THE UNIVERSITY OF CHICAGO

Consolidated Financial Statements and
Supplemental Information

June 30, 2008 and 2007

(With Independent Auditors' Report Thereon)

THE UNIVERSITY OF CHICAGO

Management Responsibility for Consolidated Financial Statements

The management of The University of Chicago (University) is responsible for the preparation, integrity, and fair presentation of the consolidated financial statements. The consolidated financial statements, presented on pages 3 to 31, have been prepared in conformity with U.S. generally accepted accounting principles and, as such, include amounts based on judgments and estimates by management.

The consolidated financial statements have been audited by the independent accounting firm KPMG LLP, (KPMG), which was given unrestricted access to all financial records and related data, including minutes of all meetings of trustees. KPMG did not audit the financial statements of The University of Chicago Medical Center (the Medical Center) and their opinion, insofar as it relates to the amounts included for the Medical Center, is based solely on the report of PricewaterhouseCoopers, the independent auditors for the Medical Center. The University believes that all representations made to KPMG during its audit were valid and appropriate. KPMG's audit opinion is presented on 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, 2008 and 2007, 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 43% and 32% of the related consolidated totals in 2008 and 2007, 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, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplementary information included in schedules 1 through 3 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.

KPMG LLP

September 26, 2008

THE UNIVERSITY OF CHICAGO

Consolidated Balance Sheets

June 30, 2008 and 2007

(In thousands of dollars)

Assets		**2008**	**2007**
Cash and cash equivalents	$	99,615	88,056
Notes and accounts receivable		376,887	324,684
Collateral held for securities loaned		306,223	494,429
Prepaid expenses and other assets		83,777	120,240
Pledges receivable		281,698	211,357
Investments		7,176,447	7,256,934
Land, buildings, equipment, and books		2,374,574	1,998,611
Total assets	$	10,699,221	10,494,311
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	518,298	444,023
Deferred revenue		82,079	81,358
Payable under securities loan agreements		306,223	494,429
Assets held in custody for others		47,908	35,626
Self-insurance liability		201,748	194,916
Pension and other postretirement benefit obligations		220,173	184,494
Asset retirement obligation		66,254	66,751
Notes and bonds payable		1,937,130	1,789,581
Refundable U.S. government student loan funds		37,418	37,300
Total liabilities		3,417,231	3,328,478
Net assets:			
Unrestricted		5,636,216	5,685,872
Temporarily restricted		475,752	424,404
Permanently restricted		1,170,022	1,055,557
Total net assets		7,281,990	7,165,833
Total liabilities and net assets	$	10,699,221	10,494,311

See accompanying notes to consolidated financial statements.

THE UNIVERSITY OF CHICAGO

Consolidated Statements of Activities

June 30, 2008 and 2007

(In thousands of dollars)

		2008	2007
Changes in unrestricted net assets:			
Operating::			
Revenue:			
Tuition and fees – gross	$	513,015	479,612
Less:			
Undergraduate student aid		(62,345)	(56,905)
Graduate student aid		(156,765)	(142,935)
Tuition and fees – net		293,905	279,772
Government grants and contracts		335,834	327,415
Private gifts, grants, and contracts		134,343	119,812
Endowment payout		230,976	200,980
Earnings on other investments		27,965	28,131
Patient care		1,221,375	1,206,988
Auxiliaries		194,037	185,394
Other income		189,193	172,521
Net assets released from restrictions		54,123	102,916
Total operating revenue		2,681,751	2,623,929
Expenses:			
Compensation:			
Academic salaries		392,667	370,606
Staff salaries		763,474	717,008
Benefits		294,204	274,409
Total compensation		1,450,345	1,362,023
Other operating expenses:			
Utilities, alterations, and repairs		78,243	70,758
Depreciation		151,750	140,353
Interest		62,900	60,119
Supplies, services, and other		796,260	789,647
Insurance		53,530	55,426
Total other operating expenses		1,142,683	1,116,303
Total operating expenses		2,593,028	2,478,326
Excess of operating revenue over expenses		88,723	145,603

(Continued)

THE UNIVERSITY OF CHICAGO

Consolidated Statements of Activities

June 30, 2008 and 2007

(In thousands of dollars)

