THE UNIVERSITY OF CHICAGO

Consolidated Financial Statements and
Supplemental Information

June 30, 2009 and 2008

(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, 2009 and 2008, 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 16% and 15% and total revenues constituting 44% and 43% of the related consolidated totals in 2009 and 2008, 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 also 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, 2009 and 2008, 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.

As described in notes 3 and 4 to the consolidated financial statements, the University adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*, and Financial Accounting Standards Board Staff Position FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*, effective July 1, 2008 and June 30, 2009, respectively.

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

November 5, 2009

THE UNIVERSITY OF CHICAGO

Consolidated Balance Sheets

June 30, 2009 and 2008

(In thousands of dollars)

Assets		**2009**	**2008**
Cash and cash equivalents	$	102,200	99,615
Notes and accounts receivable		320,145	376,887
Collateral held for securities loaned		—	306,223
Prepaid expenses and other assets		101,642	83,777
Pledges receivable		424,851	281,698
Investments		5,727,858	7,176,447
Land, buildings, equipment, and books		2,707,926	2,374,574
Total assets	$	9,384,622	10,699,221
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	492,659	518,298
Deferred revenue		88,509	82,079
Payable under securities loan agreements		—	306,223
Assets held in custody for others		44,771	47,908
Self-insurance liability		228,469	201,748
Pension and other postretirement benefit obligations		392,309	220,173
Asset retirement obligation		65,547	66,254
Notes and bonds payable		2,415,371	1,937,130
Refundable U.S. government student loan funds		37,853	37,418
Total liabilities		3,765,488	3,417,231
Net assets:			
Unrestricted		1,864,211	5,636,216
Temporarily restricted		2,554,784	475,752
Permanently restricted		1,200,139	1,170,022
Total net assets		5,619,134	7,281,990
Total liabilities and net assets	$	9,384,622	10,699,221

See accompanying notes to consolidated financial statements.

THE UNIVERSITY OF CHICAGO

Consolidated Statements of Activities

Years ended June 30, 2009 and 2008

(In thousands of dollars)

	2009	2008
Changes in unrestricted net assets:		
Operating:		
Revenue:		
Tuition and fees – gross	$ 542,103	513,015
Less student aid	(243,664)	(219,110)
Tuition and fees – net	298,439	293,905
Government grants and contracts	356,822	335,834
Private gifts, grants, and contracts	128,353	134,343
Endowment payout	311,834	230,976
Earnings on other investments	9,445	27,965
Patient care	1,223,946	1,221,375
Auxiliaries	193,009	194,037
Other income	200,070	189,193
Net assets released from restrictions	57,991	54,123
Total operating revenue	2,779,909	2,681,751
Expenses:		
Compensation:		
Academic salaries	417,986	392,667
Staff salaries	817,819	763,474
Benefits	308,505	294,204
Total compensation	1,544,310	1,450,345
Other operating expenses:		
Utilities, alterations, and repairs	81,190	78,243
Depreciation	160,181	151,750
Interest	48,809	62,900
Supplies, services, and other	786,105	796,260
Insurance	50,270	53,530
Total other operating expenses	1,126,555	1,142,683
Total operating expenses	2,670,865	2,593,028
Excess of operating revenue over expenses	109,044	88,723

(Continued)

THE UNIVERSITY OF CHICAGO

Consolidated Statements of Activities

Years ended June 30, 2009 and 2008

(In thousands of dollars)

	2009	2008
Changes in unrestricted net assets:		
Nonoperating:		
Investment losses	$ (1,685,564)	(85,850)
Postretirement benefit changes other than net periodic benefit cost	(152,763)	(16,545)
Loss on debt refinancing	—	(4,247)
Others, net	(128,321)	(31,737)
Change in unrestricted net assets from nonoperating activities	(1,966,648)	(138,379)
Decrease in unrestricted net assets before a reclassification of endowment net assets	(1,857,604)	(49,656)
Endowment net asset reclassification	(1,914,401)	—
Decrease in unrestricted net assets	(3,772,005)	(49,656)
Changes in temporarily restricted net assets:		
Private gifts	221,527	129,509
Endowment payout	63	153
Investment gains	8,064	1,174
Others, net	(7,032)	(25,365)
Net assets released from restrictions	(57,991)	(54,123)
Increase in temporarily restricted net assets before a reclassification of endowment net assets	164,631	51,348
Endowment net asset reclassification	1,914,401	—
Increase in temporarily restricted net assets	2,079,032	51,348
Changes in permanently restricted net assets:		
Private gifts	37,728	107,508
Endowment payout	2,856	1,979
Investment losses	(12,773)	(417)
Others, net	2,306	5,395
Increase in permanently restricted net assets	30,117	114,465
Increase (decrease) in net assets	(1,662,856)	116,157
Net assets at beginning of year	7,281,990	7,165,833
Net assets at end of year	$ 5,619,134	7,281,990

See accompanying notes to consolidated financial statements.

