuance costs			149,510	121,290
Total fixed rate			<u>2,896,649</u>	<u>2,551,984</u>
Variable rate:				
Illinois Educational Facilities Authority (IEFA)	2026–2037	0.1–1.7	299,853	301,211
IFA	2035	0.1	78,941	81,669
Taxable commercial paper (\$200,000 available)	2017	0.3	100,000	100,000
Bank lines of credit (\$350,000 available)	2017	0.8	253,500	250,500
Total variable rate			<u>732,294</u>	<u>733,380</u>
Total University			<u>3,628,943</u>	<u>3,285,364</u>
Medical Center:				
Fixed rate:				
IFA	2027–2045	3.9–5.5	703,275	714,810
Unamortized premium and issuance costs			3,591	4,323
Total fixed rate			<u>706,866</u>	<u>719,133</u>
Variable rate:				
IEFA	2020	0.9	73,757	75,000
IEFA	2038	0.5	75,671	77,717
Bank line of credit (\$40,000 available)	2017	—	—	—
Total variable rate			<u>149,428</u>	<u>152,717</u>
Total Medical Center			<u>856,294</u>	<u>871,850</u>
MBL:				
Fixed rate:				
Massachusetts Development Finance Authority	2015–2018	3.5	28,145	28,895
Unamortized issuance cost			(162)	(170)
Variable rate:				
Bank line of credit (\$3,000 available)	2017	—	—	—
Total MBL			<u>27,983</u>	<u>28,725</u>
Total notes and bonds payable			<u>\$ 4,513,220</u>	<u>4,185,939</u>

As of June 30, 2016, 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 \$180,909, \$325,000, and \$28,145, respectively. As of June 30, 2015, 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 \$183,959, \$325,000, and \$28,985, respectively.

THE UNIVERSITY OF CHICAGO
Notes to Consolidated Financial Statements
June 30, 2016 and 2015
(In thousands of dollars)

(a) **Fiscal 2016 Transactions**

During fiscal year 2016, the University issued \$415,825 in fixed rate bonds through the IFA and \$150,505 in taxable fixed rate bonds. Proceeds were used to 1) advance refund \$230,320 of the IFA fixed rate bonds and 2) finance the construction and renovation of certain educational and research facilities.

(b) **Defeased Debt**

As of June 30, 2016 and 2015, the total principal amount of indebtedness considered to be legally extinguished and, therefore, excluded from the University notes and bonds payable was \$625,975 and \$397,905, respectively.

(c) **Interest Rate Swaps**

At June 30, 2016 and 2015, the fair value of the interest rate swap agreements was an accrued liability of \$238,459 and \$160,125, respectively as follows:

	<u>2016</u>	<u>2015</u>
University	\$ 66,767	45,222
Medical Center	165,417	110,447
MBL	<u>6,275</u>	<u>4,456</u>
Total	<u>\$ 238,459</u>	<u>160,125</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, 2016 and 2015 as follows:

	<u>2016</u>	<u>2015</u>
University	\$ (21,545)	(6,083)
Medical Center	(50,775)	(12,396)
MBL	<u>(1,819)</u>	<u>(296)</u>
Total	<u>\$ (74,139)</u>	<u>(18,775)</u>

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.

THE UNIVERSITY OF CHICAGO
Notes to Consolidated Financial Statements
June 30, 2016 and 2015
(In thousands of dollars)

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, 2016 and 2015, \$36,700 and \$5,030 was held as collateral, respectively.

(d) Debt Payments

Principal payments required in each of the five years ending June 30, 2017 through 2021 for the University notes and bonds are approximately \$43,678, \$59,251, \$27,629, \$43,225, and \$89,698, respectively.

Principal payments required in each of the five years ending June 30, 2017 through 2021 for the Medical Center notes and bonds are approximately \$13,255, \$13,868, \$14,513, \$15,208, and \$15,940, respectively.

Principal payments required in each of the five years ending June 30, 2017 through 2021 for MBL's notes and bonds are approximately \$780, \$810, \$840, \$875, and \$910, 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 \$913,203, \$474,428, and \$28,145, 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 credit facility agreements totaling \$400,000, \$400,671, and \$28,243, respectively, which support variable rate debt in the event of a failed remarketing.

(g) Subsequent Event

In August 2016, the University increased its available operating lines of credit from \$350 million to \$500 million.

THE UNIVERSITY OF CHICAGO
Notes to Consolidated Financial Statements
June 30, 2016 and 2015
(In thousands of dollars)

(9) Pledges

Pledges receivable at June 30, 2016 and 2015 are shown as follows:

	2016				2015
	University	Medical Center	MBL	Consolidated	Consolidated
Unconditional promises expected to be collected in:					
Less than one year	\$ 167,972	1,661	1,853	171,486	132,835
One year to five years	307,302	2,602	3,166	313,070	266,827
More than five years	251,053	—	—	251,053	223,630
	<u>726,327</u>	<u>4,263</u>	<u>5,019</u>	<u>735,609</u>	<u>623,292</u>
Less unamortized discount and allowance for uncollectible pledges	<u>(122,513)</u>	<u>(113)</u>	<u>(311)</u>	<u>(122,937)</u>	<u>(100,472)</u>
Total	<u>\$ 603,814</u>	<u>4,150</u>	<u>4,708</u>	<u>612,672</u>	<u>522,820</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, 2016, the University has received \$337,637 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.

(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, 2016 and 2015, 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 \$22,500 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 UNIVERSITY OF CHICAGO
Notes to Consolidated Financial Statements
June 30, 2016 and 2015
(In thousands of dollars)

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 \$33,091 higher than the amount recorded in the consolidated financial statements at June 30, 2016. The interest rate assumed in determining the present value was 3.5%. The University recorded unrestricted nonoperating actuarial adjustments of (\$39,005) and \$4,796 during the years ended June 30, 2016 and 2015, 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, 2016 and 2015 is presented as follows:

	2016			2015
	University	Medical Center	Consolidated	Consolidated
Medical malpractice	\$ 238,213	—	238,213	250,444
Workers' compensation	8,432	6,305	14,737	15,914
Others	3,997	—	3,997	4,545
Total	<u>\$ 250,642</u>	<u>6,305</u>	<u>256,947</u>	<u>270,903</u>

(11) Pension Plans and Other Postretirement Benefits

(a) Pension Plans

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 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.

Effective July 1, 2016, the 401(a) defined benefit pension plan was frozen for the majority of University employees participating in the plan and was replaced with an enhanced defined contribution plan. This curtailment resulted in a current year reduction in the defined benefit pension obligation of \$45,926 and a curtailment credit of \$7,119 in pension expense. Effective November 1, 2016, the remaining University employees participating in the 401(a) plan will be given the option to move to the enhanced defined contribution plan.

THE UNIVERSITY OF CHICAGO
Notes to Consolidated Financial Statements
June 30, 2016 and 2015
(In thousands of dollars)

As of June 30, 2016, there are no changes in the Medical Center's participation in the 401(a) defined benefit pension plan.

(b) *Postretirement Benefits*

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 UNIVERSITY OF CHICAGO
Notes to Consolidated Financial Statements
June 30, 2016 and 2015
(In thousands of dollars)

(c) **Funded Status**

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:

	Defined benefit pension plans		Other postretirement benefit plans	
	2016	2015	2016	2015
Change in benefit obligation:				
Benefit obligation at beginning of year	\$ 954,886	916,791	241,379	223,509
Service cost	41,662	41,070	10,205	10,401
Interest cost	40,869	38,137	10,812	9,715
Benefits paid	(47,455)	(40,076)	(10,267)	(10,054)
Plan amendment	(18,728)	—	(8,945)	—
Curtailment (effect of partial plan freeze)	(45,926)	—	—	—
Actuarial (gain) loss, net	91,829	(1,036)	75,530	7,808
Benefit obligation at end of year	1,017,137	954,886	318,714	241,379
Change in fair value of plan assets:				
Fair value of plan assets at beginning of year	695,869	671,793	30,536	21,089
Actual return on plan assets	28,281	(848)	1,830	1,492
Employer contributions	65,000	65,000	14,920	18,009
Benefits paid	(47,454)	(40,076)	(10,267)	(10,054)
Fair value of plan assets at end of year	741,696	695,869	37,019	30,536
Funded status – liability	\$ 275,441	259,017	281,695	210,843

The accumulated benefit obligation for the defined benefit pension plans was \$935,609 and \$821,030 at June 30, 2016 and 2015, respectively.

THE UNIVERSITY OF CHICAGO
Notes to Consolidated Financial Statements
June 30, 2016 and 2015
(In thousands of dollars)

(d) Components of Net Periodic Benefit Cost

	Defined benefit pension plans		Other postretirement benefit plans	
	2016	2015	2016	2015
Service cost	\$ 41,662	41,070	10,205	10,401
Interest cost	40,869	38,137	10,812	9,715
Expected return on plan assets	(45,724)	(41,177)	(2,295)	(1,859)
Amortization of prior service cost (benefit)	611	1,134	(7,082)	(7,506)
Amortization of actuarial loss	26,367	28,335	6,392	5,240
Net periodic benefit cost	\$ 63,785	67,499	18,032	15,991
One-time special event - curtailment	(7,119)	—	—	—
Pension cost	56,666	67,499	18,032	15,991
Amounts included in the consolidated statements of activities:				
University	\$ 24,166	34,999	18,032	15,991
Medical Center	32,500	32,500	—	—
Total	\$ 56,666	67,499	18,032	15,991

(e) 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	
	2016	2015	2016	2015
Discount rate	3.6%	4.5%	3.7%	4.6%
Expected return on plan assets	6.5	6.5	6.5	6.5
Rate of compensation increase	3.5	3.5	4.4	4.4
Healthcare cost trend rates:				
Next two fiscal years			6.5%–6.7%	6.7%–7.0%
Next seven fiscal years			5.1%–6.3%	5.3%–6.5%
Thereafter			4.5%–4.9%	4.5%–5.1%

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.