		2008	2007
Changes in unrestricted net assets:			
Nonoperating:			
Investment gains (losses)	$	(85,850)	910,703
Postretirement benefit changes other than net periodic benefit cost		(16,545)	—
Minimum pension liability adjustment		—	2,210
Loss on debt refinancing		(4,247)	—
Other, net		(31,737)	52,543
Effect of a change in accounting for pension and other postretirement benefit plans		—	(117,255)
Cumulative effect of a change in accounting for correction of prior year misstatements		—	88,083
Change in unrestricted net assets from nonoperating activities		(138,379)	936,284
Increase (decrease) in unrestricted net assets		(49,656)	1,081,887
Changes in temporarily restricted net assets:			
Private gifts		129,509	149,442
Endowment payout		153	171
Investment gains		1,174	911
Other, net		(25,365)	(45,722)
Net assets released from restrictions		(54,123)	(102,916)
Increase in temporarily restricted net assets		51,348	1,886
Changes in permanently restricted net assets:			
Private gifts		107,508	88,710
Endowment payout		1,979	1,813
Investment gains (losses)		(417)	6,320
Other, net		5,395	19,281
Increase in permanently restricted net assets		114,465	116,124
Increase in net assets		116,157	1,199,897
Net assets at beginning of year		7,165,833	5,965,936
Net assets at end of year	$	7,281,990	7,165,833

See accompanying notes to consolidated financial statements.

THE UNIVERSITY OF CHICAGO

Consolidated Statements of Cash Flows

Years ended June 30, 2008 and 2007

(In thousands of dollars)

	2008	2007
Cash flows from operating activities:		
Increase in net assets	$ 116,157	1,199,897
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	151,750	140,353
Loss on debt refinancing	4,247	—
Loss on disposal of land, buildings, equipment, and books	4,405	2,585
Net (gain) loss on investments	(1,450)	(994,190)
Private gifts and grants restricted for long-term investment	(237,017)	(238,366)
Other nonoperating changes	23,483	51,952
Minimum pension liability adjustment	—	(2,210)
Postretirement benefit changes other than net periodic benefit cost	16,545	—
Effect of a change in accounting for pension and other postretirement benefit plans	—	117,255
Cumulative effect of a change in accounting for correction of prior year misstatements	—	(88,083)
Changes in assets and liabilities:		
Notes and accounts receivable	(33,055)	(179)
Prepaid expenses and other assets	36,250	(43,802)
Accounts payable and other liabilities	32,649	103,355
Self-insurance liability	6,832	17,382
Total adjustments	4,639	(933,948)
Net cash provided by operating activities	120,796	265,949
Cash flows from investing activities:		
Purchase of investments	(1,670,870)	(1,931,280)
Proceeds from sale of investments	1,837,494	1,616,565
Acquisition of land, buildings, equipment, and books	(476,608)	(317,087)
Loans disbursed	(61,255)	(62,324)
Principal collected on loans	42,107	57,455
Net cash used in investing activities	(329,132)	(636,671)
Cash flows from financing activities:		
Proceeds from issuance of notes and bonds payable	1,124,516	1,052,437
Principal payments on notes and bonds payable	(982,334)	(738,992)
Proceeds from private gifts and grants restricted for long-term investment	166,675	238,704
Other nonoperating changes	(88,962)	(115,097)
Net cash provided by financing activities	219,895	437,052
Increase in cash and cash equivalents	11,559	66,330
Cash and cash equivalents at:		
Beginning of year	88,056	21,726
End of year	$ 99,615	88,056
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 70,376	61,257

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 healthcare 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 the Financial Accounting Standards Board (FASB) and the American Institute of Certified Public Accountants (AICPA), *Audit and Accounting Guide for Not-for-Profit Organizations*, which 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 healthcare 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	2008 Unrestricted	2008 Temporarily restricted	2008 Permanently restricted	2008 Total	2007 Total
University:					
Operating	$ (253,375)	13,692	—	(239,683)	(166,829)
Pledges	—	183,683	76,020	259,703	192,927
Student loans	—	—	16,018	16,018	15,192
Endowment	4,860,800	30,022	1,042,939	5,933,761	5,832,226
Annuity and life income	—	15,378	28,964	44,342	53,809
Net investment in physical properties	129,136	182,700	—	311,836	327,946
Subtotal	4,736,561	425,475	1,163,941	6,325,977	6,255,271
Medical Center:					
Operating	245,074	28,462	—	273,536	538,216
Pledges	—	21,815	180	21,995	18,430
Endowment	499,804	—	5,901	505,705	210,080
Net investment in physical properties	154,777	—	—	154,777	143,836
Subtotal	899,655	50,277	6,081	956,013	910,562
Total	$ 5,636,216	475,752	1,170,022	7,281,990	7,165,833

(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.

(In thousands of dollars)

(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, 2008 and 2007 are $46,994 and $45,746, respectively, of private grant and contract receipts, which have not been expended.

Private gifts, grants, and contracts operating revenue for fiscal years 2008 and 2007 consist of the following:

	2008			
	University	Medical Center	Consolidated	2007 Consolidated
Private gifts:				
Unrestricted as to use	$ 17,589	1,189	18,778	18,671
Temporarily restricted gifts whose restrictions were met during the fiscal year and reported as unrestricted revenue	52,682	—	52,682	44,135
Private grants and contracts	62,883	—	62,883	57,006
Total	$ 133,154	1,189	134,343	119,812

(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 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 exact payout percentage, which is set each year by the Board of Trustees with the objective of a 5% average payout over time, was 5.0% and 5.2% for the fiscal years ended June 30, 2008 and 2007, respectively.