THE UNIVERSITY OF CHICAGO

Consolidated Statements of Cash Flows

Years ended June 30, 2009 and 2008

(In thousands of dollars)

	2009	2008
Cash flows from operating activities:		
Increase (decrease) in net assets	$ (1,662,856)	116,157
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation	160,181	151,750
Loss on debt refinancing	—	4,247
Loss on disposal of land, buildings, equipment, and books	2,099	4,405
Net (gain) loss on investments	1,412,662	(1,450)
Private gifts and grants restricted for long-term investment	(259,174)	(237,017)
Other nonoperating changes	204,935	23,483
Postretirement benefit changes other than net periodic benefit cost	152,763	16,545
Changes in assets and liabilities:		
Notes and accounts receivable	10,553	(33,055)
Prepaid expenses and other assets	(18,539)	36,250
Accounts payable and other liabilities	10,881	32,649
Self-insurance liability	26,721	6,832
Total adjustments	1,703,082	4,639
Net cash provided by operating activities	40,226	120,796
Cash flows from investing activities:		
Purchase of investments	(1,616,691)	(1,670,870)
Proceeds from sale of investments	1,652,908	1,837,494
Acquisition of land, buildings, equipment, and books	(523,931)	(476,608)
Loans disbursed	(4,204)	(61,255)
Principal collected on loans	50,391	42,107
Net cash used in investing activities	(441,527)	(329,132)
Cash flows from financing activities:		
Proceeds from issuance of notes and bonds payable	1,948,093	1,124,516
Principal payments on notes and bonds payable	(1,470,552)	(982,334)
Proceeds from private gifts and grants restricted for long-term investment	116,017	166,675
Other nonoperating changes	(189,672)	(88,962)
Net cash provided by financing activities	403,886	219,895
Increase in cash and cash equivalents	2,585	11,559
Cash and cash equivalents at:		
Beginning of year	99,615	88,056
End of year	$ 102,200	99,615
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 92,310	70,376

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 returns 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.
- *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

(In thousands of dollars)

category are gifts for which donor-imposed restrictions have not been met, gifts and grants for buildings and equipment, annuity and life income gifts, pledges for which the ultimate purpose of the proceeds is not permanently restricted, investment returns on endowment funds, and endowments where the principal may be expended upon the passage of a stated period of time (term endowments). Expirations of restrictions on temporarily restricted net assets, including amortization of restricted gifts and grants for buildings and equipment, are reported as net assets released from restrictions.

- *Permanently Restricted* – net assets subject to donor-imposed restrictions to be maintained permanently by the University. Items that affect this net asset category include gifts and pledges wherein donors stipulate that the corpus be held in perpetuity (primarily gifts for endowment and providing loans to students) and only the income be made available for program operations, and annuity and life income gifts for which the ultimate purpose of the proceeds is permanently restricted.

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

	2009		2008	
Detail of net assets	**Temporarily restricted**	**Permanently restricted**	**Temporarily restricted**	**Permanently restricted**
University:				
Operating	$ 34,951	—	13,692	—
Pledges	335,996	69,510	183,683	76,020
Student loans	—	16,982	—	16,018
Endowment	1,891,030	1,086,659	30,022	1,042,939
Annuity and life income	10,422	20,865	15,378	28,964
Net investment in physical properties	179,295	—	182,700	—
Subtotal	2,451,694	1,194,016	425,475	1,163,941
Medical Center:				
Operating	31,475	—	28,462	—
Pledges	19,273	77	21,815	180
Endowment	52,342	6,046	—	5,901
Subtotal	103,090	6,123	50,277	6,081
Total	$ 2,554,784	1,200,139	475,752	1,170,022

(c) Operations

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

(Continued)

(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, 2009 and 2008 are $52,925 and $46,994, respectively, of private grant and contract receipts, which have not been expended.

Private gifts, grants, and contracts operating revenue for fiscal years 2009 and 2008 consist of the following:

		2009		2008
	University	**Medical Center**	**Consolidated**	**Consolidated**
Private gifts:				
Unrestricted as to use	$ 20,244	915	21,159	18,778
Temporarily restricted gifts whose restrictions were met during the fiscal year and reported as unrestricted revenue	41,603	—	41,603	52,682
Private grants and contracts	65,591	—	65,591	62,883
Total	$ 127,438	915	128,353	134,343

(f) 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.

(g) 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.

(h) Investments

Investments are recorded in the consolidated financial statements at estimated fair value. The estimated 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 net asset values provided by the external investment managers. The net asset values 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.

(i) 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.

(j) 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.

(k) 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.

(l) 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.

(m) Subsequent Events

The University has performed an evaluation of subsequent events through November 5, 2009, which is the date the financial statements were available to be issued.

(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. 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 $52,140 in fiscal year 2009 and $46,968 in fiscal year 2008 has been reclassified as a reduction of patient care revenue, (2) investment gains (losses) of ($192,223) in fiscal year 2009 and $69,876 in fiscal year 2008 not used for operations have been reclassified as a nonoperating change in unrestricted net assets, and 3) pension expense in excess of cash contributions of $2,931 has been included in benefit expense in fiscal year 2009.

(In thousands of dollars)

(3) Investments

Investments at June 30, 2009 and 2008 comprise the following:

	2009			2008
	University	Medical Center	Consolidated	Consolidated
Cash equivalents	$ 652,239	61,353	713,592	59,172
Domestic public equities	309,831	85,177	395,008	806,504
International public equities	249,092	39,737	288,829	1,326,547
Private equity	830,968	87,192	918,160	970,698
Real assets	885,704	71,214	956,918	1,096,184
Absolute return	1,452,498	132,626	1,585,124	2,177,157
High yield bonds	5,732	—	5,732	20,092
Fixed income	451,491	118,721	570,212	635,822
Funds held in trust (primarily cash equivalents and bonds)	294,283	—	294,283	84,271
Total	$ 5,131,838	596,020	5,727,858	7,176,447

The University is obligated under certain limited partnership investment fund agreements to advance additional funding periodically up to specified levels. At June 30, 2009, the University had unfunded commitments of $1,450,000, which are likely to be called through 2014.

