THE UNIVERSITY OF CHICAGO

Consolidated Financial Statements and
Supplemental University Information

June 30, 2007 and 2006

(With Independent Auditors' Report Thereon)

THE UNIVERSITY OF CHICAGO

Management Responsibility for Financial Statements

The management of The University of Chicago (University) is responsible for the preparation, integrity, and fair presentation of the consolidated financial statements. The financial statements, presented on pages 3 to 33, have been prepared in conformity with generally accepted accounting principles and, as such, include amounts based on judgments and estimates by management.

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

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

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

Nimalan Chinniah
Vice President for Administration
and Chief Financial Officer

John R. Kroll
Comptroller

KPMG LLP
303 East Wacker Drive
Chicago, IL 60601-5212

Independent Auditors' Report

The Board of Trustees
The University of Chicago:

We have audited the accompanying consolidated balance sheets of The University of Chicago (the University) as of June 30, 2007 and 2006, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of The University of Chicago Medical Center (the Medical Center), which statements reflect total assets constituting 15% and 15% and total revenues constituting 32% and 30% of the related consolidated totals in 2007 and 2006, respectively. Our opinion, insofar as it relates to the amounts included for the Medical Center, is based solely on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The University of Chicago as of June 30, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP, a U.S. limited liability partnership, is the U.S.
member firm of KPMG International, a Swiss cooperative.

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplementary information presented in the University and Medical Center columns on pages 3 through 6 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, based on our audits and with respect to the amounts included for the Medical Center, the report of other auditors, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole. In addition, the supplementary information included in schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

KPMG LLP

September 21, 2007

THE UNIVERSITY OF CHICAGO

Consolidated Balance Sheets

June 30, 2007 and 2006

(In thousands of dollars)

		2007		2006
Assets	**University**	**Medical Center**	**Consolidated**	**Consolidated**
Cash and cash equivalents	$ —	88,056	88,056	21,726
Notes and accounts receivable	230,527	94,157	324,684	319,636
Collateral held for securities loaned	494,429	—	494,429	539,719
Prepaid expenses and other assets	34,260	85,980	120,240	79,527
Pledges receivable	192,927	18,430	211,357	211,695
Investments	6,524,430	732,504	7,256,934	5,876,287
Land, buildings, equipment, and books	1,465,161	533,450	1,998,611	1,797,906
Total assets	$ 8,941,734	1,552,577	10,494,311	8,846,496
Liabilities and Net Assets				
Liabilities:				
Accounts payable and accrued expenses	$ 227,793	219,138	446,931	433,198
Deferred revenue	81,358	—	81,358	76,703
Payable under securities loan agreements	494,429	—	494,429	539,719
Assets held in custody for others	35,626	—	35,626	31,199
Self-insurance liability	188,359	6,557	194,916	177,534
Pension and other post retirement benefit obligations	176,947	4,639	181,586	32,516
Asset retirement obligation	58,805	7,946	66,751	77,139
Notes and bonds payable	1,385,846	403,735	1,789,581	1,475,488
Refundable U.S. Government student loan funds	37,300	—	37,300	37,064
Total liabilities	2,686,463	642,015	3,328,478	2,880,560
Net assets:				
Unrestricted	4,828,283	857,589	5,685,872	4,603,985
Temporarily restricted	377,461	46,943	424,404	422,518
Permanently restricted	1,049,527	6,030	1,055,557	939,433
Total net assets	6,255,271	910,562	7,165,833	5,965,936
Total liabilities and net assets	$ 8,941,734	1,552,577	10,494,311	8,846,496

See accompanying notes to consolidated financial statements.

THE UNIVERSITY OF CHICAGO

Consolidated Statements of Activities

June 30, 2007 and 2006

(In thousands of dollars)

	2007			2006
	University	**Medical Center**	**Consolidated**	**Consolidated**
Changes in unrestricted net assets:				
Operating:				
Revenue:				
Tuition and fees – gross	$ 479,612	—	479,612	445,960
Less:				
Undergraduate student aid	(56,905)	—	(56,905)	(51,847)
Graduate student aid	(142,935)	—	(142,935)	(134,808)
Tuition and fees – net	279,772	—	279,772	259,305
Government grants and contracts	327,415	—	327,415	317,773
Private gifts, grants, and contracts	118,866	946	119,812	106,505
Endowment payout	193,731	7,249	200,980	183,525
Earnings on other investments	10,615	17,516	28,131	21,797
Patient care	185,476	1,021,512	1,206,988	1,040,283
Auxiliaries	185,394	—	185,394	168,770
Other income	127,719	44,802	172,521	166,807
Net assets released from restrictions	102,916	—	102,916	44,923
Total operating revenue	1,531,904	1,092,025	2,623,929	2,309,688
Expenses:				
Compensation:				
Academic salaries	370,606	—	370,606	344,814
Staff salaries	356,157	360,851	717,008	697,635
Benefits	194,417	79,992	274,409	267,349
Total compensation	921,180	440,843	1,362,023	1,309,798
Other operating expenses:				
Utilities, alterations, and repairs	45,156	25,602	70,758	65,605
Depreciation	91,518	48,835	140,353	131,192
Interest	44,654	15,465	60,119	48,348
Supplies, services, and other	363,343	426,304	789,647	683,259
Insurance	31,833	23,593	55,426	60,735
Total other operating expenses	576,504	539,799	1,116,303	989,139
Total operating expenses	1,497,684	980,642	2,478,326	2,298,937
Excess of operating revenue over expenses	$ 34,220	111,383	145,603	10,751

THE UNIVERSITY OF CHICAGO

Consolidated Statements of Activities

June 30, 2007 and 2006

(In thousands of dollars)