THE UNIVERSITY OF CHICAGO
Notes to Consolidated Financial Statements
June 30, 2016 and 2015
(In thousands of dollars)

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:

	2016	2015
Effect on total service cost and interest cost:		
One-percentage-point increase	\$ 4,254	3,725
One-percentage-point decrease	(3,219)	(2,868)
Effect on year-end postretirement benefit obligation:		
One-percentage-point increase	\$ 54,970	36,814
One-percentage-point decrease	(43,120)	(29,278)

(f) Plan Assets

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

	Defined benefit pension plans		Other postretirement benefit plans	
	2016	2015	2016	2015
Domestic public equities	26%	27%	49%	50%
International public equities	20	19	—	—
Fixed income	54	54	51	50
	100%	100%	100%	100%

As of June 30, 2016, 77% 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 23% of plan assets are primarily invested in commingled funds and limited partnerships generally reported at NAV by external fund managers.

The defined benefit plans combined target asset allocation of 48% public equities and 52% 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, 2016.

(g) Contributions

The University expects to make a \$5,500 contribution to its postretirement healthcare plan and, combined with the Medical Center, expects to make a \$10,000 contribution to the defined benefit pension plans in fiscal year 2017.

THE UNIVERSITY OF CHICAGO
Notes to Consolidated Financial Statements
June 30, 2016 and 2015
(In thousands of dollars)

(h) *Estimated Future Benefits Payments*

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

Fiscal year	Defined benefit pension plans	Other postretirement benefit plans
2017	\$ 75,031	8,978
2018	50,388	9,316
2019	51,536	12,013
2020	53,248	12,249
2021	56,378	12,454
2022-2026	296,796	77,560

(i) *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 \$8,511 at June 30, 2016.

(j) *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, 2016 and 2015, the benefit obligation for the plan exceeded the plan's assets thus creating an unfunded liability of \$13,140 and \$8,281 at June 30, 2016 and 2015, respectively.

(k) *Defined Contribution Pension Plan*

Defined contribution pension plan expenses included in the consolidated statements of activities amounted to \$52,096 in fiscal year 2016 and \$49,758 in fiscal year 2015 for the University and \$13,100 in fiscal year 2016 and \$12,600 in fiscal year 2015 for the Medical Center.

THE UNIVERSITY OF CHICAGO
Notes to Consolidated Financial Statements
June 30, 2016 and 2015
(In thousands of dollars)

(12) Functional Classification of Expenses

Expenses by functional classification for the years ended June 30, 2016 and 2015 are shown as follows:

	<u>2016</u>	<u>2015</u>
University:		
Academic and research:		
Instruction	\$ 1,104,427	1,062,788
Research	259,070	258,760
Auxiliary enterprises	162,053	166,430
Library	18,220	20,317
Student services	80,627	76,470
Operation and maintenance of physical plant	131,688	133,863
Depreciation	156,425	140,529
Interest on notes and bonds	90,343	71,365
Total academic and research	<u>2,002,853</u>	<u>1,930,522</u>
Administration:		
Institutional support	187,033	204,920
Operation and maintenance of physical plant	16,915	11,917
Depreciation	32,498	28,843
Interest on notes and bonds	20,884	22,688
Total administration	<u>257,330</u>	<u>268,368</u>
Total University	<u>2,260,183</u>	<u>2,198,890</u>
Medical Center:		
Healthcare service	1,403,939	1,359,252
General and administrative	106,256	99,897
Total Medical Center	<u>1,510,195</u>	<u>1,459,149</u>
MBL:		
Academic and research	37,846	39,978
General and administrative	5,705	5,080
Total MBL	<u>43,551</u>	<u>45,058</u>
Total University	<u>\$ 3,813,929</u>	<u>3,703,097</u>

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, 2016 and 2015
(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, 2015 and 2014 was \$179,385 and \$171,549 respectively. Net assets at December 31, 2015 and 2014 were \$36,921 and \$33,052, 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 \$760,697 for ANL and \$422,394 for Fermilab in fiscal year 2016, and \$731,287 for ANL and \$372,774 for Fermilab in fiscal year 2015 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, 2016

Federal agency and pass-through entity	CFDA numbers/ award numbers	Direct awards	Pass-through awards	Total expenditures	Passed through to subrecipients
Research and Development Cluster:					
Department of Agriculture:					
Higher Education Graduate Fellowships Grant Program	10.210	\$ 67,978	\$ —	\$ 67,978	\$ —
Agriculture and Food Research Initiative (AFRI):	10.310	28,633	—	28,633	—
Purdue University		—	37,851	37,851	—
Total Agriculture and Food Research Initiative (AFRI)		28,633	37,851	66,484	—
Total Department of Agriculture		96,611	37,851	134,462	—
Department of Commerce:					
Education Quality Award Ambassadorship	11.013	21,382	—	21,382	27,725
Sea Grant Support:	11.417	—	—	—	—
University of Illinois at Champaign		—	31,325	31,325	—
Total Sea Grant Support		—	31,325	31,325	—
Measurement and Engineering Research and Standards:	11.609	617,123	—	617,123	19,063
Northwestern University		—	1,233,643	1,233,643	—
Total Measurement and Engineering Research and Standards		617,123	1,233,643	1,850,766	19,063
Total Department of Commerce		638,505	1,264,968	1,903,473	46,788
Department of Defense:					
Basic and Applied Scientific Research:					
Drexel University	12.300	3,297,482	—	3,297,482	70,937
Rice University		—	64,111	64,111	—
University of California, San Diego		—	136,903	136,903	—
University of Minnesota		—	296,295	296,295	—
		—	1,709	1,709	—
Total Basic and Applied Scientific Research		3,297,482	499,018	3,796,500	70,937
Basic Scientific Research – Combating Weapons of Mass Destruction	12.351	292,187	—	292,187	—
Military Medical Research and Development:	12.420	537,151	—	537,151	90,592
Brigham and Women’s Hospital		—	11,905	11,905	—
Illinois Institute of Technology		—	13,813	13,813	—
Northwestern University		—	113,357	113,357	—
Sloan-Kettering Institute for Cancer Research		—	112,735	112,735	—
University of Alabama at Birmingham		—	66,997	66,997	—
Total Military Medical Research and Development		537,151	318,807	855,958	90,592
Basic Scientific Research:	12.431	6,069,664	—	6,069,664	2,172,182
Chicago Public Schools		—	83,349	83,349	—
Colorado School of Mines		—	335,780	335,780	—
Indiana University		—	188,175	188,175	—
Ohio State University		—	363,077	363,077	—
Princeton University		—	592,495	592,495	—
University of Massachusetts		—	166,565	166,565	—
University of Utah		—	(1,288)	(1,288)	—
Total Basic Scientific Research		6,069,664	1,728,153	7,797,817	2,172,182
Air Force Defense Research Sciences Program:					
Research and Technology Development:	12.910	48,886	—	48,886	(484)
Massachusetts Institute of Technology		—	91,470	91,470	—
Northwestern University		—	147,541	147,541	—
University of Utah		—	23,872	23,872	—
Total Research and Technology Development		48,886	262,883	311,769	(484)
Department of Defense:					
Department of Defense	W81XWH-13-1-0451	64,278	—	64,278	—
Department of Defense	W81XWH-14-1-0529	189,450	—	189,450	—
Department of Defense	W81XWH-14-2-1089	4,896	—	4,896	—
Argonne National Laboratory	5J-30161-0001A	—	34,326	34,326	—
Case Western Reserve University	N66001-12-C-4173	—	40,427	40,427	—
Case Western Reserve University	N66001-15-C-4014	—	33,219	33,219	—
FDC for Applied Molecular Evolution, Inc.	HDTRA1-13-1-0004	—	173,130	173,130	—
Johns Hopkins University	N66001-10-C-4056	—	11,977	11,977	—
RDMCHEM LLC	W911NF-16-C-0030	—	126,878	126,878	—
Sivananthan Laboratories	0007-15-SUOC-0001	—	58,052	58,052	—
Sivananthan Laboratories	0025-14-SUOC-0001	—	(1,985)	(1,985)	—
Sivananthan Laboratories	0048-14-SUOC-0002	—	175,079	175,079	—
Sivananthan Laboratories	W911SR-13-C-0051	—	(1,374)	(1,374)	—
University of Hawaii	N00024-08-D6323-TO17	—	1,200	1,200	—
University of Utah	N66001-15-C-4017	—	40,662	40,662	—
Total Other Department of Defense		258,624	691,591	950,215	—
Total Department of Defense		15,127,657	3,500,452	18,628,109	3,783,823
Department of Education:					
Graduate Assistance in Areas of National Need	84.200	992,711	—	992,711	—
Education Research, Development, and Dissemination:	84.305	772,996	—	772,996	29,698
American Institutes for Research		—	65,658	65,658	—
Michigan State University		—	(1,457)	(1,457)	—
Northwestern University		—	23,781	23,781	—
Ounce of Prevention Fund		—	77,540	77,540	—
Total Education Research, Development, and Dissemination		772,996	165,522	938,518	29,698