(In thousands of dollars)

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

Endowment payout for fiscal years 2008 and 2007 consists of the following:

		2008			
		University	**Medical Center**	**Consolidated**	**2007 Consolidated**
Interest, dividends, and rents	$	82,843	4,753	87,596	93,944
Investment gains used to support the endowment payout formula		137,212	8,300	145,512	109,020
Total	$	220,055	13,053	233,108	202,964

Unrestricted operating endowment payout revenue for fiscal years 2008 and 2007 consists of the following:

		2008			
		University	**Medical Center**	**Consolidated**	**2007 Consolidated**
Unrestricted payout	$	56,882	13,053	69,935	59,121
Temporarily restricted payout whose restrictions were met during the fiscal year and reported as unrestricted revenue		161,041	—	161,041	141,859
Total	$	217,923	13,053	230,976	200,980

(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. Derivative investments are recorded at fair value and valuation gains and losses are included in the consolidated statements of activities.

To minimize the risk of loss, externally managed hedge fund investments are diversified by strategy, external manager, and number of positions. In addition, the activities of all external hedge fund managers are regularly reviewed by their independent outside 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' record derivative investments 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.

(Continued)

(In thousands of dollars)

(l) Correction of Prior Year Misstatements

In fiscal year 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 fiscal 2007 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 nonoperating increase in unrestricted net assets as follows:

	2007			Fiscal
	University	Medical Center	Total	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.

(Continued)

(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 2007 amounts have been reclassified to conform to the 2008 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 healthcare 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 healthcare facilities and certain land and parking structures.

(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 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) the provision for uncollectible Medical Center's patient accounts receivable of $46,968 in fiscal year 2008 and $56,022 in fiscal year 2007 has been reclassified as a reduction of patient care revenue and (2) investment gains of $69,876 in fiscal year 2008 and $29,411 in fiscal year 2007 not used for operations have been reclassified as a nonoperating change in unrestricted net assets.

(In thousands of dollars)

(3) Investments

Fair values of investments at June 30, 2008 and 2007 are shown below:

	2008				
	University and Medical Center Endowment	Other investments: University	Other investments: Medical Center	Consolidated	2007 Consolidated
Cash equivalents	$ 53,680	3,605	—	57,285	92,633
Domestic public equities	599,548	59,945	126,184	785,677	1,001,876
International public equities	1,231,953	24,413	26,554	1,282,920	1,604,943
Private equity	918,950	4,739	14,426	938,115	799,203
Real assets	1,037,113	24,946	—	1,062,059	714,156
Absolute return	2,092,186	10,913	—	2,103,099	1,790,698
High yield bonds	—	20,092	—	20,092	460
Fixed income	476,600	17,708	124,780	619,088	718,790
Funds held in trust (primarily cash equivalents and bonds)	29,436	277,800	876	308,112	534,175
Total	$ 6,439,466	444,161	292,820	7,176,447	7,256,934

The University is obligated under certain limited partnership investment fund agreements to advance additional funding periodically up to specified levels. At June 30, 2008, the University had unfunded commitments of $1,892,000, which are likely to be called through 2016.

(In thousands of dollars)

Changes in the fair value of endowment investments were as follows for the fiscal years ended June 30, 2008 and 2007:

	2008			
	University	**Medical Center**	**Consolidated**	**2007 Consolidated**
Investment return:				
Endowment yield (interest, dividends, and rents)	$ 82,843	4,753	87,596	93,944
Realized gains on investments	502,317	43,653	545,970	452,262
Unrealized gains (losses) on investments	(400,766)	(39,840)	(440,606)	522,202
Total investment return	184,394	8,566	192,960	1,068,408
Endowment payout	(220,055)	(13,053)	(233,108)	(202,964)
Net investment return	(35,661)	(4,487)	(40,148)	865,444
Other changes in endowment investments:				
Gifts and pledge payments received in cash	86,317	112	86,429	141,335
Transfers to create funds functioning as endowment	49,057	300,000	349,057	156,641
Other changes	1,822	—	1,822	38,972
Total other changes in endowment investments	137,196	300,112	437,308	336,948
Net change in endowment investments	101,535	295,625	397,160	1,202,392
Endowment investments at:				
Beginning of year	5,832,226	210,080	6,042,306	4,839,914
End of year	$ 5,933,761	505,705	6,439,466	6,042,306

(In thousands of dollars)

(4) Notes and Accounts Receivable

Components of notes and accounts receivable at June 30, 2008 and 2007 are shown below:

	2008			2007
	University	Medical Center	Consolidated	Consolidated
Patients	$ 78,661	141,504	220,165	202,407
Students:			—	
Loans	131,806	—	131,806	111,675
Tuition and fees	2,590	—	2,590	2,332
U.S. government	28,627	—	28,627	28,144
All other	92,867	—	92,867	79,130
Subtotal	334,551	141,504	476,055	423,688
Less allowance for doubtful accounts (primarily patient receivables)	(69,253)	(29,915)	— — (99,168)	(99,004)
Total	$ 265,298	111,589	376,887	324,684

(5) Land, Buildings, Equipment, and Books

Components of land, buildings, equipment, and books at June 30, 2008 and 2007 are shown below:

	2008			2007
	University	Medical Center	Consolidated	Consolidated
Land	$ 63,510	36,029	99,539	84,493
Buildings	1,616,986	617,376	2,234,362	2,083,647
Equipment	343,159	361,518	704,677	659,239
Books	221,972	—	221,972	210,731
Construction in progress	516,046	61,476	577,522	308,698
Subtotal	2,761,673	1,076,399	3,838,072	3,346,808
Less accumulated depreciation	(935,137)	(528,361)	(1,463,498)	(1,348,197)
Total	$ 1,826,536	548,038	2,374,574	1,998,611

(Continued)

(In thousands of dollars)

(6) Notes and Bonds Payable

Notes and bonds payable at June 30, 2008 and 2007 are shown below:

	Fiscal year maturity	Interest rate	2008	2007
University:				
Fixed rate:				
Illinois Educational Facilities Authority (IEFA):				
Series 1993	2014	5.9% – 6.0%	$ 2,625	2,975
Series 1998A	—	5.0% – 5.3%	—	123,415
Series 2001A	2042	5.3%	2,860	2,860
Series 2003A	2034	4.0% – 5.3%	182,145	186,775
Illinois Finance Authority (IFA):				
Series 2004A	2035	5.0%	98,290	100,000
Series 2004C	2040	3.8	78,467	78,574
Series 2007	2047	5.0	244,030	244,030
Series 2008	2039	3.2	123,604	—
Illinois Health Facilities Authority (IHFA) – Series 1985	2021	5.5	61,380	61,500
Unamortized premium			9,210	7,786
Total fixed rate			802,611	807,915
Variable rate:				
Illinois Student Assistance Commission (ISAC)	2009	2.5%	86,006	69,095
IEFA:				
Pooled financing program	2011	1.6	2,268	2,268
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	2.0	72,265	72,265
Series 2003B	2034	1.5	47,109	48,113
IFA – Series 2004B	2035	1.5	98,014	100,000
Taxable commercial paper	2009	2.6	50,000	—
Bank line of credit ($200,000 available)	2009	2.2	195,500	96,100
Total variable rate			741,252	577,931
Total University			1,543,863	1,385,846
Medical Center				
Fixed rate:				
IHFA:				
Series 2001 Serial bond	2024	5.1%	32,440	34,440
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%	45,380	50,515
Unamortized premium			1,794	2,211
Total fixed rate			131,779	139,331
Variable rate:				
IHFA:				
Series 1994C	2027	5.0% – 9.0%	55,400	55,400
Series 1998	2027	5.0% – 7.8%	110,600	112,000
IEFA pooled financing program	2038	1.6%	95,488	97,004
Bank line of credit ($15,000 available)			—	—
Total variable rate			261,488	264,404
Total Medical Center			393,267	403,735
Total notes and bonds payable			$ 1,937,130	1,789,581

(a) Fiscal 2008 Transactions

During fiscal year 2008, the University issued $123,604 in adjustable rate revenue bonds through the IFA. Proceeds from the IFA Series 2008 bonds were used to purchase U.S. government securities which were deposited in an irrevocable trust solely for the purpose of making principal and interest payments on $121,810 of IEFA Series 1998A bonds. Accordingly, the IFA Series 1998A bonds have been legally extinguished, and neither the indebtedness nor the assets of the irrevocable trust are included in the 2008 consolidated balance sheet. Subsequently, the University entered into an interest rate swap agreement that has the effect of fixing the rate of interest at 3.2% for the IFA Series 2008 bonds.

In June 2008, the University implemented a taxable commercial paper program to provide interim financing for the construction and renovation of educational facilities and to provide financing for capital projects that cannot be financed with tax-exempt debt. This program enables the University to issue up to $200,000 in notes. As of June 30, 2008, there was $50,000 in taxable commercial paper notes outstanding.

The Medical Center IHFA Series 1994C and 1998 variable rate debt is supported by separate bank liquidity facilities. On June 30, 2008, $51,800 and $91,500 of these series were tendered under these facilities. These bank bonds bear interest at 5.0% and require repayment in five years. The remaining outstanding debt of $3,600 and $19,100 bear interest at 9.0% and 7.8%, respectively.