	2007			2006
	University	**Medical Center**	**Consolidated**	**Consolidated**
Changes in unrestricted net assets:				
Nonoperating:				
Investment gains	$ 832,102	78,601	910,703	600,541
Minimum pension liability adjustment	—	2,210	2,210	78,039
Other, net	39,242	13,301	52,543	18,215
Effect of a change in accounting for pension and other postretirement benefit plans	(117,255)	—	(117,255)	—
Cumulative effect of changes in accounting for:				
Asset retirement obligations	—	—	—	(77,995)
Correction of prior year misstatements	35,400	52,683	88,083	—
Change in unrestricted net assets from nonoperating activities	789,489	146,795	936,284	618,800
Increase in unrestricted net assets	823,709	258,178	1,081,887	629,551
Changes in temporarily restricted net assets:				
Private gifts	144,254	5,188	149,442	138,713
Endowment payout	171	—	171	286
Investment gains	911	—	911	1,936
Other, net	(16,952)	(28,770)	(45,722)	(38,431)
Net assets released from restrictions	(102,916)	—	(102,916)	(44,923)
Increase (decrease) in temporarily restricted net assets	25,468	(23,582)	1,886	57,581
Changes in permanently restricted net assets:				
Private gifts	88,710	—	88,710	42,212
Endowment payout	1,813	—	1,813	1,853
Investment gains	6,320	—	6,320	3,837
Other, net	19,067	214	19,281	25,482
Increase in permanently restricted net assets	115,910	214	116,124	73,384
Increase in net assets	965,087	234,810	1,199,897	760,516
Net assets at beginning of year	5,290,184	675,752	5,965,936	5,205,420
Net assets at end of year	$ 6,255,271	910,562	7,165,833	5,965,936

See accompanying notes to consolidated financial statements.

THE UNIVERSITY OF CHICAGO

Consolidated Statements of Cash Flows

Years ended June 30, 2007 and 2006

(In thousands of dollars)

	2007 University	2007 Medical Center	2007 Consolidated	2006 Consolidated
Cash flows from operating activities:				
Increase in net assets	$ 965,087	234,810	1,199,897	760,516
Adjustments to reconcile increase in net assets to net cash provided by operating activities:				
Depreciation	91,518	48,835	140,353	131,192
Loss on disposal of land, buildings, equipment, and books	2,435	150	2,585	1,144
Net gain on investments	(944,793)	(49,397)	(994,190)	(670,124)
Private gifts and grants restricted for long-term investment	(232,964)	(5,402)	(238,366)	(180,925)
Other nonoperating changes	100,292	(48,340)	51,952	13,512
Minimum pension liability adjustment		(2,210)	(2,210)	(78,039)
Effect of a change in accounting for pension and other postretirement benefit plans	117,255	—	117,255	—
Cumulative effect of changes in accounting for:				
Asset retirement obligations	—	—	—	77,995
Correction of prior year misstatements	(35,400)	(52,683)	(88,083)	—
Changes in assets and liabilities:				
Notes and accounts receivable	(15,933)	15,754	(179)	(246)
Prepaid expenses and other assets	(21,553)	(22,249)	(43,802)	255
Accounts payable and other liabilities	68,356	34,999	103,355	46,648
Self-insurance liability	17,759	(377)	17,382	8,285
Total adjustments	(853,028)	(80,920)	(933,948)	(650,303)
Net cash provided by operating activities	112,059	153,890	265,949	110,213
Cash flows from investing activities:				
Purchase of investments	(1,821,638)	(109,642)	(1,931,280)	(767,639)
Proceeds from sale of investments	1,541,423	75,142	1,616,565	768,869
Acquisition of land, buildings, equipment, and books	(233,137)	(83,950)	(317,087)	(239,173)
Loans disbursed	(62,324)	—	(62,324)	(63,303)
Principal collected on loans	57,455	—	57,455	85,754
Net cash used in investing activities	(518,221)	(118,450)	(636,671)	(215,492)
Cash flows from financing activities:				
Proceeds from issuance of notes and bonds payable	1,011,437	41,000	1,052,437	301,448
Principal payments on notes and bonds payable	(729,569)	(9,423)	(738,992)	(318,507)
Proceeds from private gifts and grants restricted for long-term investment	224,586	14,118	238,704	151,003
Other nonoperating changes	(100,292)	(14,805)	(115,097)	(54,887)
Net cash provided by financing activities	406,162	30,890	437,052	79,057
Increase in cash and cash equivalents	—	66,330	66,330	(26,222)
Cash and cash equivalents at:				
Beginning of year	—	21,726	21,726	47,948
End of year	$ —	88,056	88,056	21,726
Supplemental disclosure of cash flow information:				
Cash paid for interest	$ 47,057	14,200	61,257	58,768

See accompanying notes to consolidated financial statements.

(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 health care facilities located in the area.

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

(b) Basis of Presentation

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

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

For reporting purposes, however, the University follows the reporting requirements of Statement of Financial Accounting Standards No. 117, *Financial Statements of Not-for-Profit Organizations* (SFAS No. 117). SFAS No. 117 requires that resources be classified for reporting purposes based on the existence or absence of donor-imposed restrictions. This is accomplished by classification of fund balances into three classes of net assets – unrestricted, temporarily restricted, and permanently restricted. Descriptions of the three net asset categories and the types of transactions affecting each category follow:

- Unrestricted – net assets that are not subject to donor-imposed restrictions. Items that affect this net asset category principally consist of fees for service and related expenses associated with the core activities of the University – instruction, conduct of sponsored research, and provision of health care services. In addition to these exchange transactions, changes in this category of net assets include investment return on 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 to function as endowment and restricted gifts whose donor-imposed restrictions were met during the fiscal year, as well as restricted gifts and grants for buildings and equipment that have been amortized over the useful life of the assets acquired or constructed.