Fair Value of Financial Instruments

The University adopted Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (FAS 157), effective July 1, 2008. FAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value instruments. In accordance with FAS 157, fair value is defined as the price that the University would receive upon selling an investment in an orderly transaction to an independent buyer in the principal or most advantageous market of the investment. FAS 157 also prioritizes, within the measurement of fair value, the use of market-based information over entity-specific information. FAS 157 establishes a three-tier hierarchy to maximize the use of observable market data and minimize the use of unobservable inputs, and to establish classification of fair value measurements for disclosure purposes. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available. The three-tier hierarchy of inputs is summarized in the three broad levels listed below:

- Level 1 – quoted prices in active markets for identical investments. Quoted prices are available in active markets for identical investments as of the reporting date. The type of investments in Level 1 include listed equities held in the name of the University, and exclude listed equities and other securities held indirectly through commingled funds.
- Level 2 – other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.). Pricing inputs, including broker quotes, are generally those other than exchange quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.
- Level 3 – significant unobservable inputs (including the University's own assumptions in determining the fair value of investments). Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation.

To coincide with the adoption of FAS 157, effective in fiscal year 2009, the University adopted FASB Accounting Standards Update No. 2009-12, Fair Value Measurements and Disclosures (Topic 820), *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* (the Update), while deferring the adoption of certain of its disclosure provisions. The Update permits, as a practical expedient, the University to measure the fair value of an investment that is within the scope of the amendments in the Update on the basis of the net asset value per share of the investment or its equivalent determined as of June 30, 2009, the University's measurement date. Under this approach, certain attributes of the investment such as restrictions on redemption and transaction prices from principal-to-principal or brokered transactions are not considered in measuring the fair value of an investment.

(In thousands of dollars)

The following is a summary of the inputs used as of June 30, 2009 in valuing the University's financial assets and liabilities carried at fair value:

	Quoted prices in active markets for identical assets (Level 1)	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Consolidated total**
Assets:				
Cash equivalents	$ 713,592	—	—	713,592
Domestic public equities	98,600	26,127	270,281	395,008
International public equities	70,055	121,302	97,472	288,829
Private equity	—	—	918,160	918,160
Real assets	6,441	—	950,477	956,918
Absolute return	—	—	1,585,124	1,585,124
High yield bonds	5,235	497	—	5,732
Fixed income	335,940	75,838	158,434	570,212
Funds held in trust (primarily cash equivalents and bonds)	292,283	—	2,000	294,283
Total assets at fair value	$ 1,522,146	223,764	3,981,948	5,727,858
Liabilities:				
Interest rate swap payable	$ —	54,516	—	54,516
Total liabilities at fair value	$ —	54,516	—	54,516

(In thousands of dollars)

The following is a reconciliation of investments in which significant unobservable inputs (Level 3) were used in determining fair value:

	Equities and fixed income	Alternative Investments: Private equity	Alternative Investments: Real assets	Alternative Investments: Absolute return	Consolidated total
Balance at June 30, 2008	$ 910,493	969,448	1,077,837	2,181,631	5,139,409
Total net realized gains or losses	86,755	(20,133)	(35,946)	(116,223)	(85,547)
Total net unrealized gains or losses	(253,423)	(136,571)	(287,687)	(324,203)	(1,001,884)
Purchases, issuances, and settlements	76,943	135,492	253,951	373,990	840,376
Proceeds from sales, redemptions, and distributions	(294,581)	(30,076)	(55,678)	(530,071)	(910,406)
Balance at June 30, 2009	$ 526,187	918,160	952,477	1,585,124	3,981,948

Securities Loaned

Through September 2008, the University had an agreement with its investment custodian to lend University securities to brokers in exchange for a fee. This program was ended in September 2008. At June 30, 2008, investment securities with an aggregate market value of $378,023 were loaned to various brokers and were returnable on demand. In exchange, the University received cash collateral of $306,223 and noncash collateral of $81,872. Cash collateral was reported as both an asset and liability of the University at June 30, 2008.

(4) Endowments

The University of Chicago endowment consists of approximately 2,900 individual funds established for a variety of purposes. The endowment includes both donor-restricted “true” endowment funds and funds designated by the Board of Trustees to function as endowments commonly referred to as “funds functioning as endowment.” Net assets associated with endowment funds, including funds functioning as endowment, are classified and reported based on the existence or absence of donor-imposed restrictions.

(In thousands of dollars)

(a) University Endowment

Changes in the fair value of the University endowment investments and net assets by type of fund were as follows for the fiscal years ended June 30, 2009 and 2008:

	2009			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Investment return:				
Endowment yield (interest, dividends, and rents)	$ 35,713	63	371	36,147
Net depreciation (realized and unrealized) on investments	(1,241,508)	(422)	(10,480)	(1,252,410)
Total investment return	(1,205,795)	(359)	(10,109)	(1,216,263)
Endowment payout	(289,160)	(63)	(2,856)	(292,079)
Net investment return	(1,494,955)	(422)	(12,965)	(1,508,342)
Other changes in endowment investments:				
Gifts and pledge payments received in cash	—	233	53,669	53,902
Transfers to create funds functioning as endowment and other changes	54,159	(862)	3,016	56,313
Total other changes in endowment investments	54,159	(629)	56,685	110,215
Net change in endowment investments	(1,440,796)	(1,051)	43,720	(1,398,127)
Endowment net asset reclassification	(1,862,059)	1,862,059	—	—
Endowment investments at:				
Beginning of year	4,860,800	30,022	1,042,939	5,933,761
End of year	$ 1,557,945	1,891,030	1,086,659	4,535,634

	2009				
	Unrestricted	Temporarily restricted	Permanently restricted	Total	2008
Net assets by type of fund:					
Donor-restricted "true" endowment	$ (37,523)	1,891,030	1,086,659	2,940,166	4,349,766
Board-designated "funds functioning as endowment"	1,595,468	—	—	1,595,468	1,583,995
Total – as above	$ 1,557,945	1,891,030	1,086,659	4,535,634	5,933,761