(b) Defeased Debt

As of June 30, 2008 and 2007, the total principal amount of indebtedness considered to be legally extinguished and, therefore, excluded from the University notes and bonds payable was $196,980 and $77,535, respectively.

(c) Interest Rate Swaps

In order to reduce exposure to adjustable interest rates on variable rate debt, the University entered into interest rate swap agreements involving the IFA Series 2004C and Series 2008 adjustable rate bonds. These agreements have the effect of fixing the rate of interest for the variable rate debt. The fair value of these swap agreements are the estimated amount that the University would 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. The fair value of the interest rate swap agreements was an accrued liability of $5,661 at June 30, 2008 and an accrued asset of $966 at June 30, 2007. This financial instrument involves counterparty credit exposure. The counterparty for this swap transaction is a major financial institution that meets the University's criteria for financial stability and creditworthiness.

(d) Debt Payments

Principal payments required for University notes and bonds in each of the five years ending June 30, 2009 through 2013 are approximately $11,512; $13,622; $15,709; $15,199; and $15,883, respectively.

Principal payments required in each of the five years ending June 30, 2009 through 2013 for the Medical Center notes and bonds are approximately $8,845; $8,615; $8,965; $9,420; and $9,900 respectively.

(e) Carrying Value

The carrying value of long-term debt does not differ materially from its estimated fair value as of June 30, 2008 and 2007, based on quoted market prices for the same or similar issues.

(f) Collateral

The University's June 30, 2008 notes and bonds payable are secured by certain physical properties with a carrying value of approximately $225 and $7,919 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. The University's IEFA Pooled Financing Program bonds and IFA Series 2008 variable rate bonds are guaranteed by bank lines of credit. The remainder of the University's variable rate debt is guaranteed by a $150,000 bank letter of credit.

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

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

(g) Remarketing

Included in the University and Medical Center notes and bonds payable are $741,252 and $261,488, respectively, of variable rate notes and bonds maturing through fiscal year 2038. In the event the University's and Medical Center remarketing agents are unable to remarket the notes and bonds, they become a demand note and require immediate payment.

(h) Subsequent Event

On September 3, 2008, the Medical Center obtained a total of $165,000 in taxable lines of credit from three banks. These lines bear variable interest rates and expire in six months. The lines were used to redeem IHFA Series 1994C and 1998 bonds. The Medical Center plans to issue new fixed and variable rate debt to repay the lines before they expire.

(7) 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, 2008 and 2007, investment securities with an aggregate market value of $378,023 and $532,412, respectively, were loaned to various brokers and are returnable on demand. In exchange, the University received cash collateral of $306,223 and $494,429 and noncash collateral of $81,872 and $49,576, at June 30, 2008 and 2007, respectively. Cash collateral is reported as both an asset and liability of the University.

(In thousands of dollars)

(8) Pledges

Pledges receivable at June 30, 2008 and 2007 are shown below:

	2008			2007
	University	Medical Center	Consolidated	Consolidated
Unconditional promises expected to be collected in:				
Less than one year	$ 86,454	7,002	93,456	84,514
One year to five years	212,775	13,294	226,069	148,034
More than five years	54,045	4,982	59,027	52,091
	353,274	25,278	378,552	284,639
Less unamortized discount and allowance for uncollectible pledges	(93,571)	(3,283)	(96,854)	(73,282)
Total	$ 259,703	21,995	281,698	211,357

In addition, at June 30, 2008, the University has received $64,575 of promises to give, which are conditional upon the raising of matching gifts from other sources, implementation of academic programs, or completion of construction projects. These amounts will be recognized as revenue in the periods in which the conditions are fulfilled.

(9) 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, 2008 and 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 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.

(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 $45,300 higher than the amount recorded in the consolidated financial statements at June 30, 2008. The interest rate assumed in determining the present value was 6.0%.

The estimated liability for incurred malpractice, workers' compensation, and other claims (filed and unfiled) as of June 30, 2008 and 2007 is presented below:

	2008			2007
	University	**Medical Center**	**Consolidated**	**Consolidated**
Medical malpractice	$ 189,186	—	189,186	181,550
Workers' compensation	3,441	6,215	9,656	10,262
Other	2,906	—	2,906	3,104
Total	$ 195,533	6,215	201,748	194,916

(10) 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 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.

In fiscal year 2007, the University adopted Financial Accounting Standards Board Statement No. 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.

(In thousands of dollars)

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 nonoperating decrease in unrestricted net assets. The accumulated charge to unrestricted net assets consisted of amounts that had 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 recognized in future years as components of net periodic pension cost.