(In thousands of dollars)

- Temporarily Restricted – net assets subject to donor-imposed restrictions that will be met either by actions of the University or the passage of time. Items that affect this net asset category are gifts for which donor-imposed restrictions have not been met, gifts and grants for buildings and equipment, annuity and life income gifts, pledges for which the ultimate purpose of the proceeds is not permanently restricted, and endowments where the principal may be expended upon the passage of a stated period of time (term endowments). Expirations of restrictions on temporarily restricted net assets, including amortization of restricted gifts and grants for buildings and equipment, are reported as 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.

Net assets consisted of the following at June 30:

Detail of Net Assets	2007 Unrestricted	2007 Temporarily restricted	2007 Permanently restricted	2007 Total	2006 Total
University:					
Operating	$ (185,810)	17,281	—	(168,529)	85,876
Pledges	—	147,375	45,552	192,927	184,549
Student loans	—	—	15,192	15,192	14,568
Endowment	4,854,169	25,865	953,892	5,833,926	4,662,286
Annuity and life income	—	18,918	34,891	53,809	44,220
Net investment in physical properties	159,924	168,022	—	327,946	298,685
Subtotal	4,828,283	377,461	1,049,527	6,255,271	5,290,184
Medical Center:					
Operating	509,463	28,753	—	538,216	338,096
Pledges	—	18,190	240	18,430	27,146
Endowment	204,290	—	5,790	210,080	177,628
Net investment in physical properties	143,836	—	—	143,836	132,882
Subtotal	857,589	46,943	6,030	910,562	675,752
Total	$ 5,685,872	424,404	1,055,557	7,165,833	5,965,936

(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, and other infrequent gains and losses.

As discussed in note 11, based primarily on participation, the University and Medical Center share equally in contributions made to the defined benefit pension plan. For financial reporting purposes the Medical Center recognizes its share of annual contributions to the plan as expense. If the fiscal 2007 pension expense of $32,788 was allocated based on plan participation, the University excess of operating revenue over expenses and increase in net assets in the consolidated statement of activities would increase by $14,925 with a corresponding decrease in the Medical Center excess of operating revenue over expenses and increase in net assets.

As discussed in note 2, the Medical Center provides certain operating support to the University's Biological Sciences Division. Such support is included in other operating income of the University to the extent expended for noncapital purposes during the period, and amounted to $15,000 in fiscal 2007 and $17,512 in fiscal

(d) Tuition and Fees

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

(e) Gifts, Grants, and Contracts

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

Revenue from government and private grant and contract agreements is recognized as it is earned through expenditure in accordance with the agreements. Any funding received in advance of expenditure is recorded as deferred revenue on the consolidated balance sheets. Included in deferred revenue at June 30, 2007 and 2006 are $45,746 and $42,733, respectively, of private grant and contract receipts, which have not been expended.

(In thousands of dollars)

Private gifts, grants, and contracts operating revenue for fiscal years 2007 and 2006 consists of the following:

		2007			2006
		University	Medical Center	Total	Total
Private gifts:					
Unrestricted as to use	$	17,725	946	18,671	15,995
Temporarily restricted gifts whose restrictions were met during the fiscal year and reported as unrestricted revenue		44,135	—	44,135	35,634
Private grants and contracts		57,006	—	57,006	54,876
Total	$	118,866	946	119,812	106,505

(f) Endowment Payout

The University utilizes the total return concept in allocating endowment income. In accordance with the University's total return objective, between 4.5% and 5.5% of a twelve 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 exact payout percentage, which is set each year by the Board of Trustees with the objective of a 5% average payout over time, was 5.2% and 5.15% for the fiscal years ended June 30, 2007 and 2006, respectively.

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.

(Continued)

(In thousands of dollars)

Endowment payout for fiscal years 2007 and 2006 consists of the following:

	2007			2006
	University	Medical Center	Total	Total
Interest, dividends, and rents	$ 90,655	3,289	93,944	80,832
Investment gains used to support the endowment payout formula	105,060	3,960	109,020	104,832
Total	$ 195,715	7,249	202,964	185,664

Unrestricted operating endowment payout revenue for fiscal years 2007 and 2006 consists of the following:

	2007			2006
	University	Medical Center	Total	Total
Unrestricted payout	$ 51,872	7,249	59,121	54,270
Temporarily restricted payout whose restrictions were met during the fiscal year and reported as unrestricted revenue	141,859	—	141,859	129,255
Total	$ 193,731	7,249	200,980	183,525

(g) Patient Care

Net patient service revenue reflects the estimated net realizable amounts due from third-party payors for services rendered. A majority of patient care revenue is derived from contractual agreements with Medicare, Medicaid, Blue Cross/Blue Shield, managed care, and certain other programs. Payments under these agreements and programs are based on specific amounts per case or contracted prices. 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.

(h) 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.

(i) Investments

Investments are recorded in the consolidated financial statements at fair value. The fair value of investments is based on quoted market prices, except for certain alternative investments, such as private equity, real assets, and absolute return, for which quoted market prices may not be available. The estimated fair value for absolute return, private equity, and real asset investments is based on valuations provided by the external investment managers. The valuations for these alternative investments necessarily involve estimates, appraisals, assumptions, and methods which are reviewed by the University's Investment Office.

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

(j) 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.

(k) 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 was estimated using site specific surveys where available and a per square foot estimate where surveys were unavailable.