(In thousands of dollars)

(b) Medical Center Endowment

Changes in the fair value of the Medical Center endowment investments and net assets by type of fund were as follows for the fiscal years ended June 30, 2009 and 2008:

	2009			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Investment return:				
Endowment yield (interest, dividends, and rents)	$ 9,834	—	—	9,834
Net depreciation (realized and unrealized) on investments	(155,579)	—	—	(155,579)
Total investment return	(145,745)	—	—	(145,745)
Endowment payout	(31,991)	—	—	(31,991)
Net investment return	(177,736)	—	—	(177,736)
Other changes in endowment investments:				
Gifts and pledge payments received in cash	—	—	83	83
Transfers to create funds functioning as endowment and other changes	(61)	—	61	—
Total other changes in endowment investments	(61)	—	144	83
Net change in endowment investments	(177,797)	—	144	(177,653)
Endowment net asset reclassification	(52,342)	52,342	—	—
Endowment investments at:				
Beginning of year	757,970	—	5,902	763,872
End of year	$ 527,831	52,342	6,046	586,219

	2009				
	Unrestricted	Temporarily restricted	Permanently restricted	Total	2008
Net assets by type of fund:					
Donor-restricted “true” endowment	$ (52)	52,342	6,046	58,336	78,029
Board-designated “funds functioning as endowment”	527,883	—	—	527,883	685,843
Total – as above	$ 527,831	52,342	6,046	586,219	763,872

Included in board-designated "funds functioning as endowment" are $164,808 of net assets that are separately invested by the Medical Center.

(c) Interpretation of Relevant Law

Effective June 30, 2009, Illinois passed the "Uniform Prudent Management of Institutional Funds Act" (UPMIFA). The University has interpreted UPMIFA as requiring the preservation of the fair value of the original gift for donor-restricted "true" endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, The University and Medical Center classifies as permanently restricted net assets the historical value of donor-restricted "true" endowment funds, which includes (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) changes to the permanent endowment made in accordance with the direction of the applicable donor gift instrument. The remaining portion of the donor-restricted "true" endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure.

(d) Endowment Net Asset Reclassification for Appreciation of "True" Endowment Funds

In fiscal 2009, the University adopted FASB Staff Position (FSP) FAS 117-1 (FSP 117-1), *Endowments of Not-for-Profit Organizations; Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds.* FSP 117-1 provides guidance on the net asset classification of donor-restricted "true" endowment funds subject to UPMIFA. FSP 117-1 also provides for enhanced endowment related disclosures.

The financial statement effect for the adoption of FSP 117-1 was the reclassification of appreciated value of donor-restricted "true" endowment funds in excess of the fund's historical value. As of June 30, 2009, the reclassification to reflect this change in classification between unrestricted and temporarily restricted net assets amounted to $1,862,059 and $52,342 for the University and Medical Center, respectively.

(e) Endowment Payout

The University utilizes the total return concept in allocating endowment income. In accordance with the University's return objective, between 4.5% and 5.5% of a 12-quarter moving average of the fair value of endowment investments lagged by one year, is available each year for expenditure in the form of endowment payout. The payout percentage, which is set each year by the Board of Trustees with the objective of a 5.0 % average payout over time, was 5.0% for the fiscal years ended June 30, 2009 and 2008. Periodically, the University Board of Trustees will adjust the endowment payout to fund specifically approved strategic initiatives.

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

(In thousands of dollars)

Endowment payout related to “funds functioning as endowment” which are managed by the Medical Center is included in earnings on other investments in the consolidated statements of activities.

Endowment payout for fiscal years 2009 and 2008 consists of the following:

	2009			2008
	University	Medical Center	Consolidated	Consolidated
Interest, dividends, and rents	$ 36,147	2,984	39,131	87,596
Investments gains used to support the endowment payout formula	255,932	19,690	275,622	145,512
Total	$ 292,079	22,674	314,753	233,108

Unrestricted operating endowment payout revenue for the fiscal years ended June 30, 2009 and 2008 consists of the following:

	2009			2008
	University	Medical Center	Consolidated	Consolidated
Unrestricted payout	$ 78,497	22,674	101,171	69,935
Temporarily restricted payout whose restrictions were met during the fiscal year and reported as unrestricted revenue	210,663	—	210,663	161,041
Total	$ 289,160	22,674	311,834	230,976

(f) Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted “true” endowment funds may fall below the level that the donor or UPMIFA requires to be retained as a fund of perpetual duration. Deficiencies of this nature are reported in unrestricted net assets which as of June 30, 2009, amounted to $37,523 and $52 for the University and Medical Center, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation of endowment payout that was deemed prudent. There were no such deficiencies as of June 30, 2008.