THE UNIVERSITY OF CHICAGO
Schedule of Expenditures of Federal Awards
Year ended June 30, 2016

Federal agency and pass-through entity	CFDA numbers/ award numbers	Direct awards	Pass-through awards	Total expenditures	Passed through to subrecipients
Department of Education (continued):					
American Institutes for Research	ED-IES-12-C-0004	\$ —	\$ 16,694	\$ 16,694	\$ —
American Institutes for Research	R305D140030	—	11,909	11,909	—
American Institutes for Research	R305H150013	—	14,832	14,832	—
Total Other Department of Education		—	43,435	43,435	—
Total Department of Education		1,765,707	208,957	1,974,664	29,698
Department of Energy:					
Office of Science Financial Assistance Program:					
Incom, Inc.	81.049	4,558,553	—	4,558,553	81,935
Northwestern University		—	46,959	46,959	—
Radiation Monitoring Devices, Inc.		—	103,078	103,078	—
University of California-Davis		—	63,391	63,391	—
University of Wisconsin		—	255,799	255,799	—
Total Office of Science Financial Assistance Program		4,558,553	572,285	5,130,838	81,935
Renewable Energy Research and Development	81.087	76,333	—	76,333	—
Stewardship Science Grant Program	81.112	205,660	—	205,660	—
State Energy Program Special Projects:					
Columbia University	81.119	—	—	—	—
Total State Energy Program Special Projects		—	484	484	—
Nuclear Energy Research, Development, and Demonstration	81.121	222,237	—	222,237	—
Department of Energy:					
Alliance for Sustainable Energy	DE-AC36-08GO28308	—	29,164	29,164	—
Argonne National Laboratory	OJ-30381-0017A	—	(380)	(380)	—
Argonne National Laboratory	OJ-30381-0020A	—	6,496	6,496	—
Argonne National Laboratory	OJ-30381-0026B	—	25,221	25,221	—
Argonne National Laboratory	OJ-30381-0028A	—	377,831	377,831	—
Argonne National Laboratory	OJ-30381-0029A	—	56,796	56,796	—
Argonne National Laboratory	OJ-30381-0031A	—	57,303	57,303	—
Argonne National Laboratory	OJ-30381-0032B	—	130,074	130,074	—
Argonne National Laboratory	OJ-30381-0034A	—	36,114	36,114	—
Argonne National Laboratory	OJ-30381-0035A	—	360,871	360,871	—
Argonne National Laboratory	OJ-30381-0036A	—	29,816	29,816	—
Argonne National Laboratory	OJ-30381-0038A	—	70,704	70,704	—
Argonne National Laboratory	OJ-30381-0039A	—	133,589	133,589	—
Argonne National Laboratory	5J-30161-0002A	—	101,007	101,007	—
Argonne National Laboratory	5J-30161-0003A	—	58,194	58,194	—
Argonne National Laboratory	5J-30161-0005A	—	32,943	32,943	—
Argonne National Laboratory	5J-30161-0006A	—	67,987	67,987	—
Argonne National Laboratory	5J-30161-0008A	—	251,554	251,554	—
Argonne National Laboratory	5J-30161-0010A	—	356,615	356,615	—
Argonne National Laboratory	5J-30161-0011A	—	13,624	13,624	—
Argonne National Laboratory	5J-30161-0012A	—	27,649	27,649	—
Argonne National Laboratory	5J-30161-0013A	—	95,423	95,423	—
Argonne National Laboratory	DE-AC02-06CH11357	—	534,821	534,821	—
Brookhaven National Laboratory	DE-AC02-98CH10886	—	102,476	102,476	—
Fermi National Accelerator Laboratory	DE-AC02-76CH03000	—	169,090	169,090	—
Fermi National Accelerator Laboratory	FNAL PO #614118	—	6,079	6,079	—
Fermi National Accelerator Laboratory	FNAL PO #614163	—	4,035	4,035	—
Fermi National Accelerator Laboratory	FNAL PO #614499	—	59,754	59,754	—
Fermi National Accelerator Laboratory	FNAL PO #619035	—	59,754	59,754	—
Fermi National Accelerator Laboratory	FNAL PO #620239	—	58,723	58,723	—
Idaho National Laboratory	DE-AC07-051D14517	—	160,907	160,907	—
Innosys, Inc.	DE-SC0009702	—	58,942	58,942	—
Lawrence Livermore	DE-AC52-07NA27344	—	439,653	439,653	—
Los Alamos National Laboratory	DE-AC52-06NA25396	—	257,187	257,187	—
Total Other Department of Energy		—	4,230,016	4,230,016	—
Total Department of Energy		5,062,783	4,802,785	9,865,568	81,935
Department of Health and Human Services:					
Family Smoking Prevention and Tobacco Control Act Regulatory Research					
University of Illinois at Chicago	93.077	—	—	—	—
Total Family Smoking Prevention and Tobacco Control Act Regulatory Research		—	32,750	32,750	—
Food and Drug Administration – Research					
DXRAY Inc	93.103	179,704	—	179,704	—
Total Food and Drug Administration-Research		179,704	133,661	313,365	—
Maternal and Child Health Federal Consolidated Programs					
Temple University	93.110	—	—	—	—
University of Illinois at Chicago		—	10,711	10,711	—
Total Maternal and Child Health Federal Consolidated Programs		—	39,874	39,874	—
Environmental Health:					
Harvard University	93.113	1,885,991	—	1,885,991	150,804
New York University		—	(312)	(312)	—
Total Environmental Health		—	113,205	113,205	—

THE UNIVERSITY OF CHICAGO
Schedule of Expenditures of Federal Awards
Year ended June 30, 2016

Federal agency and pass-through entity	CFDA numbers/ award numbers	Direct awards	Pass-through awards	Total expenditures	Passed through to subrecipients
Department of Health and Human Services (continued):					
University of Alabama at Birmingham		\$ —	\$ 56,630	\$ 56,630	\$ —
University of Illinois at Chicago		—	97,084	97,084	—
University of North Carolina		—	72,046	72,046	—
Total Environmental Health		1,885,991	338,653	2,224,644	150,804
Oral Diseases and Disorders Research	93.121	643,305	—	643,305	24,513
Johns Hopkins University		—	18,715	18,715	—
University of Southern California		—	207,374	207,374	—
Total Oral Diseases and Disorders Research		643,305	226,089	869,394	24,513
Injury Prevention and Control Research and State and Community Based Programs	93.136	778,462	—	778,462	260,353
NIEHS Superfund Hazardous Substances – Basic Research and Education:	93.143	—	—	—	—
Columbia University		—	675,661	675,661	39,048
Total NIEHS Superfund Hazardous Substances – Basic Research and Education		—	675,661	675,661	39,048
Human Genome Research:	93.172	3,251,072	—	3,251,072	89,174
Brigham and Women's Hospital		—	96,569	96,569	—
Epiccypher, Inc		—	58,695	58,695	—
Stanford University		—	432,988	432,988	—
University of Illinois at Chicago		—	991	991	—
University of Washington		—	708,040	708,040	—
University of Wisconsin		—	(764)	(764)	—
Total Human Genome Research		3,251,072	1,296,519	4,547,591	89,174
Research Related to Deafness and Communication Disorders:	93.173	2,020,029	—	2,020,029	203,564
University of Illinois at Chicago		—	3,631	3,631	—
University of Washington		—	(36,507)	(36,507)	—
Total Research Related to Deafness and Communication Disorders		2,020,029	(32,876)	1,987,153	203,564
Research and Training in Complementary and Alternative Medicine	93.213	3,723	—	3,723	—
National Research Service Awards – Health Services Research Training:	93.225	402,051	—	402,051	124,249
Northwestern University		—	299,229	299,229	—
Total National Research Service Awards – Health Services		402,051	299,229	701,280	124,249
Research on Healthcare Costs, Quality, and Outcomes:	93.226	1,888,705	—	1,888,705	308,254
Dartmouth College		—	3,580	3,580	—
North Shore University Health System		—	33,718	33,718	—
Northwestern University		—	262,395	262,395	—
University of California Irvine		—	53,692	53,692	—
University of Michigan		—	3,190	3,190	—
University of Pennsylvania		—	54,891	54,891	—
Total Research on Healthcare Costs, Quality, and Outcomes		1,888,705	411,466	2,300,171	308,254
National Center on Sleep Disorders Research	93.233	614,290	—	614,290	74,311
Phoenix Biosystem, Inc		—	21,487	21,487	—
Total National Center on Sleep Disorders Research		614,290	21,487	635,777	74,311
Mental Health Research Grants:	93.242	9,018,363	—	9,018,363	2,597,484
Butler Hospital		—	(2,647)	(2,647)	—
Duke University		—	(5,716)	(5,716)	—
New York University		—	(2,252)	(2,252)	—
North Shore University Health System		—	12,647	12,647	—
University of California Los Angeles		—	22,474	22,474	—
University of California San Diego		—	(11,361)	(11,361)	11,938
University of California San Francisco		—	8,198	8,198	—
University of Illinois at Chicago		—	942,887	942,887	—
University of Texas Health Science Cntr – Houston		—	213,479	213,479	—
Total Mental Health Research Grants		9,018,363	1,177,709	10,196,072	2,609,422
Geriatric Academic Career Awards	93.250	13,563	—	13,563	—
Occupational Safety and Health Program	93.262	(35,274)	—	(35,274)	—
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	41,109	—	41,109	—
Alcohol Research Programs	93.273	805,643	—	805,643	40,583
Drug Abuse and Addiction Research Programs:	93.279	6,912,361	—	6,912,361	1,713,890
Ann & Robert Lurie Children's Hospital		—	25,313	25,313	—
Baystate Health		—	45,737	45,737	—
Brown University		—	52,939	52,939	—
National Opinion Research Center		—	246,339	246,339	—
Northwestern University		—	(3,686)	(3,686)	—
University of California San Diego		—	45,944	45,944	—
University of California San Francisco		—	1,699	1,699	—
University of Illinois at Chicago		—	3,016	3,016	—
Vanderbilt University		—	11,039	11,039	—
Total Drug Abuse and Addiction Research Programs		6,912,361	428,340	7,340,701	1,713,890
Discovery and Applied Research for Technological Innovations	93.286	3,135,177	—	3,135,177	740,843
Berkeley National Laboratory		—	183,943	183,943	—
Duke University		—	57,941	57,941	—