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	
		2008	**2007**	**2008**	**2007**
Change in benefit obligation:					
Benefit obligation at beginning of year	$	423,208	403,771	143,200	129,844
Service cost		25,681	24,513	6,043	5,663
Interest cost		26,451	25,227	8,920	8,028
Benefits paid		(29,498)	(27,944)	(7,778)	(8,850)
Actuarial loss (gain), net		(37,426)	(2,359)	(6,437)	8,515
Benefit obligation at end of year		408,416	423,208	143,948	143,200
Change in fair value of plan assets:					
Fair value of plan assets at beginning of year		363,093	324,998	26,368	27,920
Actual return on plan assets		(38,156)	63,100	(525)	3,664
Employer contributions		24,325	2,939	2,364	3,634
Benefits paid		(29,498)	(27,944)	(7,778)	(8,850)
Fair value of plan assets at end of year		319,764	363,093	20,429	26,368
Funded status – liability	$	(88,652)	(60,115)	(123,519)	(116,832)

The accumulated benefit obligation for the defined benefit pension plan was $333,265 and $339,308 at June 30, 2008 and 2007, respectively.

(In thousands of dollars)

(a) Components of Net Periodic Benefit Cost

	Defined benefit pension plan		Other postretirement benefit plans	
	2008	**2007**	**2008**	**2007**
Service cost	$ 25,681	24,513	6,043	5,663
Interest cost	26,451	25,227	8,920	8,028
Expected return on plan assets	(25,362)	(23,628)	(1,576)	(1,691)
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	4,125	5,638	4,453	4,373
Net periodic benefit cost	$ 31,933	32,788	16,912	15,445
Amounts included in the consolidated statements of activities:				
University	$ 19,770	31,319	16,912	15,445
Medical Center	12,163	1,469	—	—
Total	$ 31,933	32,788	16,912	15,445

Defined contribution pension plan costs included in the consolidated statements of activities amounted to $35,242 in fiscal year 2008 and $33,289 in fiscal year 2007 for the University and $7,100 in fiscal year 2008 and $6,300 in fiscal year 2007 for the Medical Center.

(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	
	2008	**2007**	**2008**	**2007**
Discount rate	7.1%	6.4%	7.1%	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
Healthcare cost trend rates:				
Next two fiscal years	—	—	8.0% – 8.5%	8.0% – 9.0%
Next seven fiscal years	—	—	5.0 – 7.5	5.0 – 7.0
Thereafter	—	—	5.0	5.0

(In thousands of dollars)

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 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:

		2008	2007
Effect on total service cost and interest cost:			
One-percentage point increase	$	2,462	2,110
One-percentage point decrease		(1,911)	(1,648)
Effect on year-end postretirement benefit obligation:			
One-percentage point increase	$	18,387	19,280
One-percentage point decrease		(14,946)	(15,568)

(c) Plan Assets

Weighted average asset allocations by asset category are as follows:

	Defined benefit pension plan		Other postretirement benefit plans	
	2008	2007	2008	2007
Domestic public equities	64%	65%	49%	64%
International public equities	21	21	—	—
Fixed income	15	14	51	36
	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 no contribution to its postretirement healthcare plan and, along with the Medical Center, expects to make a $16,262 contribution to the defined benefit pension plan in fiscal year 2009.

(In thousands of dollars)

(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
2009	$	22,992	6,338
2010		22,897	6,058
2011		23,455	7,888
2012		24,576	8,060
2013		25,584	9,493
2014 – 2018		141,940	49,436

(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 postretirement benefit obligation, the impact of which is to reduce the benefit obligation by $34,929 and $34,730 at June 30, 2008 and 2007, 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, 2008 and 2007, the benefit obligation for the plan exceeded the plan's assets thus creating an unfunded liability of $8,002 and $7,547 at June 30, 2008 and 2007, respectively.

(In thousands of dollars)

(11) Functional Classification of Expenses

Expenses by functional classification for the years ended June 30, 2008 and 2007 are shown below:

		2008	2007
University:			
Academic and research:			
Instruction	$	692,172	660,696
Research		245,066	235,682
Auxiliary enterprises		139,776	122,352
Library		18,506	17,685
Student services		42,573	39,227
Operation and maintenance of physical plant		112,041	95,745
Depreciation		81,083	80,000
Interest on notes and bonds		41,826	40,516
Total academic and research		1,373,043	1,291,903
Administration:			
Institutional support		94,409	95,531
Informational services		51,620	53,566
Development		48,901	36,857
Operation and maintenance of physical plant		5,039	4,170
Depreciation		12,578	11,519
Interest on notes and bonds		5,799	4,138
Total administration		218,346	205,781
Total University		1,591,389	1,497,684
Medical Center:			
Healthcare service		912,653	879,989
General and administrative		88,986	100,653
		1,001,639	980,642
Total	$	2,593,028	2,478,326

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.