(In thousands of dollars)

(5) Notes and Accounts Receivable

Components of notes and accounts receivable at June 30, 2009 and 2008 are shown below:

	2009			2008
	University	**Medical Center**	**Consolidated**	**Consolidated**
Patients	$ 74,212	153,580	227,792	220,165
Students:				
Loans	86,287	—	86,287	131,806
Tuition and fees	2,974	—	2,974	2,590
U.S. government	29,994	—	29,994	28,627
All other	66,404	—	66,404	92,867
Subtotal	259,871	153,580	413,451	476,055
Less allowance for doubtful accounts (primarily patient receivables)	(64,398)	(28,908)	(93,306)	(99,168)
Total	$ 195,473	124,672	320,145	376,887

(6) Land, Buildings, Equipment, and Books

Components of land, buildings, equipment, and books at June 30, 2009 and 2008 are shown below:

	2009			2008
	University	**Medical Center**	**Consolidated**	**Consolidated**
Land	$ 63,510	36,008	99,518	99,539
Buildings	1,794,405	607,580	2,401,985	2,234,362
Equipment	377,199	401,180	778,379	704,677
Books	237,928	—	237,928	221,972
Construction in progress	677,958	115,988	793,946	577,522
Subtotal	3,151,000	1,160,756	4,311,756	3,838,072
Less accumulated depreciation	(1,031,617)	(572,213)	(1,603,830)	(1,463,498)
Total	$ 2,119,383	588,543	2,707,926	2,374,574

(In thousands of dollars)

(7) Notes and Bonds Payable

Notes and bonds payable at June 30, 2009 and 2008 are shown below:

	Fiscal year maturity	Interest rate	2009	2008
University:				
Fixed rate:				
Illinois Educational Facilities Authority (IEFA):				
Series 1993	2014	6.0%	$ 2,250	2,625
Series 2001A	—	5.3	2,860	2,860
Series 2003A	2042	4.0% – 5.3%	177,905	182,145
Illinois Finance Authority (IFA):	2034			
Series 2004A		5.0	96,490	98,290
Series 2004C	2035	3.8	78,356	78,467
Series 2007	2040	5.0	244,030	244,030
Series 2008	2047	3.2	121,841	123,604
Series 2008B	2039	5.6	500,000	—
Illinois Health Facilities Authority (IHFA) – Series 1985	2021	5.5	61,265	61,380
Unamortized premium			11,235	9,210
Total fixed rate			1,296,232	802,611
Variable rate:				
Illinois Student Assistance Commission (ISAC)	2010	0.5%	39,997	86,006
IEFA:				
Pooled financing program	2011	0.4	2,268	2,268
Series 1998B	2026	4.1	90,090	90,090
Series 2001B-1	2037	1.9	60,000	60,000
Series 2001B-2	2037	1.9	40,000	40,000
Series 2001B-3	2037	0.5	72,265	72,265
Series 2003B	2034	0.2	46,061	47,109
IFA – Series 2004B	2035	0.2	95,954	98,014
Taxable commercial paper ($200,000)	2010	0.3	100,000	50,000
Bank line of credit ($200,000 available)	2010	0.4	195,500	195,500
Total variable rate			742,135	741,252
Total University			2,038,367	1,543,863
Medical Center:				
Fixed rate:				
IHFA:				
Series 2001 Serial bond	2024	5.1%	30,440	32,440
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%	39,535	45,380
Unamortized premium			1,376	1,794
Total fixed rate			123,516	131,779
Variable rate:				
IHFA:				
Series 1994C	—	—%	—	55,400
Series 1998	—	—	—	110,600
IEFA pooled financing program	2038	0.4	88,488	95,488
IFA				—
Series 2009A	2027	0.3	75,000	—
Series 2009B	2027	0.2	90,000	—
Bank line of credit ($15,000 available)	2010	—		
Total variable rate			253,488	261,488
Total Medical Center			377,004	393,267
Total notes and bonds payable			$ 2,415,371	1,937,130

(a) Fiscal 2009 Transactions

During fiscal year 2009, the University issued $500,000 in fixed rate revenue bonds through the IFA. Proceeds from the IFA Series 2008B bonds are being used to finance the construction and renovation of certain educational facilities.

Also during fiscal year 2009, the Medical Center issued $165,000 in adjustable rate revenue bonds through the IFA which were used to refund the IHFA Series 1994C and 1998 adjustable rate demand bonds.

(b) Defeased Debt

As of June 30, 2009 and 2008, the total principal amount of indebtedness considered to be legally extinguished and, therefore, excluded from the University notes and bonds payable was $196,980.

(c) Interest Rate Swaps

In order to reduce exposure to adjustable interest rates on variable rate debt, the University and Medical Center have entered into debt related interest rate swap agreements. These agreements have the effect of fixing the rate of interest for the variable rate debt. The fair value of these swap agreements are the estimated amount that the University and Medical Center would have to pay or receive to terminate the agreements as of the consolidated balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparty. At June 30, 2009 and 2008, the fair value of the interest rate swap agreements was an accrued liability of $22,069 and $5,661 and $32,447 and $17,531 for the Medical Center, respectively. Changes in the fair value of the interest rate swap agreements during fiscal 2009 are included in unrestricted non-operating other – net in the accompanying consolidated statement of activities. These financial instruments involve counterparty credit exposure. The counterparties for these swap transactions are major financial institutions that meet the University's criteria for financial stability and creditworthiness.

(d) Debt Payments

Principal payments required for University notes and bonds in each of the five years ending June 30, 2010 through 2014 are approximately $14,795; $14,541; $15,199; $15,883; and $44,014, respectively.

Principal payments required in each of the five years ending June 30, 2010 through 2014 for the Medical Center notes and bonds are approximately $8,615; $8,965; $9,420; $9,900; and $10,405 respectively.

(e) Carrying Value

The carrying value of long-term debt does not differ materially from its estimated fair value as of June 30, 2009 and 2008, based on quoted market prices for the same or similar issues.

(In thousands of dollars)

(f) Collateral

The University's June 30, 2009 notes and bonds payable are secured by certain physical properties with a carrying value of approximately $225 and $7,904 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 IHFA bond series is collateralized by unrestricted receivables and subject to certain restrictions. The Medical Center IEFA and IFA bonds are guaranteed by bank letters of credit. In addition, the Medical Center IHFA Series 2001 and 2003 bonds are guaranteed by a municipal bond insurance policy.