THE UNIVERSITY OF CHICAGO
Schedule of Expenditures of Federal Awards
Year ended June 30, 2016

Federal agency and pass-through entity	CFDA numbers/ award numbers	Direct awards	Pass-through awards	Total expenditures	Passed through to subrecipients
Department of Health and Human Services (continued):					
Purdue University		\$ —	\$ 129,825	\$ 129,825	\$ —
University of Minnesota		—	12,197	12,197	—
Total Discovery and Applied Research for Technological Innovations		3,135,177	383,906	3,519,083	740,843
President's Council on Fitness, Sports, and Nutrition	93.289	778	—	778	—
Teenage Pregnancy Prevention Program	93.297	957,476	—	957,476	25,931
Minority Health and Health Disparities Research:	93.307	400,693	—	400,693	8,331
Trans-NIH Research Support:	93.310	2,915,903	—	2,915,903	657,848
Boston College		—	197,444	197,444	—
Brigham and Women's Hospital		—	51,848	51,848	—
California Institute of Technology		—	(14,423)	(14,423)	—
Cincinnati Children's Hospital		—	(6,561)	(6,561)	—
University of Illinois at Champaign		—	107,973	107,973	—
Total Trans-NIH Research Support		2,915,903	336,281	3,252,184	657,848
National Center for Advancing Translational Sciences	93.350	4,268,636	—	4,268,636	—
Research Infrastructure Programs	93.351	1,581,663	—	1,581,663	12,720
Pennsylvania State University		—	25,708	25,708	—
Total Research Infrastructure Programs		1,581,663	25,708	1,607,371	12,720
Nursing Research:	93.361	—	18,302	18,302	—
Beth Israel Deaconess Medical Center, Inc.		—	18,302	18,302	—
Total Nursing Research		—	18,302	18,302	—
National Center for Research Resources:	93.389	6,499	—	6,499	—
Pennsylvania State University		—	3,136	3,136	—
Total National Center for Research Resources		6,499	3,136	9,635	—
Cancer Cause and Prevention Research:	93.393	5,170,367	—	5,170,367	399,586
Beckman Research Institute of the City of Hope		—	1,162	1,162	—
Fox Chase Cancer Center		—	1,761	1,761	—
Health Research		—	3,014	3,014	—
Indiana University		—	94,024	94,024	—
University of Alabama at Birmingham		—	6,949	6,949	—
University of Illinois at Chicago		—	46,232	46,232	—
University of Miami		—	1,530	1,530	—
University of Pennsylvania		—	40,353	40,353	—
University of Rochester		—	20,088	20,088	—
Total Cancer Cause and Prevention Research		5,170,367	215,113	5,385,480	399,586
Cancer Detection and Diagnosis Research:	93.394	4,330,743	—	4,330,743	478,644
Alan Penn and Associates Inc		—	187,085	187,085	—
Boston University		—	25,636	25,636	—
Houston Methodist Research Institute		—	119,961	119,961	—
Johns Hopkins University		—	76,812	76,812	—
Northwestern University		—	11,717	11,717	—
University of California San Francisco		—	138,197	138,197	—
University of Illinois at Chicago		—	63,606	63,606	—
Total Cancer Detection and Diagnosis Research		4,330,743	623,014	4,953,757	478,644
Cancer Treatment Research:	93.395	2,617,787	—	2,617,787	79,608
American College of Radiology		—	183,446	183,446	—
Brigham and Women's Hospital		—	2,119,285	2,119,285	—
Children's Hospital Los Angeles		—	3,617	3,617	—
Duke University		—	(2,059)	(2,059)	—
Fred Hutchinson Cancer Research Center		—	945	945	—
LNK Chemsolutions LLC		—	8,143	8,143	—
Mayo Hospitals and Clinics		—	689,138	689,138	—
Medical College of Wisconsin		—	22,583	22,583	—
Northwestern University		—	(1,151)	(1,151)	—
Oregon Health and Science University		—	41,894	41,894	—
St Jude Children's Research Hospital		—	42,779	42,779	—
Tufts University		—	1,147	1,147	—
University of Rochester		—	42,184	42,184	—
Total Cancer Treatment Research		2,617,787	3,151,951	5,769,738	79,608
Cancer Biology Research:	93.396	5,264,973	—	5,264,973	287,031
Northwestern University		—	305,542	305,542	—
Ohio State University		—	3,772	3,772	—
University of Cincinnati		—	79,052	79,052	—
University of Illinois at Chicago		—	15,617	15,617	—
University of Southern California		—	795,698	795,698	—
University of Wisconsin		—	888	888	—
Total Cancer Biology Research		5,264,973	1,200,569	6,465,542	287,031
Department of Health and Human Services (Continued):					
Cancer Centers Support Grants:	93.397	4,618,947	—	4,618,947	—
Mayo Hospitals and Clinics		—	200,703	200,703	—
Northwestern University		—	165,000	165,000	—
Total Cancer Centers Support Grants		4,618,947	365,703	4,984,650	—

THE UNIVERSITY OF CHICAGO
Schedule of Expenditures of Federal Awards
Year ended June 30, 2016

Federal agency and pass-through entity	CFDA numbers/ award numbers	Direct awards	Pass-through awards	Total expenditures	Passed through to subrecipients
Department of Health and Human Services (continued):					
Cancer Research Manpower:					
Beckman Research Institute of the City of Hope	93.398	\$ 2,054,021	\$ —	\$ 2,054,021	\$ —
Northwestern University		—	23,961	23,961	—
		—	63,135	63,135	—
Total Cancer Research Manpower		2,054,021	87,096	2,141,117	—
Child Care and Development Block Grant	93.575	288,166	—	288,166	151,017
Health Care Innovation Awards (HCIA)	93.610	233,502	—	233,502	87,956
Social Services Research and Demonstration	93.647	461,621	—	461,621	383,117
Cardiovascular Diseases Research:	93.837	12,166,105	—	12,166,105	2,593,064
Brigham and Women's Hospital		—	49,469	49,469	—
Children's Hospital Oakland Research Institute		—	(999)	(999)	—
Johns Hopkins University		—	132,747	132,747	—
New York University		—	(10,476)	(10,476)	—
Northwestern University		—	404,352	404,352	—
University of California San Francisco		—	131,908	131,908	—
University of Cincinnati		—	116,702	116,702	—
University of North Carolina		—	11,722	11,722	—
University of Washington		—	65,911	65,911	—
Yale University		—	(1,000)	(1,000)	—
Total Cardiovascular Diseases Research		12,166,105	900,336	13,066,441	2,593,064
Lung Diseases Research:	93.838	6,267,171	—	6,267,171	493,725
Brigham and Women's Hospital		—	(6,597)	(6,597)	—
Children's Hospital, Boston		—	29,931	29,931	—
Cornell University		—	24,369	24,369	—
Johns Hopkins University		—	1,577	1,577	—
University of Alabama at Birmingham		—	43,300	43,300	—
University of California San Francisco		—	3,310	3,310	—
University of Illinois at Chicago		—	27,513	27,513	—
University of Southern California		—	167,664	167,664	—
University of Wisconsin		—	371,230	371,230	—
Total Lung Diseases Research		6,267,171	662,297	6,929,468	493,725
Blood Diseases and Resources Research:	93.839	405,271	—	405,271	53,997
Cleveland Clinic		—	30,110	30,110	—
Sloan-Kettering Institute for Cancer Research		—	30,140	30,140	—
Total Blood Diseases and Resources Research		405,271	60,250	465,521	53,997
Arthritis, Musculoskeletal, and Skin Diseases Research:	93.846	1,104,030	—	1,104,030	34,569
Cincinnati Children's Hospital		—	3,054	3,054	—
Duke University		—	3,694	3,694	—
Feinstein Institute for Medical Research		—	(23,019)	(23,019)	—
University of Iowa		—	1,097	1,097	—
Total Arthritis, Musculoskeletal, and Skin Diseases Research		1,104,030	(15,174)	1,088,856	34,569
Diabetes, Digestive, and Kidney Diseases Extramural Research:	93.847	16,525,367	—	16,525,367	2,164,388
Cornell University		—	98,002	98,002	—
Georgia Regents University		—	(751)	(751)	—
Illinois Institute of Technology		—	145,274	145,274	—
Johns Hopkins University		—	309,215	309,215	—
Mayo Hospitals and Clinics		—	64,238	64,238	—
Mount Sinai School of Medicine		—	230,609	230,609	—
North Shore University Health System		—	68,997	68,997	—
Stanford University		—	198,337	198,337	—
State University of New York		—	229,039	229,039	—
University of Iowa		—	91,910	91,910	—
University of Kansas		—	46,182	46,182	—
University of North Carolina		—	57,663	57,663	—
University of Rochester		—	47,599	47,599	—
University of Texas		—	758	758	—
University of Washington		—	12,254	12,254	—
Vidasym		—	2,854	2,854	—
Wake Forest University		—	53,028	53,028	—
Washington University		—	52,358	52,358	—
Total Diabetes, Digestive, and Kidney Diseases Extramural Research		16,525,367	1,707,566	18,232,933	2,164,388
Extramural Research Programs in the Neurosciences and Neurological Disorders:	93.853	7,238,847	—	7,238,847	705,848
Boston University		—	31,118	31,118	—
Columbia University		—	148,924	148,924	—
Duke University		—	311,270	311,270	—
EIC Laboratories		—	123,425	123,425	—
Emory University		—	(17,223)	(17,223)	—
Iron Horse Diagnostics		—	619	619	—
Johns Hopkins University		—	227,428	227,428	—
Neurodx Development		—	6,000	6,000	—
Northwestern University		—	162,882	162,882	—
University of Ibadan		—	17,134	17,134	—
University of Illinois at Champaign		—	173,821	173,821	—
Total Extramural Research Programs in the Neurosciences and Neurological Disorders		7,238,847	1,185,398	8,424,245	705,848