(Continued)

(12) 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, 2007 and 2006 was $86,399 and $98,890, respectively. Unrestricted net assets at December 31, 2007 and 2006 were $16,743 and $15,979 respectively. In addition, the University has guaranteed $596 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 year 2008, 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 $526,455 for ANL and $334,184 for Fermilab in fiscal year 2008, and $490,327 for ANL and $167,543 for Fermi in fiscal year 2007, 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.

(13) 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.

Schedule 1

THE UNIVERSITY OF CHICAGO

Consolidated Balance Sheets

June 30, 2008 and 2007

(In thousands of dollars)

		2008			2007
Assets		**University**	**Medical Center**	**Consolidated**	**Consolidated**
Cash and cash equivalents	$	18,888	80,727	99,615	88,056
Notes and accounts receivable		265,298	111,589	376,887	324,684
Collateral held for securities loaned		306,223	—	306,223	494,429
Prepaid expenses and other assets		43,796	39,981	83,777	120,240
Pledges receivable		259,703	21,995	281,698	211,357
Investments		6,377,922	798,525	7,176,447	7,256,934
Land, buildings, equipment, and books		1,826,536	548,038	2,374,574	1,998,611
Total assets	$	9,098,366	1,600,855	10,699,221	10,494,311
Liabilities and Net Assets					
Liabilities:					
Accounts payable and accrued expenses	$	289,000	229,298	518,298	444,023
Deferred revenue		82,079	—	82,079	81,358
Payable under securities loan agreements		306,223	—	306,223	494,429
Assets held in custody for others		47,908	—	47,908	35,626
Self-insurance liability		195,533	6,215	201,748	194,916
Pension and other postretirement benefit obligations		212,171	8,002	220,173	184,494
Asset retirement obligation		58,194	8,060	66,254	66,751
Notes and bonds payable		1,543,863	393,267	1,937,130	1,789,581
Refundable U.S. government student loan funds		37,418	—	37,418	37,300
Total liabilities		2,772,389	644,842	3,417,231	3,328,478
Net assets:					
Unrestricted		4,736,561	899,655	5,636,216	5,685,872
Temporarily restricted		425,475	50,277	475,752	424,404
Permanently restricted		1,163,941	6,081	1,170,022	1,055,557
Total net assets		6,325,977	956,013	7,281,990	7,165,833
Total liabilities and net assets	$	9,098,366	1,600,855	10,699,221	10,494,311

See accompanying independent auditors’ report.

Schedule 2

THE UNIVERSITY OF CHICAGO

Consolidated Statements of Activities

June 30, 2008 and 2007

(In thousands of dollars)

	2008 University	2008 Medical Center	2008 Consolidated	2007 Consolidated
Changes in unrestricted net assets:				
Operating:				
Revenue:				
Tuition and fees – gross	$ 513,015	—	513,015	479,612
Less:				
Undergraduate student aid	(62,345)	—	(62,345)	(56,905)
Graduate student aid	(156,765)	—	(156,765)	(142,935)
Tuition and fees – net	293,905	—	293,905	279,772
Government grants and contracts	335,834	—	335,834	327,415
Private gifts, grants, and contracts	133,154	1,189	134,343	119,812
Endowment payout	217,923	13,053	230,976	200,980
Earnings on other investments	10,271	17,694	27,965	28,131
Patient care	184,732	1,036,643	1,221,375	1,206,988
Auxiliaries	194,037	—	194,037	185,394
Other income	139,056	50,137	189,193	172,521
Net assets released from restrictions	54,123	—	54,123	102,916
Total operating revenue	1,563,035	1,118,716	2,681,751	2,623,929
Expenses:				
Compensation:				
Academic salaries	392,667	—	392,667	370,606
Staff salaries	392,998	370,476	763,474	717,008
Benefits	198,199	96,005	294,204	274,409
Total compensation	983,864	466,481	1,450,345	1,362,023
Other operating expenses:				
Utilities, alterations, and repairs	52,707	25,536	78,243	70,758
Depreciation	93,661	58,089	151,750	140,353
Interest	47,625	15,275	62,900	60,119
Supplies, services, and other	383,039	413,221	796,260	789,647
Insurance	30,493	23,037	53,530	55,426
Total other operating expenses	607,525	535,158	1,142,683	1,116,303
Total operating expenses	1,591,389	1,001,639	2,593,028	2,478,326
Excess (deficiency) of operating revenue over expenses	(28,354)	117,077	88,723	145,603

Schedule 2

THE UNIVERSITY OF CHICAGO

Consolidated Statements of Activities

June 30, 2008 and 2007

(In thousands of dollars)