(g) Remarketing

Included in the University and Medical Center's notes and bonds payable are $742,135 and $253,488, respectively, of variable rate notes and bonds maturing through fiscal year 2038. In the event the University and Medical Center's remarketing agents are unable to remarket the notes and bonds, they become demand obligations and require immediate payment. To supplement internal liquidity, the University has three standby bond purchase agreements totaling $250,000 supporting variable rate debt in the event of a failed remarketing.

(h) Subsequent Event

In August 2009, the Medical Center issued $85,000 of fixed rate bonds and $140,000 of variable rate bonds to finance the construction of hospital facilities.

(8) Pledges

Pledges receivable at June 30, 2009 and 2008 are shown below:

	2009			2008
	University	Medical Center	Consolidated	Consolidated
Unconditional promises expected to be collected in:				
Less than one year	$ 105,633	6,358	111,991	93,456
One year to five years	150,488	12,509	162,997	226,069
More than five years	230,090	3,000	233,090	59,027
	486,211	21,867	508,078	378,552
Less unamortized discount and allowance for uncollectible pledges	(80,705)	(2,522)	(83,227)	(96,854)
Total	$ 405,506	19,345	424,851	281,698

(In thousands of dollars)

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

In addition, at June 30, 2009, the University has received $284,812 of promises to give, which are conditional upon the raising of matching gifts from other sources, implementation of academic programs, completion of construction projects, or future income from pledged investments. 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, 2009 and 2008 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 its portion of self-insurance costs. The University and Medical Center also maintain a self-insurance program for workers' compensation and certain other liability claims.

Under the medical malpractice self-insurance program, the University 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 $57,500 higher than the amount recorded in the consolidated financial statements at June 30, 2009. The interest rate assumed in determining the present value was 5.8%. The University recorded an expense of $56,200 and $6,800 during the years ended June 30, 2009 and 2008, respectively, which are included in unrestricted nonoperating – net in the accompanying consolidated statements of activities.

The estimated liability for incurred malpractice, workers' compensation, and other claims (filed and unfilled) as of June 30, 2009 and 2008 is presented below:

	2009			2008
	University	**Medical Center**	**Consolidated**	**Consolidated**
Medical malpractice	$ 215,631	—	215,631	189,186
Workers' compensation	3,778	6,486	10,264	9,656
Others	2,574	—	2,574	2,906
Total	$ 221,983	6,486	228,469	201,748

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

In addition to providing pension benefits, the University 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 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	
	2009	**2008**	**2009**	**2008**
Change in benefit obligation:				
Benefit obligation at beginning of year	$ 408,416	423,208	143,948	143,200
Service cost	23,470	25,681	5,841	6,043
Interest cost	28,797	26,451	9,913	8,920
Benefits paid	(27,739)	(29,498)	(8,165)	(7,778)
Plan amendments	2,078	—	—	—
Actuarial loss (gain), net	9,182	(37,426)	16,548	(6,437)
Benefit obligation at end of year	444,204	408,416	168,085	143,948
Change in fair value of plan assets:				
Fair value of plan assets at beginning of year	319,764	363,093	20,429	26,368
Actual return on plan assets	(86,540)	(38,156)	(948)	(525)
Employer contributions	20,045	24,325	2,073	2,364
Benefits paid	(27,739)	(29,498)	(8,165)	(7,778)
Fair value of plan assets at end of year	225,530	319,764	13,389	20,429
Funded status – liability	$ (218,674)	(88,652)	(154,696)	(123,519)

The accumulated benefit obligation for the defined benefit pension plan was $374,195 and $333,265 at June 30, 2009 and 2008, respectively.

(In thousands of dollars)

(a) Components of Net Periodic Benefit Cost

		Defined benefit pension plan		Other postretirement benefit plans	
		2009	**2008**	**2009**	**2008**
Service cost	$	23,470	25,681	5,841	6,043
Interest cost		28,797	26,451	9,913	8,920
Expected return on plan assets		(27,492)	(25,362)	(1,180)	(1,576)
Amortization of prior service cost (benefit)		1,133	1,038	(2,298)	(2,298)
Amortization of transition obligation		—	—	1,370	1,370
Amortization of actuarial loss		—	4,125	3,912	4,453
Net periodic benefit cost	$	25,908	31,933	17,558	16,912
Amounts included in the consolidated statements of activities:					
University	$	15,886	19,770	17,558	16,912
Medical Center		10,022	12,163	—	—
Total	$	25,908	31,933	17,558	16,912

Defined contribution pension plan costs included in the consolidated statements of activities amounted to $39,004 in fiscal year 2009 and $35,242 in fiscal year 2008 for the University and $9,400 in fiscal year 2009 and $7,100 in fiscal year 2008 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	
	2009	**2008**	**2009**	**2008**
Discount rate	6.8%	7.1%	6.8%	7.1%
Expected return on plan assets	7.6	8.0	6.5	6.5
Rate of compensation increase	3.5	4.2	4.1	4.2
Healthcare cost trend rates:				
Next two fiscal years	—	—	7.5% – 8.0%	8.0% – 8.5%
Next seven fiscal years	—	—	5.0 – 7.5	5.0 – 7.5
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:

		2009	2008
Effect on total service cost and interest cost:			
One-percentage point increase	$	2,422	2,462
One-percentage point decrease		(1,900)	(1,911)
Effect on year-end postretirement benefit obligation:			
One-percentage point increase	$	22,874	18,387
One-percentage point decrease		(18,520)	(14,946)

(c) Plan Assets

Weighted average asset allocations by asset category are as follows:

	Defined benefit pension plan		Other postretirement benefit plans	
	2009	2008	2009	2008
Domestic public equities	40%	64%	49%	49%
International public equities	11	21	—	—
Fixed income	49	15	51	51
	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 40% public equities and 60% 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% 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 $68,251 contribution to the defined benefit pension plan in fiscal year 2010.