THE UNIVERSITY OF CHICAGO
Schedule of Expenditures of Federal Awards
Year ended June 30, 2016

Federal agency and pass-through entity	CFDA numbers/ award numbers	Direct awards	Pass-through awards	Total expenditures	Passed through to subrecipients
Department of Health and Human Services (continued):					
Allergy, Immunology, and Transplantation Research:					
Benaroya Research Institute at Virginia Med Ctr	93.855	\$ 18,997,393	\$ —	\$ 18,997,393	\$ 785,027
Children's Hospital Boston		—	174,507	174,507	—
Duke University		—	8,376	8,376	—
Emory University		—	389,096	389,096	—
Houston Methodist Research Institute		—	258,049	258,049	—
Illinois Institute of Technology		—	107,237	107,237	—
Johns Hopkins University		—	9,937	9,937	—
Mount Sinai School of Medicine		—	39,158	39,158	—
Northwestern University		—	865,404	865,404	—
Purdue University		—	840,236	840,236	—
Seattle Biomedical		—	76,439	76,439	—
University of California Davis		—	15,645	15,645	—
University of California San Francisco		—	63,802	63,802	—
University of Colorado		—	400,561	400,561	—
University of Texas Health Science Cntr at San Antonio		—	17,579	17,579	—
		—	66,177	66,177	—
Total Allergy, Immunology, and Transplantation Research		18,997,393	3,332,203	22,329,596	785,027
Biomedical Research and Research Training:					
Brown University	93.859	24,870,248	—	24,870,248	2,282,385
Case Western Reserve University		—	18,721	18,721	—
Cornell University		—	57,307	57,307	—
Johns Hopkins University		—	144,543	144,543	—
Northwestern University		—	143,739	143,739	—
St Jude Children's Research Hospital		—	230,085	230,085	—
University of Kansas		—	114,118	114,118	—
University of Notre Dame		—	(1,160)	(1,160)	—
University of Texas Health Science Cntr-Houston		—	47,898	47,898	—
University of Utah		—	14,822	14,822	—
Vanderbilt University		—	109,186	109,186	—
		—	9,624	9,624	—
Total Biomedical Research and Research Training		24,870,248	888,883	25,759,131	2,282,385
Child Health and Human Development Extramural Research:					
National Bureau of Economic Research	93.865	7,450,945	—	7,450,945	1,977,056
Northwestern University		—	117,882	117,882	—
University of Maryland		—	204,125	204,125	—
Washington University		—	100,757	100,757	—
		—	143,897	143,897	—
Total Child Health and Human Development Extramural Research		7,450,945	566,661	8,017,606	1,977,056
Aging Research:					
Beckman Research Institute of the City of Hope	93.866	3,736,397	—	3,736,397	617,210
Brown University		—	438	438	—
Duke University		—	36,054	36,054	—
National Opinion Research Center		—	104,072	104,072	—
		—	722,345	722,345	—
Total Aging Research		3,736,397	862,909	4,599,306	617,210
Vision Research					
Grants for Primary Care Training and Enhancement	93.867	3,656,605	—	3,656,605	252,249
PPHF Geriatric Education Centers	93.884	291,531	—	291,531	—
	93.969	268,627	—	268,627	—
International Research and Research Training:					
Northwestern University	93.989	623,097	—	623,097	186,691
		—	(22)	(22)	—
Total International Research and Research Training		623,097	(22)	623,075	186,691
Department of Health and Human Services:					
Department of Health and Human Services	CLT008-03	6,320	—	6,320	—
Department of Health and Human Services	HHSN261201000145C	67,156	—	67,156	—
Department of Health and Human Services	HHSN261201100071C	381,415	—	381,415	178,629
Department of Health and Human Services	HHSN261201500028C	183,802	—	183,802	—
Department of Health and Human Services	HHSN272201100017I	13,536	—	13,536	—
Department of Health and Human Services	HHSN272201400027C	4,287,072	—	4,287,072	2,274,593
Department of Health and Human Services	HHSN275201300009/00002	151,559	—	151,559	2,745
Department of Health and Human Services	HHSN275201300009I	12,147	—	12,147	—
Duke University	HHSN27500019	—	54,458	54,458	—
Fox Chase Cancer Center	FCCC #43004-01	—	10,450	10,450	—
Leidos Biomedical Research	NCI-9443	—	(767)	(767)	—
Leidos Biomedical Research	HHSN261200800001E	—	8,343,371	8,343,371	1,046,767
Mayo Hospitals and Clinics	RU241201	—	(11,917)	(11,917)	—
National Opinion Research Center	HHSN250201100078G	—	(57,907)	(57,907)	—
National Opinion Research Center	HHSN250201100002I	—	198,423	198,423	—
National Opinion Research Center	HHSN233201500023I	—	41,168	41,168	—
Net Esolutions Corp	HHSN276201300089U	—	53,209	53,209	—
Northwestern University	HHSN272201200026C	—	1,472,994	1,472,994	—
Northwestern University	N01-CN-35157-01	—	15,741	15,741	—
University of California San Francisco	HHSN27220070031C	—	42,324	42,324	—
University of Rochester	HHSN272201400005C	—	617,582	617,582	—
University of South Florida	HHSN26720080019C	—	6,176	6,176	—
Virginia Tech	HHSN272200900040C	—	(290,342)	(290,342)	—
Total Other Department of Health and Human Services		5,103,007	10,494,963	15,597,970	3,502,734
Total Department of Health and Human Services		175,434,690	32,116,322	207,551,012	24,599,740

THE UNIVERSITY OF CHICAGO
Schedule of Expenditures of Federal Awards
Year ended June 30, 2016