(In thousands of dollars)

(l) Correction of Prior Year Misstatements

In fiscal 2007, the Securities and Exchange Commission staff issued Staff Accounting Bulletin No. 108 (SAB 108),*"Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements."* Although SAB 108 is directly applicable to public companies, the University and Medical Center elected to follow the prescribed guidance for current period recognition of prior year financial statement misstatements previously considered immaterial to the financial statements taken as a whole.

Following the guidance of SAB 108, the University and Medical Center recognized the cumulative effect of the application of SAB 108 as a fiscal 2007 non-operating increase in unrestricted net assets as follows:

	2007			Fiscal
	University	Medical Center	Totals	Years Affected
Increase in the value of investments related to more timely valuation of certain alternative investments	$ 35,400	1,400	36,800	2006
Decrease in accounts payable and accrued expenses related to third party settlements	—	35,000	35,000	1990—2000
Increase in prepaid expenses and other assets related to the valuation of a trust	—	11,762	11,762	2004—2006
Decrease in accounts payable and accrued expenses related to reversal of prior year program related liabilities	—	3,299	3,299	1999—2006
Increase in land, buildings, equipment, and books related to capitalization of prior year capital project costs	—	1,222	1,222	2006
	$ 35,400	52,683	88,083	

(m) Split Interest Agreements

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

(n) Use of Estimates

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

(o) Reclassifications

Certain 2006 amounts have been reclassified to conform to the 2007 presentation.

(2) The University of Chicago Medical Center

(a) Organization

The University of Chicago Medical Center, an Illinois not-for-profit corporation, operates the Bernard Mitchell Hospital, the Chicago Lying-In Hospital, the University of Chicago Comer Children's Hospital, the Duchossois Center for Advanced Medicine, and various other outpatient clinics and treatment areas including QV, Inc., an affiliated not-for-profit health care corporation operating clinics in the Chicago area. Prior to August 2006 the Medical Center was named the University of Chicago Hospitals. The University, as the sole corporate member of the Medical Center, elects the Medical Center's Board of Trustees and approves its By-Laws.

(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 a leasehold interest in the University health care facilities and certain land and parking structures.

(In thousands of dollars)

(c) *Basis of Presentation*

The Medical Center maintains its accounts and prepares stand-alone financial statements in conformity with accounting and reporting principles of the American Institute of Certified Public Accountants *Audit and Accounting Guide Health Care Organizations*. For purposes of presentation of the Medical Center' financial position and changes in net assets in the consolidated financial statements, several reclassifications have been made as follows: (1) the provision for uncollectible Medical Center' patient accounts receivable of $56,022 in fiscal year 2007 and $44,236 in fiscal year 2006 has been reclassified as a reduction of patient care revenue and (2) investment gains of $29,411 in fiscal year 2007 and $37,074 in fiscal year 2006 not used for operations have been reclassified as a nonoperating change in unrestricted net assets.

The Medical Center has made certain commitments to support the enhancement and expansion of several programs within the University's Biological Sciences Division. During fiscal 2007 and fiscal 2006, the Medical Center transferred $15,000 annually to the University in support of these programs.

(3) Investments

Fair values of investments at June 30, 2007 and 2006 are shown below:

	2007				2006
	University and Medical Center endowment	Other investments			
		University	Medical Center	Total	Total
Cash equivalents	$ 86,479	4,378	1,776	92,633	19,131
Domestic public equities	643,551	60,464	297,861	1,001,876	923,962
International public equities	1,573,665	29,286	1,992	1,604,943	1,285,615
Private equity	777,833	4,081	17,289	799,203	609,242
Real assets	697,554	14,984	1,618	714,156	578,700
Absolute return	1,781,189	9,509	—	1,790,698	1,310,878
High yield bonds	—	460	—	460	441
Fixed income	454,038	89,473	175,279	718,790	771,635
Funds held in trust (primarily cash equivalents and bonds)	27,997	479,569	26,609	534,175	376,683
Total	$ 6,042,306	692,204	522,424	7,256,934	5,876,287

The University is obligated under certain limited partnership investment fund agreements to advance additional funding periodically up to specified levels. At June 30, 2007, the University had unfunded commitments of $1,757,678 which are likely to be called through 2012.

(In thousands of dollars)

Changes in the fair value of endowment investments were as follows for the fiscal years ended June 30, 2007 and 2006:

	2007 University	2007 Medical Center	2007 Consolidated	2006 Consolidated
Investment return:				
Endowment yield (interest, dividends, and rents)	$ 90,655	3,289	93,944	80,832
Realized gains on investments	436,919	15,343	452,262	437,818
Unrealized gains on investments	502,885	19,317	522,202	254,886
Total investment return	1,030,459	37,949	1,068,408	773,536
Endowment payout	(195,715)	(7,249)	(202,964)	(185,664)
Net investment return	834,744	30,700	865,444	587,872
Other changes in endowment investments:				
Gifts and pledge payments received in cash	140,983	352	141,335	64,426
Transfers to create funds functioning as endowment	156,641	—	156,641	71,133
Other changes	37,572	1,400	38,972	2,544
Total other changes in endowment investments	335,196	1,752	336,948	138,103
Net change in endowment investments	1,169,940	32,452	1,202,392	725,975
Endowment investments at:				
Beginning of year	4,662,286	177,628	4,839,914	4,113,939
End of year	$ 5,832,226	210,080	6,042,306	4,839,914

(In thousands of dollars)

(4) Notes and Accounts Receivable

Components of notes and accounts receivable at June 30, 2007 and 2006 are shown below:

	2007		2006	
	University	**Medical Center**	**University**	**Medical Center**
Patients	$ 79,090	123,317	106,275	145,036
Students:				
Loans	111,675	—	106,815	—
Tuition and fees	2,332	—	2,924	—
U.S. Government	28,144	—	24,523	—
All other	79,130	—	63,781	—
Subtotal	300,371	123,317	304,318	145,036
Less allowance for doubtful accounts (primarily patient receivables)	(69,844)	(29,160)	(94,593)	(35,125)
Total	$ 230,527	94,157	209,725	109,911