(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
2010	$	25,085	6,444
2011		25,694	6,548
2012		27,448	7,313
2013		29,155	9,998
2014		30,831	9,986
2015 – 2019		185,444	54,153

(f) Prescription Drug Act

The Medicare Prescription Drug, Improvement and Modernization Act of 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 $39,282 and $34,929 at June 30, 2009 and 2008, 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, 2009 and 2008, the benefit obligation for the plan exceeded the plan's assets thus creating an unfunded liability of $18,939 and $8,002 at June 30, 2009 and 2008, respectively.

(Continued)

(In thousands of dollars)

(11) Functional Classification of Expenses

Expenses by functional classification for the years ended June 30, 2009 and 2008 are shown below:

		2009	2008
University:			
Academic and research:			
Instruction	$	722,405	692,172
Research		263,012	245,066
Auxiliary enterprises		159,675	139,776
Library		16,690	18,506
Student services		40,994	42,573
Operation and maintenance of physical plant		95,994	112,041
Depreciation		87,103	81,083
Interest on notes and bonds		30,032	41,826
Total academic and research		1,415,905	1,373,043
Administration:			
Institutional support		99,074	94,409
Informational services		47,949	51,620
Development		50,021	48,901
Operation and maintenance of physical plant		5,350	5,039
Depreciation		15,807	12,578
Interest on notes and bonds		5,588	5,799
Total administration		223,789	218,346
Total University		1,639,694	1,591,389
Medical Center:			
Healthcare service		927,103	912,653
General and administrative		104,068	88,986
		1,031,171	1,001,639
Total	$	2,670,865	2,593,028

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.

(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, 2008 and 2007 was $105,795 and $86,399, respectively. Unrestricted net assets at December 31, 2008 and 2007 were $18,873 and $16,743, respectively. In addition, the University has guaranteed $267 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 a subcontractor that assists 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 $534,664 for ANL and $369,515 for Fermilab in fiscal year 2009, and $526,455 for ANL and $334,184 for Fermilab in fiscal year 2008, 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, 2009 and 2008

(In thousands of dollars)

Assets		2009 University	2009 Medical Center	2009 Consolidated	2008 Consolidated
Cash and cash equivalents	$	4,967	97,233	102,200	99,615
Notes and accounts receivable		195,473	124,672	320,145	376,887
Collateral held for securities loaned		—	—	—	306,223
Prepaid expenses and other assets		54,760	46,882	101,642	83,777
Pledges receivable		405,506	19,345	424,851	281,698
Investments		5,131,838	596,020	5,727,858	7,176,447
Land, buildings, equipment, and books		2,119,383	588,543	2,707,926	2,374,574
Total assets	$	7,911,927	1,472,695	9,384,622	10,699,221
Liabilities and Net Assets					
Liabilities:					
Accounts payable and accrued expenses	$	252,586	240,073	492,659	518,298
Deferred revenue		88,509	—	88,509	82,079
Payable under securities loan agreements		—	—	—	306,223
Assets held in custody for others		44,771	—	44,771	47,908
Self-insurance liability		221,983	6,486	228,469	201,748
Pension and other postretirement benefit obligations		373,370	18,939	392,309	220,173
Asset retirement obligation		57,495	8,052	65,547	66,254
Notes and bonds payable		2,038,367	377,004	2,415,371	1,937,130
Refundable U.S. government student loan funds		37,853	—	37,853	37,418
Total liabilities		3,114,934	650,554	3,765,488	3,417,231
Net assets:					
Unrestricted		1,151,283	712,928	1,864,211	5,636,216
Temporarily restricted		2,451,694	103,090	2,554,784	475,752
Permanently restricted		1,194,016	6,123	1,200,139	1,170,022
Total net assets		4,796,993	822,141	5,619,134	7,281,990
Total liabilities and net assets	$	7,911,927	1,472,695	9,384,622	10,699,221

See accompanying independent auditors' report.

Schedule 2

THE UNIVERSITY OF CHICAGO

Consolidated Statements of Activities

Years ended June 30, 2009 and 2008

(In thousands of dollars)

	2009 University	2009 Medical Center	2009 Consolidated	2008 Consolidated
Changes in unrestricted net assets:				
Operating:				
Revenue:				
Tuition and fees – gross	$ 542,103	—	542,103	513,015
Less student aid	(243,664)	—	(243,664)	(219,110)
Tuition and fees – net	298,439	—	298,439	293,905
Government grants and contracts	356,822	—	356,822	335,834
Private gifts, grants, and contracts	127,438	915	128,353	134,343
Endowment payout	289,160	22,674	311,834	230,976
Earnings on other investments	2,239	7,206	9,445	27,965
Patient care	192,368	1,031,578	1,223,946	1,221,375
Auxiliaries	193,009	—	193,009	194,037
Other income	139,334	60,736	200,070	189,193
Net assets released from restrictions	57,991	—	57,991	54,123
Total operating revenue	1,656,800	1,123,109	2,779,909	2,681,751
Expenses:				
Compensation:				
Academic salaries	417,986	—	417,986	392,667
Staff salaries	420,972	396,847	817,819	763,474
Benefits	207,348	101,157	308,505	294,204
Total compensation	1,046,306	498,004	1,544,310	1,450,345
Other operating expenses:				
Utilities, alterations, and repairs	55,961	25,229	81,190	78,243
Depreciation	102,910	57,271	160,181	151,750
Interest	35,620	13,189	48,809	62,900
Supplies, services, and other	369,939	416,166	786,105	796,260
Insurance	28,958	21,312	50,270	53,530
Total other operating expenses	593,388	533,167	1,126,555	1,142,683
Total operating expenses	1,639,694	1,031,171	2,670,865	2,593,028
Excess of operating revenue over expenses	17,106	91,938	109,044	88,723