Federal agency and pass-through entity	CFDA numbers/ award numbers	Direct awards	Pass-through awards	Total expenditures	Passed through to subrecipients
Department of Justice:					
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	\$ 342,925	\$ —	\$ 342,925	\$ 107,603
Juvenile Mentoring Program	16.726	186,705	—	186,705	46,713
Department of Justice:					
Chicago Public Schools	15-0128-PR-1	—	103,629	103,629	—
Chicago Police Department	2014-CK-WX-0007	—	67,119	67,119	—
Total Other Department of Justice		—	170,748	170,748	—
Total Department of Justice		529,630	170,748	700,378	154,316
Department of Transportation:					
Public Transportation Research, Technical Assistance and Training	20.514	211,124	—	211,124	—
Total Department of Transportation		211,124	—	211,124	—
Environmental Protection Agency:					
Science to Achieve Results (STAR) Research Program	66.509	—	8,573	8,573	—
Yale University		—	8,573	8,573	—
Total Science to Achieve Results (STAR) Research Program		—	8,573	8,573	—
Total Environmental Protection Agency		—	8,573	8,573	—
National Aeronautics and Space Administration:					
Science:	43.001	3,045,606	—	3,045,606	63,997
California Institute of Technology		—	706,137	706,137	—
Case Western Reserve University		—	70,364	70,364	—
Cornell University		—	10,988	10,988	—
Jet Propulsion Laboratory		—	46,149	46,149	—
Pennsylvania State University		—	6,382	6,382	—
Research Foundation for SUNY		—	29,998	29,998	—
Smithsonian Institute		—	19,029	19,029	—
Southwest Research Institute		—	136,104	136,104	—
Space Telescope Science Institute		—	388,162	388,162	—
State University of New York		—	(4,872)	(4,872)	—
Stony Brook University		—	2,620	2,620	—
University of Arizona		—	7,996	7,996	—
University of Cincinnati		—	33,510	33,510	—
University of Illinois at Champaign		—	14,444	14,444	—
University of Washington		—	57,536	57,536	—
Washington University		—	22,156	22,156	—
Total Science		3,045,606	1,546,703	4,592,309	63,997
Education:	43.008	—	22,660	22,660	—
University of Illinois at Champaign		—	22,660	22,660	—
Total Education		—	22,660	22,660	—
National Aeronautics and Space Administration:					
Space Telescope Science Institute	1534945	22,114	—	22,114	—
Manufacturing Technical Solutions, Inc	HST-AR-14323.001-A NNM13AA042242	—	90,427	90,427	—
		—	29,800	29,800	—
Total Other National Aeronautics and Space Administration		22,114	120,227	142,341	—
Total National Aeronautics and Space Administration		3,067,720	1,689,590	4,757,310	63,997
National Endowment for Humanities:					
Promotion of the Humanities – Division of Preservation and Access	45.149	13,758	—	13,758	—
Promotion of the Arts – Grants to Organizations and Individuals	45.169	47,654	—	47,654	—
Total National Endowment for the Humanities		61,412	—	61,412	—
National Science Foundation:					
Engineering Grants:	47.041	979,132	—	979,132	184,369
California Institute of Technology		—	41,637	41,637	—
Explorer Surgical Corp		—	47,303	47,303	—
Northwestern University		—	107,665	107,665	—
Stroud Water Research Center		—	41,271	41,271	—
Total Engineering Grants		979,132	237,876	1,217,008	184,369
Mathematical and Physical Sciences:	47.049	19,577,203	—	19,577,203	587,235
California Institute of Technology		—	245,712	245,712	—
Columbia University		—	2,376,697	2,376,697	960,034
Emory University		—	112,569	112,569	—
Michigan State University		—	45,722	45,722	—
University of California Los Angeles		—	9,048	9,048	—
University of Notre Dame		—	144,053	144,053	—
University of Wisconsin		—	930,589	930,589	—
Yale University		—	65,880	65,880	—
Total Mathematical and Physical Sciences		19,577,203	3,930,270	23,507,473	1,547,269
Geosciences:	47.050	6,935,789	—	6,935,789	1,414,712
University of California San Diego		—	30,365	30,365	—
University of California Davis		—	48,394	48,394	—
University of Illinois at Champaign		—	80,136	80,136	—
Total Geosciences		6,935,789	158,895	7,094,684	1,414,712

THE UNIVERSITY OF CHICAGO
Schedule of Expenditures of Federal Awards
Year ended June 30, 2016

Federal agency and pass-through entity	CFDA numbers/ award numbers	Direct awards	Pass-through awards	Total expenditures	Passed through to subrecipients
National Science Foundation (continued):					
Computer and Information Science and Engineering:	47.070	\$ 5,960,291	\$ —	\$ 5,960,291	\$ 267,111
DePaul University		—	31,439	31,439	—
Indiana University		—	184,236	184,236	—
School Board of Broward County, Florida		—	13,600	13,600	—
University of Illinois at Champaign		—	160,413	160,413	—
University of Minnesota		—	8,247	8,247	—
University of Texas at Austin		—	56,560	56,560	—
Total Computer and Information Science and Engineering		5,960,291	454,495	6,414,786	267,111
Biological Sciences:	47.074	3,427,070	—	3,427,070	—
Temple University		—	19,601	19,601	—
Texas Tech University		—	44,353	44,353	—
University of Arizona		—	484	484	—
University of Florida		—	239,714	239,714	—
University of Massachusetts		—	111,295	111,295	—
University of Oregon		—	44,270	44,270	—
University of Wisconsin		—	31,725	31,725	—
Total Biological Sciences		3,427,070	491,442	3,918,512	—
Social, Behavioral, and Economic Sciences:	47.075	4,075,136	—	4,075,136	230,440
Case Western University		—	(777)	(777)	—
Northwestern University		—	3,729	3,729	—
Temple University		—	799,568	799,568	—
University of New Hampshire		—	65,859	65,859	—
Total Social, Behavioral, and Economic Sciences		4,075,136	868,379	4,943,515	230,440
Education and Human Resources	47.076	943,006	—	943,006	72,828
Polar Programs	47.078	(28,368)	—	(28,368)	—
Office of International Science and Engineering (OISE)	47.079	438,183	—	438,183	186,776
Office of Cyberinfrastructure	47.080	650,197	—	650,197	—
University of Illinois at Champaign		—	1,682,546	1,682,546	—
Total Office of Cyberinfrastructure		650,197	1,682,546	2,332,743	—
Trans-NSF Recovery Act Research Support	47.082	100,149	—	100,149	—
ARRA – Trans-NSF Recovery Act Research Support		48,814	—	48,814	—
Total National Science Foundation		43,106,602	7,823,903	50,930,505	3,903,505
Office of the Director of National Intelligence:					
Harvard University	D16PC00002	—	96,954	96,954	—
Total Office of the Director of National Intelligence		—	96,954	96,954	—
Total Research and Development Cluster		245,102,441	51,721,103	296,823,544	32,663,802
Education and Human Resources Cluster:					
National Science Foundation:					
Education and Human Resources	47.076	2,794,000	—	2,794,000	—
Total National Science Foundation		2,794,000	—	2,794,000	—
Total Education and Human Resources Cluster		2,794,000	—	2,794,000	—
Student Financial Assistance Cluster:					
Department of Education:					
Federal Supplemental Educational Opportunity Grants	84.007	1,421,593	—	1,421,593	—
Federal Work-Study Program	84.033	1,541,853	—	1,541,853	—
Federal Perkins Loan Program – Federal Capital Contributions	84.038	43,738,383	—	43,738,383	—
Federal Pell Grant Program	84.063	2,803,420	—	2,803,420	—
Federal Direct Student Loans	84.268	90,988,778	—	90,988,778	—
Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379	196,947	—	196,947	—
Total Department of Education		140,690,974	—	140,690,974	—
Department of Health and Human Services:					
Health Professions Student Loans, Including Primary Care Loans and Loans for Disadvantaged Students	93.342	114,620	—	114,620	—
Total Department of Health and Human Services		114,620	—	114,620	—
Total Student Financial Assistance Cluster		140,805,594	—	140,805,594	—
Other Federal Programs:					
Agency for International Development:					
USAID Foreign Assistance for Programs Overseas	98.001	446,798	3,658	450,456	—
Total Agency for International Development		446,798	3,658	450,456	—
Department of Education:					
Overseas Programs – Doctoral Dissertation Research Abroad	84.022	123,403	—	123,403	—
TRIO – Upward Bound	84.047	471,438	—	471,438	—
Gaining Early Awareness and Readiness for Undergraduate Programs:	84.334	—	137,252	137,252	—
Northeastern Illinois University		—	137,252	137,252	—
Total Gaining Early Awareness and Readiness for Undergraduate Programs		—	137,252	137,252	—
Improving Teacher Quality State Grants:	84.367	—	379,299	379,299	—
Illinois Board of Higher Education		—	19,249	19,249	—
West-Ed		—	379,299	379,299	—
Total Improving Teacher Quality State Grants		—	398,548	398,548	—

THE UNIVERSITY OF CHICAGO
Schedule of Expenditures of Federal Awards
Year ended June 30, 2016