(5) Land, Buildings, Equipment, and Books

Components of land, buildings, equipment, and books at June 30, 2007 and 2006 are shown below:

	2007		2006	
	University	**Medical Center**	**University**	**Medical Center**
Land	$ 51,400	33,093	41,117	33,093
Buildings	1,517,929	565,718	1,434,157	512,399
Equipment	313,572	345,667	291,932	317,205
Books	210,731	—	197,832	—
Construction in-progress	219,868	88,830	100,293	91,560
Subtotal	2,313,500	1,033,308	2,065,331	954,257
Less accumulated depreciation	(848,339)	(499,858)	(764,769)	(456,913)
Total	$ 1,465,161	533,450	1,300,562	497,344

(In thousands of dollars)

(6) Notes and Bonds Payable

Notes and bonds payable at June 30, 2007 and 2006 are shown below:

	Fiscal year maturity	Interest rate	2007	2006
University:				
Fixed rate:				
Illinois Educational Facilities Authority (IEFA)				
Series 1993	2014	5.9% – 6.0%	$ 2,975	3,300
Series 1998A	2039	5.0% – 5.3%	123,415	124,945
Series 2001A	2042	5.3%	2,860	2,860
Series 2003A	2034	4.0% – 5.3%	186,775	191,275
Illinois Finance Authority (IFA)				
Series 2004A	2035	5.0%	100,000	100,000
Series 2004C	2040	3.8%	78,574	78,677
Series 2007	2047	5.0%	244,030	—
Illinois Health Facilities Authority (IHFA) – Series 1985	2021	5.5%	61,500	61,615
Unamortized premium			7,786	2,818
Total fixed rate			807,915	565,490
Variable rate:				
Illinois Student Assistance Commission (ISAC)	2006	5.0%	69,095	66,504
IEFA:				
Series 1985 NORC	2007	—	—	10
Pooled financing program	2011	3.7%	2,268	7,543
Series 1998B	2026	4.1%	90,090	90,090
Series 2001B-1	2037	3.5%	60,000	60,000
Series 2001B-2	2037	4.0%	40,000	40,000
Series 2001B-3	2037	3.7%	72,265	72,265
Series 2003B	2034	3.7%	48,113	49,076
IFA – Series 2004B	2035	3.7%	100,000	100,000
Bank line of credit ($100,000 available)	2007	5.5%	96,100	53,000
Total variable rate			577,931	538,488
Total University			1,385,846	1,103,978
Medical Center:				
Fixed rate:				
IHFA:				
Series 2001 Serial bond	2024	5.1%	34,440	35,605
Series 2001 Term bond	2032	5.0%	28,100	28,100
Series 2001 Term bond	2037	5.1%	24,065	24,065
Series 2003 Serial bond	2015	4.0 – 5.0%	50,515	55,840
Unamortized premium			2,211	2,734
Total fixed rate			139,331	146,344
Variable rate:				
IHFA:				
Series 1994C	2027	3.9%	55,400	55,400
Series 1998	2027	4.0%	112,000	112,900
IEFA pooled financing program	2038	3.7%	97,004	56,866
Bank line of credit ($15,000 available)			—	—
Total variable rate			264,404	225,166
Total Medical Center			403,735	371,510
Total notes and bonds payable			$ 1,789,581	1,475,488

(Continued)

During fiscal 2007, the University issued $244,030 in fixed rate revenue bonds through the IFA and the Medical Center issued $41,000 in variable rate bonds through the IEFA pooled financing program. Proceeds from these bonds are being used to finance the construction and renovation of certain educational and hospital facilities.

In order to reduce exposure to adjustable interest rates on variable rate debt, the University entered into a 35-year interest rate swap agreement in November 2004. The agreement has the effect of fixing the rate of interest at 3.8% for the IFA Series 2004C variable rate debt. The fair value of this swap agreement is the estimated amount that the University would pay or receive to terminate the agreement as of the consolidated balance sheet date, taking into account current interest rates and the current credit worthiness of the swap counter party. At June 30, 2007 and 2006, the fair value of the interest rate swap agreement was an accrued asset of $966 and $1,315, respectively. This financial instrument involves counter party credit exposure. The counter party for this swap transaction is a major financial institution that meets the University's criteria for financial stability and credit worthiness.

As of June 30, 2007 and 2006, the total principal amount of indebtedness considered to be legally extinguished and, therefore, excluded from the University notes and bonds payable was $77,535 and $79,700, respectively.

Principal payments required for University notes and bonds in each of the five years ending June 30, 2008 through 2012 are approximately $11,507; $11,434; $13,028; $15,126; and $14,627 respectively.

Principal payments required in each of the five years ending June 30, 2008 through 2012 for the Medical Center's notes and bonds are approximately $8,535; $8,845; $8,615; $8,965; and $9,420 respectively.

Included in the University's and Medical Center's notes and bonds payable are $577,931 and $264,404, respectively, of variable rate notes and bonds maturing through fiscal year 2038. In the event the University's and Medical Center's remarketing agents are unable to remarket the notes and bonds, they become a demand note and require immediate payment.

The carrying value of long-term debt does not differ materially from its estimated fair value as of June 30, 2007 and 2006, based on quoted market prices for the same or similar issues.

(7) Collateral for Notes and Bonds Payable

The University notes and bonds payable are secured by certain physical properties with a carrying value of approximately $225 as of June 30, 2007. In addition, at June 30, 2007, the University had approximately $7,934 of assets held by trustees for debt service. ISAC bonds payable are fully collateralized by student loans receivable that are fully guaranteed by the federal government.