(Continued)

Schedule 2

THE UNIVERSITY OF CHICAGO

Consolidated Statements of Activities

Years ended June 30, 2009 and 2008

(In thousands of dollars)

	2009			2008
	University	Medical Center	Consolidated	Consolidated
Changes in unrestricted net assets:				
Nonoperating:				
Investment losses	$ (1,505,288)	(180,276)	(1,685,564)	(85,850)
Postretirement benefit changes other than net periodic benefit cost	(139,852)	(12,911)	(152,763)	(16,545)
Loss on debt refinancing	—	—	—	(4,247)
Others, net	(95,185)	(33,136)	(128,321)	(31,737)
Change in unrestricted net assets from nonoperating activities	(1,740,325)	(226,323)	(1,966,648)	(138,379)
Decrease in unrestricted net assets before a reclassification of endowment net assets	(1,723,219)	(134,385)	(1,857,604)	(49,656)
Endowment net asset reclassification	(1,862,059)	(52,342)	(1,914,401)	—
Decrease in unrestricted net assets	(3,585,278)	(186,727)	(3,772,005)	(49,656)
Changes in temporarily restricted net assets:				
Private gifts	219,487	2,040	221,527	129,509
Endowment payout	63	—	63	153
Investment gains	8,064	—	8,064	1,174
Others, net	(5,463)	(1,569)	(7,032)	(25,365)
Net assets released from restrictions	(57,991)	—	(57,991)	(54,123)
Increase in temporary restricted net assets before a reclassification of endowment net assets	164,160	471	164,631	51,348
Endowment net asset reclassification	1,862,059	52,342	1,914,401	—
Increase in temporarily restricted net assets	2,026,219	52,813	2,079,032	51,348
Changes in permanently restricted net assets:				
Private gifts	37,603	125	37,728	107,508
Endowment payout	2,856	—	2,856	1,979
Investment losses	(12,773)	—	(12,773)	(417)
Others, net	2,389	(83)	2,306	5,395
Increase in permanently restricted net assets	30,075	42	30,117	114,465
Increase (decrease) in net assets	(1,528,984)	(133,872)	(1,662,856)	116,157
Net assets at beginning of year	6,325,977	956,013	7,281,990	7,165,833
Net assets at end of year	$ 4,796,993	822,141	5,619,134	7,281,990

See accompanying independent auditors' report.

Schedule 3

THE UNIVERSITY OF CHICAGO

Consolidated Statements of Cash Flows

Years ended June 30, 2009 and 2008

(In thousands of dollars)

	2009 University	2009 Medical Center	2009 Consolidated	2008 Consolidated
Cash flows from operating activities:				
Increase (decrease) in net assets	$ (1,528,984)	(133,872)	(1,662,856)	116,157
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:				
Depreciation	102,910	57,271	160,181	151,750
Loss on debt refinancing	—	—	—	4,247
Loss on disposal of land, buildings, equipment, and books	1,994	105	2,099	4,405
Net (gain) loss on investments	1,254,067	158,595	1,412,662	(1,450)
Private gifts and grants restricted for long-term investment	(257,092)	(2,082)	(259,174)	(237,017)
Other nonoperating changes	166,672	38,263	204,935	23,483
Postretirement benefit changes other than net periodic benefit cost	139,852	12,911	152,763	16,545
Changes in assets and liabilities:				
Notes and accounts receivable	23,636	(13,083)	10,553	(33,055)
Prepaid expenses and other assets	(10,964)	(7,575)	(18,539)	36,250
Accounts payable and other liabilities	15,887	(5,006)	10,881	32,649
Self-insurance liability	26,450	271	26,721	6,832
Total adjustments	1,463,412	239,670	1,703,082	4,639
Net cash provided by (used in) operating activities	(65,572)	105,798	40,226	120,796
Cash flows from investing activities:				
Purchase of investments	(1,366,910)	(249,781)	(1,616,691)	(1,670,870)
Proceeds from sale of investments	1,358,926	293,982	1,652,908	1,837,494
Acquisition of land, buildings, equipment, and books	(425,674)	(98,257)	(523,931)	(476,608)
Loans disbursed	(4,204)	—	(4,204)	(61,255)
Principal collected on loans	50,391	—	50,391	42,107
Net cash used in investing activities	(387,471)	(54,056)	(441,527)	(329,132)
Cash flows from financing activities:				
Proceeds from issuance of notes and bonds payable	1,783,093	165,000	1,948,093	1,124,516
Principal payments on notes and bonds payable	(1,288,589)	(181,963)	(1,470,552)	(982,334)
Proceeds from private gifts and grants restricted for long-term investment	111,290	4,727	116,017	166,675
Other nonoperating changes	(166,672)	(23,000)	(189,672)	(88,962)
Net cash provided by (used in) financing activities	439,122	(35,236)	403,886	219,895
Increase (decrease) in cash and cash equivalents	(13,921)	16,506	2,585	11,559
Cash and cash equivalents at:				
Beginning of year	18,888	80,727	99,615	88,056
End of year	$ 4,967	97,233	102,200	99,615
Supplemental disclosure of cash flow information:				
Cash paid for interest	$ 81,209	11,101	92,310	70,376

See accompanying independent auditors' report.