Federal agency and pass-through entity	CFDA numbers/ award numbers	Direct awards	Pass-through awards	Total expenditures	Passed through to subrecipients
Department of Education (continued):					
School Improvement Grants:					
Chicago Board of Education	84.377	\$ —	\$ 1,015,670	\$ 1,015,670	\$ —
Total School Improvement Grants		—	1,015,670	1,015,670	—
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):					
University of Illinois at Champaign	84.015	1,792,608	—	1,792,608	—
		—	376,185	376,185	—
Total National Resource Centers Program for Foreign Language and Area Studies		1,792,608	376,185	2,168,793	—
ARRA – Teacher Quality Partnerships, Recovery Act	84.405	762,927	—	762,927	—
Total Department of Education		3,150,376	1,927,655	5,078,031	—
Department of Energy:					
Department of Energy:					
DE-SC0015963		15,058	—	15,058	—
Argonne National Laboratory		—	69,052	69,052	—
Battelle Memorial Institute		—	3,306	3,306	—
Fermi National Accelerator Laboratory		—	156,457	156,457	—
Fermi National Accelerator Laboratory		—	37,406	37,406	—
Fermi National Accelerator Laboratory		—	15,036	15,036	—
Fermi National Accelerator Laboratory		—	(3,114)	(3,114)	—
URA VISIT SCHLRS #14-F-12		—	(3,114)	(3,114)	—
Total Other Department of Energy		15,058	278,143	293,201	—
Total Department of Energy		15,058	278,143	293,201	—
Department of Health and Human Services:					
Maternal and Child Health Federal Consolidated Programs:					
American Academy of Pediatrics	93.110	—	33,945	33,945	—
University of Kansas		—	13,205	13,205	—
Total Maternal and Child Health Federal Consolidated Programs		—	47,150	47,150	—
AIDS Education and Training Centers	93.145	—	10,660	10,660	—
University of Illinois at Chicago		—	10,660	10,660	—
Total AIDS Education and Training Centers		—	10,660	10,660	—
Substance Abuse and Mental Health Services – Projects of Regional and National Significance:					
Justice Research Institute Inc	93.243	—	29,755	29,755	—
Northwestern University		—	5,991	5,991	—
University of Illinois at Chicago		—	2,108	2,108	—
Total Substance Abuse and Mental Health Services		—	37,854	37,854	—
Adult Viral Hepatitis Prevention and Control	93.270	1,381,159	—	1,381,159	775,429
Discovery and Applied Research for Technological Innovations to Improve Human Health:					
National Center for Advancing Translational Sciences	93.286	807	—	807	—
Emory University	93.350	—	1,600	1,600	—
Total National Center for Advancing Translational Sciences		—	1,600	1,600	—
Research Infrastructure Programs	93.351	164,432	—	164,432	—
Cancer Cause and Prevention Research	93.393	1,882	—	1,882	—
Cancer Treatment Research:					
Brigham and Women's Hospital	93.395	—	1,008,811	1,008,811	—
Gynecologic Oncology Group		—	810	810	—
The Children's Hospital of Philadelphia		—	29,824	29,824	—
Total Cancer Treatment Research		—	1,039,445	1,039,445	—
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program:					
Illinois Department of Human Services	93.505	—	977,809	977,809	—
Total ACA Maternal, Infant, and Early Childhood Home Visiting Program		—	977,809	977,809	—
Health Care Innovation Awards (HCIA)	93.610	251,815	—	251,815	231,208
ACA-Transforming Clinical Practice Initiative: Practice Transformation Networks (PTNs)					
Northwestern University	93.638	—	240,092	240,092	—
Total ACA-Transforming Clinical Practice Initiative: Practice Transformation Networks		—	240,092	240,092	—
Social Services Block Grant	93.667	—	170,980	170,980	—
Illinois Department of Human Services		—	170,980	170,980	—
Total Social Services Block Grant		—	170,980	170,980	—
Organized Approaches to Increase Colorectal Cancer Screening	93.800	576,990	—	576,990	165,468
Department of Health and Human Services (continued):					
HIV Emergency Relief Project Grants:					
Aids Foundation of Chicago	93.914	—	102,710	102,710	—
City of Chicago Department of Public Health		—	(30,322)	(30,322)	—
City of Chicago Department of Public Health		—	691,653	691,653	—
Total HIV Emergency Relief Project Grants		—	764,041	764,041	—
HIV Prevention Activities – Non-Governmental Organization Based	93.939	118,333	—	118,333	—

THE UNIVERSITY OF CHICAGO
Schedule of Expenditures of Federal Awards
Year ended June 30, 2016

Federal Agency and Pass-Through Entity	CFDA Numbers/ Award Numbers	Direct Awards	Pass-Through Awards	Total Expenditures	Passed Through to Subrecipients
Department of Health and Human Services (continued):					
HIV Prevention Activities – Health Department Based:	93.940				
City of Chicago Department of Public Health	City of Chicago 28813	\$ —	\$ 134	\$ 134	\$ —
City of Chicago Department of Public Health	City of Chicago 30597	—	1,182,764	1,182,764	669,315
City of Chicago Department of Public Health	City of Chicago 31989	—	264,810	264,810	—
Total HIV Prevention Activities – Health Department Based		—	1,447,708	1,447,708	669,315
Maternal and Child Health Services Block Grant to States:	93.994				
Illinois Department of Human Services		—	179,279	179,279	—
Illinois Department of Public Health		—	382,511	382,511	—
Total Maternal and Child Health Services Block Grant to States		—	561,790	561,790	—
Department of Health and Human Services:					
University of Illinois at Chicago	IPA MELTZER	103,742	—	103,742	—
Chapin Hall	HHSN276201100005C HHSP23320095654WC	—	1,998	1,998	—
Total Other Department of Health and Human Services		103,742	78,903	182,645	—
Total Department of Health and Human Services		2,599,160	5,378,032	7,977,192	1,841,420
Department of Justice:					
Project Safe Neighborhoods	16.609				
Illinois Criminal Justice Information Authority		—	71,730	71,730	—
Total Project Safe Neighborhoods		—	71,730	71,730	—
Second Chance Act Prisoner Reentry Initiative:	16.812				
Illinois Department of Human Services		—	58,950	58,950	—
Total Second Chance Act Prisoner Reentry Initiative		—	58,950	58,950	—
Total Department of Justice		—	130,680	130,680	—
Department of State:					
Public Diplomacy Programs for Afghanistan and Pakistan	19.501	1,522,141	—	1,522,141	—
Total Department of State		1,522,141	—	1,522,141	—
Environmental Protection Agency:					
Science To Achieve Results (STAR) Fellowship Program	66.514	1,206	—	1,206	—
Total Environmental Protection Agency		1,206	—	1,206	—
Institute of Museum Services:					
Museums for America	45.301	75,075	—	75,075	—
Total Institute of Museum Services		75,075	—	75,075	—
National Endowment for the Arts:					
Promotion of the Arts – Grants to Organizations and Individuals	45.024	43,867	—	43,867	—
Total National Endowment for the Arts		43,867	—	43,867	—
National Endowment for the Humanities:					
Promotion of the Humanities Division of Preservation and Access	45.149	47,489	—	47,489	—
Promotion of the Humanities Research	45.161	67,630	—	67,630	—
Promotion of the Humanities – Professional Development	45.163	50,400	—	50,400	—
Total National Endowment for the Humanities		165,519	—	165,519	—
National Science Foundation:					
Education and Human Resources:	47.076	525,548	—	525,548	42,268
Mathematical and Physical Sciences:	47.049	198,856	—	198,856	—
University of Notre Dame		—	2,926	2,926	—
Total Mathematical and Physical Sciences		198,856	2,926	201,782	—
Office of Cyberinfrastructure	47.080	(4,060)	—	(4,060)	—
Total National Science Foundation		720,344	2,926	723,270	42,268
Total Other Federal Programs Cluster		8,739,544	7,721,094	16,460,638	1,883,688
Grand total		\$ 397,441,579	\$ 59,442,197	\$ 456,883,776	\$ 34,547,490

See accompanying independent auditors' report.

THE UNIVERSITY OF CHICAGO

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2016

(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, 2016.

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, Marine Biological Laboratory, The University of Chicago Charter School Corporation, and UChicago Impact, LLC. 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. Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), 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), Federal Work Study (FWS) awards, and Teacher Education Assistance for College and Higher Education Grants (TEACH Grants). The University also receives awards to make loans to eligible students under the Federal Perkins Loan and Health Professions – Primary Care (HPL) loan programs. The University determines eligibility and performs certain other compliance functions relative to federally guaranteed loans made by the U.S. Department of Education 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 disbursed to student accounts. Student financial aid programs with fiscal year 2016 expenditures include the Federal Pell program grants to students, the federal share of students' FSEOG program grants, the

THE UNIVERSITY OF CHICAGO

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2016

federal share of the FWS program expenditures, and TEACH program grants to students. The University also reports loan disbursements under the Federal Perkins Loan, HPL, and Federal Direct Loan programs. The balances of loans outstanding at the beginning of the year are also reported on the Schedule for University administered loan programs, including Federal Perkins Loan and HPL. Administrative cost allowances permitted under several programs are reported on the Schedule.

(c) American Recovery and Reinvestment Act (ARRA)

During fiscal year 2016, the University expended \$811,741 of ARRA funds that it received from the following agencies:

Department of Education	\$	762,927
National Science Foundation		48,814
Total	\$	<u>811,741</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 does not use the de minimis indirect cost rate permitted under the Uniform Guidance. Rather, the University and federal agencies use a negotiated 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, 2016 were as follows:

Research and development	\$	82,416,520
Other		1,901,775
Total	\$	<u>84,318,295</u>

THE UNIVERSITY OF CHICAGO

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2016

(3) Summary of Subrecipient Payments

Subrecipient payments charged to federal awards for the year ended June 30, 2016 were as follows:

Research and Development:	
Department of Commerce	\$ 46,788
Department of Defense	3,783,823
Department of Education	29,698
Department of Energy	81,935
Department of Health and Human Services	24,599,740
Department of Justice	154,316
National Aeronautics and Space Administration	63,997
National Science Foundation	3,903,505
Total Research and Development	<u>32,663,802</u>
Other Federal Programs:	
Department of Health and Human Services	1,841,420
National Science Foundation	42,268
Total Other Federal Programs	<u>1,883,688</u>
Total	<u>\$ 34,547,490</u>

(4) Federal Loan Programs

Loans made to University students under the various federal loan programs for the year ended June 30, 2016 are summarized below:

University federal loans:	
Federal Perkins Loans:	
Current year loans	\$ 7,054,782
Administrative charge	294,143
Outstanding loans at beginning of the period	36,389,458
Total Federal Perkins Loans	<u>43,738,383</u>
HPL:	
Current year loans	—
Administrative charge	—
Outstanding loans at beginning of the period	114,620
Total HPL	<u>114,620</u>
Total University federal loans	<u>\$ 43,853,003</u>

THE UNIVERSITY OF CHICAGO

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2016

Non-University federal loans:	
Federal Direct Student Loans	\$ 48,230,734
Parent Loans for Undergraduate Students (PLUS) and Graduate PLUS	<u>42,758,044</u>
Total non-University federal loans	<u><u>\$ 90,988,778</u></u>

University federal loans outstanding at June 30, 2016 are shown below:

Perkins	\$ 36,011,256
Health professions	<u>112,763</u>
Total	<u><u>\$ 36,124,019</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 did not receive any non-cash assistance during the year ended June 30, 2016.