Each of the Medical Center’s IHFA bond series is collateralized and subject to certain restrictions. The Medical Center’s Series 1994, 1998, 2001, and 2003 bonds are guaranteed by a municipal bond insurance policy.

Payment on the University and Medical Center’s IEFA Pooled Financing Program bonds is guaranteed by a bank letter of credit.

(8) Securities Loaned

The University has an agreement with its investment custodian to lend University securities to brokers in exchange for a fee. Among other provisions that limit the University’s risk, the security lending agreement specifies that the custodian is responsible for the lending of securities and obtaining adequate collateral from the borrower. Collateral is limited to cash, government securities, and irrevocable letters of credit. At June 30, 2007 and 2006, investment securities with an aggregate market value of $532,412 and $628,242, respectively, were loaned to various brokers and are returnable on demand. In exchange, the University received cash collateral of $494,429 and $539,719 and noncash collateral of $49,576 and $98,993, at June 30, 2007 and 2006, respectively. Cash collateral is reported as both an asset and liability of the University.

(Continued)

(In thousands of dollars)

(9) Pledges

Pledges receivable at June 30, 2007 and 2006 are shown below:

		2007		2006	
		University	**Medical Center**	**University**	**Medical Center**
Unconditional promises expected to be collected in:					
Less than one year	$	80,546	3,950	86,060	11,438
One year to five years		137,012	18,022	138,951	20,085
More than five years		45,109	—	17,034	—
		262,667	21,972	242,045	31,523
Less unamortized discount and allowance for uncollectible pledges		(69,740)	(3,542)	(57,496)	(4,377)
Total	$	192,927	18,430	184,549	27,146

In addition, at June 30 2007, the University has received promises to give $51,275 which are conditional upon the raising of matching gifts from other sources. These amounts will be recognized as revenue in the periods in which the conditions are fulfilled.

(In thousands of dollars)

(10) Self-insurance Liability

The University maintains a self-insurance program for medical malpractice liability. This program is supplemented with commercial excess insurance above the University's self-insurance retention, which, for the year ended June 30, 2007 was $10,000 per claim and unlimited in annual aggregate. Claims in excess of $10,000 are subject to an additional self-insurance retention limited to $15,000 per claim and $15,000 in annual aggregate. The Medical Center is included under this insurance program and is charged for their portion of self-insurance costs. The self-insurance retention for the year ended June 30, 2006 was $15,000 per claim and unlimited in annual aggregate with claims in excess of $15,000 subject to an additional self-insurance retention limited to $10,000 per claim and $10,000 in annual aggregate. 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 makes annual contributions to a related trust fund at an actuarially determined rate that is intended to provide adequate funding of the self-insurance liability over a period of years. Actual settlements of medical malpractice claims may be more or less than the liability estimated by the University.

The medical malpractice self-insurance liability is the estimated present value of self-insured claims that will be settled in the future, and considers anticipated payout patterns as well as interest to be earned on available assets prior to payment. If the present value method was not used, the liability for medical malpractice self-insurance claims would be approximately $45,500 higher than the amount recorded in the consolidated financial statements at June 30, 2007. The interest rate assumed in determining the present value was 6.3 %.

The estimated liability for incurred malpractice, workers' compensation, and other claims (filed and unfiled) as of June 30, 2007 and 2006 is presented below:

		2007		2006	
		University	Medical Center	University	Medical Center
Medical malpractice	$	181,550	—	162,547	—
Workers' compensation		3,705	6,557	3,624	6,934
Other		3,104	—	4,429	—
Total	$	188,359	6,557	170,600	6,934

(11) Pension Plans and Other Postretirement Benefits

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

In addition to providing pension benefits, the University provides certain health care 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.

In fiscal 2007, the University adopted Financial Accounting Standards Board Statement No. 158 (SFAS 158), *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*. SFAS 158 requires an employer to recognize the funded status of defined benefit pension and other postretirement benefit plans in the statement of financial position at year-end and to recognize changes in the funded status as a change in unrestricted net assets in the year in which the changes occur.

The incremental effect for the adoption of SFAS 158 was an increase in the accrued pension and other postretirement benefit obligation of $117,255 with a corresponding non-operating decrease in unrestricted net assets. The accumulated charge to unrestricted net assets consists of amounts that have not yet been recognized in net periodic benefit cost as follows: unrecognized actuarial loss of $122,150, unrecognized transition obligation of $7,577, and unrecognized prior service credit of $12,472. These amounts will be subsequently recognized in future years as components of net periodic pension cost.

(In thousands of dollars)

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

		Defined benefit pension plan		Other postretirement benefit plans	
		2007	**2006**	**2007**	**2006**
Change in benefit obligation:					
Benefit obligation at beginning of year	$	403,771	455,920	129,844	142,043
Service cost		24,513	31,176	5,663	7,157
Interest cost		25,227	22,369	8,028	6,950
Benefits paid		(27,944)	(25,104)	(8,850)	(6,020)
Actuarial (gain) loss, net		(2,359)	(80,590)	8,515	(20,286)
Benefit obligation at end of year	$	423,208	403,771	143,200	129,844
Change in fair value of plan assets:					
Fair value of plan assets at beginning of year	$	324,998	304,642	27,920	30,961
Actual return on plan assets		63,100	35,460	3,664	1,303
Employer contributions		2,939	10,000	3,634	1,676
Benefits paid		(27,944)	(25,104)	(8,850)	(6,020)
Fair value of plan assets at end of year	$	363,093	324,998	26,368	27,920
Funded status	$	(60,115)	(78,773)	(116,832)	(101,924)
Unrecognized actuarial loss			84,673		82,778
Unrecognized transition obligation			—		8,946
Unrecognized prior service cost (benefit)			8,584		(22,316)
Net amount recognized			14,484		(32,516)
Amount recognized in consolidated financial statements:					
Asset	$	—	14,484	—	—
Liability		(60,115)	—	(116,832)	(32,516)
Amount recognized	$	(60,115)	14,484	(116,832)	(32,516)

The accumulated benefit obligation (ABO) for the defined benefit pension plan was $339,308 and $324,333 at June 30, 2007 and 2006, respectively.