	2008			
	University	**Medical Center**	**Consolidated**	**2007 Consolidated**
Changes in unrestricted net assets:				
Nonoperating:				
Investment gains (losses)	$ (30,910)	(54,940)	(85,850)	910,703
Postretirement benefit changes other than net periodic benefit cost	(13,069)	(3,476)	(16,545)	—
Minimum pension liability adjustment	—	—	—	2,210
Loss on debt refinancing	(4,247)	—	(4,247)	—
Other, net	(15,142)	(16,595)	(31,737)	52,543
Effect of a change in accounting for pension and other postretirement benefit plans	—	—	—	(117,255)
Cumulative effect of a change in accounting for correction of prior year misstatements	—	—	—	88,083
Change in unrestricted net assets from nonoperating activities	(63,368)	(75,011)	(138,379)	936,284
Increase (decrease) in unrestricted net assets	(91,722)	42,066	(49,656)	1,081,887
Changes in temporarily restricted net assets:				
Private gifts	122,977	6,532	129,509	149,442
Endowment payout	153	—	153	171
Investment gains	1,174	—	1,174	911
Other, net	(22,167)	(3,198)	(25,365)	(45,722)
Net assets released from restrictions	(54,123)	—	(54,123)	(102,916)
Increase in temporarily restricted net assets	48,014	3,334	51,348	1,886
Changes in permanently restricted net assets:				
Private gifts	107,457	51	107,508	88,710
Endowment payout	1,979	—	1,979	1,813
Investment gains (losses)	(417)	—	(417)	6,320
Other, net	5,395	—	5,395	19,281
Increase in permanently restricted net assets	114,414	51	114,465	116,124
Increase in net assets	70,706	45,451	116,157	1,199,897
Net assets at beginning of year	6,255,271	910,562	7,165,833	5,965,936
Net assets at end of year	$ 6,325,977	956,013	7,281,990	7,165,833

See accompanying independent auditors' report.

Schedule 3

THE UNIVERSITY OF CHICAGO

Consolidated Statements of Cash Flows

Years ended June 30, 2008 and 2007

(In thousands of dollars)

	2008			2007
	University	**Medical Center**	**Consolidated**	**Consolidated**
Cash flows from operating activities:				
Increase in net assets	$ 70,706	45,451	116,157	1,199,897
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:				
Depreciation	93,661	58,089	151,750	140,353
Loss on debt refinancing	4,247	—	4,247	—
Loss on disposal of land, buildings, equipment, and books	3,070	1,335	4,405	2,585
Net (gain) loss on investments	(107,060)	105,610	(1,450)	(994,190)
Private gifts and grants restricted for long-term investment	(230,434)	(6,583)	(237,017)	(238,366)
Other nonoperating changes	70,440	(46,957)	23,483	51,952
Minimum pension liability adjustment	—	—	—	(2,210)
Postretirement benefit changes other than net periodic benefit cost	13,069	3,476	16,545	—
Effect of a change in accounting for pension and other postretirement benefit plans	—	—	—	117,255
Cumulative effect of a change in accounting for correction of prior year misstatements	—	—	—	(88,083)
Changes in assets and liabilities:				
Notes and accounts receivable	(15,623)	(17,432)	(33,055)	(179)
Prepaid expenses and other assets	(9,536)	45,786	36,250	(43,802)
Accounts payable and other liabilities	40,101	(7,452)	32,649	103,355
Self-insurance liability	7,174	(342)	6,832	17,382
Total adjustments	(130,891)	135,530	4,639	(933,948)
Net cash provided by (used in) operating activities	(60,185)	180,981	120,796	265,949
Cash flows from investing activities:				
Purchase of investments	(1,083,408)	(587,462)	(1,670,870)	(1,931,280)
Proceeds from sale of investments	1,336,976	500,518	1,837,494	1,616,565
Acquisition of land, buildings, equipment, and books	(402,334)	(74,274)	(476,608)	(317,087)
Loans disbursed	(61,255)	—	(61,255)	(62,324)
Principal collected on loans	42,107	—	42,107	57,455
Net cash used in investing activities	(167,914)	(161,218)	(329,132)	(636,671)
Cash flows from financing activities:				
Proceeds from issuance of notes and bonds payable	1,124,516	—	1,124,516	1,052,437
Principal payments on notes and bonds payable	(970,746)	(11,588)	(982,334)	(738,992)
Proceeds from private gifts and grants restricted for long-term investment	163,657	3,018	166,675	238,704
Other nonoperating changes	(70,440)	(18,522)	(88,962)	(115,097)
Net cash provided by (used in) financing activities	246,987	(27,092)	219,895	437,052
Increase (decrease) in cash and cash equivalents	18,888	(7,329)	11,559	66,330
Cash and cash equivalents at:				
Beginning of year	—	88,056	88,056	21,726
End of year	$ 18,888	80,727	99,615	88,056
Supplemental disclosure of cash flow information:				
Cash paid for interest	$ 55,272	15,104	70,376	61,257

See accompanying independent auditors’ report.