(6) Guaranteed Insurance

The University did not receive insurance guarantees during the year ended June 30, 2016.



KPMG LLP
Aon Center
Suite 5500
200 E. Randolph Street
Chicago, IL 60601-6436

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, 2016, 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 November 2, 2016.

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
November 2, 2016



KPMG LLP
Aon Center
Suite 5500
200 E. Randolph Street
Chicago, IL 60601-6436

Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

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 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, 2016. The University's major federal programs are identified in the summary of auditors' 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), Marine Biological Laboratory (MBL), The University of Chicago Charter School Corporation, and UChicago Impact, LLC, which expended federal awards that are not included in the University's schedule of expenditures of federal awards for the year ended June 30, 2016. The Medical Center and MBL have separate single audits performed as of June 30, 2016. The University of Chicago Charter School Corporation and UChicago Impact, LLC have separate single audits performed by other auditors.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 of Chicago 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, 2016.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2016-001 and 2016-002. Our opinion on the major federal programs is not modified with respect to these matters.

The University's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The University's responses were not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the responses.

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 type 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 the Uniform Guidance, 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, and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2016-001 and 2016-002, that we consider to be significant deficiencies.

The University's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The University's responses were not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the responses.



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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the consolidated financial statements of the University as of and for the year ended June 30, 2016, and have issued our report thereon dated November 2, 2016, 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 the Uniform Guidance 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 expenditures of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

March 2, 2017

THE UNIVERSITY OF CHICAGO
Schedule of Findings and Questioned Costs
Year ended June 30, 2016

(1) Summary of Auditors' Results

- (a) Type of report issued on whether the consolidated financial statements were prepared in accordance with generally accepted accounting principles: Unmodified
- (b) Internal control deficiencies over financial reporting disclosed by the audit of the consolidated financial statements:
 - Material weaknesses: No
 - Significant deficiencies: None reported
- (c) Noncompliance material to the consolidated financial statements: No
- (d) Internal control deficiencies over major programs disclosed by the audit:
 - Material weaknesses: No
 - Significant deficiencies: Yes
- (e) Type of report issued on compliance for major programs: Unmodified
- (f) Audit findings that are required to be reported in accordance with 2 CFR 200.516(a): Yes
- (g) Major programs:
 - Student Financial Assistance Cluster – Various CFDA numbers**
 - Public Diplomacy Program for Afghanistan and Pakistan – CFDA 19.501**
- (h) Dollar threshold used to distinguish between Type A and Type B programs: \$3,000,000
- (i) Auditee qualified as a low-risk auditee: Yes

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

None

THE UNIVERSITY OF CHICAGO
Schedule of Findings and Questioned Costs
Year ended June 30, 2016

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

Finding 2016-001 Untimely and Inaccurate Enrollment Reporting

Federal Agency: U.S. Department of Education (USDE)

Program Name: Student Financial Assistance Program/Cluster

CFDA # and Program Expenditures: 84.063 (\$2,803,420)
 84.268 (\$90,988,778)

Federal Award Numbers: P063P20131389
 P268K161389; P268K167030; P268K167038; P268K167041

Federal Award Year: July 1, 2015 to June 30, 2016

Questioned Costs: None

Condition Found

The University did not accurately report student enrollment status changes to the National Student Loan Data System (NSLDS). Additionally, the University failed to report certain student enrollment status information on a timely basis.

A student's enrollment status determines eligibility for in-school status, deferment, and grace periods, as well as for the payment of interest subsidies to Federal Direct Loan Program loan holders by the U.S. Department of Education (USDE). Enrollment reporting in a timely and accurate manner is critical for effective management of the programs.

The University uses the services of the National Student Clearinghouse (NSC) to report status changes to the NSLDS. Under this arrangement, the University reports all students enrolled and their status to the NSC. The NSC completes the roster file on behalf of the University and communicates status changes to the NSLDS. Although the University uses the services of the NSC, it is still ultimately the University's responsibility to submit timely, accurate, and complete records to the NSLDS.

During our testwork over 40 borrowers under the Direct Loan program and Pell recipients that graduated or withdrew during the fiscal year, we noted the following:

- The status changes for one unofficially withdrawn student and one officially withdrawn student were reported to the NSLDS more than 60 days after the University became aware of these status changes. Specifically, these status changes were reported 64 and 35 days late.
- The status change for one officially withdrawn student was inaccurately reported to the NSLDS as full-time.
- The status change for one graduated student tested was inaccurately reported to the NSLDS as withdrawn.

THE UNIVERSITY OF CHICAGO
Schedule of Findings and Questioned Costs
Year ended June 30, 2016

Further, we noted the University has designed controls to verify the University data is properly sent to the NSC and NSLDS to ensure the records are complete and accurate, however, the controls did not identify these errors, and therefore, were not operating effectively.

Criteria

According to 34 CFR Sections 690.83(b)(2) and 685.309, under the Pell grant and Federal Direct loan programs, institutions must complete and return the Enrollment Reporting roster file via NSLDS within 15 days of receipt. Enrollment information must be reported within 30 days whenever attendance changes for students, unless a roster will be submitted within 60 days. An institution must notify the Secretary of Education if it discovers that a loan under Title IV of the Act was made to or on behalf of a student who was enrolled or accepted for enrollment at the school, and the student has ceased to be enrolled on at least a half-time basis or failed to enroll on at least a half-time basis for the period for which the loan was intended.

In addition, 2 CFR 200.303 requires nonfederal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. Effective internal controls should include establishing procedures to ensure student enrollment status changes are accurately and timely reported to the NSLDS.

Cause

In discussing these conditions with University officials, they stated the error was the result of an oversight by the staff involved in the process which was not detected by established control procedures.

Possible Asserted Effect

Delayed submission of student enrollment status information affects the determinations that lenders and servicers of student loans make related to in-school status, deferments, grace periods, and repayment schedules, as well as the federal government's payment of interest subsidies.

Repeat Finding

A similar finding was reported in the prior year audit as finding number 2015-003.

Statistical Sampling

The sample was not intended to be, and was not, a statistically valid sample.

Recommendation

We recommend the University review its procedures to ensure timely and accurate reporting of student enrollment status information to the NSLDS.

Views of University Officials

The University agrees with the condition noted. During the implementation of the new student information system, the processes for reporting student enrollment status to the National Student Clearinghouse were reviewed and updated to ensure information updates are sent in a timely manner.

THE UNIVERSITY OF CHICAGO
Schedule of Findings and Questioned Costs
Year ended June 30, 2016

Finding 2016-002 Inaccurate SF-425 Financial Reports
Federal Agency: U.S. Department of State (USDOS)
Program Name: Public Diplomacy Program for Afghanistan and Pakistan
CFDA # and Program Expenditures: 19.501 (\$1,522,141)
Federal Award Numbers: SAF200-12-CA006/SAF200-15-CA014
Federal Award Year: July 1, 2015 to June 30, 2016
Questioned Costs: None

Condition Found

The University did not prepare accurate financial reports for the Public Diplomacy Program for Afghanistan and Pakistan (PDP) program.

The University is required to prepare financial status (SF-425) reports on a quarterly basis for the PDP program. The SF-425 reports are prepared for each open grant award for the program and present cash transactions, expenditures, and other financial information on a cumulative basis. During our testwork of SF-425 reports submitted for the quarters ended March 31, 2016 and June 30, 2016 for both open PDP program awards, we noted the following:

- The grant end date was inaccurately reported as December 31, 2018 on both reports submitted for PDP grant #SAF200-15-CA-014. The correct grant end date at the time the reports were prepared was December 31, 2016.
- The basis of accounting reported for both PDP program grants on the reports submitted for the quarter ended March 31, 2016 was inaccurately identified as the cash basis. The correct basis of accounting was accrual.

Further, we noted the University has designed controls to verify financial reports prepared for its federal programs are accurate; however, the established controls did not operate effectively with respect to these attributes.

Criteria

According to the award provisions of the federal assistance awards dated September 27, 2012 and September 17, 2015, the University is required to submit complete and accurate quarterly financial status reports (known as SF-425 reports) after each calendar year quarter.

In addition, 2 CFR 200.303 and the OMB Circular A-110 require nonfederal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. Effective internal controls should include procedures to ensure information reported in required financial reports is complete and accurate.

THE UNIVERSITY OF CHICAGO
Schedule of Findings and Questioned Costs
Year ended June 30, 2016

Cause

In discussing these conditions with University officials, they stated the errors were the result of an anticipated change in the award period and an undetected error in the basis of accounting checked by the preparer which was not detected during supervisory review procedures.

Possible Asserted Effect

Failure to accurately prepare financial reports may prevent the USDOS from effectively monitoring the PDP program.

Repeat Finding

A similar finding was not reported in the prior year audit.

Statistical Sampling

The sample was not intended to be, and was not, a statistically valid sample.

Recommendation

We recommend the University review the procedures in place to prepare financial reports required for the PDP program and implement any additional procedures necessary to ensure the information reported is accurate.

Views of University Officials

The University agrees with the condition noted. The University has updated our internal operating procedures and reinforced through training.