(In thousands of dollars)

At June 30, 2006, plan assets exceeded the ABO eliminating the need to maintain a minimum pension liability. This situation required the reversal of the $70,432 minimum pension liability adjustment recorded in fiscal 2005, which is reported as a nonoperating change in unrestricted net assets in the consolidated statements of activities in fiscal 2006.

Components of Net Periodic Benefit Cost

		Defined benefit pension plan		Other postretirement benefit plans	
		2007	**2006**	**2007**	**2006**
Service cost	$	24,513	31,176	5,663	7,157
Interest cost		25,227	22,369	8,028	6,950
Expected return on plan assets		(23,628)	(23,572)	(1,691)	(2,012)
Amortization of prior service cost (benefit)		1,038	1,038	(2,298)	(2,298)
Amortization of transition obligation		—	—	1,370	1,370
Amortization of actuarial loss		5,638	10,484	4,373	5,317
Net periodic benefit cost	$	32,788	41,495	15,445	16,484

Amounts included in the consolidated statements of activities:					
University	$	31,319	36,495	15,445	16,484
Medical Center		1,469	5,000	—	—
Total	$	32,788	41,495	15,445	16,484

Defined contribution pension plan costs included in the consolidated statements of activities amounted to $33,289 in fiscal 2007 and $31,088 in fiscal 2006 for the University and $6,300 in fiscal 2007 and $6,100 in fiscal 2006 for the Medical Center.

(In thousands of dollars)

(b) *Actuarial Assumptions*

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

	Defined benefit pension plan		Other postretirement benefit plans	
	2007	**2006**	**2007**	**2006**
Discount rate	6.4%	6.4%	6.4%	6.4%
Expected return on plan assets	8.0	8.0	6.5	6.5
Rate of compensation increase	4.2	4.2	4.2	4.2
Health care cost trend rates:				
Next two fiscal years	—	—	8.0 – 9.0	9.0 – 10.0
Next seven fiscal years	—	—	5.0 – 7.0	5.0 – 8.0
Thereafter	—	—	5.0	5.0

The expected return on plan assets assumptions for both the defined benefit pension plan and the other postretirement benefit plans is based on historical returns for similar investment portfolios.

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

		2007	2006
Effect on total service cost and interest cost:			
One percentage point increase	$	2,110	2,330
One-percentage point decrease		(1,648)	(1,749)
Effect on year-end postretirement benefit obligation:			
One-percentage point increase		19,280	16,397
One percentage point decrease		(15,568)	(13,281)

 (Continued)

(In thousands of dollars)

(c) Plan Assets

Weighted-average asset allocations by asset category are as follows:

	Defined benefit pension plan		Other postretirement benefit plans	
	2007	2006	2007	2006
Domestic public equities	65 %	66 %	64 %	53 %
International public equities	21	20	—	—
Fixed income	14	14	36	47
	100 %	100 %	100 %	100 %

Plan assets for the defined benefit pension plan are managed through the Teachers Insurance and Annuity Association and College Retirement Equities Fund. The target asset allocation of 65% domestic public equities, 20% international public equities, and 15% fixed income securities are 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 have a target asset allocation of 50% domestic public equities and 50% fixed income securities. Typical health plans have high and variable cash needs. The asset allocation targets reflect the assumption that cash flow out of plan assets is not expected in the short-term.

(d) Contributions

The University expects to make a $1,734 contribution to its postretirement health care plan and, along with the Medical Center, expects to make a $22,657 contribution to the defined benefit pension plan in fiscal 2008.

(e) Estimated Future Benefits Payments

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

Fiscal year	Defined benefit pension plan	Other postretirement benefit plans
2008	$ 19,819	5,961
2009	19,657	5,758
2010	20,873	6,571
2011	22,032	8,113
2012	23,790	7,670
2013–2017	147,021	45,215

(f) Prescription Drug Act

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) was signed into law in December 2003. The Act provides for special tax-free subsidies to employers that offer retiree medical benefit plans with qualifying drug coverage. The University's postretirement plan currently meets Medicare's criteria for the tax-free subsidy because the University's plan provides for a higher level of reimbursement than Medicare. The University has recognized the effect of this subsidy in the calculation of its post-retirement benefit obligation, the impact of which is to reduce the benefit obligation by $34,730 and $37,737 at June 30, 2007 and 2006, respectively.

(g) Curtailed Pension Plan

The Medical Center maintains a separate noncontributory defined benefit pension plan on behalf of a former affiliated organization. Prior to assumption, the benefit plan was curtailed by freezing participation and benefit accruals. At June 30, 2007 and 2006, the ABO for the plan exceeded the plan's assets thus creating an unfunded accumulated benefit obligation requiring the recording of a minimum pension liability adjustment of $2,210 and $7,607 at June 30, 2007 and 2006, respectively.

(In thousands of dollars)

(12) Functional Classification of Expenses

Expenses by functional classification for the years ended June 30, 2007 and 2006 are shown below:

		2007	2006
University:			
Academic and research:			
Instruction	$	660,696	610,078
Research		235,682	217,316
Auxiliary enterprises		122,352	110,854
Library		17,685	17,761
Student services		39,227	39,046
Operation and maintenance of physical plant		95,745	94,117
Depreciation		81,632	78,446
Interest on notes and bonds		40,516	32,793
Total academic and research		1,293,535	1,200,411
Administration:			
Institutional support		95,531	106,343
Informational services		53,566	50,220
Development		36,857	33,469
Operation and maintenance of physical plant		4,170	4,168
Depreciation		9,887	6,099
Interest on notes and bonds		4,138	1,561
Total administration		204,149	201,860
Total University		1,497,684	1,402,271
Medical Center:			
Health care service		879,989	806,540
General and administrative		100,653	90,126
		980,642	896,666
Total	$	2,478,326	2,298,937

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

(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, 2006 and 2005 was $96,890 and $97,375, respectively. Unrestricted net assets at December 31, 2006 and 2005 were $15,979 and $13,079,75

respectively. In addition, the University has guaranteed $1,078 of NORC's debt. Consolidation of this not-for-profit organization is not required because the University does not have both control and an economic interest.

The University, 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 two subcontractors that assist UChicago Argonne, LLC with the management and operation of ANL.

Beginning in fiscal 2007, 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 $490,327 for ANL and $167,543 for Fermilab in fiscal 2007, and $482,220 for ANL in fiscal 2006, are not included in the consolidated statements of activities. Net assets relating to ANL and to Fermilab are owned by the United States government and, therefore, are not included in the consolidated balance sheets.

(14) Contingencies

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

Schedule 1

THE UNIVERSITY OF CHICAGO

Balance Sheet Information – University

June 30, 2007 and 2006

(In thousands of dollars)

Assets		2007	2006
Cash and cash equivalents	$	—	—
Notes and accounts receivable		230,527	209,725
Collateral held for securities loaned		494,429	539,719
Prepaid expenses and other assets		34,260	27,190
Pledges receivable		192,927	184,549
Investments		6,524,430	5,264,022
Land, buildings, equipment, and books		1,465,161	1,300,562
Total assets	$	8,941,734	7,525,767
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	227,793	174,604
Deferred revenue		81,358	76,703
Payable under securities loan agreements		494,429	539,719
Assets held in custody for others		35,626	31,199
Self-insurance liability		188,359	170,600
Pension other postretirement benefit obligations		176,947	32,516
Asset retirement obligation		58,805	69,200
Notes and bonds payable		1,385,846	1,103,978
Refundable U.S. Government student loan funds		37,300	37,064
Total liabilities		2,686,463	2,235,583
Net assets:			
Unrestricted		4,828,283	4,004,574
Temporarily restricted		377,461	351,993
Permanently restricted		1,049,527	933,617
Total net assets		6,255,271	5,290,184
Total liabilities and net assets	$	8,941,734	7,525,767

See accompanying independent auditors' report.

Schedule 2

THE UNIVERSITY OF CHICAGO

Statements of Activities Information – University

Years ended June 30, 2007 and 2006

(In thousands of dollars)

		2007	2006
Changes in unrestricted net assets:			
Operating:			
Revenue:			
Tuition and fees – gross	$	479,612	445,960
Less:			
Undergraduate student aid		(56,905)	(51,847)
Graduate student aid		(142,935)	(134,808)
Tuition and fees – net		279,772	259,305
Government grants and contracts		327,415	317,773
Private gifts, grants, and contracts		118,866	105,807
Endowment payout		193,731	176,648
Earnings on other investments		10,615	7,044
Patient care		185,476	175,569
Auxiliaries		185,394	168,770
Other income		127,719	122,521
Net assets released from restrictions		102,916	44,923
Total operating revenue		1,531,904	1,378,360
Expenses:			
Compensation:			
Academic salaries		370,606	344,814
Staff salaries		356,157	333,506
Benefits		194,417	191,919
Total compensation		921,180	870,239
Other operating expenses:			
Utilities, alterations, and repairs		45,156	43,113
Depreciation		91,518	84,545
Interest		44,654	34,354
Supplies, services, and other		363,343	334,665
Insurance		31,833	35,355
Total other operating expenses		576,504	532,032
Total operating expenses		1,497,684	1,402,271
Excess (deficiency) of operating revenue over expenses		34,220	(23,911)

(Continued)

Schedule 2, Cont.

THE UNIVERSITY OF CHICAGO

Statements of Activities Information – University

Years ended June 30, 2007 and 2006

(In thousands of dollars)

	2007	2006
Changes in unrestricted net assets:		
Nonoperating:		
Investment gains	$ 832,102	561,219
Minimum pension liability adjustment	—	70,432
Other, net	39,242	27,803
Effect of a change in accounting for pension and other post retirement benefit plans	(117,255)	—
Cumulative effect of changes in accounting for:		
Asset retirement obligations	—	(70,056)
Correction of prior year mistatements	35,400	—
Change in unrestricted net assets from nonoperating activities	789,489	589,398
Increase in unrestricted net assets	823,709	565,487
Changes in temporarily restricted net assets:		
Private gifts	144,254	97,001
Endowment payout	171	286
Investment gains	911	1,936
Other, net	(16,952)	(31,325)
Net assets released from restrictions	(102,916)	(44,923)
Increase in temporarily restricted net assets	25,468	22,975
Changes in permanently restricted net assets:		
Private gifts	88,710	42,053
Endowment payout	1,813	1,853
Investment gains	6,320	3,837
Other, net	19,067	25,482
Increase in permanently restricted net assets	115,910	73,225
Increase in net assets	965,087	661,687
Net assets at beginning of year	5,290,184	4,628,497
Net assets at end of year	$ 6,255,271	5,290,184

See accompanying independent auditors' report.